Annual Report

Banco BPI 2019

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Index

This document is a translation from the Portuguese original "Relatório e Contas Banco BPI 2019".
In the event of any inconsistency the Portuguese version shall prevail.

Key performance indicators

(**Consolidated** amounts in € million (€M.), except where otherwise stated)

	2015	2016	2017	2018	2019
Net profit	236.4	313.2	10.2	490.6	327.9
Activity in Portugal	93.1	147.0	123.7	396.3	230.2
Equity holdings	143.3	166.3	(113.5)	94.4	97.6
Core efficiency ratio[1] in the activity in Portugal	76.6%	69.3%	64.8%	60.4%	60.2%
Recurring ROTE in the activity in Portugal[2]	2.4%	7.3%	8.3%	8.8%	8.9%
Return on tangible equity (ROTE)[2]	10.6%	13.5%	0.4%	16.3%	10.3%
Return on assets (ROA)	0.9%	1.2%	0.0%	1.6%	1.0%
Net profit per share (euros)	0.16	0.22	0.01	0.34	0.22
Weighted average no. of shares (in million)	1 450.4	1 451.0	1 456.2	1 456.8	1 456.9
Total assets (net)	40 673	38 285	29 640	31 568	31 812
Loans to Customers (gross)	25 225	23 401	22 223	23 487	24 520
Deposits and retail bonds	26 108	19 724	20 719[3]	22 052	23 015
Total Customer resources	39 643	32 940	32 624[3]	33 195	34 382
Loan to deposit ratio	88%	110%	99%	100%	100%
NPE Ratio[4]	6.6%	6.6%	5.1%	3.5%	2.5%
NPE coverage by impairments[5]	48%	39%	43%	53%	54%
Cost of credit risk[6]	0.43%	0.08%	(0.02%)	(0.18%)	(0.17%)
Total past service pension liabilities	1 280	1 463	1 601	1 639	1 804
Coverage ratio of Employee pension liabilities[7]	109%	98%	98%	99%	98%
Shareholders' equity attributable to BPI shareholders	2 407	2 440	2 824	3 206	3 161[8]
Fully loaded capital ratios					
Common Equity Tier 1 ratio	9.8%	11.1%	12.3%	13.8%	13.4%
Tier 1 ratio	10.0%	11.1%	12.3%	13.8%	14.9%
Total capital ratio	10.2%	11.2%	14.0%	15.5%	16.6%
Leverage ratio	6.4%	7.4%	6.8%	7.3%	8.4%
Book value per share (euros)	1.66	1.68	1.94	2.20	2.17[9]
Distribution network (no. units)[10]	788	736	507	495	477
BPI Group Employees (no.)[11]	8 529	8 157	4 931	4 888	4 840

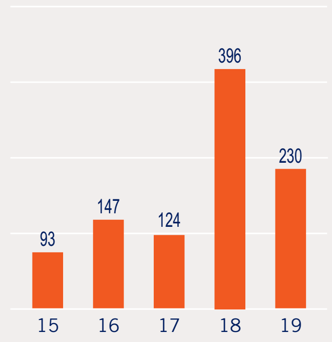
Table 1

Note: the comparability of the historical series with the consolidated amounts at 31 Dec. 2015 is biased due to the deconsolidation of BFA as from this date (until then BFA was fully consolidated).
As from 2016 the consolidated amounts for most balance sheet and income statement captions are the same or very similar to those for the activity in Portugal, in so far as BFA was deconsolidated (classified as a discontinued operation in 2016; equity accounted in 2017; and reclassified as a financial investment in 2018) and BCI Mozambique is equity accounted.

1) Operating expenses (excluding non-recurring) as % of commercial banking gross income.
2) The average equity considered in the calculation of ROTE is deducted from the average balance of intangible assets and goodwill of equity holdings.
3) Proforma considering the sale of BPI Gestão de Activos and BPI GIF.
4) Non-performing exposures (NPE) in accordance with the EBA criteria.
5) Coverage by impairments for loans and guarantees accumulated on the balance sheet, without considering coverage by collaterals associated with these loans.
6) Impairment losses and provisions for loans and guarantees, net of loan recoveries previously written off against assets / Average value in the period of the gross loans and guarantees portfolio.
7) The value of the pension funds considered includes contributions transferred to Employees' pension funds at the beginning of the following year (€1.3 million in 2015, €75.5 million in 2016, €9.0 million in 2017, €5.5 million in 2018 and €3.8 million in 2019).
8) Excludes AT1 capital instruments (€275 million in Dec. 19).
9) Accounting shareholders equity, excluding AT1 capital instruments (€275 million in Dec. 19), per share.
10) Until Dec. 16, it included BFA's distribution network.
11) Staff (excludes temporary work) of fully consolidated subsidiaries. Until Dec. 16, includes BFA staff.

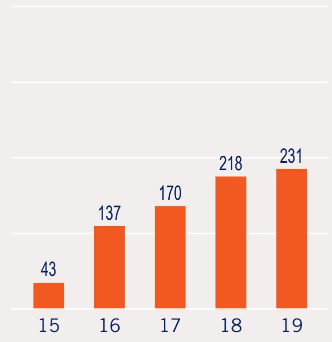
Net profit from the activity in Portugal

M.€



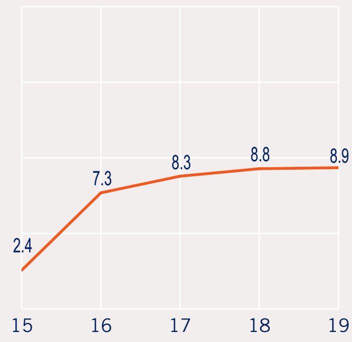
Recurring net profit from the activity in Portugal

M.€



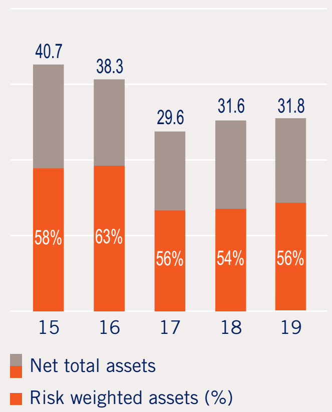
Recurring ROTE in the activity in Portugal

%



Net total assets and RWA

th.M.€

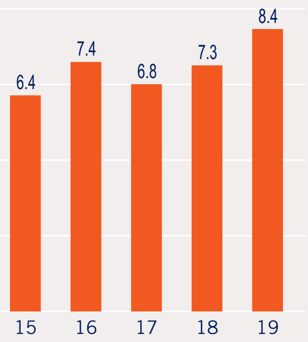


Capital ratios
(consolidated; fully loaded)

%

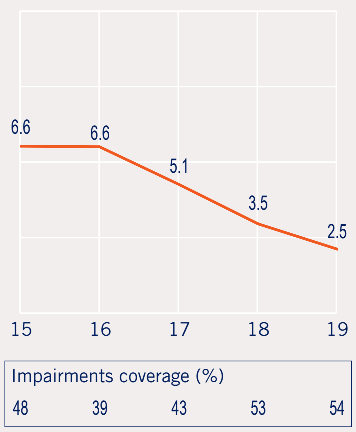
Leverage ratio
(consolidated; fully loaded)

%



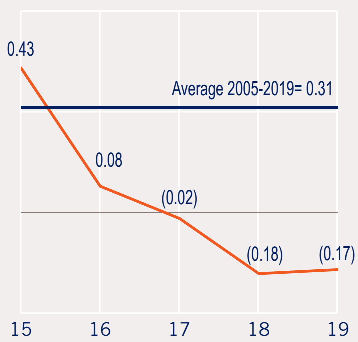
NPE ratio
Consolidated

%



Cost of credit risk net of recoveries (%) (consolidated)

%



BPI Ratings
Long-term ratings (13 Mar. 2020)

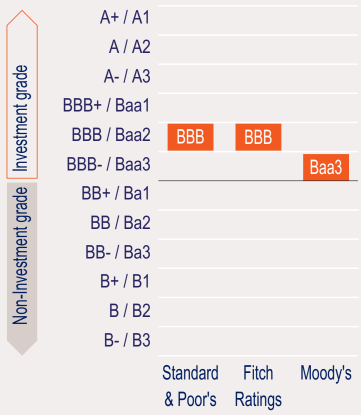


Figure 1

Statement of the Chairman of the Board of Directors

Chairman of the Board of Directors

Fernando Ulrich

Dear Shareholders, Clients and Employees,

2019 was the last year of the three-year term initiated by this Board of Directors in July 2017, after CaixaBank had taken control of BPI in February of that year.

During these three years the Portuguese economy grew more than in any other equal period since the start of the century. After a long period (2000-2016) during which the performance of the Portuguese economy was very weak and clearly below that of the Spanish economy (0.5% *versus* 1.7%), in the last three years Portugal has overtaken Spain (2.8% *versus* 2.4%). In comparison with the Eurozone group of countries, the Portuguese economy also shows a stronger growth pace in these three years (2.8% *versus* 1.9%).

At the same time, the 3-month Euribor rates have remained on negative ground for the fourth consecutive year, after seven years (2009 to 2015) in which they were positive on average, albeit below 1 percent.

Negative interest rates have had a very detrimental impact on banks' net interest income. However, the good performance of the economy and the low level of interest rates charged to Clients strongly contributed to the growth of credit volumes, the reversal of impairments and a significant reduction in non-performing loans.

In BPI's case:

- The Customer Loans Portfolio increased from €22.1 billion at the end of 2016 to €24.5 billion at the end of 2019 (+11.0%).
- The reversal of impairments had a €93 million positive impact on the three years' Net Profit.
- The Non-Performing Exposures ratio dropped from 6.6% to 2.5% while the coverage by impairments and collaterals increased from 110% to 124%.

During the term of office now ending, BPI implemented a range of initiatives aimed at cost reduction, improvement of operational and commercial efficiency, digital innovation, compliance with regulatory requirements and alignment with the policies and procedures of CaixaBank Group.

This implied a huge effort on the part of all the Bank's Employees, which was masterly conducted by the Executive Committee led by Pablo Forero. On behalf of the entire Board of Directors, I would like to pay homage and express a word of recognition to all for the work done. There is no question that BPI is today much stronger and better prepared to overcome the countless challenges faced by all banks, which are duly identified in the 2019-2021 Strategic Plan.

A clear sign of the Bank's strong position is the level of its return on equity, in a context of negative interest rates.

In 2019, consolidated ROTE was 10.3% (8.9% in the recurring domestic activity), and this figure rises to 9.7% if we exclude the costs incurred in the year with the resolution of Portuguese banks.

On the other hand, 2019 will stand out as a one of the most important years for BPI's reputation and public recognition, the Bank having earned a total of 26 prime-level awards, nationally and internationally. For the first time, a single entity simultaneously received the three most important national awards that distinguish performance in Customer preference: Trusted Brand, for the seventh consecutive time, Consumer Choice, and Five Stars. Moreover, the status of Superbrand, held for six consecutive years, was confirmed, as well as a set of six very relevant awards in the field of digital banking, of which four international and two national, that found in BPI the best digital transformation team and the best digital tool. On the other hand, the Rankia Awards recognised in BPI the best salary account and the best residential mortgage loans, while Morning Star elected BPI Gestão de Activos as the best equities manager.

Finally, a word is due on BPI's Social Responsibility Policy, which continued to stand as an important factor of the Bank's identity and differentiation, not only within its strict sphere of intervention but since 2018 under the increasingly closer cooperation with "la Caixa" Foundation. At the forefront, the importance attached to the environment and climate change deserves special mention, translating into the approval of a "Declaration on Climate Change" and an "Environmental Risk Management Policy", which now steer the deployment of the Bank's challenging sustainability programme. Secondly, the ambitious collaboration programme with the "la Caixa" Foundation, mainly focusing on the social and cultural spheres, was carried out at the planned pace. I would note in particular the BPI / "la Caixa" Foundation Awards, totalling €3.75 million (and including two new categories as from 2019, from a total of five), and the new initiatives developed with the Serralves Foundation, the Casa da Música and the Museu Nacional de Arte Antiga, not to mention the support which we continued to provide to noteworthy cultural institutions, with a relevant presence across the national territory.

Fernando Ulrich

Statement of the Chairman of the Executive Committee

Dear Shareholder,

It is with great pleasure that I present Banco BPI's management report for 2019, a year in which the Bank achieved a consolidated net profit of €328 million, with no relevant extraordinary results in the core activity. The results obtained, particularly in Portugal, continue to fuel our enthusiasm with the project designed for the Bank.

Chairman of the Executive Committee
of the Board of Directors
Pablo Forero

Once again, 2019 was a year of great effort and many challenges, under strong pressure from our competitors, and above all in a persisting context of negative interest rates, highly unfavourable to the development of commercial banking activity. This situation is highly penalising for the net interest income of banks, whose activity is mainly focused on granting loans and attracting Customer resources. In the case of Portuguese banks, this is even more noticeable, given the clear preference of Customers in Portugal for interest rates pegged to a variable interest rate index.

Notwithstanding the challenges, we were able to keep the lead in aspects as important for the Group as service quality, reputation, and the trust of our Customers in Portugal.

The commercial results obtained in 2019 confirmed the Bank's potential to increase the number of Clients, its market share and its recurring net income in Portugal, which was up by 6% compared to 2018. Return on tangible equity in Portugal reached 8.9%, slightly above the 2018 figure.

Commercial banking gross income grew by 1.2%. Customer deposits, the Bank's most stable funding source, increased by approximately €1 600 million (+7.6%); the total loan portfolio expanded by 4.4%, underpinned by a €433 million increase in loans to companies and small businesses in Portugal. In turn, the Bank increased new production of residential mortgage loans, and personal loans and car financing by 13% and 10%, respectively.

In the Portuguese market Banco BPI attained market shares of 10.1% in deposits, 16.1% in capitalisation insurance (up by 1.0 p.p. YoY), and 10.4% in credit, consistently gaining market share in loans to companies and small businesses (+0.7 p.p. to 10.5%) and raising the market share in residential mortgage loans by 0.3 p.p., to 11.8%.

Being well underway in its path of digital transformation, the Bank continued to endow the commercial teams and networks with the adequate resources to allow providing Customers with a service of increasing quality and proximity.

Underlined by a strategy of focusing on the commercial banking business in Portugal, the growth of results in 2019 was supported by a 3.2% increase in net interest income, notwithstanding the unfavourable context of negative interest rates that has persisted over the last few years. Having completed the restructuring period of 2017 and 2018, the Bank has moved to a phase of relative cost stability, particularly with regard to staff expenses, which increased by 1.4%, and it continues to stand out in the Portuguese banking market for the high quality of its assets and in particular of its loan book.

The Bank's high capitalisation levels, which attest to its strength, also deserve a note: the CET 1 and total capital ratios (fully loaded) reached 13.4% (-0.4 p.p. YoY) and 16.6% (+1.1 p.p.), respectively, after the issuance of €275 million additional Tier 1 (quasi-equity subordinated bonds) and the distribution in 2019 of €150 million free reserves intended to optimise the capital composition, and following the approval of the dividend distribution on the 2019 results (36% payout ratio).

The 48.1% stake in BFA continues to be relevant for the Bank's results. Despite the very sharp devaluation of the Angolan currency (-35% against the euro) and the high level of average inflation in Angola (17.3%), BFA still obtained one of the highest net profits in its history (€309 million). Its contribution to Banco BPI's net profit was €79 million (+8%).

In 2019 BPI once again received several accolades which attest to the public recognition afforded to the Bank: 1st in the "Large Banks" category of the "Consumer Choice Awards" and "Five Stars Awards", and, for the sixth consecutive year, the "Trusted Brand" award. This was the first time that these three awards were simultaneously granted to the same bank, highlighting BPI's dedication to its Clients and its commitment to offer them the best products and services. BPI's digital banking solutions were also distinguished in 2019 with five important national and international awards. Finally, it should also be noted that the Chairman of the Board of Directors of Banco BPI earned the Leadership Excellence Award, bestowed by the Exame magazine.

I recall that the Strategic Plan approved in 2018 has set as main objectives for the Bank the sustained growth of profitability, the transformation of the Customer experience, the development of human capital, the improvement of efficiency and the consolidation of the Bank's reputation. The challenge is to promote businesses with growth and profitability potential, leverage the Group's innovation capacity to maintain the lead of the digital transformation process in banking, provide a better experience to the Customer and pursue in the path of growth and conquest of market share gains.

I am glad to note that during 2019 BPI pursued in this path and, thanks to its commercial effort, successfully increased its market shares in key commercial banking products.

BPI has the mission to contribute to the financial well-being of its Clients and assert its role as a benchmark in socially responsible banking, based on the values of trust, service quality and social commitment.

Finally, I would like to thank all those who, every day, allow us to succeed in achieving our ambitions: our Customers, the *raison d'être* of our activity, whose trust in and choice of BPI as their reference Bank in Portugal inspire our performance; and our Employees, for the competence, effort and enthusiasm with which they perform their functions in such a demanding context for our core activity, commercial banking in Portugal.

Pablo Forero

Executive Committee of the Board of Directors
Ignacio Alvarez-Rendueles, Alexandre Lucena e Vale, José Pena do Amaral, António Farinha Morais, Pablo Forero (Chairman), Pedro Barreto, Francisco Barbeira, João Pedro Oliveira e Costa.

Key corporate events

2019

February

1 Disclosure of 2018 consolidated results: consolidated net profit reaches €490.6 million in 2018. The activity in Portugal contributed with €396.3 million (81% of the total) to the consolidated net income. The net profit from banking activity in Portugal, excluding non-recurring items, increases by 28.5% over the previous year, to €218.3 million in 2018.

7 BPI announced the creation of two new Solidarity Awards – the BPI "la Caixa" Childhood and Rural Awards – to support projects targeting children and the rural population in a situation of social vulnerability. These new awards complement those already in place, the *Capacitar*, Seniores and Solidário awards.

20 Launch of the BPI Family Campaign, which aims to position BPI as "A Bank in the life of all families". The new communication concept applies to the retail banking products and services and was used in the various campaigns developed during 2019.

20 Banco BPI informed the market it had received the decision of the European Central Bank (ECB) concerning the minimum prudential requirements that must be complied with as from 1 January 2019, a decision which is based on the results of the Supervisory Review and Evaluation Process (SREP).

March

14 Creation of the National Tourism Award, with the objective of promoting, encouraging and distinguishing the best companies, practices and projects in the Tourism sector. This initiative resulted from a partnership between BPI and the *Expresso* newspaper, under the aegis of the Ministry for the Economy and with the institutional support of Turismo de Portugal.

15 BPI returned to the institutional debt market with a €500 million, 5-year, Covered Bond issue. The success of this transaction is illustrated by the size of demand, which reached 6 times the amount of the issue.

19 S&P Global Ratings agency upgraded the Bank's long-term debt rating from 'BBB-' to 'BBB', which represents a one--notch increase in the investment grade scale. The outlook on the rating is stable.

April

29 Banco BPI informed the market that its sole shareholder had approved the Consolidated Annual Report and the separate Individual Financial Statements and attached notes relative to financial year 2018, as well as the proposal of Banco BPI's Board of Directors for the distribution of €140 million dividends on the 2018 results.

May

2 Disclosure of consolidated results for the 1st quarter of 2019: BPI reported a consolidated net profit of €49.2 million in the first three months of 2019. The net profit from the activity in Portugal contributed with €45.5 million to these results (92.5% of the consolidated net profit).

29 BPI won three accolades in the 1st edition of the Rankia Portugal Awards, in the Categories of 'Best National Equities Fund' (BPI Portugal), 'Best Salary Account' (Conta Valor) and Best Residential Mortgage Loans.

June

26 Moody's rating agency reaffirmed the Baa1 investment grade rating of Banco BPI's LT deposits (stable outlook). Moody's lowered the rating of Banco BPI's senior LT debt from Baa2 to Ba1 (stable outlook), based on a specific analysis of this agency, which takes into account the very low weight of this debt in BPI and the new regulatory framework in Portugal, which reinforces the protection of deposits relative to senior debt in the case of a bank resolution.

27 BPI earned the Wealth Tech Award 2019 for Best Private Banking in Europe in terms of the digitisation of its Financial Advisors, from the PWM magazine, a publication of the Financial Times Group.

July

7 Reinforcing its commitment to social and environmental responsibility, BPI signed the "Letter of Commitment to Sustainable Finance in Portugal".

24 Moody's rating agency upgraded its Baseline Credit Assessment (BCA) of BPI to "baa3", from "ba1", and reaffirmed its ratings on the Bank's long-term deposits and long-term debt, with stable outlook.

29 Disclosure of consolidated results for the 1st half of 2019: BPI reported a consolidated net profit of €134.5 million in the first six months of 2019. The activity in Portugal contributed with €86.9 million to the consolidated net profit.

30 BPI was distinguished by Superbrands as "Brand of Excellence". This award, received for the 6th year in a row, acknowledges the BPI brand growth strategy and the Bank's service quality and social commitment.

31 Banco BPI informed the market of the merger by incorporation of Banco Português de Investimento and BPI Private Equity – Sociedade de Capital de Risco into Banco BPI. The aim of these mergers by incorporation and legal extinction of the referred companies was to simplify the structure of BPI group.

August

8 BPI's IT team was elected the "Best Digital Team" in the European financial sector at the PayTech Digital Awards 2019, organised by the Banking Technology magazine.

September

9 Banco BPI informed the market on the setting of the terms of a €275 million issue of Additional Tier 1 (AT1) instruments, to be fully subscribed by CaixaBank. The issuance and respective settlement took place on 19 September.

October

30 Banco BPI informed the market that its sole shareholder had approved a proposal of its Board of Directors for the distribution of €150 million free reserves. This distribution of free reserves, combined with the €275 million issue of AT1 instruments carried out in September, aimed for a more optimised composition of prudential capital.

30 Fitch Ratings agency reaffirmed the rating on BPI's LT debt at BBB, with stable outlook. Fitch Ratings stresses the superior quality of BPI's assets, the capitalisation adjusted to the Bank's risk profile and adequate and stable funding structure and liquidity levels.

November

4 Disclosure of consolidated results for the 3rd quarter of 2019: consolidated net profit reaches €253.6 million in the period of January to September 2019. The activity in Portugal generated a net profit of €152.7 million.

20 Banco BPI sells a portfolio of non-performing loans and real estate assets with a total gross value of circa €220 million.

December

3 Fernando Ulrich received the Excellence in Leadership Award from Trust in News, a publisher, and the *Exame* magazine.

9 Banco BPI informed the market it had received the decision of the European Central Bank (ECB) concerning the minimum prudential requirements that must be complied with as from 01 January 2020, a decision which is based on the results of the Supervisory Review and Evaluation Process (SREP).

10 The BPI Go Now machine learning platform earned the digital innovation awards for "Best Technology Initiative – Europe", held by the London Institute of Banking & Finance, and "Best Digital Strategic Tool", in the Portugal Digital Awards. The Bank's "Full Agile – Driving Business Transformation" initiative was also distinguished in the Financial Innovation Awards with the award for "Change Team of the Year".

2020

January

9 BPI ranked for the first time in 1st place in the "Large Banks" category of the "Consumer Choice Awards" and "Five Stars Awards". Both these awards distinguish brands based on surveys to Portuguese consumers.

February

3 Disclosure of 2019 consolidated results: consolidated net profit reaches €328 million in 2019. The profit from banking activity in Portugal, excluding non-recurring items, increases by 6% over the previous year, to €231 million in 2019. BPI's Board of Directors proposes the distribution of a €117 million dividend on the 2019 results.

March

1 BPI was recognised, for the seventh consecutive year, as the Portuguese Most Trusted Banking Brand, according to the brand trust survey that Reader's Digest has conducted for 20 years in 16 countries. 73.7% of the respondents considered BPI to be the most trustworthy banking brand in Portugal.

Non-financial statement

The non-financial statement presents detailed information on the evolution, performance, position and impact of BPI's social responsibility activities during 2019, in line with its objectives, management model and strategic lines.

BPI Business Model

BPI focuses on the commercial banking business in Portugal, using its specialised distribution network and digital channels in an integrated manner to offer a broad range of services and financial products to corporate, institutional and individual Customers.

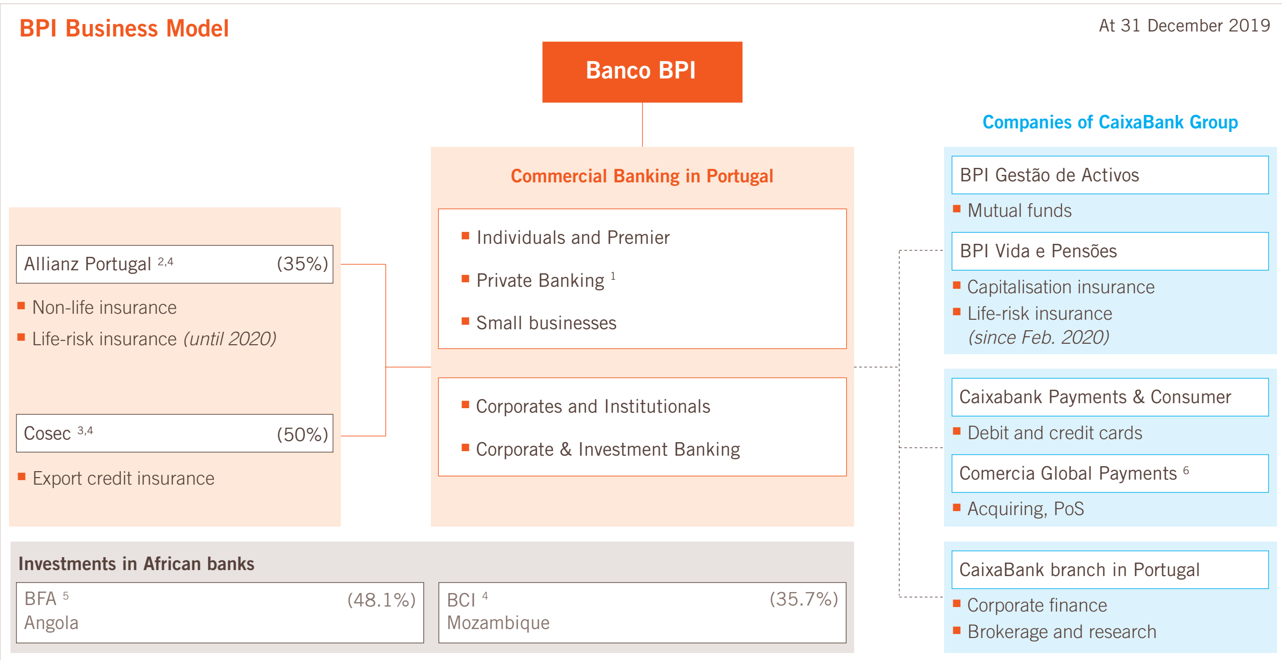
BPI, which is 100% held by CaixaBank, is the fifth largest financial institution operating in Portugal by assets (€31.8 billion), with market shares of 10% in Customer loans and Customer deposits, and above 11% in investment and diversification products (mutual funds, retirement saving plans and capitalisation insurance).

BPI offers its Customers a range of investment and saving solutions – mutual funds, capitalisation insurance and pension funds – mainly provided by BPI Vida e Pensões, BPI Gestão de Activos and BPI Global Investment Fund (companies sold to CaixaBank Group).

In the insurance business area, BPI has a 35% stake in the share capital of Allianz Portugal and a distribution agreement for non-life insurance. The life-risk insurance distribution agreement with Allianz terminates in 2020, and as from February the Bank started distributing the life-risk products of BPI Vida e Pensões (CaixaBank Group). In credit insurance, BPI holds a 50% stake in COSEC.

BPI distributes several other products and services centrally sourced from CaixaBank Group: debit and credit cards, from CaixaBank Payments & Consumer, Acquiring and Point of Sale Terminals (POS), from Comercia Global Payments, and investment banking services, transferred to CaixaBank's Branch in Portugal, which started to operate in January 2019.

BPI holds minority interests in African banks (48.1% in BFA in Angola and 35.7% in BCI in Mozambique).



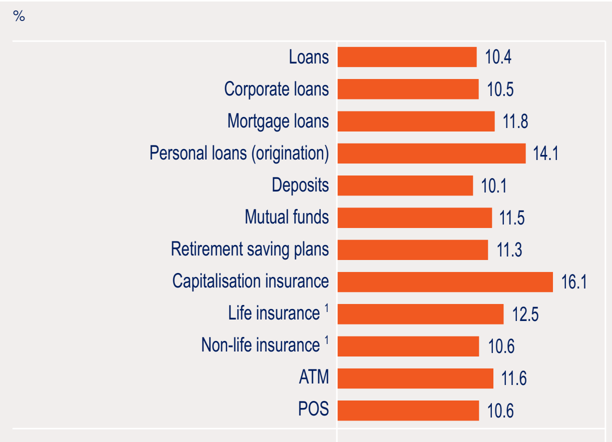
(% of capital held by Banco BPI)

Figure 2

1) Includes the activity of BPI Suisse (fully owned).
2) In partnership with Allianz, which holds 65% of the share capital.
3) In partnership with Euler Hermes, a company of the Allianz Group, holder of 50% of the share capital.
4) Companies accounted for by the equity method.
5) At the end of 2018 BPI changed the accounting classification of its equity holding in BFA, from "associated company", consolidated by the equity method, to "financial investment", recognised under "shares at fair value through other comprehensive income".
6) Joint venture between CaixaBank and Global Payments Inc.

BPI serves 1.9 million Customers in the domestic market, having relevant market shares in the various products and services offered.

Market shares



Market shares in Dec. 19, excluding personal loans origination (Jan.-Dec. 19). In loan market shares, securitisations market is an estimate. *Chart 1*

1) Market share in Banking Channel for stand-alone and credit-linked Insurance.

Sources: Bank of Portugal, APFIPP (Portuguese Association of Investment and Pension Funds and Asset Management Firms) APS (Portuguese Association of Insurers), INE (National Statistics Institute), BPI Gestão de Activos, BPI Vida e Pensões, BPI.

The business model is based on the provision of a complete range of financial products and services, structured to meet the specific needs of each segment through a specialist, omnichannel and fully integrated distribution network.

The physical distribution network comprises 477 business units, namely 406 retail Branches, 1 mobile Branch, 36 Premier Centres, and specialist Branches and units serving corporate and institutional Customers, including 31 Corporate and Institutional Centres and 3 Corporate and Investment Banking centres.

The physical network articulates with the virtual channels, which include homebanking services (BPI Net and BPI Net Empresas), telephone banking (BPI Directo) and mobile applications (BPI Apps), thus ensuring banking services coverage of all Clients.

With the aim of continuing to improve the service provided to Customers, boosting its speed and availability, BPI has defined digital transformation and improved efficiency as strategic priorities. BPI has been using the new technologies to improve the Customer experience in the relationship with the Bank, increasing its capacity to analyse and respond to the needs of each Client and redesigning various processes to provide an increasingly innovative and multichannel offer.

Thanks to this strategic focus, BPI has reached leading positions in the digital channels, namely ranking in #1 and #2 place within the Portuguese banks in terms of penetration in Internet and Mobile Banking for Individual Clients and Internet Banking for Companies, respectively (source: BASEF and DATA E).

BPI's business is organised around two main segments: (i) Individuals and Businesses, and (ii) Corporate and Institutional.

Individuals and Businesses

Individuals, Businesses and Premier Banking was responsible at the end of 2019 for the commercial initiatives with individual Customers, small businesses and companies with turnover of up to €2 million, operating alongside Corporate and Institutional Banking in the segment of up to €5 million. The Branch network is geared towards mass-market Customers and small businesses. For the Affluent Customers – high net worth Customers or Customers with potential for wealth accumulation – BPI has a network of Financial Advisors working at the Premier Centres or specific retail Branches, who provide specialised financial advisory services.

BPI Private Banking, made up of a team of experts in Portugal and also comprising a 100% held subsidiary, in Switzerland – BPI Suisse – provides discretionary management and financial advice specialist services to high net worth individual Customers.

Corporates and Institutional

Corporate and Institutional Banking, through its specialist network, served at the end of 2019 large and medium-sized companies with turnover of more than €2 million, operating in parallel with Individuals, Business and Premier Banking in the segment of up to €5 million. This network is also directed to Institutional Customers, namely Public Sector entities, State and Municipal Companies, State-owned Enterprises or other institutional entities.

To reinforce support to its Customers – developers and construction companies – involved in large residential real estate projects, in 2019 the Bank opened two Real Estate Business Corporate Centres.

Corporate and Investment Banking manages the relationship with the largest Portuguese corporate groups, insurance companies and subsidiaries of the largest Spanish companies, under an Iberian approach aimed at providing the best level of service.

Customer segmentation and distribution network

At 31 December 2019

1.9 **Million Clients** 477 **Commercial units** 4 840 **Employees**

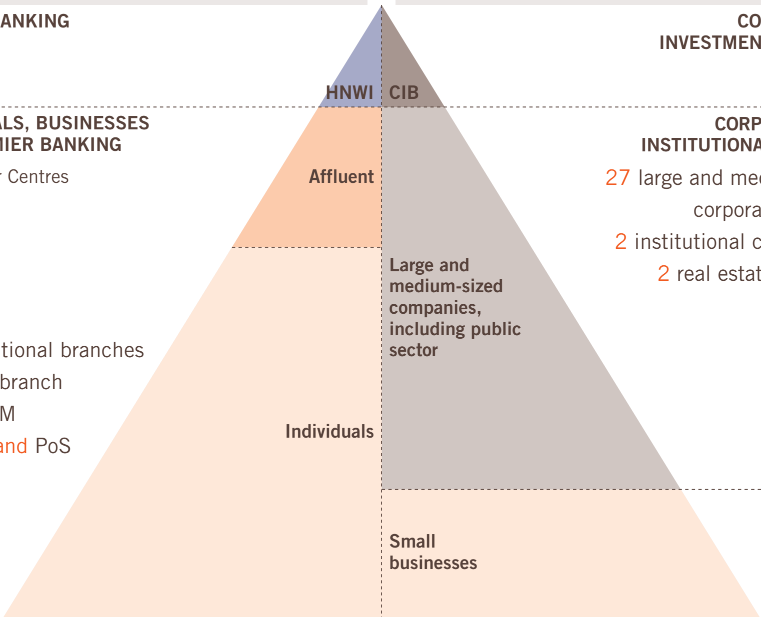
Individuals and businesses | **Corporate and institutional**

PRIVATE BANKING

INDIVIDUALS, BUSINESSES AND PREMIER BANKING

36 Premier Centres

406 Traditional branches
1 Mobile branch
1 380 ATM
37 thousand PoS



CORPORATE & INVESTMENT BANKING

3 centres

CORPORATE AND INSTITUTIONAL BANKING

27 large and medium-sized corporate centres, 2 institutional centres and 2 real estate business centres

Digital Banking

674 thousand Digital banking regular users

401 thousand BPI App regular users

45% Active digital Customers[1]

HNWI = High Net Worth Individuals.
CIB = Corporate and Investment Banking.

1) Active customers 1st account holders, individuals and companies.

Figure 3

Strategic lines

2019-2021 STRATEGIC PLAN

Under the motto "Create value with values", BPI has been deploying its 2019-21 Strategic Plan based on the five priorities defined: sustainable increase in profitability, enhance the Customer experience, develop human capital, boost operating efficiency and consolidate the Bank's reputation. These are the five strategic priorities:

STRATEGIC PRIORITIES FOR 2019-2021

Sustainable increase in **PROFITABILITY**	Accelerate transformation of **CUSTOMER EXPERIENCE**	Develop the Bank's **HUMAN RESOURCES**	Improve operational and organisational **EFFICIENCY**	Consolidate the Bank's reputation based on **QUALITY OF SERVICE** to the Customer and Society
Sustainable increase in profitability through the increase in revenue driven by the growth of loans to corporates and individuals and the sale of financial advisory services, combined with stable recurring expenses and a low cost of credit risk.	With a focus on digital mobility and Customer service, BPI is set on accelerating the Bank's digital transformation process, applying the new technologies to analyse and respond to the needs of each Customer and to provide an increasingly innovative and multi--channel offering.	Prioritising investment in human resources training and development at all levels of the institution, BPI is set on fostering talent management and driving an agile culture that permits to respond to the changing environment in the financial sector.	One of BPI's priorities for 2019-21 is the simplification, digitisation and centralised management of processes, enabling the commercial teams to be more focused on Customer service and the marketing of and advisory services for financial products.	This strategic line stresses not only the maintenance of the high levels of service quality that characterise the Bank but also BPI's goal of being a reference in the area of social commitment and responsible management.

SUSTAINABLE PROFITABILITY

SUSTAINABLE INCREASE IN PROFITABILITY

In 2019 BPI had a very positive commercial performance, continuing the path of sustainable increase in results and profitability in commercial activity in Portugal, as envisaged in the Strategic Plan for 2019-2021.

Credit grew across all segments of the portfolio and above the financial sector average increase in the main segments. BPI's total loan portfolio expanded by 4.4% yoy, underpinned by increases of 4.7% in loans to companies, 1.8% in residential mortgage loans, and 15.9% in consumer loans and car financing. BPI's market share in loans to companies increased by 0.7 p.p., to 10.5%; in new residential loan production BPI's market share reached 17.7% in the last quarter of 2019 and in consumer loan production its market share in 2019 was 14.1%.

The progress made in terms of Customer resources was also noteworthy, with BPI attracting more than €1.8 billion in 2019 (+5.7% yoy)[1]. Customer deposits were up by 7.6% yoy, while the strategic focus on diversification and the promotion of long-term saving resulted in a 6.6% yoy increase in mutual fund and capitalisation insurance portfolios.

The offering of Value Accounts ("*Contas Valor*"), which incorporate a set of products and services against a fixed maintenance fee, was consolidated in 2019, reaching 845 thousand accounts at the end of the year, corresponding to a penetration rate of 64%. The number of value accounts with automatic salary / pension credit totalled 485 thousand at the end of the year.

The expansion of commercial activity described above supported the growth of core revenues. Commercial banking gross income increased by 1.2%, underpinned by a 3.2% increase in net interest income and a 5.7% increase in fee and commission income (on a comparable basis[2]).

Staff expenses remained relatively stable. The 2.7% increase in recurring operating expenses in 2019, and in particular, the increase in depreciation and amortisation, is explained by the execution of planned investments aimed at digital transformation, modernisation and improved efficiency. The core efficiency ratio[3] was 60.2% in 2019.

BPI continued to report an improvement in credit quality indicators, which were already the best in Portugal. The NPE ratio decreased by 1.0 p.p., to 2.5% at the end of 2019, with accumulated impairments on the balance sheet plus collaterals covering NPE at 124%. In 2019 BPI recognised reversals of impairments and recoveries in the amount of €43 million, representing a gain in the income statement.

Recurring net profit from the activity in Portugal was €231.3 million in 2019 (+6.0% yoy), with return on equity reaching 8.9%.

BPI closes the year with higher capitalisation levels and a more optimised composition of regulatory capital. The CET 1 ratio was 13.4%[4], the T1 ratio was 14.9%[4] and the total capital ratio was 16.6%[4].

Financial objectives of the 2019-2021 Strategic Plan

The Strategic Plan has set the objective of achieving a sustainable ROTE in the activity in Portugal of around 11% in 2021, supported by revenue growth and stable recurring expenses, permitting an improvement in the core efficiency ratio to around 50% and maintaining a low cost of credit risk.

	2019	2021 Obj.
Core efficiency ratio	60.2%	~50%
Recurring ROTE in Portugal	8.9%	~11%

Table 2

1) Excluding deposits of institutional and financial investors.
2) Excludes the effect of the sale of businesses in 2018.
3) Operating expenses (excluding non-recurring) as percentage of commercial banking gross income.
4) Fully loaded ratios.

CUSTOMER EXPERIENCE

ACCELERATE THE TRANSFORMATION OF THE CUSTOMER EXPERIENCE

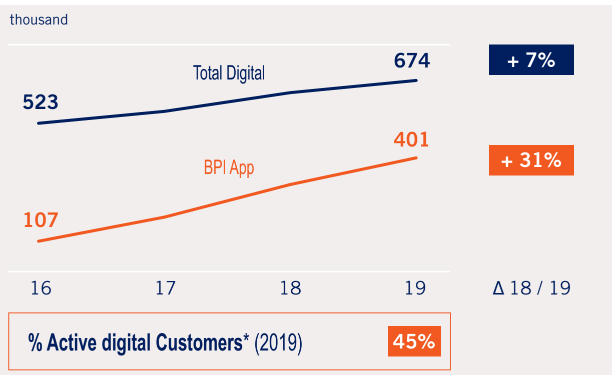
Digital transformation, a strategic priority for BPI, is based on three pillars in which significant progress was made during the year:

- increase the use of the digital channels by BPI's Clients;
- improve the Clients' experience through homebanking / mobile banking solutions;
- develop mobility and support solutions for the Commercial Managers.

BPI leads in the digital channels

The Bank is market leader in homebanking penetration, having reinforced in 2019 the number of active digital Clients and significantly increased the number of users of the mobile banking channel.

Digital banking regular users



* Active Customers 1st account holders, individuals and companies.

Chart 2

In addition to receiving the "Five Stars" national award in the Digital Banking category, in 2019 BPI once again stood out in the indicators of use of and satisfaction with the digital channels:

BPI digital channels penetration

- 1st in Internet Banking for Retail
- 1st in Mobile Banking for Retail
- 2nd in Internet Banking for Companies

Satisfaction with BPI digital Channels

- 1st in Retail Banking Digital Presence
- 2nd in Corporate Banking Internet

Data from BASEF 2019, ECSI 2019 and DATA E 2019 market surveys (main Banks).

Evolution of the digital experience

With the aim of boosting service quality and sales through the digital channels, in 2019 BPI launched a substantial set of novelties in the BPI App, BPI Net and BPI Net Empresas, namely including:

- Full renewal of BPI App to offer a new use experience, and viewing the following:
  - Updating the image, functionalities and browsing, in accordance with the new trends;
  - Reorganising and optimising access to the new functionalities which have experienced strong growth in recent years;
  - Supporting new customisation and sale solutions;

- Integration of the MB WAY service in BPI App:
  - Improvement of functionalities through the launch of the "Request Cash", "Pay with QR Code" and "ATM MB Cardless use" transactions;
  - Boosting use: the number of users has increased and more than 85% of MB WAY transfers are now made through BPI's App.
- Development of open banking within the context of the PSD2 Payment Services Directive:
  - BPI was the first Bank to launch in Portugal an innovative service permitting to check accounts with Other Banks, sorted by categories of expenses and included under the "*Minhas Finanças*" solution, together with the BPI accounts;

- BPI was also the first Bank to allow making transfers from accounts with Other Banks through BPI App and BPI Net;
- API services available to view information and to initiate third-party payments (TPP);
- Revision of the Strong Customer Authentication (SCA) mechanisms.

- Increase in the maximum amount of immediate loans available through the Customer digital channels (BPI App and BPI Net) and in the digital channel used by Commercial Account Managers (BPI GoBanking), greatly contributing to increase contracting of this product;
- Credit cards' purchase experience, management and use was redesigned, namely to include new functionalities for credit card request, cash advance, payment of card balance, management of ceilings and transaction blocking options;
- Insurance products catalogue made available on BPI App;
- Reinforcement of saving, retirement and investment funds solutions in BPI App and BPI Net;
- Redesign of BPI Net's online brokerage area, to offer a simpler and more functional browsing experience;
- Online account opening through videoconference;
- New factoring solution at BPI Net Empresas, including:
  - Consultation of liabilities and advance limits;
  - View of the entire portfolio of invoices assigned;
  - Balances and entries in the factoring current account;
  - Request for advance on invoices.

The development of the machine-learning commercial relationship platform – BPI GoNow – in 2019 should also be stressed. This platform, which earned several national and international awards in 2019, now supports the omnichannel management of the relationship with BPI's Clients.

Mobility and effectiveness of the Commercial Networks
The digital transformation at the service of BPI's Commercial Networks involved not only the modernisation of equipment, but also the digitisation of operational and sale processes, and articulation with the digital channels to enable the Commercial Managers to actively support their Clients, anytime, anywhere.

The Commercial Networks' mobility and effectiveness solutions were strongly reinforced in 2019, namely through the following:

- Conclusion of the process of expansion of the new workstation (smartPC), with digital signature for transactions and processes, to all the Employees, boosting commercial proactivity and mobility in Customer service;
- "Contact with Manager" functionality made available to Corporate Clients, increasing points of contact and service between manager and Clients and permitting to exchange messages, send documents and authorise transactions through the digital channels;
- Expansion of signature dematerialisation, through digital signature, promoting a faster and more efficient service delivery experience;
- Evolution of Customer commercial management tools, namely through new service support solutions and increased capacity for omnichannel identification and management of commercial opportunities.

HUMAN RESOURCES

DEVELOP BPI'S HUMAN RESOURCES

At 31 December 2019 BPI had 4 840 Employees, of whom 4 821 in Portugal.

BPI Employees End-of-period figures

			2018	2019	Δ%
Activity in Portugal			4 866	4 821	(0.9%)
Banco BPI		1	4 838	4 821	(0.4%)
Subsidiaries		2	28	0	(100.0%)
Branches abroad		3	22	19	(13.6%)
Total[1]	*[= 1 + 2 + 3]*	4	**4 888**	**4 840**	**(1.0%)**

Table 3

BPI, in alignment with CaixaBank, bases its people management policy on respect for diversity, equal opportunities and non-discrimination, steering its conduct by full and rigorous compliance with the law and high standards of ethical values, with particular emphasis on the following:

- Equal opportunities and non-discrimination;
- Respect for people and their dignity;
- Reconciling work with personal life;
- Prevention of occupational hazards.

In its relationship with its Employees and in the relationship among the Employees themselves, any form of individual discrimination incompatible with the dignity of the human being is forbidden, in particular with respect to origin, ethnicity, gender, sexual orientation, political opinion and/or religious belief. It is a paramount principle of the Bank to provide equal opportunities for access to work and career progression without any discrimination.

Concurrently, BPI promotes a work environment where each one can collaborate in detecting and reporting these undesirable practices, ensuring non-retaliation and providing an internal channel for this purpose.

ACTIVITY IN PORTUGAL

4 821 EMPLOYEES

56% WOMEN **44%** MEN

16.9 AVERAGE SENIORITY YEARS

97% WITH AN INDEFINITE CONTRACT

289 thousand TRAINING HOURS

€1.8 million INVESTMENT IN TRAINING

58 TRAINING HOURS PER EMPLOYEE

93% ONLINE TRAINING HOURS

In all recruitment, selection and/or career progression processes, any form of discrimination is prohibited, and all actors, regardless of their position, must act objectively and for the sole purpose of identifying the people most appropriate to the profile and needs of the function, and promoting equal opportunities.

All Employees, especially those who hold leadership or management positions, should promote, at all levels, relationships based on respect for the dignity of all, participation, equity and mutual collaboration, contributing to the creation and maintenance of a good work environment. In respect of occupational hazards, BPI considers the safety and health of its Employees at work to be crucial, and it is its primary objective to permanently improve working conditions. In compliance with current laws, the Bank ensures a safe and healthy work environment and the prevention of occupational accidents and diseases.

1) Includes fixed-term contracts and excludes temporary work of people with no employment relationship with BPI.

Increase Employee training and development

Campus BPI, a web learning platform comprising four Academies – business; risks / legislation; digital; and personal development – was launched in 2019. The platform provides a collaborative learning model, where Employees use the knowledge available and share their knowledge with others. E-learning courses, videos, communities of interests, forums and blogs are available.

Training contents, drawn up in accordance with the Employees' needs and legal guidelines, were provided in-class, online and through blended learning.

Training investment amounted to €1.8 million, corresponding to 1.1% of the payroll.

Five thousand Employees participated in training sessions (in-class and e-learning), and there was an increase in the number of training hours per Employee (+8%): 58 hours, which compares with 54 hours in 2018.

The total number of training hours increased by 10% year--on-year. The number of online training hours increased, against a significant reduction in the number of in-class training hours. The training offer was essentially designed for the Employees of the Commercial Networks, who accounted for 61% of the total number of participants, vs. 39% of participants from the Central Services.

Normative and regulatory training involved close to 4 500 Employees on the theme of Money Laundering and Terrorist Financing and 4 700 on the Code of Business Conduct and Ethics. In the area of Risk, training was provided to around 700 Employees on the subjects of Non-Performing Loans, the Risk Appetite Framework and Solvency.

Also in terms of regulatory training, around 3 000 Employees were certified in MiFID II (financial advisory and continuing training) and close to 2 200 in Mortgage Loans, using a gamified approach.

Interactive videos and face-to-face sessions with a practical component were much used, namely for training in the "BPI Vida e Pensões" life-risk insurance product, which involved the entire network.

The investment in Employee training continued to stress training in languages, which already has approximately 300 participants.

The first edition of the "BPI Leader" programme, targeting Senior Management, was launched, aiming to reinforce an agile culture based on collaborative work, and to consolidate people monitoring and development skills.

Main training indicators

	2018	2019
Investment (€million)	1.4	1.8
Investment / payroll	0.8%	1.1%
Total participants – in-class and e-learning (in thousand)	4.8	5.0
Total participations (in thousand)	47.0	73.2
In-class	5.7	5.9
e-learning	41.3	67.3
Total training hours (in thousand)	263	289
In-class	32	20
e-learning	230	270
No. of training hours per Employee	54	58

Table 4

Promote an agile culture driving motivation and involvement

An area of Internal Communication and Culture was created within the Human Resources Division, aimed at reinforcing a culture that fosters Employee motivation and engagement. Several Communication Plans were developed, essentially focusing on "People" and "Business" themes and making use of familiar and emotional language. 120 news items were prepared for the Intranet, with over 186 thousand views. The audiovisual format was emphasised, and 45 videos were broadcast, which had more than 75 thousand views.

In the area of Climate Studies (2018), several initiatives proposed by the Employees were developed, focused on two main lines, namely local actions and national actions.

Seven events were organised to honour 500 Bank Employees for their seniority, of which four in Lisbon and 3 in Porto.

Working on compensation, meritocracy and diversity
A "Management by Objectives" process was implemented to make the remuneration strategy more transparent, fair, adaptable, competitive and consistent with regulatory requirements. This process covered 200 Employees (first and second line management), whose variable remuneration was made dependent on the achievement of corporate and individual targets. The aim is to gradually extend this process to the entire organisation.

The Talent Committee was set up, having as mission to ensure that appointment processes for management positions and/or the coordination of commercial bodies comply with the principles of Meritocracy, Diversity and Cross-cutting nature. According to the Committee's Rules of procedure, a minimum of three applicants must be identified for each vacancy, so as to comply with the aforementioned guiding principles. In 2019 the Talent Committee's work resulted in 12 appointments.

In November, the "Wengage – Diversity and Inclusion" Programme was launched, which aims to contribute to raising awareness and implementing measures along three pillars: gender, different skills (disability), and age. The programme's launch event was attended by the Chairmen of the Board of Directors and Executive Committee, as well as by 80 Employees on location and another 500 through live streaming.

OPERATIONAL AND ORGANISATIONAL EFFICIENCY

IMPROVE OPERATIONAL AND ORGANISATIONAL EFFICIENCY

In 2019, several initiatives were carried out with a strong impact on improving the efficiency of the Commercial Networks, permitting to save 300 thousand hours previously spent on administrative tasks.

Considering the initiatives that had already been taken in the previous year, the total number of hours released from administrative tasks rises to approximately 730 thousand.

Automation of the Commercial Network

The reinforcement of the Commercial Network's automated resources was pursued in 2019, involving the installation of 69 Self-Service Teller Machines (SST), 89 Cash Deposit Machines (CDM), 81 Recirculating Cash Dispensers (RCD) and 4 Cash Points.

In addition to these measures, new transaction options were added to the Self-Service Teller Machines, and the Teller function working hours were reduced in 55 Branches.

The automated areas' absorption rate reached 74.7% (*vs.* 69.6% in 2018).

Automated Areas' Absorption Rate

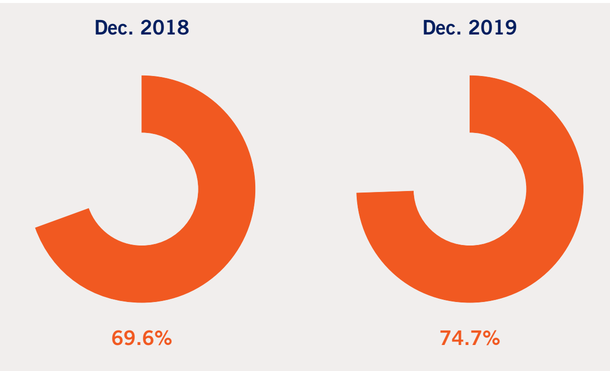


Chart 3

Number of branches with automated resources

	2019
Self-service teller machines	152
Cash Deposit Machines	344
Recirculating Cash Dispensers	354
Automated areas' absorption rate	74.7%

Table 5

Centralisation of non-commercial tasks

The centralisation of non-commercial tasks in the Middle--office teams, aiming to release time for the networks' commercial activity, was pursued in 2019.

With regard to the Retail network, the operation of the services already centralised in 2018 was consolidated and optimised, stressing the improvement of the service level to the final Client as well as reducing the need for new interventions by the networks.

In the Corporate Network, a new service model was launched, which involved the centralisation of a range of processes, the standardisation of services provided by the various Corporate Centres and the Clients' direct contact with the Middle Office. This project will be continued in 2020.

Simplification of processes

In order to simplify processes and reduce the time-to-market, two complementary approaches have been adopted: i) transformation of processes; and ii) continuous improvements in the teams.

Concerning the transformation of processes, four processes were reviewed end-to-end, with a focus on loan operations (residential mortgage loans, car financing and two corporate credit products). These measures permitted to reduce the time-to-market and expedite the processes, namely in mortgage loans, where the contracting process was reduced by close to 20 days.

With regard to continuous improvements, the operational teams have consolidated practices permitting the regular identification and implementation of small improvements that, on the whole, gave a very positive contribution to the overall efficiency of the processes. In 2019, 223 measures afforded a total saving of 30 days in the processes subject to intervention.

Other network processes were simplified, namely involving the implementation of automated form filling for around 100 forms and digital signature available for approximately 50 forms.

Operational efficiency and quality control
The strategy of further reinforcing the externalisation of operational teams' tasks was concluded in 2019, surpassing the final objective defined in the three-year Strategic Plan (55%).

The purpose was to increase flexibility in business development by focusing BPI's teams on higher-value tasks and on the management and optimisation of processes and teams.

In 2019 there was also a strong effort put into the training of internal and external teams, as well as the consolidation of choreographies and practices in the management and monitoring of service levels and quality.

Finally, a full set of management information dashboards was also developed and made available to the teams, permitting the daily monitoring and control of the various operations, and helping to support the management and quality control of the services carried out.

ACKNOWLEDGEMENT AND REPUTATION

In 2019 BPI reasserted its position of Best Bank in Portugal, as confirmed by the attribution to the Bank of the Consumer Choice, Five Stars and Trusted Brand awards. This is the first time that a bank earned the three awards simultaneously. BPI was also distinguished in 2019 with important national and international awards to its Digital Banking solutions, and was considered the Bank with the highest level of satisfaction.

Fernando Ulrich, Chairman of BPI' Board of Directors, was distinguished by the Exame magazine with the 2019 Leadership Excellence Award.

In a Brand Valuation survey by Onstrategy, the BPI brand was valued at €428 million, which makes it the 9th most valuable Portuguese brand. In 2018 the Bank had ranked in 15th position in this survey. The same consultant also revealed that the BPI brand had obtained the best results ever in reputation and social responsibility.

Public acknowledgement

BPI's performance has been acknowledged across diverse areas of the financial activity by independent national and international entities. Main accolades:

Consumer Choice

BPI is the 2020 Consumer Choice, in the Large Banks category, having obtained the largest scores in the attributes most valued by consumers. BPI obtained the best overall assessment from within the five major banks operating in Portugal, with a global score of 76.13%.

Five Stars Award

BPI earned the title of 2020 Five Stars Brand, in the Large Banks category, with a global score of 71.7%, and leading scores in the Satisfaction and Recommendation criteria. The Five Stars Award is based on the overall assessment by 1 312 Portuguese consumers carried out at three distinct and complementary stages: focus group and specialised committee; trial testing; and mass market surveys.

Trusted Brand

BPI was recognised, for the 7th consecutive year, as the Portuguese Most Trusted Banking Brand, according to the brand trust survey that Reader's Digest has conducted for 20 years in 16 countries. 73.7% of the respondents considered BPI to be the most trustworthy banking brand in Portugal.

Brand of Excellence – Superbrands

BPI received this accolade for the 6th consecutive year, from Superbrands, an independent international organisation that promotes brands driven by values such as longevity, loyalty, acceptance, and goodwill. Superbrands distinguishes brands that show a higher performance than their competitors.

Satisfaction with Service Delivery
BASEF 2019 – Financial System Baseline Survey, published by Marktest, once again confirmed BPI as the Bank with the highest satisfaction level amongst the five largest banks in the Portuguese financial system with respect to Quality of Service – an indicator in which it has always led –, as well as Product Quality. BPI is at the forefront in terms of responding to Customers' digital needs, being Penetration Leader in Internet Banking and Mobile Banking (APP) services, from within the five largest banks.

1st in Satisfaction Index
BPI has regained the leadership in the Banking Consumer Satisfaction Index (CSI), having scored in first place in the two index components – Branch CSI and Digital Channels CSI – of the Banking CSI survey, 2nd wave 2019, conducted by Marktest, which assesses banks' Customer service quality in each relationship channel.

1st in Mystery Client overall evaluation
In 2019 BPI ranked in first place among its main peers in the overall assessment. This survey, conducted by Metriang, assesses the quality, professionalism and technique in Customer service to a potential Client.

The BPI brand obtains the best results ever in reputation and social responsibility
According to OnStrategy, a company that evaluates the reputation of brands in 30 industry sectors, the BPI brand scored an excellent level of awareness and the highest level in the reputation and social responsibility indicators since the survey is conducted in Portugal. The BPI brand ranked in 2nd position in the financial sector in the reputation and social responsibility indices.

Three best products in the Rankia Portugal Awards
BPI won three accolades in the 1st edition of the Rankia Portugal Awards, which acknowledge the best financial entities and products. The members of the financial community elected the BPI Portugal fund as the 'Best National Equities Fund', BPI's "Conta Valor" as the 'Best Salary Account', and BPI's Residential Mortgage Loans as the best of their kind.

Best Mutual Funds
BPI Gestão de Activos earned the award for Best National Equities Manager in the Morningstar 2019 Awards.

Award for Best Flexible Fund
BPI Brasil received the accolade for "Best Flexible Fund" in the Best Funds Awards by Jornal de Negócios / Associação Portuguesa de Fundos de Investimento, Pensões e Património.

Excellence Award – Covered Bonds Issuance
The €500 million Covered Bonds issue made by Banco BPI in March 2019 was considered the "Year 2019 Peripheral Issue" by the The Covered Bond Report publication.

Most Active Research House
Earned for the 7th consecutive year, this award was attributed to the CaixaBank BPI Research Team in the NYSE Euronext Lisbon Awards 2019.

2nd Best Research Team in the Iberian Market
CaixaBank BPI was recognised as the 2nd best research team of Spain and Portugal in Refinitiv's StarMine Awards.

Best Treasury and Cash Management Provider in Portugal
Distinction awarded for the 4th consecutive year by the prestigious Global Finance Magazine.

Digital innovation

BPI was distinguished in 2019 with important national and international awards for its digital banking solutions, which reflect the Bank's large investment in its digital transformation aimed at improving the Customer experience at all moments of contact with the Bank.

Five Stars Award

BPI was the winner in the Digital Banking category of the 'Five Stars 2019' national award.

Best Technology Initiative

BPI, with its "BPI GoNow – shaping the future" initiative – a management-support machine learning platform –, was the winner in the "Best Technology Initiative – Europe" category of the international Financial Innovation Awards 2019, held by the London Institute of Banking & Finance.

Change Team of the Year

In the Financial Innovation Awards 2019, BPI also won in the "Change Team of the Year" category, with its "Full Agile – Driving Business Transformation" initiative. The award recognises the Bank's integration of business priorities in its IT operations to improve the quality and speed of Customer service.

Best Digital Team

BPI has the "Best Digital Team" of the European financial sector, an accolade obtained in the Banking Technology magazine's 2019 PayTech Awards. This award highlighted excellence and innovation in the financial sector's use of technologies, based on criteria such as efficiency, the achievement of objectives, and the value delivered to the organisation.

Best Digital Strategic Tool

The BPI GoNow platform was elected "Best Digital Strategic Tool" in the Portugal Digital Awards 2019, an initiative of *Jornal de Negócios* and IDC, under a partnership with Axians, which distinguishes the most disruptive and innovative projects of national organisations, in the context of digital transformation.

Best Private Bank for digitally empowering Relationship Managers, Europe

BPI earned the Wealth Tech Award 2019 for Best Private Banking in Europe in terms of the digitisation of its Financial Advisors, from the PWM magazine, a publication of the Financial Times Group. PWM stressed the digital and mobility tools developed by BPI for the Wealth Management and Customer Relationship areas.

Honourable Mentions

BPI also obtained the six Honourable Mentions referred below, three in the Banking Technology Awards 2019 (BTA), the international awards that recognise the value of companies' technology investments and showcase their skills, creativity and execution, and another three in the Portugal Digital Awards (PDA):

- "BPI Mobile Interactions and SignNow towards a full paperless and mobile experience", in the "Best Use of Tech in Retail Banking" category (BTA);
- "BPI GoNow – shaping the future", in the "Best Use of Data" technology category (BTA);
- "Tech Team of the Year" (BTA);
- "BPI Open Banking", in the "Best Digital Platform" category (PDA);
- "BPI SignNow", in the "Best Digital Workplace" category (PDA);
- "Credit Card BPI Family", in the "Best Digital Product & Customer Experience" category (PDA).

Financial Innovation Awards 2019	Financial Innovation Awards 2019	2019 Portugal Digital Awards	Prémio Cinco Estrelas 2019	PWM Wealth Tech Awards 2019 Best Private Bank, Digitally Empowering RMs, CEE	PayTech Awards 2019
Best Technology Initiative - Europe	Change Team of the year	Best Digital Strategic Tool	Winner in Digital Banking category	Best Private Bank for digitally empowering relationship managers	Team of the Year
BPI GoNow	Digital Banking	BPI GoNow	Digital Banking	BPI Private Banking	Digital Banking

Communication policy

The Bank's communication policy continued to focus on the creation of permanent opportunities for communication along the year, based on three key dimensions: commercial communication, addressed to individuals and companies, sponsorships, and social responsibility. This chapter describes the more relevant actions and initiatives taken in 2019.

In 2019, the financial sector remained the 10th largest investor from all business sectors, with a share of investment of 4%, up by 5% on a year earlier, according to Mindshare.

BPI accounted for a 4% share of the financial sector's total investment, having retreated to 12th position in the ranking, with a 51% year-on-year reduction in investment, according to Mindshare.

In 2019, the Bank launched **BPI Family**, a concept inspired by the bonds of trust and closeness that involve family relationships, which aims to position BPI as "A Bank in the life of all families". BPI Family comprises the retail banking products and services and stresses long-term relationships. The new communication concept was used in the various campaigns developed during 2019.

BPI Commerce was another concept launched in 2019, which positioned BPI as the Bank for the small business segment, with dedicated business managers and comprising new products and services, such as POS and the Conta Valor (Value Account).

Sponsorship

Under the 4-year agreement entered into in 2018 with the Portuguese Football Federation, BPI is Official Sponsor of the A Teams (men and women), the Under-21 Team, and the Main Sponsor of the Women's Premier Football League, which was named the "BPI League".

Support to Portuguese companies' growth features prominently in commercial communication and business sponsorships. Initiatives that promote strategic sectors of the economy, such as agriculture and tourism, entrepreneurship, innovation and internationalisation are widely publicised and supported.

Social Networks

In 2019 the share of BPI's followers in the social networks increased by 3.45% relative to its Portuguese peers (average for all networks). Also considering the average for all networks, BPI registered a sharp increase in indicators such as number of followers (+77.7%), prints (+82.5%) and publications (+63.9%).

Social responsibility

INTRODUCTION

BPI interprets its social responsibility as a set of duties and obligations of the Institution towards the community in which it is integrated and the specific interest groups that depend upon its activity: Customers, Employees, Suppliers and Shareholder.

As a result of its integration in the CaixaBank Group, BPI exercises Social Responsibility in coordination with the "la Caixa" Foundation and CaixaBank, based on three axes:

- **1. Society**, contributing to the well-being of the population and in particular of those in a more vulnerable situation;
- **2. Environment**, stressing business practices that foster the rational, efficient and sustainable use of resources;
- **3. Governance**, defining organic responsibilities and standards of action that ensure a rigorous social conduct.

This coordinated action led to the alignment of strategic guidelines and objectives in this area with the CaixaBank Group, as reflected in BPI's Social Responsibility Policy, which highlights the aim of developing an efficient and responsible business model, with a strong social commitment component.

In its second year of activity in Portugal, the investment made by the "la Caixa" Foundation totalled €19.3 million. With the stepping up of the joint action with BPI, this amount is expected to reach €50 million in 2022.

In 2019, the aid provided through the joint intervention of BPI and the "la Caixa" Foundation totalled €21.7 million, which is 43% more than in 2018.

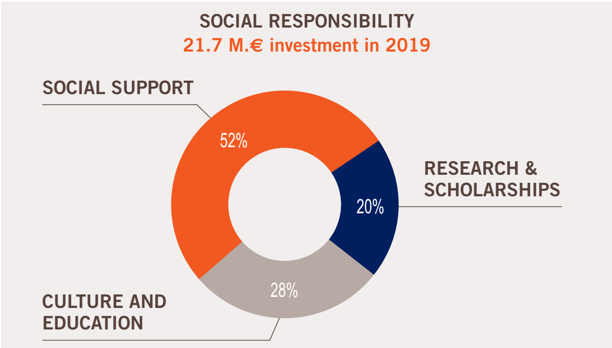


Chart 4

The activity developed by BPI and the "la Caixa" Foundation concentrates on four lines of intervention:

- "la Caixa" Foundation own programmes for Portugal;
- Awards to support projects of social entities;
- Proximity projects jointly promoted with BPI; and
- Specifically Portuguese projects.

BPI's Social Responsibility activity is defined and coordinated by the Social Responsibility Committee, a specialised body of the Board of Directors having as mission to support and advise the Board on all matters related to the Bank's social responsibility policy.

The Social Responsibility Committee is chaired by Artur Santos Silva, Honorary Chairman of BPI and Curator of the "la Caixa" Foundation, and has as members José Pena do Amaral, member of BPI's Executive Committee, Rafael Chueca, Corporate Manager of the "la Caixa" Foundation, António Barreto, advisor to the "la Caixa" Foundation, and Isabel Jonet, Chairman of the Food Banks Against Hunger and ENTRAJUDA.

According to OnStrategy, a company that specialises in evaluating the reputation of brands in more than 30 industry sectors, in 2019 BPI ranked in 2nd position in the financial sector reputation and social responsibility indicators, scoring the highest result since the survey is conducted in Portugal.

1ST AXIS: SOCIETY

Social support

From the main initiatives developed, we should stress the **BPI "la Caixa" Awards**, designed to provide financial support to projects that promote the improvement of the quality of life and social inclusion of people living in a situation of vulnerability.

Five BPI "la Caixa" Awards, totalling €3.75 million, were attributed in 2019 to support projects of non-for-profit private institutions, selected from 870 applications.

In 2019 two new awards – the Childhood and Rural Awards – were added to those already in place. The five awards are structured into the following themes:

- **BPI "la Caixa" Childhood**: children and adolescents;
- **BPI "la Caixa" Solidary:** young people and adults;
- **BPI "la Caixa" Seniors:** people over 65 years old;
- **BPI "la Caixa" Capacitar (empower)**: people with disabilities;
- **BPI "la Caixa"**: social work in rural communities.

Childhood

Facilitate the all-inclusive development and health of children and adolescents, as well as strengthening parenting skills.

2019 (1st edition)
24 award winners
€0.75 million donations*

Solidary

Support the transition and reintegration into active life of young people and adults, as well as providing for their basic needs.

Since 2016
77 award winners
€2.9 million donations*

Seniors

Promote active and healthy ageing, at-home, of people over 65.

Since 2013
194 award winners
€4.5 million donations*

Capacitar

Improve the quality of life and promote the occupation and autonomy of people with disabilities.

Since 2010
191 award winners
€6.13 million donations*

Rural

Support social work in rural areas to combat ageing, disability, poverty and social exclusion, and promote labour integration, interculturality and social cohesion.

2019 (1st edition)
22 award winners
€0.75 million donations*

The assessment of the applications counted with the voluntary participation of 45 Employees, who visited and met with the institutions that made it to the 2nd phase of the competitions.

In the last ten years, in 23 editions, these awards have delivered more than €15 million for the implementation of 508 social inclusion projects in Portugal.

* Donations attributed since the 1st edition of each award.

Under the **"la Caixa" Foundation own programmes**, which have had proven transformative results in Spain, support was extended in 2019 to two strategic initiatives already started in 2018:

- **Humaniza Programme**: Support for people with advanced diseases and their families. It complements the action of public health systems in the scope of palliative care, providing psychosocial and spiritual assistance to people who are at the end of their lives, as well as to their families. In Portugal, ten psychosocial support teams were created in 2018, which in 2019 assisted 4 473 patients and 5 445 family members. In 2019, four projects to support associative movements were also financed with the objective of promoting public awareness initiatives and support during illness and mourning and, in collaboration with the Ordem dos Médicos (Association of Medical Doctors), 13 grants were awarded to train doctors in palliative medicine, increasing the number of such doctors currently existing in Portugal by 20%.

- **Incorpora Programme**: Integration into the labour market of people from the more vulnerable backgrounds. The Programme bridges the gap between social entities specialised in job placement and companies, identifying the latter's labour needs and referring to them the job seekers who best fit the vacancies. In 2019, thanks to the collaboration of 427 companies, 1 000 jobs were provided for people at risk or in social exclusion and the number of social entities grew from 33 in 2018 to 46 at the end of 2019.

Still within the scope of the "la Caixa" Foundation own programmes, **CooperantesCaixa**, an international corporate volunteer programme, was launched in Portugal, offering BPI's Employees the opportunity to provide professional assistance in cooperation projects. In 2019, three BPI Employees travelled together to Mozambique to provide support to the JUNTOS! Programme, which resulted from a joint initiative of the "la Caixa" Foundation and the Aga Khan Foundation.

The **Promove Programme, to promote the inner regions** had its 2nd edition in 2019. Its objective is to support innovative pilot projects in Portugal with strategic interest for the development of the areas where they are located and for possible replication in other regions of the country. This edition also opened a competition for the selection of ideas from higher education students in the areas covered, with the potential to become innovative pilot projects.

This edition of Promove granted awards to eight pilot projects in the areas of natural resources management, creation of new expertise hubs and conservation and restoration of heritage in the North, Centre and Alentejo regions. In addition, seven ideas were also selected, which, after presentation of a pre-viability plan, could be transformed into pilot projects. The total amount of financial support granted to projects and ideas reached €1 million (the first edition had only provided non-repayable financing for five projects, in the amount of €400 thousand).

With regard to the proximity projects jointly promoted by the "la Caixa" Foundation and BPI, the following cultural and educational projects, with high social impact, deserve a note: Casa da Arquitetura, Caramulo Museum, Porto Natural History and Science Museum, Elvas Contemporary Art Museum, Orchestra 21st and Marvão International Music Festival. Total support, amounting to close to €750 thousand, was distributed by 42 recipients.

The **Social Decentralised Initiative** was also launched as part of the proximity projects. In a first phase, this was a pilot project intended to support local social projects, having a budget allocation of €50 thousand.

BPI and the "la Caixa" Foundation have increased support to the **Partnerships for Impact** Programme promoted by Portugal Social Innovation, within the scope of Portugal 2020.

This programme aims to support, through non-refundable grants, 70% of the financing needs of innovation and social entrepreneurship projects, the remaining 30% being provided by social investors. BPI and the "la Caixa" Foundation have undertaken to provide more than €500 thousand to support 11 applications for the development of projects worth more than €2.6 million, with the results expected to be announced in early 2020.

Also worth noting is the collaboration between the "la Caixa" Foundation and BPI and the **Global Platform for Syrian Students** (GP4SYS) to provide higher education scholarships for young Syrians who had to leave their country due to the war. Fifty scholarships (two years) will cover the costs of maintaining and housing students, in addition to other academic activities.

Finally, in the area of social support, BPI's **Christmas Initiative** also deserves a note: for the 8th consecutive year, Customers and Employees came together to offer more than 10 thousand presents to children from approximately 390 solidarity institutions chosen locally by the Commercial Networks. The novelty in 2019 was a pilot initiative – the Digital Christmas Tree – which permitted to offer 340 presents, and support another seven institutions, thanks to Client donations in the BPI App. In total for all the editions, more than 125 thousand presents have so far been distributed, and 1 100 institutions have been supported.

Research, Innovation and Scholarships

A commitment to education and science and incentives to research, innovation and talent are fundamental for the construction of a more advanced and egalitarian society.

BPI once again entered into **protocols with some of the more relevant higher education institutions**, notably continuing to provide support to the Instituto Superior Técnico and its students association and student groups, and granting merit scholarships to undergraduate and Masters students from other Universities.

In turn, one of the priorities of the "la Caixa" Foundation is to support **biomedical and health research** projects developed by leading universities and research centres, promoted through calls for applications launched by "la Caixa" Foundation at Iberian level, with the collaboration of BPI in Portugal.

Within the scope of the **Health Research** call for applications, two Portuguese research projects, as well as the Portuguese component of four projects financed under a protocol entered into with the Foundation for Science and Technology (FCT), were supported in 2019, with a total amount of €2.9 million. This call aims to identify and promote initiatives of scientific excellence with an impact on society, whether in basic, clinical, or translational research, prioritising the following **thematic areas:** cardiovascular, oncological, neurodegenerative and infectious diseases, as well as the use of technology in these four areas.

In addition to Health Research 2019, a call for applications to the **CaixaImpulse Programme** was also launched. The aim is to foster the transformation of scientific knowledge yielded by research activities into companies and products that generate value for society. Along with **CaixaImpulse Validate**, which provides support to early stage projects, a new support line was launched within the CaixaImpulse Programme. This is the **CaixaImpulse Consolidate,** which aims to support consolidated innovative projects move closer to the market development stages. In 2019, two Portuguese projects were selected to the CaixaImpulse Validate Programme.

Another line of action of the "la Caixa" Foundation which has also been extended to Portugal is the granting of scholarships for advanced studies. Under this line, two **post-doctoral scholarships** and three **doctoral scholarships** in the average amount of €300 thousand and €120 thousand, respectively, were awarded in 2019 to **outstanding Portuguese researchers**.

In **social research**, the "la Caixa" Foundation, BPI and Nova School of Business & Economics (Nova SBE) have created the **Initiative for Social Equity**, a partnership that aims to boost the social sector in Portugal under a long--term perspective. In the coming years, this programme will produce an annual diagnosis of the social sector in Portugal, as well as provide executive training for senior management of third sector organisations. On the other hand, a database of social sector institutions will be created and social progress based on scientific evidence in key areas such as Health will be encouraged, namely through Data Science.

Finally, a research project based on the evaluation of the ten years of the BPI "la Caixa" Awards will also be developed, representing an investment of €2.2 million over three years.

Culture and Education

In the area of culture, BPI renewed in 2019 its support to the following art institutions that are references in Portugal:

- **Serralves Patron: founder of Serralves and exclusive sponsor of its Contemporary Art Museum,** which hosted 15 exhibitions and received a record number of visitors (over one million) in 2019; **Patron of the Exhibitions** "Joana Vasconcelos: I'm Your Mirror", organised by Museo Guggenheim Bilbao, which was seen by some 585 thousand people, and "Olafur Eliasson – Your / Our future is now", supported by the "la Caixa" Foundation and on display at the Museum and Park until 2020; **Patron of 'Serralves em Festa':** the largest contemporary cultural event in Portugal and one of the largest in Europe, with more than 50 hours of uninterrupted culture, it has broken all attendance records, having received more than 264 thousand visitors.

- **Casa da Música Patron:** founder and main patron of Casa da Música, which in 2019 received more than 691 thousand visitors and spectators; Patron of the **Sala Suggia**, regarded as the heart of Casa da Música. Sala Suggia hosted 249 events and received more than 169 thousand spectators in 2019. **Sponsor of Festival Verão na Casa** ("Summer at the House Festival"), a unique programme within Casa da Música's annual season, imbued with a festive and informal mood and targeting all audiences, which moves outdoors a large block of the programme, featuring free entrance concerts on the terrace and in large public spaces. The **"Orquestra no Património" initiative, supported by the "la Caixa" Foundation**, travelled through eight historical city centres in Portugal with free open-air concerts. In 2019 "Verão na Casa" attracted more than 81 thousand spectators to a total of 123 concerts. The "la Caixa" Foundation also presented the school concerts "*O Colecionador de Paisagem*" and "*Acaba a Sopa*" at Casa da Música and, with the resident Baroque Orchestra, a participative concert featuring Händel's Messiah at Casa da Música and at Theatro Circo, in Braga.

- **Gulbenkian Music Patron: main patron of the Gulbenkian Music Season**, a cycle of concerts by Major Interpreters in another music season characterised by high international art standards and a diversified offer unrivalled in Portugal in terms of quality and number of concerts. Between September and June of each year, Gulbenkian Música presents more than one hundred concerts in its Great Auditorium, grouped into several cycles, namely Gulbenkian Orchestra, Great Interpreters, Piano, and Met Opera Live in HD. In 2019 the Gulbenkian Music Season hosted 141 events and received 137 thousand spectators.

The "la Caixa" Foundation and BPI also entered an agreement with the **National Museum of Ancient Art** to support the exhibition "Discoveries Museum", open from June to September 2019, and the exhibition "Alvaro Pirez d'Évora, a Portuguese painter in Italy on the eve of the Renaissance", on display until March 2020.

With a cultural and scientific agenda designed for all publics, the "la Caixa" Foundation has brought **travelling exhibitions** to Portugal that allow displays of excellent quality to reach different parts of the country and different age groups.

This was the case of the **"The Forest. Much more than wood"** exhibition, which was shown in nine Portuguese municipalities between May 2018 and September 2019, with the main objective of transmitting the importance of preserving forests – the terrestrial ecosystems with greater biodiversity –, and the need to manage them in a sustainable way. More than 68 thousand people visited this exhibition in 2019, which stopped travelling in September. A set of modules was lent to the Serralves Foundation, and is currently on permanent display at the Quinta de Serralves *Lagar*.

With its **Arte na Rua** (Art on the Street) programme, the "la Caixa" Foundation aims to transform the public space into an open-air museum and bring the work of internationally renowned artists to the public. The exhibition **"Terra de Sonhos" (Land of Dreams), by Cristina García Rodero**, a photo exhibition that reveals the uniqueness and asymmetry of the rural world in India, was on display throughout 2019 in several national historical squares, and the exhibition **"Génesis" by Sebastião Salgado**, focusing on the planet's natural resources, opened in Portugal at the end of 2019.

In the area of scientific education and dissemination, the itinerant Atelier **Creactivity**, a mobile space designed to awaken children's ingenuity, dexterity and creativity, has been promoted since 2018. In 2019, more than 23 thousand people visited this space on wheels, which travelled to 74 locations, including the Autonomous Regions of the Azores and Madeira.

Support to innovation and entrepreneurship

In 2019, BPI provided support to a series of initiatives aimed at the promotion of innovation and entrepreneurship, including the **XXI Entrepreneur Awards** and the **BPI Woman Entrepreneur Awards**, both in partnership with CaixaBank, and the **COTEC-BPI SME Innovation Awards**.

The concept of the **XXI Entrepreneur Award** is to give a boost to companies that have already taken their first steps, allowing them to accelerate their process of growth and global expansion.

In 2019, these awards received 993 applications (139 in Portugal), distributed by territorial and sectoral awards – monetary awards and/or international follow-up programmes worth more than €500 thousand – to be granted to 37 companies. The prizes of the 3rd edition in Portugal (and 13th in Spain) will be delivered in 2020. This initiative is sponsored under the aegis of the Ministry of the Economy and the National Innovation Agency, through the Born from Knowledge programme (BfK). For the second consecutive year, the BfK accolade will be attributed to the best Portuguese company "born from knowledge" and the most prominent in Research & Development (R&D) activities.

Also worth noting in 2019 was the 1st edition of the **Innovation Summit** conferences, in Lisbon and Porto, with the participation of experts, incubators and successful start-ups, which hosted the awards ceremony of the 2nd edition of the Entrepreneur XXI Awards, territorial category.

In turn, the **BPI Woman Entrepreneur Awards** was born out of CaixaBank's collaboration with the International Women's Entrepreneurial Challenge (IWEC) Foundation, to distinguish the professional career and business leadership of women in Portugal.

In 2019, the second year in which BPI joined the IWEC Foundation to elect the Woman Entrepreneur in Portugal, the winner was the entrepreneur Manuela Medeiros, founder of Parfois, who transformed the Portuguese company into an international reference in the fashion accessories market, having been recognised for her entrepreneurial vision, perseverance and commitment in the area of social responsibility.

Finally, BPI and COTEC launched in 2019 another edition of the **SME Innovation Awards**, which every year distinguish a Small and Medium-sized Enterprise (SME) that has stood out on the national scene for its innovative stance and activity.

With 101 applications, the winner of this year's award was Inovafil, a textile company that produces differentiating yarns, which stood out for its innovative management practices with an impact on growth and profitability.

Created in 2005, the COTEC-BPI SME Innovation Awards have already received more than 1000 applications and distinguished 18 companies, which were considered national success stories.

2ND AXIS: ENVIRONMENT

The environment is one of the three axes along which BPI exercises social responsibility. The Bank believes it is crucial to support the transition to a low-carbon economy that promotes sustainable development and is socially inclusive.

BPI's integration into the CaixaBank Group resulted in the standardisation of strategic guidelines and objectives in this area.

Hence in 2019 BPI approved the Declaration on Climate Change and the Environmental Risk Management Policy, and signed the Letter of Commitment to Sustainable Finance in Portugal. The Bank also adopted internal policies viewing a rational, efficient and sustained use of resources and designed a set of products and services with environmental criteria.

Declaration on Climate Change

Climate change is one of the main challenges facing our planet, with impacts on the physical environment, society and the economy. It is both a source of physical and transitional risks and of opportunities for countries, businesses and people.

In line with its commitment towards the environment, in October 2019 BPI's Board of Directors approved the Declaration on Climate Change, with the following objectives:

- To support viable projects compatible with a low carbon economy and solutions to tackle climate change;
- To manage the risks arising from climate change;
- To minimise the carbon footprint;
- To collaborate with organisations dedicated to advancing environmental issues, including the Sustainable Financing Reflection Group, promoted by the Ministry for the Environment and Energy Transition.

This commitment to the environment stems from the desire to take a proactive role in sustainable development, and is also reflected in the Code of Business Conduct and Ethics and the Social Responsibility Policy.

Environmental Risk Management Policy

In October 2019, BPI's Board of Directors approved the Environmental Risk Management Policy, which sets out the global principles upon which all actions with potential impact in terms of environmental and climate risks should be based, and attests to BPI's resolve to help its Clients in the process of transition to a low-carbon economy.

The management of environmental and climate risks is one of the strategic action lines defined in this policy, with impact on the process of approval of Clients and financing operations, to which end a set of general and sector-specific exclusions is established with regard to activities with a special impact on environmental risk.

The activity sectors to which the sector-specific exclusions are applied are the following:

- Energy Production;
- Mining Industry;
- Infrastructures;
- Agriculture, fisheries, livestock and forestry.

Management of Environmental Risk and risk derived from climate change

The highest executive body responsible for the global management of environmental and climate risk is the Executive Committee of BPI's Board of Directors, which is responsible for reviewing and approving proposals made by the Bank's different functional areas with regard to strategy and positioning in relation to environmental risk and for first-line identification, management and control of the associated risks.

A task force has been set up to support the Bank in the decision-making processes of ordinary credit-risk taking, as an expert group in environmental risk, with members from various areas with relevance to this process.

At the end of 2019, the Environmental Risk Management Area was also created, within the Credit Risk Department, as the area responsible for the execution of the internal environmental management plan, mainly with regard to credit risk-taking, with the objective of minimising, mitigating and remedying potential negative impacts on the environment.

Letter of Commitment and "Guidelines to accelerate sustainable financing in Portugal" report

Since March 2019, BPI is a member of the Reflection Group for Sustainable Financing, coordinated by the Ministry for the Environment and Energy Transition, in partnership with the Ministries of Finance and the Economy, which brings together regulators and supervisors in the financial sector, as well as financial associations and institutions.

This group has identified the essential areas and issued a set of recommendations, with different timeframes, for the national financial sector to contribute to accelerating the process, which were transposed into the "Guidelines to accelerate sustainable financing in Portugal" report.

Continuing the work developed by the Reflection Group, on 8 July the Letter of Commitment for Sustainable Financing in Portugal was signed, within the scope of the Conference "National Roadmap for Carbon Neutrality in 2050 – the Role of Sustainable Financing". BPI subscribed this Letter of Commitment, reinforcing its commitment to social and environmental responsibility.

Rational, efficient and sustainable use of resources

BPI has adopted internal policies intended to ensure the rational, efficient and sustainable use of resources, in particular with regard to paper, water, and energy consumption, and the recycling of surpluses and waste.

In its activity in Portugal, BPI implemented a number of initiatives, which in 2019 permitted a 5.3% reduction in energy consumption and a 3% drop in paper consumption, compared to the previous year. The reduction in energy consumption in 2017-2019 was 22.3%.

Among the most relevant initiatives the following stand out:

- **Energy efficiency**: This issue continues to be one of BPI's main concerns, the following measures having been taken:
  - Replacement of halogen lamps by LED lamps, with a full replacement project under way in the Commercial Network;
  - Maintenance of restricted timetable for switching on and off lights in the Central Services and Commercial Network buildings;
  - Use of motion sensors and adjustment of outdoor lights:
  - Installation of remote monitoring systems and replacement by new and more efficient HVAC systems, to increase the efficiency of room temperature control.
- **Dematerialisation of processes and forms**: In accordance with internal measures defined to reduce local print-outs, and promote the digitisation of documents, namely setting duplex printing as the standard, the Bank will reduce the number of printers and will disclose information on print-outs.
- **Paper recycling:** Implemented in all central services buildings.
- ***Ecopontos* (recycling collection points)**: Installation of ecopontos for paper and plastic in the new design of the central buildings.
- **Plastic replacement**: A project is under way to replace plastic water bottles, cups and stirrers in the central buildings and in some commercial locations by filtered

water from the mains, glass water bottles in meeting rooms, recycled cardboard cups and wooden stirrers.

The implementation of an Environmental Management system in all premises is planned for 2020, which will allow, in 2021, to start the process of environmental certification under standard NP EN ISO 14001: 2015.

The commitment to a rational, efficient and sustained use of resources extends to all BPI's Employees and is also a concern in the selection of the Bank's partners and service providers. In 2019, suppliers certified under ISO14001 accounted for 24% of the Bank's total procurement volume.

Circular economy

Faced with the different needs of solidarity institutions, BPI continues to donate, through ENTRAJUDA, materials and equipment for reuse. In 2019, more than six thousand items were donated, including computer consumables, routers, computers and furniture.

Products and services with environmental criteria

Aware of the importance of adopting measures to ensure environmental sustainability in its offer of products and services, BPI provides credit lines that promote energy efficiency, and supports several renewable energy investment projects. In 2019, the total amount of financing in this area reached €180.8 million, divided by 62 projects of different types:

Renewable energy

In 2019, BPI, in partnership with the EIB, financed an operation of an EDP Group company (Eólica da Linha, S.A.) aimed at the construction, operation and maintenance of a set of three wind farms located in the West and Centre areas of Portugal, with total installed capacity of 96.1 MW. Amount financed by BPI: €37.2 million.

Green Bonds

Organisation, structuring and full subscription by BPI of a €50 million "green" bond issue by the Altri Group, intended to finance the construction of a biomass thermal power plant in Figueira da Foz, with 34.5 MW installed capacity. This "green" bond issue was the first to be admitted to trading in Portugal on the unregulated Euronext Access Lisbon market.

BPI / EIB Energy Efficiency Line

BPI is the exclusive financial intermediary in Portugal of the BPI / EIB Energy Efficiency Line, implemented in 2017 under an agreement entered into with the EIB.

19 loan operations were contracted in 2019 under this line, for a total of €7 million.

Throughout the year, various initiatives were developed to promote the line, such as participation in events related to environmental sustainability and publicity in various media.

To facilitate the application to financing, a simulator was made available on Banco BPI's website (estimate of the potential for energy savings and reduction in costs and CO2 emissions, for each project), developed jointly with the EIB, for Customers and Suppliers of energy efficiency solutions, thus encouraging investment in sustainability.

BPI / IFRRU (Financial Instrument for Urban Rehabilitation and Revitalisation) 2020 and JESSICA

BPI has two lines of support for urban rehabilitation and revitalisation operations, promoting sustainable urban development:

- BPI / IFRRU Lines: from its start in 2017 up to the end of 2019 the total investment supported by BPI reached €250 million, distributed by 55 eligible projects. The total amount of credit granted by the Bank was €202 million.
- Jessica: from its start in 2011 up to the end of 2019 the total investment supported by BPI reached €405 million, distributed by 94 eligible projects. The total amount of credit granted by the Bank was €259 million.

Decarbonisation and circular economy

On 5 June 2019 BPI signed the protocol of the €100 million credit line to promote decarbonisation and the circular economy. The new line has the following main objectives:

- To make industrial and tourism companies more modern and competitive, through the implementation of measures permitting the reduction of energy consumption and the change from fossil to renewable energy sources, thereby contributing to the achievement of the national goals defined in the National Action Plan for Energy Efficiency ("PNAEE") and the National Action Plan for Renewable Energies ("PNAER");

- To accelerate the transition to a circular economy by creating new economic opportunities that promote circularity, contributing to the goals advocated in the National Action Plan for the Circular Economy ("PAEC") and the European Plan for the Circular Economy.

RENEWABLE ENERGY: WIND, SOLAR / PHOTOVOLTAIC / HYDRO OR BIOMASS POWER	**332 M.€** TOTAL FINANCING GRANTED	**37.2 M.€** FINANCED IN 2019	**67** PROJECTS FINANCED	**1** PROJECT IN 2019
EIB – ENERGY EFFICIENCY IN COMPANIES	**9.4 M.€** TOTAL FINANCING GRANTED	**7 M.€** FINANCED IN 2019	**29** PROJECTS FINANCED	**19** PROJECTS IN 2019
URBAN REHABILITATION	**259 M.€** JESSICA PROGRAMME TOTAL FINANCING GRANTED	**7.7 M.€** FINANCED IN 2019	**94** PROJECTS FINANCED	**5** PROJECTS IN 2019
	202 M.€ BPI / IFRRU PROGRAMME TOTAL FINANCING GRANTED	**78.9 M.€** FINANCED IN 2019	**55** PROJECTS FINANCED	**36** PROJECTS IN 2019
GREEN BONDS **organisation, structuring and subscription**	**50 M.€** GREEN BONDS ISSUE OF ALTRI GROUP			

3RD AXIS: GOVERNANCE

In 2019, BPI made a series of changes to its governance and conduct policies, in line with the CaixaBank Group and with the best practices in the sector, and reflecting the Bank's commitment to its Customers, Employees, Suppliers and Society in general.

At the same time the Bank developed internal procedures and Employee training sessions intended to guarantee the correct implementation of the policies and the Code of Business Conduct and Ethics.

Social Responsibility Policy

BPI has made public its Social Responsibility Policy, which highlights the purpose of developing an efficient and responsible business model, with a strong social commitment.

Human Rights Policy

Respect for human rights has always been an integral and fundamental part of the values and principles that govern the development of BPI's business activity.

Through this policy, BPI expresses its commitment to human rights, in accordance with the highest international standards:

- The United Nations International Charter of Human Rights, which comprises the following:
  - Universal Declaration of Human Rights;
  - International Covenant on Political and Civil Rights;
  - International Pact of Economic, Social and Cultural Rights;
- ILO Declaration on Fundamental Principles and Rights at work and the eight fundamental conventions identified by the same;
- Charter of Fundamental Rights of the European Union.

Code of Business Conduct and Ethics

BPI has in effect a new Code of Business Conduct and Ethics, aligned with CaixaBank's corporate code, which stresses the ethical values and principles that govern the conduct and should regulate the activity of all Employees and members of the corporate bodies.

Compliance with the law, respect, integrity, transparency, excellence, professionalism, confidentiality and social responsibility are the core principles of conduct at BPI.

Reporting of Irregularities (whistleblowing)

The Code of Business Conduct and Ethics provides for the existence of a confidential channel for reporting possible violations of BPI's principles and duties of conduct. The procedures have been updated in order to promote and consolidate a culture of risk within BPI.

Criminal Compliance Corporate Policy

This Policy aims to create and implement a Bank-wide prevention programme that reduces the risk of crimes being committed by its Employees and members of its corporate bodies.

Anti-corruption Policy

After establishing the Criminal Compliance Policy, it was decided to deal individually with some situations, which, given their nature, may present a higher risk of occurrence and, consequently, involve BPI in illegal practices. In this context, an Anti-corruption Policy was drawn up to demonstrate BPI's repudiation for any practice against the law or the ethics and business principles of BPI, on the part of Employees, members of the corporate bodies or any other person representing the Bank.

General Policy concerning Conflicts of Interest and Conflicts of Interest Policy Regarding the Securities Market

Conflicts of interest, either real or potential, are inherent to the services provided by BPI, both in the banking business and in financial intermediation.

Consequently, BPI has approved two policies that deal with these matters:

- one policy of a general nature, which defines the general framework and treatment of possible situations of conflict of interests and the manner in which they should be prevented and managed (if the occurrence of conflicts of interest is effectively identified); and

- a second policy, specific to BPI's financial intermediation activity and addressing the Markets in Financial Instruments Directive (MiFID II) reinforced requirements with regard to investor protection and transparency *vis-à-vis* all investment agents in the market.

Internal Code of Conduct on Securities Markets

BPI has approved an Internal Code of Conduct to ensure that its conduct (as a credit institution, issuer of securities and provider of financial services) and that of the members of its corporate bodies and Employees, is compliant with the rules of conduct contained in *Regulation (EU) 596 / 2014* of the European Parliament and of the Council, of 16 April, on market abuse ("MAR"), and respective standards and implementing rules, thus promoting market transparency and the protection of the legitimate interests of investors.

The Code's provisions apply to all BPI's Employees, stressing the obligation of refraining from disclosure and improper use of privileged information obtained in the course of their duties.

To ensure proper compliance with this obligation, the code establishes measures that aim to ensure that the confidentiality and integrity of the information remains intact, through the separation of areas and the inscription in lists of people with access to privileged information. Some specific obligations only fall on certain Employees, due to the nature and importance of their functions.

Policy on the Prevention of Money Laundering and Terrorist Financing and Policy for Managing Sanctions and Restrictive Measures

It is also important to stress the principles of conduct set out in the Policy on the Prevention of Money Laundering and Terrorist Financing as well as in the Policy for Managing Sanctions and Restrictive Measures, which reflect BPI's commitment to comply with the legislation, regulations, guidelines and recommendations in force in this matter at both national and international level.

These policies' main objective is to prevent the involvement of BPI in illicit operations and to ensure collaboration in the fight against economic-financial crime and organised crime.

Contribution to Sustainable Development Goals

BPI, through its business activities and performance as a socially responsible bank, in articulation with the "la Caixa" Foundation and CaixaBank, contributes to the United Nations Sustainable Development Goals.

1 NO POVERTY	▪ BPI "la Caixa" Awards ▪ Incorpora Programme ▪ Humaniza Programme ▪ CooperantesCaixa Programme ▪ Support to Entrepreneurship and Own Job Creation
2 ZERO HUNGER	▪ BPI "la Caixa" Awards
3 GOOD HEALTH AND WELL-BEING	▪ BPI "la Caixa" Awards ▪ Humaniza Programme ▪ Health Research call for applications
4 QUALITY EDUCATION	▪ Protocols with the more relevant higher education institutions ▪ CaixaImpulse Programme ▪ Doctoral and post-doctoral scholarships ▪ Higher education scholarships to young Syrians
5 GENDER EQUALITY	▪ Programme for diversity and inclusion
7 AFFORDABLE AND CLEAN ENERGY	▪ Financing of renewable energies

8 DECENT WORK AND ECONOMIC GROWTH	▪ BPI "la Caixa" Awards ▪ Incorpora Programme ▪ Support to Entrepreneurship and Own Job Creation
10 REDUCED INEQUALITIES	▪ BPI "la Caixa" Awards ▪ Promove Programme
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	▪ Promotion of rational, efficient and sustainable use of resources ▪ National Agricultural Awards
13 CLIMATE ACTION	▪ Promotion of rational, efficient and sustainable use of resources ▪ Environmental Risk Management Policy ▪ Products and services with environmental criteria
16 PEACE, JUSTICE AND STRONG INSTITUTIONS	▪ Social Responsibility Policy ▪ Human Rights Policy ▪ Anti-corruption Policy ▪ Tax contribution
17 PARTNERSHIPS FOR THE GOALS	▪ Joint action with the "la Caixa" Foundation ▪ Sustainable Financing Reflection Group, promoted by the Ministry for the Environment and Energy Transition

Tax contribution

TOTAL TAX CONTRIBUTION

This section deals with the total contribution of Banco BPI and the companies of its group (BPI Group) in the area of taxation, encompassing not only the payment of taxes and other levies for which the Bank and the companies of its group are taxable, but also compliance with a set of other duties of cooperation with the Tax Administration.

In 2019, BPI Group's total tax contribution was €407 million, broken down as follows:

- €113 million in taxes for which Banco BPI and the companies of BPI Group are taxable persons and, therefore, were effectively borne by them;
- €293 million in taxes due by third parties but collected and handed over to the State and other public entities by BPI Group.

TOTAL TAX CONTRIBUTION

BPI Group not only effectively pays a set of taxes for which the entities that compose it are taxable, but also fulfils a set of legal duties that entail its cooperation with the State in the collection of taxes and contributions due by third parties to the State and other public entities.

This section reports on what we have chosen to designate as Total Tax Contribution, understood as the set of the various levies which Banco BPI and the BPI Group hand over to the State and other public entities, about which it aims to provide a global, if not exhaustive indication.

The concept of Total Tax Contribution does not permit to capture a set of other collaborations provided by the BPI Group to the State (namely those involving compliance with the duty to provide information) but even so will provide a more comprehensive picture than the information on taxes included in its financial statements.

Levies for which Banco BPI and the companies of the BPI Group are taxable persons

Banco BPI and the companies of the BPI Group are taxable persons and as such pay several levies to the State and other public entities. These concern the following:

- direct taxes (namely corporate income tax);
- indirect taxes such as Municipal Property Tax (IMI – *Imposto Municipal sobre Imóveis*), Municipal Property Transfer Tax (IMT – *Imposto Municipal sobre as Transmissões Onerosas de Imóveis)*, Stamp Duty (IS – *Imposto de Selo)* and non-deductible VAT;
- the contributions due by the financial sector, namely the Banking Sector Levy (CSB – *Contribuição sobre o Sector Bancário*), the Contribution to the Resolution Fund, and the Contribution to the Single Resolution Fund; and also
- the Contributions to the Social Security.

Duties of cooperation with the State and other public entities

As mentioned above, Banco BPI and the companies of BPI Group are subject to and fulfil numerous duties of cooperation, which entail the collection and delivery of levies due by third parties to the State and other public entities, as well as compliance with a set of duties of providing information to the latter so that these may calculate and collect such levies.

Hence:

- BPI Group collects and hands over to the State the individual income tax withheld on the remunerations of its Employees, as well as their contributions to the Social Security;
- BPI Group collects and hands over to the State the individual / corporate income tax withheld on the payment to its Customers of income from the financial products it distributes within the scope of its activity;
- BPI Group charges and delivers to the State the Stamp Duty due on the operations and financial services provided to its Customers;
- BPI Group charges and delivers to the State, through the respective collection mechanism, the VAT levied on services provided and on the transfer of assets;
- BPI Group reports to the Tax Authority and the Social Security all information required by law, namely in compliance with FATCA / CRS legislation, as well as in relation to the different ancillary obligations associated with the payment of income;
- Finally, BPI Group also cooperates with the State in the seizure and transfer of valuables in the scope of tax enforcement proceedings where it is requested to do so.

Levies borne by Banco BPI and its subsidiaries
The levies borne by Banco BPI and the companies of BPI Group in 2019 amounted to €113 million. The largest part of this amount corresponded to levies paid to the Portuguese State / other Portuguese public entities (€111 million, or around 98%), in so far as the BPI Group mostly develops its activity in Portugal.

The main levies borne are the following:

- contributions to the Social Security, in the amount of €40 million in 2019 (35% of all levies borne);
- Financial Sector Contributions, in the amount of €34 million in 2019 (30% of the total);
- VAT borne and not deducted (included under indirect taxes), in the amount of €32 million in 2019 (28% of the total);

It should be noted that BPI Group has unused tax credits, which will have an impact on the current and future payment of income tax.

Levies due by third parties that are collected and handed over by BPI Group
The levies due by third parties that are collected and handed over by BPI to the State / Other Public Entities amounted to €293 million in 2019 and mainly concerned the following:

- VAT settled (€117 million, or 40% of the total);
- individual / corporate income tax withheld at source on the financial products distributed (€66 million, or 22% of the total);
- Stamp Duty charged (€51 million, or 17% of the total).
- individual income tax withheld on the payment of Employee remunerations (€51 million, or 17% of the total).

TAX RESPONSIBILITY AND CODE OF GOOD TAX PRACTICES

Finally, one last note to highlight that Banco BPI took part in the negotiations held between the Tax and Customs Authority and several taxpayers regarding the Code of Good Tax Practices.

This Code, which was created within the scope of the Large Taxpayers Forum (*Fórum dos Grandes Contribuintes*), of which Banco BPI is a member, should come into force in 2020 and the taxpayers in question should be able to subscribe to it in this year.

The code incorporates a set of principles and recommendations to be followed by taxpayers that wish to adhere to it and by the Tax and Customs Authority, with a view to improving the tax system and increasing legal security and mutual cooperation, based on good faith, legitimate expectations and the implementation of responsible tax policies.

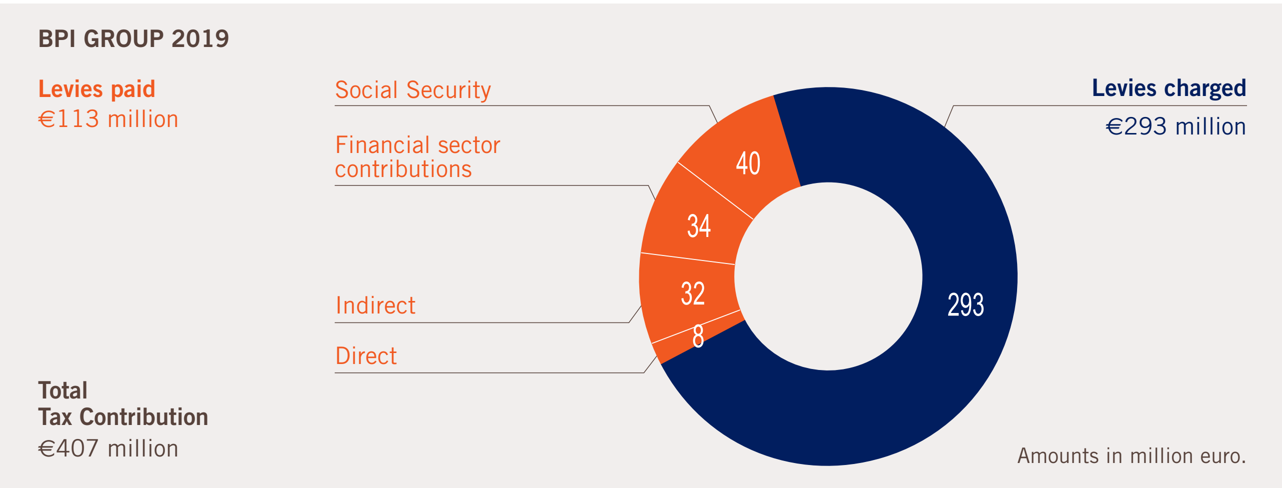


Chart 5

Economic background and operations

Background to operations

GLOBAL AND EUROPEAN ECONOMY

According to the International Monetary Fund (IMF)[1] the world economic activity weakened in 2019, with growth retreating to 2.9% (0.7 p.p. less than in 2018), due to a more subdued rate of expansion in both advanced and emerging economies. The deceleration of the advanced economies was common to all these countries except for Japan, which accelerated growth to 1.0%, and the United Kingdom, where it stabilised at 1.3%. The US grew by 2.3%, which is 0.6 p.p. less than in 2018, reflecting the dilution of the fiscal stimulus effect in force in the previous year. In the Eurozone, growth was affected by the introduction of regulatory changes that affected the automotive sector, weakening industrial activity, and translated into a 0.7 p.p. slowdown in growth, to 1.2%. Within the developing economies, the gradual deceleration of China stands out, with a growth rate of 6.1%, which is 0.5 p.p. less than in 2018.

For 2020, the IMF anticipates that the world GDP will advance by 3.3%, based on signs that uncertainty factors have diminished following the signature of the first phase of the trade agreement between the US and China, and that the odds for a no-deal Brexit are now lower, and because monetary policies have become more accommodative. However, this forecast is subject to important downside risks in case other risk factors materialise, of which the most prominent at present is the negative impact that Covid 19 may have on global growth.

Monetary policy at different paces

In 2019 the Federal Reserve cut the benchmark interest rate by 75 basis points, lowering it to the 1.5%-1.75% interval. The more accommodative stance emerged in a context of lower inflationary expectations and escalation of geopolitical risks, with a potential negative impact on growth. In 2020 the Federal Reserve, in response to the threat posed by Covid 19, cut the benchmark interest rate by 50 basis points, to 1.0%-1.25%, and until the end of the year, further reductions in the fed-fund rate should not be ruled out.

The ECB resumed in September the programme of net asset purchases, at a monthly pace of €20 billion, reduced the deposit facility rate by 10 basis points, to -0.5%, and established a tiering system under which only part of the surplus liquidity deposited with the ECB will be remunerated at the deposit rate. In addition, it reiterated its intention to keep interest rates at low levels for a long period of time. In the Eurozone the monetary policy should also remain accommodative throughout this year.

PORTUGUESE ECONOMY

In 2019 the Portuguese economy grew by 2.2%, decelerating compared to 2018 (-0.4 p.p.). This slowdown essentially reflects the economy's transition to a more mature phase of the cycle, characterised by a more sustainable pace of growth. Domestic demand, underpinned by the good performance of private consumption, maintained a remarkable, albeit lower than in 2018, contribution to growth. However, investment was the star performer in 2019, with a growth rate of 6.5%. This buoyancy of investment translated into a higher increase in imports than in exports, therefore the contribution of external demand to the activity was negative (-0.6 p.p.).

Albeit at a slower pace, the unemployment rate continued to fall, standing at 6.5% (-0.5 p.p. relative to 2018), the lowest level since 2004. At the same time, the employed population expanded by 1.0% in 2019, this increase being driven by the services industry, namely advisory and scientific activities.

GDP growth

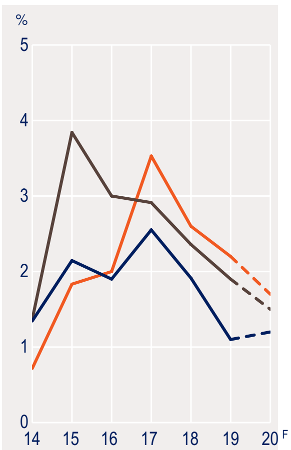


Chart 6

— Portugal
— Spain
— EMU

Source: European Commission.

Unemployment rate in Portugal

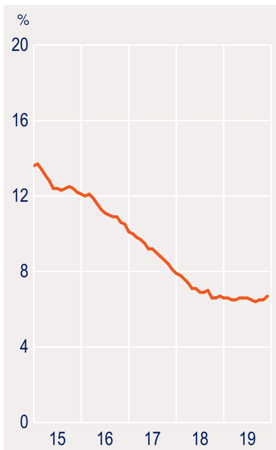


Chart 7

Source: INE. Unemployment rate adjusted by seasonality.

1) Source: World Economic Outlook, January 2020 Update.

In 2019 the trade deficit in goods increased by €2.8 billion, to €20.4 billion, driven by a stronger increase in imports (6.6%) than in exports (3.6%). This reflected, on the one hand, the increase in imports of transport material and capital goods, but also the penalising impact of dwindling economic activity in some of the more important destinations of the Portuguese exports.

The deterioration in the trade deficit in goods was in part offset by the surplus in the balance of services, which, however, was not sufficient to prevent the current balance from standing at around -0.1% of GDP. In this scenario, the economy's financing capacity dropped to 0.3% of GDP in the third quarter of 2019, which is 1.5 p.p. less than in the same period in the previous year. This translates a balanced situation in the State sector, better than in 2018, and an improvement in the financial sector. The remaining sectors – non-financial companies and households – registered a deterioration. In the case of households, their financing capacity dropped to 1.2% of GDP, while their savings rate was 6.2% of disposable income, which is 0.3 percentage points less than at the end of 2018.

On the public accounts front, the available information points to a general government balance (cash basis) of -€598.6 million in 2019 (corresponding to -0.3% of GDP), an improvement of €1642.4 million relative to 2018. This improvement reflects a higher increase in revenue (+4.3%) than in expenditure (+2.3%), compared to 2018. The available information points to the Government's forecast target being surpassed, with the fiscal balance possibly reaching *equilibrium*.

Based on Banco de Portugal data, the public debt ratio decreased to 117.7% of GDP in 2019 (121.9% at the end of 2018).

In 2019 the Treasury issued €13.9 billion of medium- and long-term debt. In October, Portugal reimbursed €2 billion of the European Financial Stability Fund's loan, contributing to reduce the Republic's funding costs. In 2019 the cost of medium- and long-term debt issuance was 1.1%, and the average maturity of the issues was 10.7 years. In 2020 the Treasury plans to issue €16.7 billion in medium- and long-term debt (Treasury Bonds) and to roll over approximately €3.5 billion in treasury certificates.

Current and capital balance as % of GDP

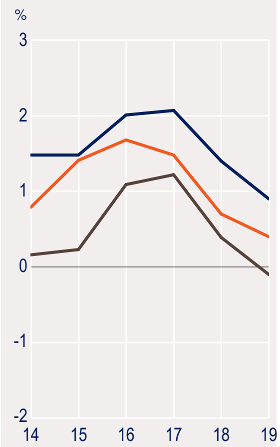


Chart 8

— Goods and services balance[1]
— Current account balance
— Current and capital balance

Source: Bank of Portugal.

1) Excluding energy.

Budget balance as % of GDP

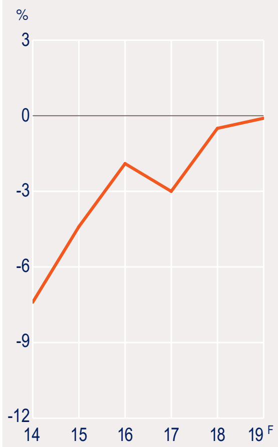


Chart 9

Source: INE and Government (State Budget for 2019).

Outlook for 2020

The European Commission estimates that the pace of expansion of the Portuguese economy will slow to 1.7%, with private consumption and investment remaining the main growth engines. The contribution of external demand will remain negative, but to a lesser extent than in 2018.

In an environment of growth consolidation, the labour market is expected to maintain a positive momentum, with the unemployment rate likely to stand at 5.9% in 2020, according to the European Commission.

Concerning the process of fiscal consolidation, the Government estimates that there will be a budget surplus of 0.2% of GDP, benefiting from a favourable economic and financial context.

As to the external accounts, the current and capital account surplus is expected to flatline, based on the assumption that the improvement in competitiveness will be sustained, that companies will remain focused on the external market, and that tourism revenues will remain stable.

Financial system

The private sector pursued a deleveraging process. According to Eurostat, the private sector corporate debt represented 99.5% of GDP in September, which compares with 141% in December 2012; among individuals, this ratio was 65%, down by 27 p.p. on its peak observed in December 2009.

Gross private debt – corporates (as % of GDP)

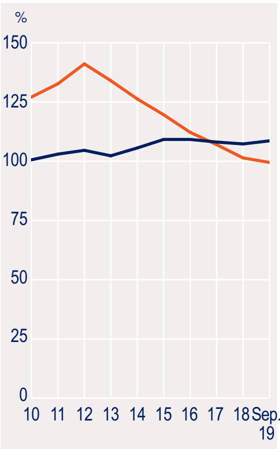


Chart 10

— Portugal
— Euro Zone

Source: Eurostat.

Gross private debt – households (as % of GDP)

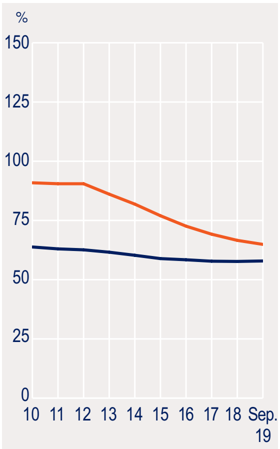


Chart 11

— Portugal
— Euro Zone

Source: Eurostat.

The loan-to-deposit ratio dropped to 88% in September 2019, which is 1 p.p. less than in December 2018 and 72.5 p.p. less than in March 2008, when this ratio reached its highest level.

The common equity Tier I ratio closed the third quarter of 2019 at 13.9%, an improvement of 0.7 p.p. compared to the end of 2018. The total non-performing loans ratio in turn dropped by 2.0 p.p. year-on-year, to 8.5%, and by 10 p.p. from its peak in June 2016.

Funding from the ECB decreased to €17.3 billion in December 2019.

Loans

Loans to the resident non-financial private sector fell by 0.4% in 2019, a significantly lower fall than the 1.5% drop registered in 2018. Loans to Individuals increased by 1.5%, reflecting a 10.6% increase in consumer loans. Residential mortgage loans in turn, increased by 0.3%. The loan portfolio to non-financial companies contracted by 3.5%, reflecting the sale of non-performing loan portfolios. Adjusted for sales, the loan portfolio would have increased by 0.7% in 2019, according to the European Central Bank. In 2020 loans to the private sector should tend to stabilise.

Deposits

The deposits of the non-financial private sector increased by 5.2% in 2019, driven by the growth of sight deposits (+14.8%), while time deposits fell by 3.0%.

Trend in loans in Portugal

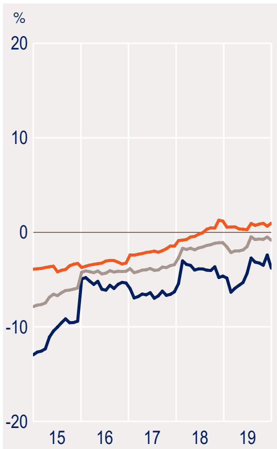


Chart 12

— Individuals
— Non-financial companies
— Total lending to the private sector[1]

Note: Year-on-year growth rate.
Source: Bank of Portugal.

Trend in deposits in Portugal

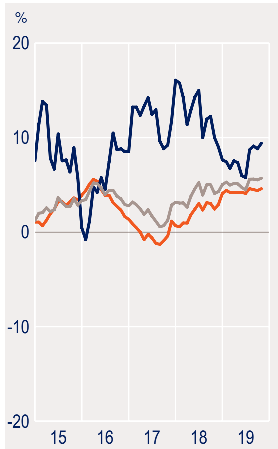


Chart 13

— Individuals
— Non-financial companies
— Private sector

Note: Year-on-year growth rate.
Source: Bank of Portugal.

1) Total lending to residents excluding public administration.

FINANCIAL MARKETS

In the interbank market, the Euribor rates trended in line with the ECB monetary policy, registering new lows. The 3- and 12-month Euribor rates closed the year at -0.38% and -0.25%, respectively, down by 7 and 13 bps since the start of the year. The US followed the same trend, with the 3-month Libor closing the year at 1.91% (down by 90 bps since the start of the year).

In the fixed income market, the North-American benchmark fell by 75 bps since the start of 2019, closing the year at 1.92%. In the Eurozone, as a reflex of the ECB's monetary policy, the 10-year Bund returned to negative ground and closed the year at -0.19%, which is roughly 35 bps less than at the start of the year.

In the European peripheral countries risk premia narrowed, namely in Portugal where the risk premium was 63 bps at the end of the year, the same as required for the Spanish debt (66 basis points) and 91 bps lower than at the start of 2019. It is worth noting that all the international rating agencies placed Portugal in investment grade class.

Evolution of reference rates

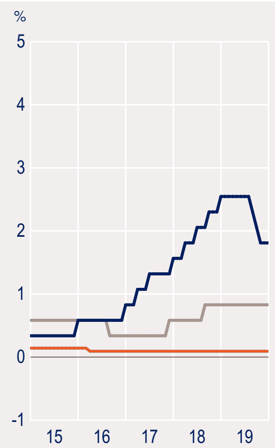


Chart 14

— ECB
— BoE
— Fed

Source: Datastream.

10-year sovereign debt yields

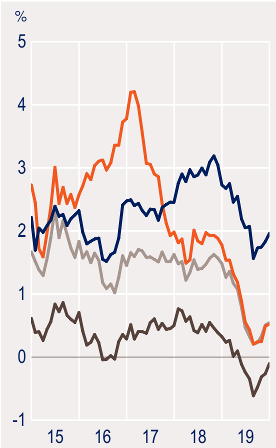


Chart 15

— Portugal
— Spain
— Germany
— USA

Source: Datastream.

In the foreign exchange market, the exchange rate of the euro against the British pound slightly deteriorated, closing the year at around 0.85 pounds to the euro. Against the US dollar, the euro closed the year at 1.12, the same as at the start of the year.

Equity market

2019 was a positive year for the stock markets. The benchmark European equities index Euro Stoxx 600 closed the year with a gain of around 23%, while the S&P 500 – the leading North-American stock market index – advanced by 29%.

The Iberian indices, despite showing a more volatile behaviour, also closed the year with significant gains. The PSI-20 benchmark index gained 10%, while in Spain the IBEX 35 advanced by 12%.

Euro exchange rates
USD or GBP for 1 EUR

Chart 16

— USD / 1 EUR
— GBP / 1 EUR

Source: Bloomberg.

Equity indexes
Evolution in 2019

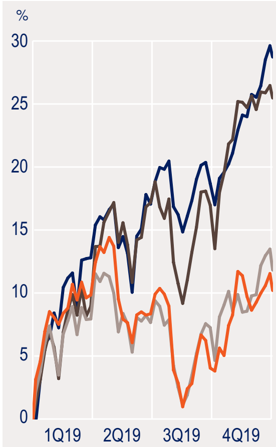


Chart 17

— PSI
— IBEX
— DAX
— S&P

Source: Bloomberg.

Individuals, Businesses, and Premier and Private Banking

At the end of 2019, Individuals, Businesses and Premier Banking, together with Private Banking, handled 1 640 thousand accounts, being responsible for a portfolio of Customer resources of €28 218 million and a Loan and Guarantees portfolio amounting to €15 182 million.

At year-end the segment's physical branch network was composed of a total of 406 Branches, 36 Premier Centres, and 2 Private Banking Centres.

CUSTOMER RESOURCES

At 31 December 2019 the total Customer resources of Individuals, Businesses and Premier Banking & Private Banking were €28.2 billion, with deposits amounting to €18.1 billion.

Customer Resources Amounts in € million

	Dec. 18	Dec. 19	Δ%
Customer Deposits[1]	**17 037**	**18 073**	**6.1%**
Assets under management			
BPI / CaixaBank Funds[2]	1 858	1 764	(5.1%)
Third-party funds	717	859	19.8%
Retirement Saving Plans[3]	1 947	2 316	18.9%
Capitalisation insurance[2]	3 419	3 636	6.4%
Assets under management	**7 941**	**8 575**	**8.0%**
Portuguese treasury floating rate bonds (OTRV)	**1 961**	**1 570**	**(19.9%)**
Total Customer Resources	**26 939**	**28 218**	**4.7%**

Note: The amounts presented are corrected for Customer migrations between networks. *Table 6*

1) Includes fixed interest rate, guaranteed-capital, limited-risk and total risk bonds and indexed deposits (guaranteed capital). The portfolio of these products placed with Customers totalled €18 million in 2018 and €7 million in 2019.

2) Excludes Retirement Saving Plans.

3) Retirement savings plans in the form of investment funds and in the form of capitalisation insurance.

The year was characterised by the consolidation of Customer segmentation, with Customer migrations between the retail networks and Private Banking. The purpose of this segmentation was to provide a service better adjusted to the Customers' needs and engagement potential.

2019 was marked by several changes in commercial activity, many of which arising from the coming into force of the Markets in Financial Instruments Directive (MIFiD II) in 2018.

In view of the legal framework in force, an Advised Sale Service was launched in April, which reinforced the quality of the service provided for Investment Funds and Capitalisation Insurance, including retirement savings plans, marketed by BPI Gestão de Activos and BPI Vida, while also driving commercial proactivity. This new marketing model replaced the previous order execution service.

In 2019 commercial efforts continued to focus on reinforcing and seeking Customer adherence to the (non--independent) investment advisory service in the Premier and Private Banking segment. The year was marked by various improvements and developments in this service's tools and functionalities. In particular, given that this is a core service for the high-end segment, all the Employees involved were provided training in this service.

The retirement savings plans offering was reshaped under two different rationales, through the launch of three products:

- The life-cycle rationale involved the launch of two products of the same line, 'BPI Destino PPR 2025' and 'BPI Destino PPR 2040', with a different approach to saving. Investment in this line is subject to a dynamic management of assets, adjusted in accordance with the defined time horizon, which depends on the target date of retirement;
- The Asset Allocation rationale, involving the launch of 'BPI Reforma Global Equities PPR / OICVM', which complements the offering for the Premier segment with an option with a maximum exposure to equities.

The unit-linked capitalisation insurance products also deserved increased commercial focus, featuring different investment profiles in terms of risk-return and offering the Customer a diversified management range under a single policy, in the current context of lack of interest-rate placements.

LOANS AND ADVANCES TO CUSTOMERS

At 31 December 2019 the portfolio of loans and guarantees to the individuals and small businesses segment totalled €15.2 billion, having expanded by +3.4%.

Customer loans and guarantees — Amounts in € million

	Dec. 18	Dec. 19	Δ%
Loans to individuals			
Mortgage Loans[1]	11 167	11 368	1.8%
Consumer loans[2]	990	1 169	18.0%
Car Finance	221	269	21.6%
Loans to individuals	**12 378**	**12 806**	**3.5%**
Small businesses[3]	**2 298**	**2 376**	**3.4%**
Total	**14 676**	**15 182**	**3.4%**

Note: Gross Customer loans and guarantees. The amounts presented are corrected for Customer migrations between networks. *Table 7*

1) Loans secured by real estate. Essentially home loans and loans for home improvements works.

2) Includes consumer loans and credit line for privatisations.

3) Loans and guarantees. Offering mainly targeting small businesses: commercial loans, leasing, confirming and other loans.

Mortgage loans

New mortgage loans production reached €1 453 million in 2019, up by an expressive rate of 12.9% on a year earlier and representing a market share of 13.7%.

This performance was underpinned by the revision of the contracting process, with a reduction in the average time to formalise transactions, and by the launch of campaigns on Mortgage Transfers and Fixed Rate option, allowing families to plan in advance one of their main expenses and maintain the long-term stability of the family budget.

Personal Loans and Car Finance

In 2019, BPI launched the BPI Family Crédito campaigns, intended to increase proximity to and a long--term relationship with Customers as well as to respond to families' different financial needs. To facilitate the loan contracting process and boost the Bank's competitiveness, the interest-rate decision process was expedited.

Reflecting this focus, new personal loan production reached €552 million in 2019, making this the best year ever and reflecting a 12% increase over the already high value of production in 2018. It is worth stressing that production of loans associated to Prestige Products reached €25 million, a year-on-year increase of 28%.

The share of loans contracted was 14.1% in 2019, up by +0.7 p.p. on the previous year.

New car finance production reached €127.8 million, rising by 13% year-on-year, which contrasts with the -2.1% contraction in the market for new vehicles.

The Renting service, provided under a partnership between BPI and Arval initiated in 2018, gives Customers access to a vehicle with maintenance and insurance included against a single monthly rent. In 2019, the cars provided by BPI under this system were the Nissan Micra, Seat Arona and Tesla Model 3.

Commercial loans, leasing and confirming

Within the Businesses segment, BPI continued to reinforce its positioning with the priority sub-segments, namely the Exporting Customers in the Agricultural and Tourism sectors. The year was also marked by the launch of a new segment – BPI Commerce – which successfully positioned BPI as the Bank for the small businesses segment.

BPI Commerce comprises new products and services, reinforcing proximity to the Customers and a long-term relationship. Moreover, with dedicated and focused business managers, BPI Commerce adjust the Bank's offering to the Customers' needs.

The launch of the Commerce segment involved the launch of the 'Conta Valor Commerce BPI' account, which includes a vast set of services against payment of a single monthly fee. Moreover, a Commerce POS was launched alongside the commerce account, a unique product specifically designed for Customers in the Businesses Segment.

As a result, 40 thousand Valor Commerce BPI accounts were opened during the year, and 5.8 thousand POS were installed, with Pack Commerce tariff, corresponding to 65% of all POS installed by the Bank.

BPI continued to finance small and medium-sized companies under the main programmes launched by the Government, in particular through the credit lines managed by PME Investimentos. All in all, since the credit lines managed by PME Investimentos (PME Investe / Crescimento / Capitalizar) were launched, BPI has lent a total of €3 547 million (42 328 operations), corresponding to a market share of 18.2%, by number of loans contracted.

ACCOUNTS AND CREDIT AND DEBIT CARDS

Accounts

During 2019 BPI consolidated its new core offer of Sight Accounts for Individual Clients, including a set of accounts offering a range of products and services against a single monthly maintenance fee: 'Conta Valor BPI', 'Conta BPI Premier', 'Conta Valor Protocolo BPI', 'Conta Valor Júnior BPI', 'Conta Valor Jovem BPI' and 'Conta Valor Base BPI'.

At the end of 2019 there were 845 thousand of these accounts, corresponding to a penetration rate of 64% in the Individual Customers segment. The year was also marked by the increase in the number of 'Valor' accounts with Salary / Pension Automatic Credit, which reached 485 thousand on 31 December, corresponding to 74% of the total number of 'Valor BPI' and 'BPI Premier' accounts.

Credit and Debit Cards

At the end of the year there were 1 639 thousand cards placed with Clients, corresponding to a year-on-year increase of 4.2%. This increase was mainly underpinned by the commercial revamping of the new offering of sight accounts, with some of them including debit and credit cards in the associated package of services. The improvement of the economic situation also contributed to drive up billing of debit cards, which increased by 6.3% year-on-year.

With regard to the Point of Sale Terminals, we should note the +12% yoy increase in their number, the result of the commercial promotion of the new Commerce offering for the Businesses segment. Cumulative billing rose by 8% year-on-year in 2019, to €1 768 million, in Individuals, Businesses and Premier Banking.

BANCASSURANCE

In 2019 BPI maintained the joint venture with the insurer Allianz Portugal under which it distributes Risk insurance products through its Commercial Network. BPI thus offers a wide range of corporate and individual Life-Risk and Non-Life insurance solutions to its Clients – Individuals, Entrepreneurs, Independent Professionals and Companies.

Insurance commissions reached €52.0 million in 2019. At year-end the number of policies in portfolio totalled 476 thousand in life assurance and 437 thousand in the non-life branches.

From the start of 2020 BPI will initiate its partnerships with BPI Vida e Pensões to sell Life Assurance, maintaining its collaboration with Allianz Portugal for Non-Life Insurance.

Commissions
Intermediation of insurance products

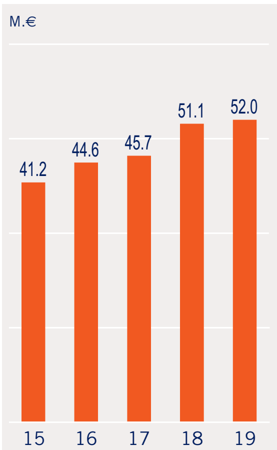


Chart 18

Insurance
Life-risk and non-life

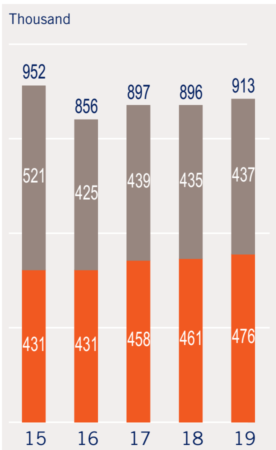


Chart 19

Non-life insurance
Life-risk insurance

PRIVATE BANKING

€7 672 million
BUSINESS VOLUME

€ 6 591 million
Discretionary Management and Advisory Services

2019 was a positive year for portfolio management, particularly in the equities market, the main driver of returns, which were sustained by the bright outlook for economic growth.

The year was marked by the consolidation of Customer segmentation, with high potential Customers from other networks of the Bank migrating to Private Banking. The purpose of this segmentation was to provide a service better adjusted to the Customers' needs and engagement potential.

At the end of December 2019, the business volume of BPI Private Banking amounted to €7 672 million, of which €6 591 million corresponded to funds under Discretionary Management and advisory services, €824 million to Stable investments under custody and €257 million to Loans and guarantees provided.

Capitalisation Insurance deserves a note, with Customers being able to choose the products best adjusted to their investment profile, and with the portfolio reaching €1 303 million at the end of December 2019. In addition, the portfolio of Third-party funds[1] reached €462 million, in line with the diversification strategy for the segment.

In 2019 commercial efforts continued to focus on reinforcing and seeking Customer adherence to the (non--independent) investment advisory service. The year saw several improvements and developments in this service's tools and functionalities, with BPI's Private Banking being elected the Best in Europe in "Digitally Empowering Relationship Managers", by the PWM – Professional Wealth Management magazine (Financial Times group).

1) Excludes short-term Funds.

Corporate and Institutional Banking

LOANS TO CUSTOMERS, GUARANTEES AND CUSTOMER RESOURCES

The Corporate and Institutional Banking gross loan portfolio reached €9 241 million at the end of 2019, which represents a 5.9% increase relative to the end of 2018. Customer resources of this segment amounted to €4 396 million, having increased by 17.2% year-on-year.

Loans to Customers and guarantees and Customer resources

Amounts in € million

	Dec. 18[1]	Dec. 19	Δ%
Loans to Customers[2]			
Corporate Banking	7 184.0	7 526.6	4.8%
Corporate and Investment Banking	2 553.6	2 739.2	7.3%
Large and Medium-sized Companies	4 630.3	4 787.4	3.4%
Public Sector	1 543.7	1 714.2	11.0%
Total	**8 727.7**	**9 240.9**	**5.9%**
Guarantees	**1 431.7**	**1 307.6**	**(8.7%)**
Customer resources[3]	**3 750.3**	**4 395.9**	**17.2%**

1) Balances adjusted for Customer migrations between Retail, Premier, Businesses and Private Banking and Corporate and Institutional Banking.
2) Gross loans. Excludes loans to credit institutions.
3) Sight and time deposits.

Table 8

On the credit front, there were increases across all business segments, although at different paces:

- Corporate and Investment Banking (CIB), which monitors the largest national groups and branches of Spanish companies in Portugal, grew by 7.3%;
- the Large and Medium-sized Companies segment posted a 3.4% increase in the loan portfolio, to approximately €4.8 billion;
- loans to Public Sector Customers registered a very positive performance, growing by 11.0%.

During 2019, BPI continued to advance its market share in loans to non-financial companies, which reached 10.5% in December 2019 (+0.7 p.p. relative to Dec. 18), the highest of the last 10 years.

BPI, A BANK FOR COMPANIES

The Bank has always been a Bank for Companies and it maintains its commitment to support the national economy by promoting the sustained growth of businesses.

To meet the needs of Customers with specific requirements, the Bank has defined Agriculture and Tourism as strategic segments and set up structuring, offering, risk analysis and business promotion dedicated teams. BPI disseminates the best initiates in these two sectors, annually promoting the National Agricultural Awards and the National Tourism Awards, organised under the aegis of the Portuguese Government, through the corresponding Ministries.

In addition, the Bank also promotes and gives visibility to Innovation and Entrepreneurship, through the COTEC – BPI SME Innovation Awards and the Entrepreneur XXI Awards.

The Urban Renewal, Real Estate and International Trade segments also benefit from specialised monitoring at BPI.

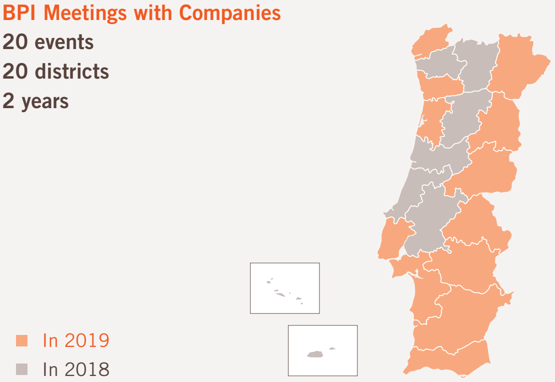
BPI MEETINGS WITH COMPANIES

In 2018 BPI launched the initiative "BPI Meetings with Companies", a cycle of annual events where issues of interest to the different regions were discussed. Over the last two years, BPI has covered the country's 20 districts, reinforcing proximity to its Customers.

These events were held in 20 Portuguese cities and counted with the participation of more than 2 000 guests (entrepreneurs, managers and mayors) and the presence of reputed speakers.

BPI Meetings with Companies

20 events
20 districts
2 years



AGRICULTURE

BPI promotes agriculture through a comprehensive offering and financial solutions that promote innovation and are adjusted to companies' needs.

In 2019, the Bank maintained the lead in the main credit lines of support to farmers:

- 22% share in terms of the total number of guarantees issued by Agrogarante[1];
- 58% share in the total amount of advances on operating subsidies granted by the IFAP and validated by the CAP[2];
- 62% share in total farming-season credit granted under the IFAP short-term credit line to the agriculture, livestock and forestry sectors[3].

The Bank also continued to support the sector's main events, namely the National Agriculture Trade Fair, Ovibeja, the National Corn Conference, Santiagro, and other initiatives in the agriculture, cattle breeding, forestry and sea sectors.

National Agricultural Awards

BPI jointly organised with Cofina the 8th edition of the National Agricultural Awards, which were designed to reward success cases in national agriculture – Farming and Agroindustry, Forestry and Cattle breeding.

This award, which is sponsored by the Ministry of Agriculture, Forestry and Rural Development and supported by PwC, received in 2019 more than 1 000 applications, having granted prizes to companies, entrepreneurs and individuals that stood out in the agricultural sector in Portugal.

TOURISM

BPI is a partner for companies in the tourism sector, offering competitive comprehensive solutions that suit their needs, and dedicated monitoring by specialised teams.

In 2019, BPI stepped up its support to the tourism sector through the signature of the 'Capitalizar Turismo' Line. In addition, BPI also provides support under the 'Apoio à Qualificação da Oferta' 2018 Line, as well as other products and services adjusted to the needs of companies in the Tourism sector.

In 2019 BPI was for the 4th consecutive year the official sponsor of BTL, the largest tourism fair in Portugal, reinforcing proximity to the professionals in this sector.

National Tourism Awards

BPI and the Expresso newspaper launched in 2019 the National Tourism Awards, a pioneering initiative organised under the aegis of the Ministry for the Economy, with the institutional support of Turismo de Portugal, and under a partnership with Deloitte.

The awards were created with the objective of promoting, encouraging and distinguishing the best companies, practices and projects in the Tourism sector, under the 'Accommodation', 'Restaurants' and 'Tourism Services' categories. In addition, the aim is also to recognise and distinguish projects, initiatives and individuals with an important contribution to the tourism sector.

The first edition received more than 450 applications.

1) Source: Agrogarante – Sociedade de Garantia Mútua. Values up to 30/11/2019.
2) Source: Confederação dos Agricultores de Portugal (CAP) – (Portuguese Farmers Association). 2019 Farming Season data. Values at 30/09/2019
3) Source: Instituto de Financiamento da Agricultura e Pescas (IFAP). 2019 farming season data. Values up to 13/09/2019.

URBAN RENEWAL AND REAL ESTATE

BPI is one of the Banks mandated to manage the IFRRU 2020 Line, a financial instrument designed to support Urban Renewal and Revitalisation operations.

The Line's financial allocation to BPI, totalling €400 million, includes contributions from various European Union funding sources, namely the European Structural and Investment Funds (ERDF – European Regional Development Fund – and Cohesion Fund), the European Investment Bank, and the Council of Europe Development Bank.

At the end of 2019 the total investment supported by BPI under this Line amounted to €250 million, distributed by 55 eligible projects. The corresponding total financing granted by the Bank was €202 million, corresponding to a rate of execution of approximately 50% of the funds available to BPI under the IFRRU 2020 Line.

BPI is market leader in the distribution of this Line, with a share of 48%.

INTERNATIONAL TRADE

The international markets and corporate internationalisation processes are key elements for diversification and levers for sustained business growth. BPI has a strong tradition in this segment and is keen to act as a partner alongside these Clients.

To this end the Bank develops innovative products and services designed for international trade – foreign trade support and financing solutions and risk hedging solutions – and capable of responding to the multiple needs faced by companies with safety and efficiency.

BPI offers credit risk hedging solutions, under a partnership with COSEC. In 2019 the Bank continued to be COSEC's 1st broker, with a share of 28% of the portfolio of global policies.

In partnership with CaixaBank, BPI organised in 2019 the second edition of "Businesses with the World", which received very positive comments from the Customers who participated in this initiative.

"Businesses with the World" is a programme of face-to-face customised advice sessions, in which companies willing to foster their international activity meet with representatives from the CaixaBank Group international network and may obtain information about the markets, and clear doubts about how to do business in foreign countries and steer their international expansion projects.

FINANCING AND TREASURY SOLUTIONS

BPI offers a wide range of competitive investment and treasury solutions, including the following:

- **Linha Capitalizar Mais (€1 000 million):** credit line with mutual guarantee to finance the reimbursable incentive component of the Innovation Incentives System.
- **Linha Capitalizar 2018 (€2 400 million):** the successor of the PME Investe and Crescimento Lines, in 2019 it extended its coverage to "Support to companies with exposure to Brexit".
- **Linha Capitalizar Turismo 2018 / 2019 (€130 million):** to support investment in the creation or rehabilitation of tourism undertakings or establishments.
- **Linha Apoio Desenvolvimento Negócio (€122 million):** Credit line under an agreement between IAPMEI, Turismo de Portugal, SPGM and SGM, that replaced the *Protocolo Geral com Garantia Mútua* and the Finicia – Microcrédito and Early Stages lines, the last two intended to support start-ups.
- **Linha apoio à qualificação Oferta 2018 (€120 million):** with an allocation of funds from Turismo de Portugal and BPI, this line aims to support all areas of the tourism industry.
- **Linha BPI / FEI Inovação III (€300 million):** support to innovation.
- **Linha BPI / BEI Eficiência Energética (€50 million):** exclusive distribution in the Portuguese market, contributing to promote environmental sustainability.
- **EIB funding lines (€250 million):** BPI has closed the placement of the EIB VI Line, under which it supported approximately 1 000 projects.
- **Factoring:** management of collections of Customers' short-term receivables, to which may be associated the advance on amounts assigned and credit risk hedging.
- **Confirming:** payment service to suppliers, through which a company transmits to BPI forward payment orders which its suppliers may bring forward.
- **Cash pooling single and multi-company:** automatic centralisation in a single account of the balances in the accounts of a company or corporate group.
- **Export and Import Financing:** support to working capital needs for an adequate management of companies' operating cycles, by financing export orders and/or payments for imports.
- **Advance on exports and export bill discounting:** to bring forward revenues from foreign sales on credit of goods and/or services, thus permitting a better management of treasury needs.

Equity holdings in BFA and BCI

BANCO DE FOMENTO ANGOLA (BFA)

BPI has a 48.1% equity holding, valued at €414 million, in Banco de Fomento Angola (BFA), which operates in commercial banking in Angola.

At the end of 2019 BFA had total assets of €4 052 million and served approximately 2 million Customers, ranking in third place in the Angolan banking system by volume of deposits, with a market share of 13.5% (Nov. 19).

In 2019 BFA reported individual net income of €309 million. At the end of 2018, BPI changed the accounting classification of BFA from “associated company”, consolidated by the equity method, to “financial investment”. BPI’s consolidated net income in 2019 includes a €78.9 million contribution from BFA, essentially corresponding to dividends paid on the 2018 results (€41 million) and the reversal of deferred tax liabilities (€51 million) as a result of the coming into force of the Convention between the Republic of Portugal and the Republic of Angola for the Avoidance of Double Taxation with respect to Taxes on Income.

BANCO COMERCIAL E DE INVESTIMENTOS (BCI)

BPI has a 35.7% equity holding (balance sheet value of €106 million) in Banco Comercial e de Investimentos (BCI), which operates in commercial banking in Mozambique.

BCI is market leader in the Mozambique banking system, with total assets (net) of €2 414 million, and market shares of 24.7% in total assets, 28.9% in loans and 26.9% in deposits. At the end of the year BCI served approximately 1.9 million Customers.

BCI reported individual net income of €58 million in 2019. BCI’s contribution to BPI’s consolidated net income in 2019, recognised by the equity method, was €18.7 million.

Financial review, risk management and rating

Financial review

CONSOLIDATED OVERVIEW

Consolidated net profit

BPI reported a **consolidated net profit of €327.9 million** in 2019, of which 70% resulting from the activity developed in Portugal. Consolidated **return on tangible equity** (consolidated ROTE) was 10.3%.

The activity **in Portugal generated a recurring net profit of €231.3 million**, which represents a 6.0% increase relative to the 2018 recurring net profit (€218.3 million).

In 2018, there had been very significant non-recurring gains in the activity in Portugal, in the amount of €178 million, essentially resulting from the sale of equity holdings and subsidiaries. These gains were not repeated in 2019, which explains the reduction in the net profit as reported in the activity in Portugal, from €396.3 million in 2018 to €230.2 million in 2019.

The **contribution of the equity holdings in BFA (48.1% held) and BCI (35.7% held) totalled €97.6 million** in 2019[1].

Consolidated capital

At the end of 2019, the CET 1 ratio (fully loaded) was 13.4%, the T1 ratio was 14.9% and the total capital ratio (fully loaded) was 16.6%. In 2019, BPI made a €275 million issue of AT1 capital instruments and distributed €150 million free reserves, with the objective of optimising the regulatory capital composition.

The leverage ratio (fully loaded) – calculated as the ratio of Tier 1 capital to the total value of balance sheet assets and off-balance sheet items, not subject to risk weighting coefficients – increased by 1.0 p.p., to 8.4% at the end of 2019.

Contribution to the consolidated net income — Amounts in € million

	2018	2019
Activity in Portugal		
Recurring net profit	218.3	231.3
Non-recurring impacts	178.0	(1.1)
Net profit in Portugal	**396.3**	**230.2**
Contribution of BFA[1] and BCI[2]	94.4	97.6
Consolidated net profit	**490.6**	**327.9**

Table 9

Consolidated net income

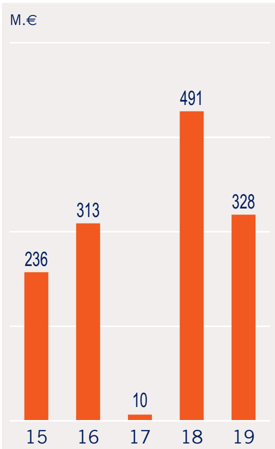


Chart 20

Consolidated capital ratios (fully loaded)

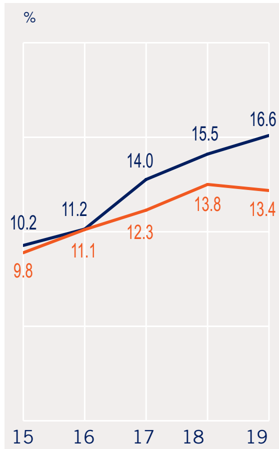


Chart 21

— Total ratio
— CET1

1) At the end of 2018 BPI changed the accounting classification of its equity holding in BFA, from "associated company", consolidated by the equity method, to "financial investment", recognised under "shares at fair value through other comprehensive income". As from 1 January 2019, the consolidated net profit of BPI recognises BFA's dividends attributed to BPI, and not the appropriation of profits, as was the case when this equity holding was recognised by the equity method.
2) In 2018 includes the contribution of BPI Capital África (€0.6 million), which was liquidated in December 2018.

ACTIVITY IN PORTUGAL

Results and profitability

In the activity in Portugal, Banco BPI reported a 6.0% increase in recurring net profit, to €231.3 million (+€13.0 million yoy).

Net profit as reported from the activity in Portugal totalled €230.2 million in 2019, a reduction compared to the 2018 net profit (€396.3 million), which included positive non-recurring impacts of €178.0 million.

Net income from the activity in Portugal — Amounts in € million

	2018	2019
Recurring net profit	**218.3**	**231.3**
Non-recurring impacts[1]		
Capital gains on the sale of equity holdings	193.1	
Income from discontinued operations	2.5	
Cost with early retirements and voluntary terminations and other administrative expenses	(17.6)	(1.1)
Non-recurring impacts	**178.0**	(1.1)
Net profit	**396.3**	230.2

Table 10

Recurring ROTE in the activity in Portugal was 8.9% in 2019.

Return on tangible equity (ROTE)

	2018	2019
Activity in Portugal		
Allocated capital (€M)[2]	2 477	2 548
Recurring ROTE	**8.8%**	**8.9%**

Table 11

Net income as reported in the activity in Portugal

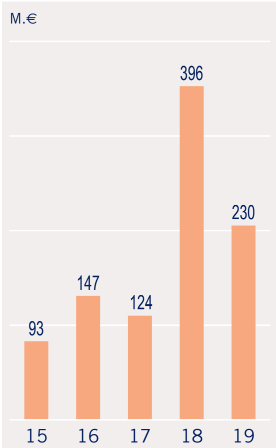


Chart 22

Recurring net income and ROTE in the activity in Portugal

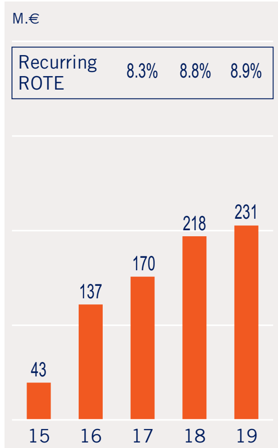


Chart 23

■ Recurring net income

Commercial activity

Banco BPI achieved very positive commercial results in 2019, as shown by the expansion of the portfolio of Customer resources and the growth of loans across all segments together with market share gains:

- Customer resources were up by 3.6% relative to Dec. 18, driven by a €1.6 billion increase (+7.6% yoy) in the amount of Customer deposits and a €0.6 billion increase (+6.6% yoy) in the amount of mutual funds and capitalisation insurance;
- the corporate loan book expanded by €433 million relative to Dec. 18 (+4.7% yoy);
- the mortgage loans portfolio grew by 1.8% yoy, underpinned by a 13% increase in new loans production, to €1 453 million in 2019;
- the portfolio of other loans to individuals increased by 16% (+€221 million).

1) The detail of non-recurring impacts is presented in page 63.
2) The average capital considered in the calculation of ROTE is deducted from the average balance of intangible assets (average balance of activity in Portugal in 2019: €54 million) and goodwill of equity holdings (average balance of activity in Portugal in 2019: €7 million).

Asset quality

BPI continued to show a consistent improvement in credit quality indicators:

- the NPE[1] ratio decreased by 1.0 p.p., from 3.5% in Dec. 18 to 2.5% at the end of 2019;
- the accumulated impairments for loans and guarantees on the balance sheet covered NPE at 54%; the coverage of NPE considering impairments for loans and guarantees plus collaterals was 124%;
- in 2019 BPI recorded €20.7 million of reversals of impairments and provisions for loans and guarantees on the income statement. In addition, a total of €22.6 million in loans previously written off from assets was recovered, thus totalling a gain of €43.2 million;
- in 2019 BPI sold non-performing loans and real estate assets worth €221 million, with a positive impact of €24 million[2] on net income before income tax.
- the stock of foreclosed properties had a balance sheet value of €15 million (net of impairments).

NPE ratio

Chart 24

Coverage of NPE by impairments

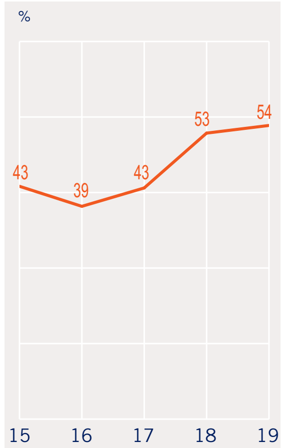


Chart 25

Funding and liquidity

BPI shows a balanced funding structure and a strong liquidity position:

- on-balance sheet Customer resources represented 74% of total assets in the activity in Portugal;
- the loan to deposit ratio was 100%;
- the Net stable funding ratio (NSFR)[3] stood at 129%;
- the Liquidity Coverage Ratio (LCR) stood at 173%[4].

1) "Non-performing exposures" in accordance with the European Banking Authority (EBA) criteria; considering the prudential supervision perimeter.
2) Of which €22.5 million in reversals of impairments and loan recoveries and €1.7 million recognised under "Gains and losses in other assets".
3) In force in June 2021.
4) 12-month average, in accordance with the EBA guidelines.

INCOME STATEMENT

The €13 million increase in recurring net profit from the activity in Portugal, from €218.3 million in 2018 to €231.3 million in 2019 (+6.0% yoy), is explained by the following factors:

- commercial banking gross income[1] increased by €8.3 million (+1.2% yoy), supported by the expansion of commercial activity, which reflected onto the 4.4% and 3.6% increases in the loan portfolio and the Customer resources portfolio, respectively. The net interest income grew by 3.2%, while the performance of net fee and commission income was affected by the sale of businesses in 2018. On a comparable basis, net fee and commission income increased by 5.7% yoy;
- gains with the reversal of loan impairments and with property repossessed from loans recovery amounted to €46.7 million, which represents a yoy increase of €7.2 million;
- the increase in operating expenses was moderate (+2.7%). Staff expenses were up by 1.4%, while the 4.3% increase in other expenses essentially reflects the execution of the scheduled investment plan.

Income statement from the activity in Portugal

Amounts in € million

			2018 restated			2019		Δ%
			As reported	**Non--recurr.[2]**	**Exc. non--recurr.**	**As reported**	**Non--recurr.[2]**	**Exc. non--recurr.**	**Exc. non--recurr.**
Net interest income		*1*	422.6		422.6	436.3		436.3	3.2%
Dividend income		*2*	1.7		1.7	3.3		3.3	94.3%
Equity accounted income		*3*	7.5		7.5	20.3		20.3	171.9%
Net fee and commission income		*4*	277.8		277.8	257.9		257.9	(7.2%)
Gains / (losses) on financial assets and liabilities and other		*5*	84.6	59.6	25.1	10.8		10.8	(57.0%)
Other operating income and expenses		*6*	(28.2)		(28.2)	(21.2)		(21.2)	24.7%
Gross income	*[=∑ (1 to 6)]*	*7*	**766.0**	**59.6**	**706.4**	**707.4**		**707.4**	**0.1%**
Staff expenses		*8*	(262.2)	(21.1)	(241.1)	(246.1)	(1.5)	(244.6)	1.4%
Other administrative expenses and depreciation and amortisation		*9*	(196.7)	(3.1)	(193.6)	(202.0)		(202.0)	4.3%
Operating expenses	*[= 8 + 9]*	*10*	**(458.9)**	**(24.2)**	**(434.7)**	**(448.1)**	**(1.5)**	**(446.6)**	**2.7%**
Net operating income	*[= 7 + 10]*	*11*	**307.1**	**35.4**	**271.7**	**259.3**	**(1.5)**	**260.8**	**(4.0%)**
Impairment losses and other provisions		*12*	47.7		47.7	36.8		36.8	(22.9%)
Gains and losses in other assets		*13*	85.0	98.8	(13.9)	4.7		4.7	133.6%
Net income before income tax	*[=∑ (11 to 13)]*	*14*	**439.7**	**134.2**	**305.5**	**300.8**	**(1.5)**	**302.3**	**(1.1%)**
Income tax		*15*	(107.7)	(20.5)	(87.2)	(70.5)	0.4	(70.9)	(18.6%)
Net income from continuing operations	*[= 14 + 15]*	*16*	**332.1**	**113.8**	**218.3**	**230.2**	**(1.1)**	**231.3**	**6.0%**
Net income from discontinued operations		*17*	64.2	64.2	(0.0)				
Net Income	*[= 16 + 17]*	*18*	**396.3**	**178.0**	**218.3**	**230.2**	**(1.1)**	**231.3**	**6.0%**

1) Net interest income, Dividend income, Equity accounted income and Net fee and commission income.

Table 12

2) Non-recurring impacts (after tax) on the activity in Portugal:

In 2018:
- €193.1 million gain on the sale of subsidiaries and businesses and the equity holding in Viacer;
- €15.3 million cost with early retirements (€21.1 million before taxes);
- €2.2 million in non-recurring other administrative expenses (€3.1 million before taxes);
- €2.5 million net income from discontinued operations.

In 2019: €1.1 million cost with early retirements (€1.5 million before taxes).

Restated 2018 income statement

In 2019 the banking sector contribution was reclassified from “Income tax” to “Other operating income and expenses”. The 2018 income statement was restated to reflect this reclassification.

Gross Income

Commercial banking gross income from the activity in Portugal increased by 1.2% in 2019, to €717.8 million.

Gross income

Amounts in € million

			2018 restated	2019	Δ%
Net interest income		1	422.6	436.3	3.2%
Dividend income and equity accounted income		2	9.2	23.6	157.4%
Net fee and commission income		3	277.8	257.9	(7.2%)
Commercial Banking Gross Income	*[=∑ (1 to 3)]*	4	**709.5**	**717.8**	**1.2%**
Other income, net		5	(3.1)	(10.4)	-
Recurring gross income	*[= (4 + 5]*	6	**706.4**	**707.4**	**0.1%**
Non-recurring		7	59.6		(100.0%)
Gross income as reported	*[= 6 + 7]*	8	**766.0**	**707.4**	**(7.7%)**

Table 13

Net interest income

Net interest income increased by 3.2%, or €13.7 million, relative to 2018.

The increase in net interest income was driven by the expansion of the loan portfolio (+4.2% in average balance terms), which generated a positive volume effect of around +€16 million. The average cost of deposits (contracted in euro) is very close to zero, still there was a slight reduction, from 0.03% in 2018 to 0.02% in 2019, which had a positive impact of €1.8 million on net interest income.

In addition, the portfolio of sovereign debt securities contributed €2.1 million to the increase in net interest income, reflecting the extension of the average residual maturity of the portfolio (currently 1.9 years) to take advantage of the difference between long- and short-term interest rates.

In the opposite direction, the sale of the cards business in 2018 had a €4.1 million negative impact on net interest income.

The annual average return on the gross loan portfolio remained stable, at 1.78%. New residential mortgage loans, contracted with higher spreads than those of loans repaid (especially the older loans) and the growth in the consumer credit segment, permitted to offset the reduction in market spreads on new credit operations.

Quarterly average interest rates of loans and deposits

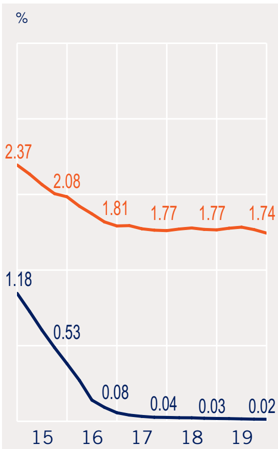


Chart 26

Unitary intermediation margin (quarterly evolution)

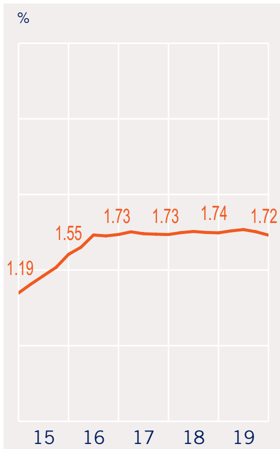


Chart 27

— Loans
— Deposits[1]

Note: the values visible in the above charts refer to the average interest rates and unitary intermediation margin in the 4th quarter of each year.

1) As from the start of the 4th quarter 2016 (including) refers to the remuneration of deposits contracted in euro.

The unitary intermediation margin (defined as the difference between income from interest on loans[1] and the cost of deposits in euro) stood at 1.76% in 2019 (+0.01 p.p. yoy).

Net interest income continued to be penalised by the persistence of negative Euribor rates, with a direct impact on the average margin of sight deposits, and also feeding through to the average remuneration of short-term and mortgage loans, which are mostly indexed to market variable interest rates.

Net interest income

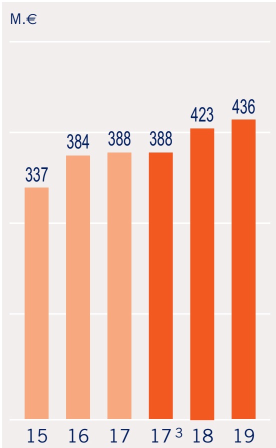


Chart 28

Net fee and commission income

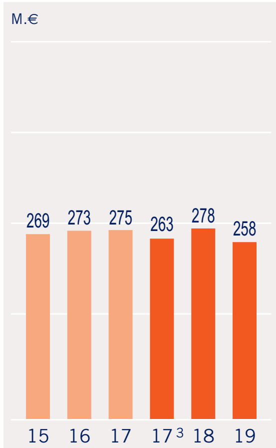


Chart 29

Note: 2015 to 2017 amounts as reported: Net interest income corresponds to net interest income (narrow sense) and net commissions relating to amortised cost; net fee and commission income includes the gross margin on unit links.

Net interest income

Amounts in € million

		2018			2019			Δ Interest (%)
		Average balance	Average rate (%)	Interest	Average balance	Average rate (%)	Interest	
Loans to Customers[1]	1	21 969	1.78%	390.6	22 890	1.78%	407.0	4.2%
Customer deposits in euro[2]	2	19 693	0.03%	6.1	21 038	0.02%	4.5	(25.6%)
Intermediation margin	3		**1.75%**	**384.5**		**1.76%**	**402.5**	**4.7%**
Other revenues and costs	4			38.1			33.8	(11.3%)
Net interest income *[= 3 + 4]*	5			**422.6**			**436.3**	**3.2%**

Table 14

Net fee and commission income

Net fee and commission income registered a contraction of 7.2% (-€19.9 million) in 2019, explained by the sale of the cards, acquiring and investment banking businesses in 2018. Excluding the impact from the sale of these businesses (i.e., on a comparable basis), net fee and commission income increases by 5.7% (+€14.0 million).

Banking commissions, adjusted for the sale of businesses (comparable basis), increased by 12.2% (+€16.7 million) in 2019, mainly reflecting the increase in commissions on sight deposits and services, and to a lesser extent on credit operations and guarantees.

Mutual funds placement fees decreased by 8.5% as a result of the reduction in the average balance of these funds' portfolio (despite the 3.2% yoy increase in the mutual funds portfolio in 2019). Insurance fees increased by 0.9%.

Net fee and commission income

Amounts in € million

		2018	2019	Δ%
Banking commissions[4]	1	171.1	154.0	(10.0%)
Mutual funds	2	40.0	36.6	(8.5%)
Insurance	3	66.7	67.3	0.9%
Total *[=∑ (1 to 3)]*	4	**277.8**	**257.9**	**(7.2%)**

Table 15

1) Excluding loans to Employees.
2) Sight and term deposits in euro.
3) Amounts restated due to the change in the income statement structure and the reclassification of the contribution of subsidiaries sold in 2017 and 2018.
4) On a comparable basis (adjusted for the sale of businesses in 2018), banking commissions increased by 12.2% (+€16.7 million).

Equity accounted income in the activity in Portugal

The contribution of the equity accounted associated companies amounted to €20.3 million in 2019 (+€12.8 million relative to 2018).

The insurance companies contributed with €17.9 million in 2019; the previous year's contribution, of €3.3 million, reflects the lower contribution of Allianz Portugal due to negative impacts that penalised its results.

Equity accounted income — Amounts in € million

			2018	2019	Δ M.€
Insurance companies:	*[= 2 + 3]*	*1*	3.3	17.9	+14.6
Allianz Portugal		*2*	(0.8)	13.3	+14.2
Cosec		*3*	4.1	4.6	+0.5
Unicre		*4*	4.2	2.4	(1.8)
Inter-Risco		*5*	(0.03)	(0.04)	(0.0)
Total	*[= ∑ 2 to 5]*	*6*	**7.5**	**20.3**	**+12.8**

Table 16

Gains / (losses) on financial assets and liabilities and other

Gains / (losses) on financial assets and liabilities and other amounted to €10.8 million in 2019. This amount includes €13 million losses in corporate recovery funds.

In the previous year, gains / (losses) on financial assets and liabilities and other, in the amount of €84.6 million, benefited from a non-recurring €59.6 million gain on the sale of the stake in Viacer.

Gains / (losses) on financial assets and liabilities and other — Amounts in € million

			2018	2019
Foreign exchange operations		*1*	11.6	12.6
Corporate restructuring and recovery funds and venture capital funds		*2*	4.0	(11.0)
Other		*3*	9.4	9.2
Recurring gains / (losses) on financial assets and liabilities and other	*[= ∑ (1 to 3)]*	*4*	**25.1**	**10.8**
Gain on the sale of equity holdings		*5*	59.6	
Total	*[= 4 + 5]*	*6*	**84.6**	**10.8**

Table 17

Other operating income and expenses

The "Other operating income and expenses" caption shows a negative amount of €21.2 million in 2019.

This amount relates to regulatory costs in the amount of €33.6 million – contributions to the European Resolution Fund and National Resolution Fund and the banking sector contribution –, subscriptions and donations (€2.6 million) and income from services provided to CaixaBank Group (€14.4 million).

Other operating income and expenses — Amounts in € million

			2018 restated[1]	2019
Contribution to the National Resolution Fund		*1*	(5.5)	(7.0)
Contribution to the European Resolution Fund		*2*	(11.8)	(11.3)
Banking sector contribution[2]		*3*	(15.2)	(15.3)
Subscriptions and donations		*4*	(2.8)	(2.6)
Services provided to CaixaBank Group companies		*5*	6.3	14.4
Other		*6*	0.8	0.5
Total	*[= ∑ (1 to 6)]*	*7*	**(28.2)**	**(21.2)**

Table 18

1) In 2019 the banking sector contribution was reclassified from "Income tax" to "Other operating income and expenses". The 2018 income statement was restated to reflect this reclassification.

2) With the creation of the National Resolution Fund (*Decree-Law no. 31-A / 2012* of 10 February), the banking sector contribution was allocated to the funding of the Resolution Fund.

Operating expenses

Recurring operating expenses – recurring staff expenses, other administrative expenses, depreciation and amortisation – increased by 2.7% yoy.

Staff expenses (excluding non-recurring) remained relatively stable in 2019, with the 0.8% increase in the salary scale and the updating of monetary clauses resulting from the revision of the Collective Wage Agreement being offset by a 1.0% yoy reduction in the average headcount.

The implementation of IFRS 16 (lease agreements) led to an increase in depreciation and amortisation of around €25 million in 2019, against a reduction in other administrative expenses. The impact of the implementation of IFRS 16 in total expenses, and in the net income, is immaterial.

Adjusted for the implementation of IFRS 16, other administrative expenses increased by 2.2%, while depreciation and amortisation expanded by 21.5%, which is explained by the execution of the scheduled plan of investments, namely in the technological area.

The core efficiency ratio[1] stood at 60.2%, which represents a slight improvement (decrease) of 0.2 p.p. compared to 2018.

Operating expenses
excluding non-recurring

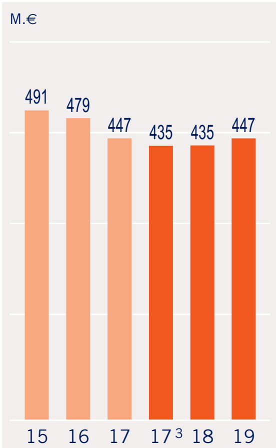


Chart 30

Core cost-to-income ratio

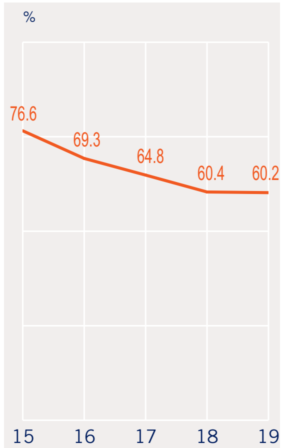


Chart 31

– Core cost-to-income ratio (on a comparable basis)

Operating expenses

Amounts in € million

			2018	2019	Δ%
Staff expenses, excluding non-recurring expenses		1	241.1	244.6	1.4%
Other administrative expenses, excluding non-recurring costs		2	169.8	148.1	n.s.
Depreciation and amortisation		3	23.8	53.9	n.s.
Operating expenses, excluding non-recurring	*[= ∑ 1 to 3]*	4	**434.7**	**446.6**	**2.7%**
Non-recurring expenses[2]		5	24.2	1.5	(93.8%)
Operating expenses, as reported	*[= 4 + 5]*	6	**458.9**	**448.1**	**(2.4%)**
Core efficiency ratio[1]		7	**60.4%**	**60.2%**	**-0.2 p.p.**

Table 19

1) Operating expenses excluding non-recurring expenses, minus income from services provided to CaixaBank Group, as % of commercial banking gross income (net interest income, net fee and commission income, dividend income and equity accounted income).
2) Costs with early retirements (€21.1 million in 2018 and €1.5 million in 2019) and other administrative expenses (€3.1 million in 2018).
3) Amounts restated due to the change in the income statement structure and the reclassification of the contribution of subsidiaries sold in 2017 and 2018.

Employee pension liabilities

The present value of the Bank's total liabilities for Employees' past services amounted to €1 804 million at the end of 2019.

The net assets of the Employees' pension funds amounted to €1 770 million[1], which guaranteed the funding of 98% of the pension liabilities.

In 2019, the Bank's pension funds' return was 12.6%, which was higher than the discount rate.

Liabilities for Employee pensions and pension funds

Amounts in € million

	2018	2019
Total past service liabilities	1 639	1 804
Net assets of the pension fund[1]	1 618	1 770
Coverage ratio of pension liabilities	99%	98%
Pension funds return	5.5%	12.6%
Discount rate	2.0%	1.3%
Pensionable salaries growth rate	1.0%	0.9%
Pensions growth rate	0.5%	0.4%
Mortality Table: Men	TV 88 / 90	
Mortality Table: Women	TV 88 / 90 – 3 years	

Table 20

In 2019, BPI reduced the discount rate by 0.7 p.p., to 1.3%, and the salaries and pensions growth rates by 0.1 p.p., to 0.9% and 0.4%, respectively. These changes resulted in negative actuarial deviations in the amount of €153 million.

Total actuarial deviations in 2019 were -€19 million, in so far as the €176 million deviation in the pension fund return largely offset the negative deviations recognised.

Actuarial deviations in 2019

Amounts in € million

	2019
Deviation in pension funds return	176
Change in discount rate, growth rate of salaries and pensions	(153)
Other[2]	(43)
Actuarial deviations in 2019	**(19)**

Table 21

Impairments and provisions for loans and guarantees

In 2019 BPI continued to see an improvement in the loan portfolio quality indicators, while maintaining a high coverage of credit risk exposure.

Reversals of impairments and provisions for loans and guarantees totalled €20.7 million in 2019, representing a gain in the income statement; in addition, a total of €22.6 million in loans, interest and expenses previously written off from assets, was recovered.

The cost of credit risk[3] was once again negative by €43.2 million (representing a gain). As a percentage of the loan portfolio, the cost of credit risk was -0.17% in 2019. The average historical value of this indicator in the last 15 years was 0.28%.

Impairments and provisions for loans and guarantees

Amounts in € million

		2018	2019
Impairments	1	(7.9)	(20.7)
Recoveries of loans written off from assets	2	(36.9)	(22.6)
Cost of Credit Risk [= 1 + 2]	3	**(44.8)**	**(43.2)**
as % of loan portfolio[4]	4	(0.18%)	(0.17%)

Table 22

Cost of credit risk[3]

In M.€

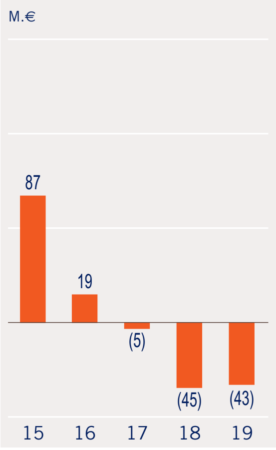


Chart 32

As % of loan portfolio[4]

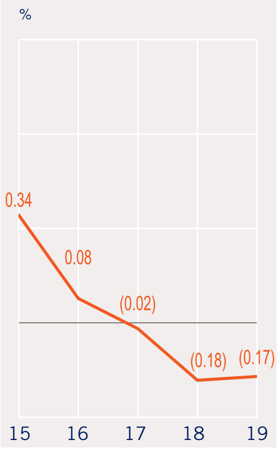


Chart 33

1) Includes contributions to the pension fund made at the start of the following year (€5.5 million in Dec. 18 and €3.8 million in Dec. 19).
2) Includes impact on ACT table from the national minimum wage increase (-€18.6 million).
3) Impairment charges for the year net of recoveries.
4) As % of average gross loans and guarantees.

Impairments and provisions for loans and guarantees

Amounts in € million

			2019			
			Impairments	Recoveries of loans written off from assets	Cost of credit risk[1]	as % of loan portfolio[2]
Loans to individuals	*[= 2 + 3]*	*1*	**(12.0)**	**(3.0)**	**(15.0)**	**(0.12%)**
Mortgage loans		*2*	(20.4)	(1.6)	(21.9)	(0.20%)
Other loans to individuals		*3*	8.4	(1.5)	6.9	0.50%
Companies in Portugal		*4*	**(8.9)**	**(19.6)**	**(28.4)**	**(0.23%)**
Other		*5*	**0.2**	**0.0**	**0.2**	**0.07%**
Total	*[= 1 + 4 + 5]*	*6*	**(20.7)**	**(22.6)**	**(43.2)**	**(0.17%)**

Table 23

The non-performing exposures (NPE), calculated in accordance with the EBA criteria, decreased by 28% in 2019, to €763 million. The NPE ratio improved (decreased) by 1.0 p.p. to 2.5%.

The coverage of NPE by accumulated impairments on the balance sheet was 54%; considering accumulated impairments and also the collaterals associated to the NPE, the coverage of NPE was 124%.

In 2019 BPI sold a €221 million portfolio of non--performing loans (€84 million recognised on the balance sheet and €123 million written off from assets) and property repossessed from loans recovery (€14 million), with a €24 million positive impact[3] on the net income before income tax.

The portfolio of foreclosed properties has a very low expression in BPI. At the end of 2019, the stock of foreclosed properties held by BPI had a gross balance sheet value of €25 million, and its value net of impairments was €15 million. These properties' valuation corresponded to 168% of their net balance-sheet value.

BPI's exposure to the loan recovery funds *Fundo de Recuperação*, FCR and *Fundo de Reestruturação Empresarial FCR* totalled €39 million (net of impairments) at the end of 2019.

Non performing exposures (NPE)

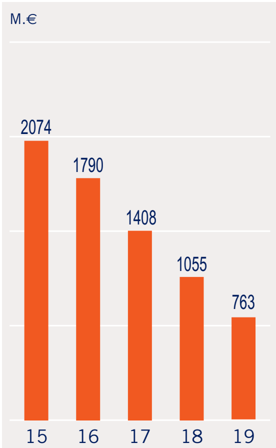


Chart 34

NPE ratio

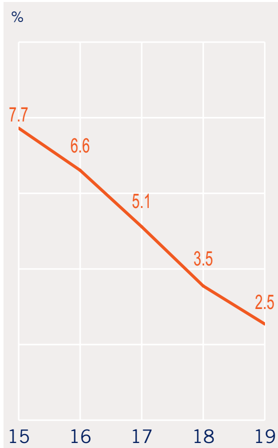


Chart 35

Coverage ratio (%)

By impairments and collaterals	127	124

1) Impairments and provisions for loans and guarantees, net of recoveries of loans written off from assets.
2) As % of average gross loans and guarantees.
3) Of which €22.5 million in reversals of impairments and loan recoveries and €1.7 million recognised under "Gains and losses in other assets".

BALANCE SHEET

Total assets (net) of the activity in Portugal amounted to €31.3 billion, and accounting shareholders' equity was €2 622 million, excluding €275 million in Additional Tier 1 (AT1) capital instruments issued in September 2019.

Net loans to Customers, in the amount of €24.1 billion, represented 77% of assets, and on-balance sheet Customer resources (€23.0 billion) were the main source of balance sheet funding (74% of assets).

BPI maintains a comfortable liquidity position and balanced funding structure:

- the loan to deposit ratio[1] was 100%;
- BPI holds a portfolio of short-term sovereign debt securities amounting to €0.8 billion (Portuguese and Italian), and a portfolio of medium- and long-term sovereign debt securities (Portuguese, Spanish and Italian) in the amount of €2.3 billion, with an average residual maturity of 2.4 years.
- total high-quality liquid assets and assets eligible as collateral for additional funding from the ECB amounted to €8.2 billion at the end of 2019. On this date, funding from the ECB totalled €1.4 billion;
- funding from the debt market (wholesale), in the form of covered bond issues, totalled €1.05 billion;
- the net stable funding ratio (NSFR) stands at 129%[2];
- The liquidity coverage ratio (LCR) stands at 173%[3].

Balance sheet structure in 2019 in the activity in Portugal

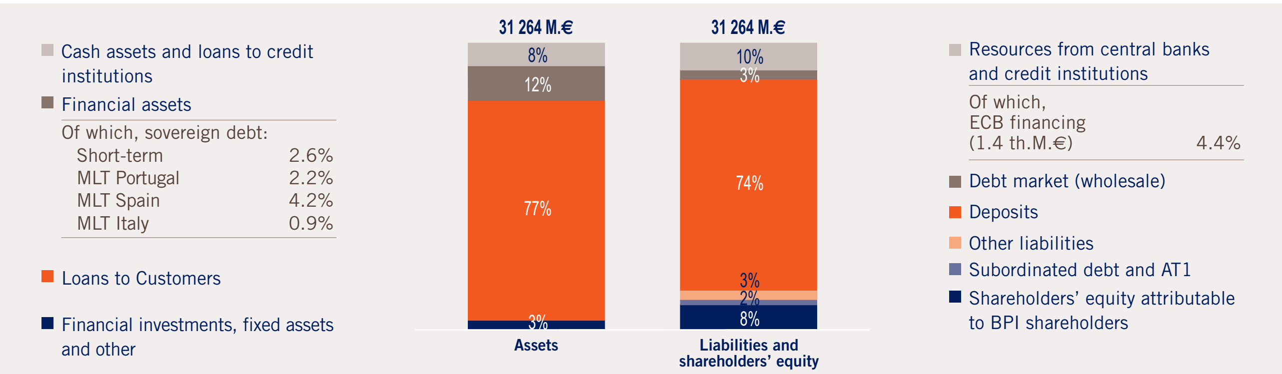


Chart 36

1) (Net loans to Customers – Funding obtained from the EIB, which is used to provide credit) / Deposits.
2) In force in June 2021.
3) 12-month average, in accordance with the EBA guidelines. Average value (previous 12 months) of the calculation components: Liquidity reserves (€4 368 million); Total net outflows (€2 520 million).

Loans to Customers

The portfolio of loans and advances to Customers (gross) expanded by 4.4% in 2019. Credit growth occurred across all segments and translated into market share gains.

The portfolio of loans to companies grew by 4.7% in 2019 (+€433 million), with the market share in this segment advancing to 10.5% in December 2019, which represents an increase of 0.7 p.p. relative to the end of 2018.

Loans to individuals increased by 3.4%:

- the mortgage loan portfolio grew by 1.8% (+€200 million), driven by a 13% increase in new production, to €1 453 million in 2019, which surpassed the amount of redemptions in the period. The performance of new production, which has rallied from the low level seen at the end of 2018, benefited from an increased promotional effort and a boost to commercial performance in the second half of the year;
- the portfolio of other loans to individuals – personal loans and car financing – grew by 15.9% (+€221 million).

Loans and advances to Customers (gross) Amounts in € million

			2018	2019	Δ%
Loans to individuals	*[= 2 + 3]*	*1*	**12 558**	**12 979**	**3.4%**
Mortgage loans		*2*	11 171	11 371	1.8%
Other loans to individuals		*3*	1 387	1 608	15.9%
Loans to companies		*4*	**9 289**	**9 722**	**4.7%**
Public sector		*5*	**1 544**	**1 714**	**11.0%**
Other[1]		*6*	**96**	**104**	**8.3%**
Total	*[= 1 + ∑(4 to 6)]*	*7*	**23 487**	**24 520**	**4.4%**
Note:					
Net loan portfolio			22 949	24 126	5.1%

Note: Loans to Customers (gross) corresponds to Loans and advances to Customers (€22 347 million in Dec. 19), excluding collateral accounts and other assets (€110 million and €5 million, respectively, in Dec. 19), added of debt securities issued by Customers (€2 288 million in Dec. 19), recognised under Financial assets at amortised cost.

Table 24

Loans to Customers
2015 to 2019

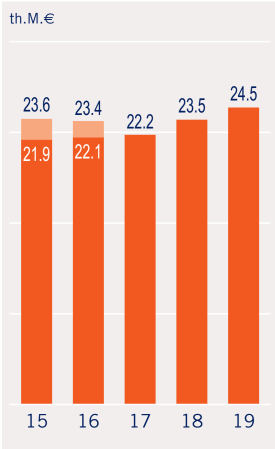


Chart 37

Total loan portfolio
Loan portfolio excl. BPI Vida e Pensões[2]

Loans to Customers
Breakdown at 31 Dec. 2019

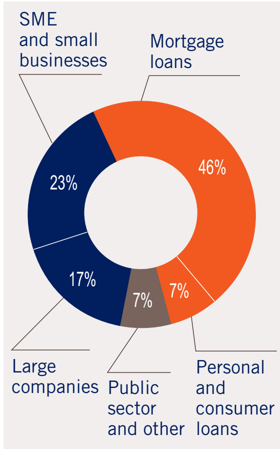


Chart 38

Financial assets portfolio

At 31 December 2019, BPI held a portfolio of sovereign debt securities in the amount of €3 125 million[3]:

- approximately ¼ of the portfolio corresponds to Portuguese and Italian short-term debt.
- approximately ¾ correspond to medium- and long-term debt of Portugal (30%), Spain (58%) and Italy (12%). The average residual maturity of the portfolio was 2.4 years.

The Bank uses this portfolio for balance sheet liquidity management purposes, taking positions in a range of maturities to benefit from a positively sloped yield curve and generate a positive contribution to the margin, maintaining a reduced average maturity and without affecting the liquidity position (the securities purchased are also eligible for refinancing operations with the ECB and for REPO operations).

Sovereign debt securities portfolio[3] Amounts in € million

			2018	2019
Short-term	*[= 2 + 3]*	*1*	**476**	**826**
Portugal		*2*	476	426
Italy		*3*		401
Medium- and long-term	*[= 5 + 6 + 7]*	*4*	**2 574**	**2 299**
Portugal		*5*	871	701
Spain		*6*	1 023	1 323
Italy		*7*	681	275
Total	*[= 1 + 4]*	*8*	**3 050**	**3 125**

Table 25

1) Includes interest receivable.
2) Excluding the portfolio of securitised loans of BPI Vida e Pensões, which was sold in 2017.
3) Sovereign debt securities in financial asset portfolios at fair value through other comprehensive income (note 12) and financial asset portfolios at amortised cost (note 13.1). Does not include portfolio of financial assets held for trading.

Customer resources

Customer deposits increased by €1.6 billion (+7.6%) in 2019, to €22.7 billion.

Off-balance sheet resources also performed well. Mutual funds increased by 3.2% (+€161 million), while capitalisation insurance registered an even sharper growth, of 10.8% (+€445 million). Capitalisation insurance, in particular, benefited from a commercial focus on the promotion of long-term saving, as well as from the diversification and enrichment of the offering, where, in addition to the range of capitalisation insurance adjusted to the Customers' risk profile, new solutions adjusted to the investment time horizon were included in 2019.

Total Customer resources, excluding deposits of institutional and financial investors, increased by €1.8 billion (+5.7%) in 2019.

As to deposits of institutional and financial investors, the Bank has been actively reducing their volume in order to optimise the liquidity ratios (LCR), which explains the 67% reduction in this component of resources, to €308 million at the end of 2019.

Total Customer resources
2015 to 2019

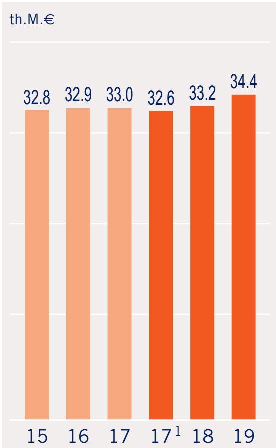


Chart 39

Total Customer resources
Breakdown at 31 Dec. 2019

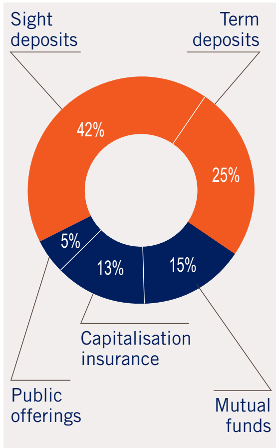


Chart 40

On-balance sheet
Off-balance sheet

Customer resources portfolio

Amounts in € million

			2018	2019	Δ%
On-balance sheet resources	*[= 4 + 5]*	*1*	**22 052**	**23 015**	**4.4%**
Customer deposits					
Sight deposits		*2*	12 510	14 358	14.8%
Term deposits		*3*	8 598	8 349	(2.9%)
Customer deposits	*[= 2 + 3]*	*4*	21 107	22 707	7.6%
Deposits of institutional and financial investors		*5*	945	308	(67.4%)
Assets under management	*[= 7 + 8]*	*6*	**9 191**	**9 797**	**6.6%**
Mutual funds		*7*	5 083	5 245	3.2%
Capitalisation insurance		*8*	4 107	4 552	10.8%
Public subscription offerings		*9*	**1 952**	**1 569**	**(19.6%)**
Total	*[= 1 + 6 + 9]*	*10*	**33 195**	**34 382**	**3.6%**
Note:					
Customer resources, excluding deposits of institutional and financial investors	*[= 10 - 5]*	*11*	32 250	34 073	5.7%

Table 26

1) Proforma considering the sale of BPI Gestão de Activos and BPI GIF in 2018.

CONTRIBUTION OF EQUITY HOLDINGS IN BFA AND BCI

Contribution to the consolidated net income

Banco BPI holds minority equity stakes in two African banks:

- 48.1% in Banco de Fomento Angola (BFA), which operates in commercial banking in Angola; and
- 35.7% in Banco Comercial e de Investimentos (BCI)[1], which operates in commercial banking in Mozambique.

BPI's equity holdings in BFA and BCI contributed with €97.6 million to the 2019 consolidated net income.

Contribution of the equity holdings in BFA and BCI to consolidated net income

Amounts in € million

			2018	2019
BFA contribution		*1*	**73.2**	**78.9**
Of which:				
Impact of BFA reclassification			(138.6)	
BCI contribution		*2*	**20.5**	**18.7**
Other[2]		*3*	**0.6**	**-**
Total	*[= 1 + 2 + 3]*	*4*	**94.4**	**97.6**

Table 27

The **contribution of BFA** to consolidated net income was €78.9 million in 2019, essentially corresponding to dividends paid to BPI on the 2018 results (€41.4 million) and the reversal of deferred tax liabilities (€50.7 million) as a result of the coming into force of the Convention between the Republic of Portugal and the Republic of Angola for the Avoidance of Double Taxation with respect to Taxes on Income.

It should be noted that BFA's contribution in 2018, in the amount of €73.2 million, reflected the appropriation of BFA's results by the equity method, and included the €139 million negative impact of the reclassification of BFA at the end of 2018 from "associated company", consolidated by the equity method, to "financial investment".

BCI's contribution to the consolidated net income amounted to €18.7 million in 2019.

BNA reference exchange rates

	31 Dec. 18	31 Dec. 19	Δ% (EUR or USD) / 1 AKZ[3]
AKZ / 1 EUR	353.0	540.8	(35%)
AKZ / 1 USD	308.6	482.2	(36%)

Average bid / ask prices. *Table 28*
3) Change in the AKZ value when expressed in EUR or USD.

CHANGE OF ACCOUNTING CLASSIFICATION OF EQUITY HOLDING IN BFA

At the end of 2018 BPI changed the accounting classification of its equity holding in BFA, from "associated company", consolidated by the equity method, to "financial investment", recognised under "shares at fair value through other comprehensive income".

BPI considered that this was the more prudent accounting option and that it adequately reflects its current position in BFA (with no significant influence).

The change in the accounting method generated a negative €138.6 million impact on BFA's contribution to the 2018 consolidated net income.

This impact is essentially explained by the recognition in the 2018 net income of accumulated negative foreign exchange translation differences in the amount of €142 million, reflecting negative foreign exchange differences recognised on translation of BFA's financial statements from AKZ to EUR, which were taken directly to equity (under reserves).

The change in the accounting of the stake in BFA had no impact on the consolidated equity ratios.

As from 1 January 2019, the consolidated profit of BPI recognises BFA's dividends paid to BPI and not the appropriation of profits, as was the case when this equity holding was recognised by the equity method.

1) Equity accounted.
2) Contribution of BPI Capital África (liquidated in Dec. 18).

CONSOLIDATED EQUITY

Consolidated prudential capital

At 31 December 2019, the fully loaded CET 1 ratio was 13.4%, the T1 ratio was 14.9%, and the total capital ratio was 16.6%. The leverage ratio was 8.4%.

In 2019, BPI made a €275 million issue of AT1 capital instruments and distributed €150 million free reserves, with the objective of optimising the regulatory capital composition.

Excluding the impact of the distribution of free reserves, the CET1 ratio increased by 0.6 p.p., as a result of:

- the organic generation of capital by the activity in Portugal[1], with a 0.8 p.p. positive impact;
- the equity holding in BFA (essentially reflects dividends paid and the reversal of deferred tax liabilities), with a 0.4 p.p. positive impact;
- the distribution of €117 million dividends on the 2019 results, with a negative impact of 0.7 p.p.

The distribution of free reserves in October 2019 had a 1.0 p.p. negative impact on the CET1 ratio, which as a result decreased by 0.4 p.p. in the year.

The issuance of AT1 instruments in September 2019 had a 1.5 p.p. positive impact on the T1 and total capital ratios.

The T1 and total capital ratios consequently increased by 1.2 p.p. and 1.1 p.p., respectively, in 2019.

Regulatory capital requirements ratio
Fully loaded consolidated ratios

Amounts in € million

			2018	2019
Common Equity Tier 1		1	**2 335.0**	**2 405.3**
Tier I		2	2 335.0	2 680.3
Tier II		3	300.0	300.0
Total own funds		4	**2 635.0**	**2 980.3**
Risk weighted assets		5	**16 976.8**	**17 949.3**
CET1 ratio	[= 1 / 5]	6	13.8%	13.4%
T1 ratio	[= 2 / 5]	7	13.8%	14.9%
Total ratio	[= 4 / 5]	8	15.5%	16.6%
Leverage ratio		9	7.3%	8.4%

Note: the minimum prudential requirements established by the ECB for 2019 for the consolidated CET1, T1 and total ratios were 9.25%, 10.75% and 12.75%, respectively.

Table 29

CAPITAL REQUIREMENTS FOR 2020 (SREP)

The minimum prudential requirements for consolidated ratios established by the ECB for 2020 are the following:

- CET1 ratio 9.38%
- T1 ratio 10.88%
- Total capital ratio 12.88%

CET1 ratio (fully loaded) evolution in 2019

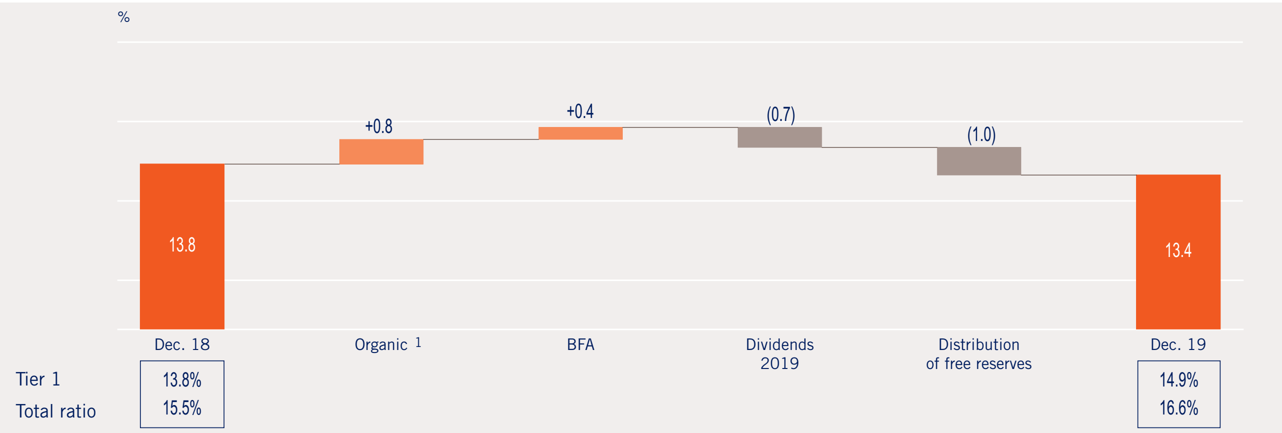


Chart 41

1) Net income from the activity in Portugal, net of the increase in credit RWAs.

Issuance of €275 million AT1 in September 2019

In September 2019, BPI issued €275 million of Additional Tier 1 (AT1)[1] capital instruments, which was fully subscribed by CaixaBank.

This issuance, together with a €150 million distribution of free reserves in October, sought a more optimised capital structure of the CET1, Tier 1 and Total Capital requirements as set in the CRR[2].

The Additional Tier 1 capital instruments issued are perpetual securities, with an issuer option for early repayment on or after the 5th year (subject to the authorisation of the Supervisory Authority) and have an automatic loss absorbing mechanism ("temporary write-down") that is triggered if the consolidated or individual CET1 ratio falls below 5.125%.

Consolidated indicators of profitability and efficiency in accordance with Banco de Portugal Instruction 16 / 2004, as amended by Instruction 6 / 2018

	2018 restated	2019
Gross income / ATA	3.3%	2.4%
Net income before income tax and income attributable to non-controlling interests / ATA	2.0%	1.1%
Net income before income tax and income attributable to non-controlling interests / average shareholders' equity (including non-controlling interests)	19.8%	10.5%
Staff expenses / Gross income[3]	23.6%	32.6%
Operating expenses / Gross income[3]	42.5%	59.5%
Loan to deposit ratio	104%	105%

Note: Indicators as reported, except where otherwise stated.
3) Excluding costs with early retirements.

Table 30

ATA = Average total assets.

1) Undated deeply subordinated debt securities.
2) *Regulation (EU) No. 575 / 2013* of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation – CRR).

INDIVIDUAL FINANCIAL INFORMATION

Individual net income

The net income recorded in Banco BPI's individual accounts was €342.1 million in 2019, and includes €51 million from the reversal of tax liabilities associated to the equity holding in BFA.

The 2018 net income, in the amount of €914.3 million, included non-recurring impacts of €648.4 million.

On a comparable basis, the individual net income increases by 10%, from €265.9 million in 2018 to €292.5 million in 2019.

Individual net income

Amounts in € million

	2018	2019
Recurring net income	**265.9**	**292.5**
Non-recurring impacts		
Unrealised net capital gain on the revaluation of equity holding in BFA[1]	456.7	
Gains on the sale of equity holdings[2]	209.0	
Cost with early retirements and other administrative expenses	(17.2)	(1.1)
Reversal of deferred tax liabilities		50.7
Non-recurring impacts	**648.4**	**49.7**
Net Income	**914.3**	**342.1**

Table 31

Individual income statement

Amounts in € million

			2018 restated	2019	Δ%
Net interest income		*1*	431.6	439.8	1.9%
Dividend income		*2*	71.2	78.2	9.8%
Net fee and commission income		*3*	256.7	249.7	(2.7%)
Gains / (losses) on financial assets and liabilities and other		*4*	72.5	21.6	(70.2%)
Other operating income and expenses		*5*	(32.9)	(26.2)	20.2%
Gross income	*[= ∑ (1 to 5)]*	*6*	**799.1**	**763.1**	**(4.5%)**
Recurring staff expenses		*7*	(231.8)	(239.8)	3.5%
Recurring other administrative expenses		*8*	(165.6)	(146.7)	(11.4%)
Depreciation and amortisation		*9*	(23.5)	(53.7)	129.0%
Recurring operating expenses	*[=∑ (7 to 9)]*	*10*	**(420.8)**	**(440.2)**	**4.6%**
Non-recurring operating expenses		*11*	(23.7)	(1.5)	(93.7%)
Operating expenses	*[= 10 + 11]*	*12*	**(444.5)**	**(441.7)**	**(0.6%)**
Net operating income	*[= 6 + 12]*	*13*	**354.6**	**321.3**	**(9.4%)**
Impairment losses and other provisions		*14*	44.5	36.8	(17.3%)
Gains and losses in other assets		*15*	593.3	7.1	(98.8%)
Net income before income tax	*[=∑ (13 to 15)]*	*16*	**992.4**	**365.2**	**(63.2%)**
Income tax		*17*	(155.7)	(23.1)	(85.2%)
Net income from continuing operations	*[= 16 + 17]*	*18*	**836.7**	**342.1**	**(59.1%)**
Net income from discontinued operations		*19*	77.7		(100.0%)
Net income	*[= 18 + 19]*	*20*	**914.3**	**342.1**	**(62.6%)**

Table 32

1) €507.4 million before taxes, recognised in "Gains and losses in other assets".
2) €59.6 million on the sale of the equity holding in Viacer (booked under "Gains / (losses) on financial assets and liabilities and other"), €77.7 million on the sale of BPI Gestão de Activos and BPI GIF (booked under "Net income from discontinued operations"), €71.7 million on the sale of the acquiring and card issuance businesses (€98.8 million before taxes, booked under "Gains and losses in other assets").

The individual gross income reached €763.1 million, which represents a 3.2% increase relative to the gross income in the previous year, in the amount of €739.6 million, excluding the €59.6 million gain on the sale of the equity holding in Viacer in 2018.

The net interest income increased by 1.9%, while fee and commission income contracted by 2.7% as a result of the sale of the cards and acquiring businesses in 2018.

The 'Dividend income' caption includes €28.8 million in dividends from companies included in Banco BPI's consolidation perimeter.

Recurring operating expenses rose by 4.6% in Banco BPI's individual accounts.

On an individual basis, Banco BPI recorded reversals of impairments and provisions for loans and guarantees plus recoveries in a significant amount in 2019, of €43.2 million (gain), which is close to the figure recorded in 2018 (€44.8 million).

Individual balance sheet

Total assets (net) of Banco BPI (individual basis) amounted to €31.7 billion at the end of 2019. Individual accounting shareholders' equity was €3 008 million, excluding €275 million in Additional Tier 1 (AT1) capital instruments issued in September 2019.

Individual balance sheet indicators Amounts in € million

	2018	2019
Total assets (net)	35 786	31 665
Loans to Customers (gross)	23 488	24 520
Deposits	22 236	23 015
Shareholders' equity[1]	3 049	3 008

Table 33

In July 2019, Banco BPI concluded the merger by incorporation of Banco Português de Investimento and BPI Private Equity into Banco BPI, with the consequent extinction of these two companies. The aim of these mergers by incorporation and legal extinction of the referred companies was to simplify the structure of BPI Group.

1) Excludes AT1 capital instruments (€275 million in Dec. 19).

In 2018 Banco BPI completed the process of closing down all its representative offices and offshore branches (Paris, Madrid and Cayman), the objective of which was to focus BPI on the core banking activity in Portugal and at the same time promote a simpler and more efficient financial structure. For the reasons pointed out, the description of Banco BPI's commercial performance on a consolidated basis is valid for the evolution of the various captions on an individual basis.

The portfolio of loans and advances to Customers (gross), on an individual basis, expanded by 4.4%, to €24.5 billion at the end of 2019. Total deposits increased by 3.5% in 2019, to €23.0 billion.

Individual capital ratios

At 31 December 2019, considering the dividend distribution proposal of €117 million, the fully loaded capital ratios were: CET 1 ratio of 13.4%, T1 ratio of 15.0%, total capital ratio of 16.6% and leverage ratio of 8.4%.

Fully loaded capital ratios (individual basis) Amounts in € million

			2018	2019
Common Equity Tier 1		*1*	**2 276.8**	**2 405.2**
Tier I		*2*	2 276.8	2 680.2
Tier II		*3*	300.0	300.0
Total own funds		*4*	**2 576.8**	**2 980.2**
Risk weighted assets		*5*	**17 064.1**	**17 922.0**
CET1 ratio	*[= 1 / 5]*	*6*	13.3%	13.4%
T1 ratio	*[= 2 / 5]*	*7*	13.3%	15.0%
Total ratio	*[= 4 / 5]*	*8*	15.1%	16.6%
Leverage ratio		*9*	6.3%	8.4%

Note: *Table 34*

The minimum prudential requirements established for 2019 were: CET1 ratio of 7.25%, which includes: the regulatory minimum required under Pillar 1, of 4.5%; a capital conservation buffer of 2.5%; and an O-SII (Other Systemically Important Institutions) buffer of 0.25%, defined by Banco de Portugal (0.5% to be phased in over 4 years through to 2021).

Risk management

BPI devotes a continuous effort to the development of the risk management function, aligned to the best practices in the sector, the ever more demanding regulatory requirements and the evolution of the business. BPI seeks to ensure an adequate and effective risk management, based on the constant identification, evaluation, monitoring and reporting of the exposure to the various risks (credit risk, market risk, liquidity risk, operational risks and other), which is essential to ensure consistent maximisation of results against the risks assumed, within the risk appetite framework defined by the corporate bodies and in accordance with the Bank's global risk strategy.

Within the European Union regulatory framework, the size of the portfolio of non-performing assets has remained one of the main concerns of the European supervision authorities.

In April 2019 an EU regulation came into force that complemented the prudential rules already in place and stipulated a deduction to own funds when non-performing exposures on loans originated prior to 26 April 2019 were not sufficiently covered by provisions or other adjustments.

In June 2019, the EBA launched a public consultation on its draft guidelines on loan origination and monitoring. EBA's initiative aims to stand as a guide for improving institutions' practices in terms of credit governance, processes and granting mechanisms, management and monitoring. The draft Guidelines also aim to ensure that lending practices are aligned with consumer protection rules.

On 22 August 2019 the ECB revised the supervisory expectations for prudential provisioning for new non--performing loans to account for the new EU regulation that came into force in April 2019. The supervisor adapted its expectation for Pillar 2 for certain exposures converted into non-performing exposures as from 1 April 2018, aligning them in terms of calendar with the Pillar 1 requirements incorporated into the CRR with regard to minimum coverage of non-performing exposures.

BPI has in place robust risk control mechanisms allowing for adequate monitoring and prevention of the risks arising from its activity, in line with the corporate policy and risk model implemented at CaixaBank Group level.

The following initiatives were of particular importance in 2019:

- the production / updating of internal risk policies, which transposed into the internal standards the regulatory or legislation changes occurred, or the changes to the business and risk strategy;
- the implementation and monitoring of Banco BPI's 2019-2021 Strategic Plan for non-performing exposures (NPE), setting clearly defined targets for the Institution's Risk Appetite;
- a commitment to the development of the risk control teams' skills, so as to cover all the risks identified in the catalogue and reinforce the capacity to monitor changes in the business, namely arising from the increasing digital transformation and the development of new activity segments.

More information may be found on chapter 3 of the Annual Accounts, where BPI's Risk Management and Internal Control Model is described in detail.

ORGANISATION

BPI's risk organisation transposes the guidelines issued by the regulator and seeks to follow the sector's best practices and adapt CaixaBank Group's corporate policies while respecting its own specific characteristics.

BPI's risk management function is currently structured into three lines of defence (3 LoD), which aim to guarantee that risk management is adequate to the level of risk taking (1LoD), control (2LoD) and audit (3LoD). This structure, set forth in the EBA Final Guidelines on Internal Governance, attributes a fundamental role to the 2LoD as guarantor of an adequate management and of a holistic vision of all the risks of the Institution.

The Risk Committee and the Audit and Internal Control Committee, as advisory bodies of the Board of Directors, represent the highest supervisory bodies with regard to BPI's risks.

The **Risk Committee** is responsible for supervising the activity of the 2LD, including 1st and 2nd tier Committees, and Departments under its dependence. The Risk Committee is composed of non-executive directors.

The meetings of the Risk Committee may be attended, if deemed appropriate and upon the Committee's request, and without voting rights, by members of the Executive Committee, namely the Chief Risk Officer, the Chief Financial Officer, and other persons discharging managerial responsibilities, in view of their expertise in risk matters.

The participation of the Head of the Risk Management Function (RMF), as secretary of the Risk Committee, is particularly relevant, guaranteeing access and reporting to an independent governance body.

The Risk Committee, without prejudice to the legal powers granted to the Supervisory Board, is responsible for monitoring the management policy of all risks of BPI's business, namely the liquidity, interest rate, currency rate, market, credit, operational, and reputation risks, as well as for monitoring the management policy of the Company's Pension Fund. This Committee is also responsible for submitting to the Board of Directors any change to risk policies, and for reporting on main exposures and risk indicators.

It is also the responsibility of the Risk Committee to inform and advise the Board of Directors in decisions making that impacts on the Bank's current and future risk profile and strategy.

The **Audit and Internal Control Committee** is responsible for supervising the 3LoD activities, and for reviewing the works developed by the External Auditor and by the Divisions responsible for risk control (2LoD).

Under the aegis of the Risk Committee there are several first- and second-tier Committees, which, together with the Board of Directors and the Risk Committee itself, constitute the Risk Governance and Management Bodies of BPI.

Figure 4

For more information see Note to the Financial Statements "3. Risk Management".

Structure of the Risk Committees

The following committees stand out, on account of their importance:

Global Risk Committee

The Global Risk Committee is responsible for the management, control and monitoring of risks at BPI. This body reports directly to the Risk Committee.

As part of its main duties, this Committee is responsible for guaranteeing that the risk levels and the decisions taken are in agreement with the risk strategy established by the Board of Directors in the Risk Appetite Framework.

The Global Risk Committee is responsible for monitoring the activity of the second-tier committees and for ensuring that the risk policies are duly updated and implemented.

Permanent Credit Committee

Matters related to loan granting are delegated by the Board of Directors to the Permanent Credit Committee.

Its scope of powers and duties includes the approval of operations, exposure limits, operations subject to internal divergences, limits or operations to be submitted to the Executive Committee of the Board of Directors or to BPI's Board of Directors, and operations with Customers that are holders of high offices, Trade Unions, Political Parties or PEPs, under the terms foreseen in the policies in force in BPI.

In decision-making, this body must ensure that the limits set for Major Exposures are met, both internally and at group level.

ALCO Committee

The ALCO Committee is responsible for managing structural liquidity, interest-rate, and exchange-rate risks. Within the powers and duties attributed to it there stand out the responsibility for optimising the profitability of the financial structure of BPI's balance sheet, including the net interest income and income from financial operations, for determining the transfer rates for the different businesses, and for the monitoring of prices, maturities and volumes of asset- and liability-generating activities, in accordance with the policies, risk appetite framework and risk limits approved by the Board of Directors.

Structure of the Risk Divisions

The structure of BPI's Risk Divisions is currently designed in accordance with the internal control model, and therefore organised on the basis of the "three lines of defence model".

First Line of Defence

The first line of defence is formed by the business areas, risk-takers, and their support functions. Their responsibility is to develop and maintain effective controls over the businesses, as well as to identify, manage and monitor, control, mitigate and report the main risks originated in the ongoing exercise of their activity.
The following divisions stand out, on account of their importance:

- The Credit Risk Division, which is in charge of the functions of independent analysis of proponents, sureties and operations, backed by the various risk indicators and scoring models produced by the Global Risk Management Division.
- The Credit Recovery Division, which is in charge of managing the credit recovery processes of defaulting loans to Companies and Individuals.

Second line of defence

The second line of defence has the function of ensuring the implementation of adequate measures for the identification, control, monitoring, prevention and reporting of all the Bank's risks, acting independently from the first-line business and control areas. At Banco BPI, it is formed by:

- Global Risk Management (RMF), which has the responsibility for identifying, monitoring, analysing, measuring, managing and reporting risks, gaining an overall vision of all the risks faced by the Bank.
- Compliance, which identifies, monitors and controls the Reputation and Conduct risks and the risk of Compliance with Legal Provisions.
- Internal validation of risk models, whose main objective is to issue an independent technical opinion on the adequacy of the internal models applied for internal management and/or of a regulatory nature, used by the Bank.

Third line of defence

Held by the Internal Audit Division, which is functionally answerable to the Audit and Internal Control Committee and reports to the Chairman of the Board of Directors, so as to guarantee its independence and authority. Its main objective is to provide the Bank's management and supervision bodies a reasonable degree of assurance about compliance with the legislation in force and the internal policies and regulations, the reliability and integrity of the financial and operational information, and the effectiveness of the systems in place to mitigate the risks associated to the Bank's activities.

RISK APPETITE FRAMEWORK

Background

In the first quarter of 2016, BPI, keeping abreast of the best practices in risk management, drew up its Risk Appetite Framework. Accordingly, the Bank defined the types and levels of risk that it was prepared to assume, taking into consideration the Group's risk and business strategy.

Every year BPI updates its Risk Appetite Framework, as well as the other Risk Strategic Processes: the Risks Catalogue and the Risk Assessment, where the risks in which the Bank incurs or may come to incur are identified, defined and assessed. Based on these processes the Bank ensures the permanent evaluation of its risk profile (current, future and potential under stress scenarios), calculating the expected evolution of the boundary values of the future risk profile, and revising them on a recurrent basis. In addition, in the years subject to regulatory supervision (ICAAP and ILAAP), the Bank makes projections of the evolution of its risk profile under baseline and stress scenarios, which give its governance bodies a vision about the Bank's resilience to internal and/or external events.

Description and structure

BPI, in a process consistent with its other strategic documents – Strategic Plan, Budget, Internal Capital Adequacy Assessment Process, and Recovery Plan – defined its risk-appetite directives, which are incorporated into the Bank's culture and strategy and are at the core of all its activities.

In line with the sector's best practices, the Board of Directors approved a set of risk-appetite directives that summarise the principles by which the Bank must govern itself:

- **Protection against losses:** BPI has set the objective of maintaining a medium-low risk profile and a comfortable capital adequacy position, strengthening Customer confidence through its financial strength.
- **Liquidity and funding:** BPI is determined to have the conditions in place to at all times fulfil its contractual obligations and meet its funding needs in a timely manner, even under adverse market conditions, and to have a stable and diversified funding base, preserving and protecting the interests of its depositors.
- **Business Composition:** BPI seeks to establish a solid position in retail banking and to generate earnings in a balanced and diversified manner.
- **Brand:** BPI assumes the commitment of maintaining high ethical and governance standards in its business and will actively seek to ensure operational excellence.

The Board of Directors is responsible for the approval, monitoring, and any correction to the Framework metrics. The monitoring of the metrics is aided by a set of objectives, tolerance levels and limits laid down by the Board of Directors:

- **Objective:** optimum risk level, that defines the risk appetite and is aligned with the return sought by the Bank or the strategic goal pursued.
- **Tolerance:** risk level considered significant by the Bank, which should lead to a discussion and possibly the assessment of corrective action.
- **Limit:** indicates the level at which risk represents a serious threat to the Bank's business, requiring immediate remedial measures, following an action plan prepared by the area responsible for risk control.

There is also a set of 'traffic lights' which serve as an alert system:

- **Green light:** the risk is within the desired levels and the metric is within the tolerance level – no action needs to be taken.
- **Yellow light:** alert within the tolerance level – a remedial plan must be proposed within 3 months, to be reviewed and approved by the Board of Directors' Executive Committee and by the Board of Directors.
- **Red light:** default – a remedial plan must be proposed within 30 days, to be reviewed and approved by the Board of Directors' Executive Committee and by the Board of Directors.
- **Black light:** defines the limit at which the measures and procedures described in the Bank's Recovery Plan must be put into practice.

BPI also has a Framework in place for level 2 metrics. More detailed metrics are defined that allow each division to manage risk in accordance with their individual specificities.

Monitoring and Governance of the Risk Appetite Framework

The Risk Appetite Framework is coordinated by the Global Risk Management Division, which is responsible for updating, monitoring and reporting on the Framework, under the guidance of the Board of Directors.

In order to ensure that the Risk Appetite Framework conforms to best international practices, a reporting structure was established to ensure its exhaustive monitoring by the relevant divisions and bodies.

Such monitoring follows a specific timetable:

- monthly presentation to the Global Risk Committee, which assesses, reviews and discusses the current risk situation, instances of overstepped limits / tolerances and the status update of individual metrics;
- quarterly presentation to the Risk Committee and Audit and Internal Control Committee in order to review and discuss the overall risk performance, assess the situation of breached metrics, discuss the situation of individual metrics, and verify the continued effectiveness and adequacy of the Risk Appetite Statement and Risk Appetite Framework;
- half-yearly presentation to the Board of Directors, with the purpose of reviewing and discussing BPI's overall risk performance and deciding on critical situations.

FINANCIAL RISKS

Credit risk

Credit risk is defined as the risk of financial loss due to the loss of value of the Bank's assets as a result of the deterioration of the counterparties' capacity to honour their commitments.

Default levels, provisioning and recovery

Non-performing exposures (NPE), calculated under the EBA criteria, contracted by 28% (-€291 million) year-on--year, to €763 million at the end of Dec. 19. The NPE ratio improved by 1.0 p.p., dropping to 2.5% in Dec. 19, from 3.5% in Dec. 18.

The coverage of NPE by accumulated impairments on the balance sheet was 54% in Dec. 19; considering accumulated impairments and also the collaterals associated to the NPE, the coverage of NPE ratio was 121%.

Over the last few years there has been a consistent downward trend in the NPE ratio, alongside a gradual increase in the NPE coverage by impairments and collaterals.

NPE and NPE ratio

Activity in Portugal

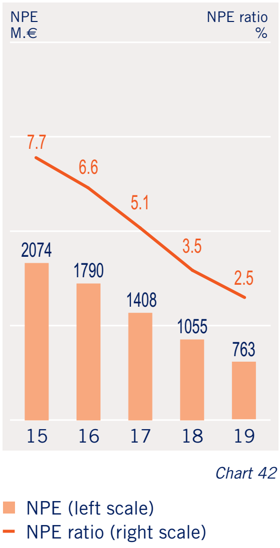


Chart 42

Coverage of NPE

Activity in Portugal

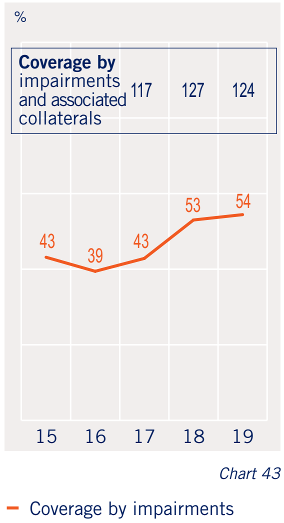


Chart 43

Non-performing exposures in the activity in Portugal (EBA criteria)

Amounts in € million

		31 Dec. 14	31 Dec. 15	31 Dec. 16	31 Dec. 17	31 Dec. 18	31 Dec. 19
Gross credit risk exposure	1	28 741	26 842	27 081	27 520	29 721	30 019
Non-performing exposures (NPE)[1]	2	2 581	2 074	1 790	1 408	1 055	763
NPE ratio *[= 2 / 1]*	3	9.0%	7.7%	6.6%	5.1%	3.5%	2.5%
Impairments for loans and guarantees	4	977	895	706	603	561	415
Coverage by impairments *[= 4 / 2]*	5	38%	43%	39%	43%	53%	54%
Coverage by impairments and collaterals	6	-[2]	-[2]	110%	117%	127%	124%

Note: considering the prudential supervision perimeter.

Table 35

In the corporate segment[3], the amount of NPE was €280 million at the end of 2019, corresponding to 3.6% of the gross credit exposure to the segment (6.4% in Dec. 18). The coverage by impairments of NPE in corporate loans was 79% (67% in Dec. 18).

In the mortgage loans segment, the amount of NPE was €411 million in Dec. 19, corresponding to a NPE ratio of 3.6% (4.6% in Dec. 18). The analysis of the coverage level should take into account the relevant effect of collaterals (tangible guarantees) in reducing the risk of loss in this segment.

Taking into account the classification of BFA as a discontinued operation at the end of 2016, and subsequent deconsolidation at the start of 2017, and the fact that BCI is equity accounted, most of the consolidated balance sheet and income statement items as from 31 Dec. 2016 (including) relate to the activity in Portugal, as do the consolidated values for the loan book quality.

1) Non-Performing exposures include positions in default and positions marked according to "Unlikely To Pay" subjective criteria. Total NPE correspond to the sum of non-performing loans (NPL) and non-performing debt securities.
2) No available data for Dec. 2014 and Dec. 2015.
3) Companies in Portugal (large and medium-sized companies, corporate & investment banking, small businesses) and project finance.

Non-performing loans (Bank of Spain criteria)

Loans classified as "non-performing", calculated under the Bank of Spain's criteria, amounted to €765 million in Dec. 19 and represented 2.9% of the gross loan portfolio and guarantees. This ratio shows an expressive reduction (-1.2 p.p.) compared to Dec. 18.

The coverage of non-performing loans by accumulated impairments on the balance sheet was 54%; considering accumulated impairments plus the collaterals associated to the non-performing loans, the coverage ratio was 115% in Dec. 19.

Non-performing loans (Bank of Spain criteria)

Amounts in € million

			31 Dec. 18	31 Dec. 19
Gross loan portfolio and guarantees		1	25 122	26 007
Non-performing loans		2	1 043	765
Non-performing loans ratio	[= 2 / 1]	3	4.2%	2.9%
Impairments for loans and guarantees		4	561	413
Coverage by impairments	[= 4 / 2]	5	54%	54%
Coverage by impairments and collaterals		6	120%	115%

Table 36

Restructured loans

The amount of restructured loans (forborne loans, under the EBA criteria) was €544 million at the end of Dec. 19. Of this amount, 35% are performing loans (Performing Exposures, under the EBA criteria) and the remaining 65% are included in the balance of non performing exposures (NPE). The forborne ratio decreased from 2.5% on 31 Dec. 18 to 1.7% in Dec. 19.

In mortgage loans, the amount of restructured loans (forborne loans, under the EBA criteria) was €196 million at the end of Dec. 19 (1.7% of the gross credit exposure in this segment). Of this amount, €44 million correspond to performing loans and the remaining €153 million are included in NPE.

Cost of Credit Risk

The steady improvement in credit quality indicators and high coverage levels, have translated, on the income statement, in a reduction of the cost of credit risk. Reversals of impairments and provisions for loans and guarantees totalled €20.7 million in 2019; in addition, a total of €22.6 million in loans, interest and expenses previously written off from assets, was recovered. The cost of credit risk was therefore negative by €43.2 million (representing a gain).

Cost of credit risk[1]
Activity in Portugal

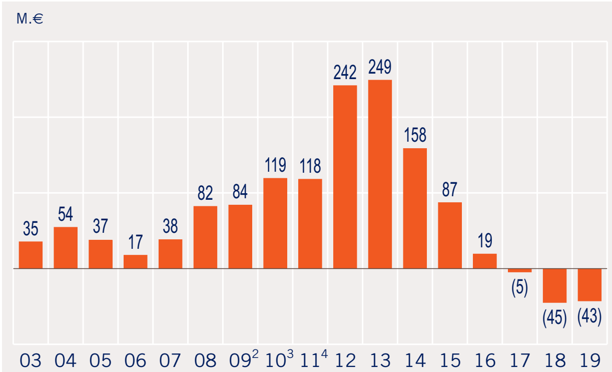


Chart 44

Cost of credit risk[1] as % of loan portfolio[5]
Activity in Portugal

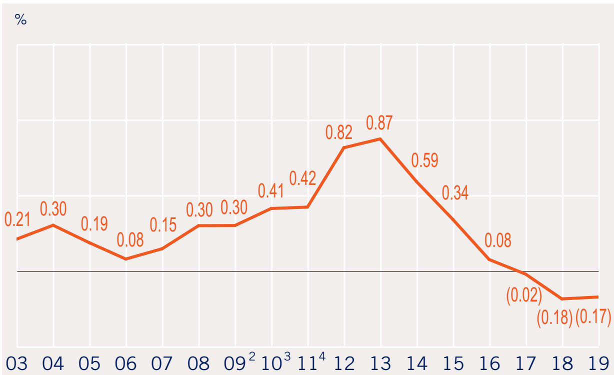


Chart 45

1) Impairments and provisions for loans and guarantees in the year, net of loan recoveries previously written off against assets.
2) In 2009, the impairment charges considered for the year excluded the extraordinary charge made in December of that year (€33.2 million).
3) In 2010 the use of the extraordinary charge made in December 2009 (€33.2 million) was added to the impairment charges for the year.
4) In 2011, loan impairment charges for Greek sovereign debt of €68.3 million were excluded from impairment charges for the year.
5) In 2019, BPI started calculating this indicator based on the average balance of the gross loan and guarantees portfolio (and not on the performing loans portfolio, as previously). The series since 2012 (including) was recalculated. The amounts up to 2011 are calculated based on the average balance of the performing-loans portfolio.

Forborne loans (EBA criteria)

Amounts in € million

		31 Dec. 17		31 Dec. 18		31 Dec. 19	
		Forborne loans	Forborne ratio	Forborne loans	Forborne ratio	Forborne loans	Forborne ratio
Performing loans	*1*	571	1.9%	254	0.8%	192	0.6%
Included in NPE	*2*	682	2.2%	559	1.7%	352	1.1%
Total *[= 1 + 2]*	*3*	**1 253**	**4.1%**	**813**	**2.5%**	**544**	**1.7%**

Note: considering the prudential supervision perimeter.

Table 37

Foreclosed properties

At the end of Dec. 19, the stock of foreclosed properties held by BPI had a gross balance sheet value of €25 million. Of this amount, €12 million concerned properties obtained through home-loan recoveries and €13 million referred to properties repossessed for the recoupment of other loans.

On the same date the accumulated amount of impairments for foreclosed properties was €10 million. Therefore the net balance sheet value of these properties was €15 million. Their valuation value corresponded to 168% of net balance-sheet value.

Property repossessed from loans recovery in the activity in Portugal

Gross value

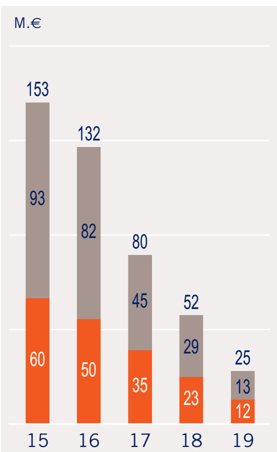


Chart 46

Value net of impairments

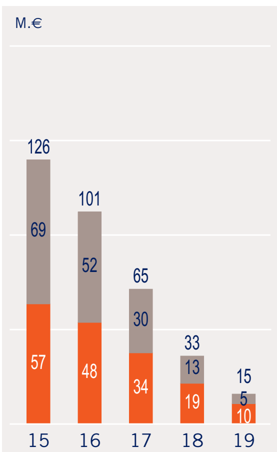


Chart 47

■ Other
■ Home loans

■ Other
■ Home loans

Foreclosed properties
By source of credit at 31 Dec. 19

Amounts in € million

	Home loans	Other	Total
Gross book value (GBV)	11.8	13.0	24.8
Impairments	2.0	8.3	10.3
Net book value (NBV)	**9.8**	**4.7**	**14.5**
Valuation as % of NBV	159%	186%	168%

Table 38

Holdings in corporate recovery and restructuring funds

Banco BPI holds participation units in specialised loan recovery funds ("*Fundo de Recuperação, FCR*" and "*Fundo de Reestruturação Empresarial FCR*") which were subscribed against the transfer to these funds of Customer loans.

At the end of December 2019, the share capital subscribed by BPI in the Fundo de Recuperação, FCR and Fundo de Reestruturação Empresarial FCR amounted to €93.1 million. BPI's paid-up share capital in these funds was €84.5 million (€81.5 million in the *Fundo de Recuperação, FCR* and €3.0 million in the *Fundo de Reestruturação Empresarial FCR*).

Net exposure to these funds, after revaluation, was €38.9 million.

Net exposure to corporate recovery and restructuring funds at 31 Dec. 19

Amounts in € million

	Subscribed	Paid up
Fundo Recuperação, FCR	89.7	81.5
Fundo de Reestruturação Empresarial, FCR	3.3	3.0
Total	**93.1**	**84.5**
Revaluation		(45.6)
Net Exposure		**38.9**

Table 39

MARKET RISK

Market or price risk (interest rates, foreign exchange rates, equity prices, commodity prices and other) is defined as the possibility of incurring losses due to unexpected changes in the price of financial instruments or operations.

Since trading activity is a bet on the behaviour of prices, market risk is the fundamental element for this portfolio. However, the management and mitigation of market risks are equally important elements in the management of the banking book.

Trading activity at Banco BPI has had little expression in recent years and therefore the inherent market risk values are immaterial.

LIQUIDITY RISK

Management process

Globally, the definition of the risk appetite framework (RAF) and the liquidity risk management policy and strategy at Banco BPI is decided and monitored by the Board of Directors and its specialist Committees (Executive Committee, Risk Committee and Audit and Internal Control Committee). The governance of liquidity risk management and control is based on a three lines of defence model.

The first line of defence is responsible for maintaining liquidity levels that allow to timely meet all commitments and develop the Bank's business, within the existing planning framework and the limits set by the internal risk framework (RAF). The ALCO Committee is responsible for liquidity risks management, monitoring and control, evaluating the development of the Bank's position and the external environment. In functional terms, the liquidity management is carried out by the Financial Department. Within the first line of defence, the Analysis and Special Projects Unit ensures the coordination of the ILAAP process (internal liquidity adequacy assessment).

The second line of defence is responsible for an independent control and monitoring of the liquidity risks. The Global Risk Committee is responsible for that control, which in functional terms is ensured by the Global Risk Management Division.

The third line of defence is responsible for conducting an independent review of the management and control of the liquidity risks. The Audit and Internal Control Committee is responsible for that new control, which is functionally ensured by the Audit and Inspection Division.

Liquidity risk is managed and monitored in its various aspects: i) the ability to monitor assets growth and to meet cash requirements without incurring exceptional losses; ii) the maintenance in the portfolio of tradable assets that constitute a sufficient liquidity buffer; (iii) compliance with the various regulatory requirements in the context of liquidity risk.

With respect to the portfolio of assets, the various managers keep constant watch over possible transactions in the various instruments, according to several indicators (BPI market shares, number of days to unwind positions, size and volatility of spreads, etc.), duly observing the limits set for each market.

Liquidity management seeks to optimise the balance sheet structure in order to keep under control the time frame of maturities between assets and liabilities, considering the expected growth and the various market scenarios. Management must also focus on the need to maintain an appropriate level of liquidity reserves in order to maintain the required levels of liquidity coverage that comply with prudential and internal requirements.

Liquidity and funding

The Bank maintained a balanced liquidity position throughout 2019:

- Customer resources are the main source of funding. The loan to deposits ratio stood at 100%;
- in December 2019, the Bank reimbursed in advance €0.86 billion under the TLTRO II and borrowed €0.88 billion under the TLTRO III, thus increasing the total

amount of funding from the ECB by €0.02 billion, to €1.38 billion;

- at the end of the year, the Bank held a portfolio of Eurozone countries sovereign debt of €3 billion, of which €0.4 billion of short-term debt in Treasury Bills issued by the Portuguese Republic. This portfolio is fully discountable at the ECB for liquidity operations;
- the portfolio of eligible assets for Eurosystem funding amounted to €9.3 billion at the end of the year. Of that sum, the amount not yet used and therefore capable of being converted into immediate liquidity with the ECB was €6.8 billion;
- the average LCR throughout the year was 173%.

Short-term gap
The Bank's short-term funding gap decreased from €1.3 billion in December 2018 to €0.9 billion in December 2019 (considering the ECB-TLTRO financing). The main explanatory factor for this decrease was the €0.8 billion increase in institutional issues.

At the end of 2019, short-term funding was broken down as follows:

- net credit position on the money market of €0.6 billion and repos of securities of €0.1 billion;
- ECB funding amounting to €1.38 billion.

ECB funding
By the end of 2019, the Bank had €1.38 billion in funding from the ECB. This amount is composed of €0.5 billion of funds obtained under TLTRO II, a 4-year fixed rate transaction, and €0.88 billion under TLTRO III, a 3-year fixed rate transaction. Both transactions were launched by the ECB under special conditions, with the aim of promoting lending to the economy.

Liquid assets portfolio
At the end of 2019 the Bank had a portfolio of liquid assets totalling €8.2 billion, composed of €4.1 billion in high-quality liquid assets (HQLA) and €4.1 billion in other assets eligible for Eurosystem funding.

Total liquid assets
At 31 Dec. 2019

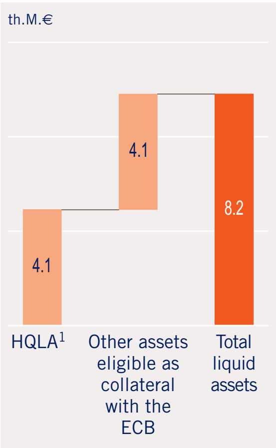


Chart 48

1) High Quality Liquid Assets.

Net funding from ECB

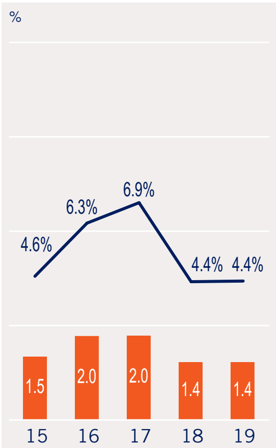


Chart 49

- Net funding from ECB (th.M.€)
- as % of total assets (net) in the activity in Portugal

STRUCTURAL INTEREST RATE RISK
This risk is defined at BPI as the risk of a negative financial impact on the Balance sheet economic value, or on the Net interest income, as a result of changes in the time structure of interest rates that affect asset, liability or off-balance sheet products not booked in the trading portfolio.

Globally, the definition of the risk appetite framework (RAF) and the interest rate risk management policy and strategy at Banco BPI is decided and monitored by the Board of Directors and its specialist Committees (Executive Committee, Risk Committee and Audit and Internal Control Committee). The governance of structural interest rate risk management and control is based on a three lines of defence model.

The first line of defence is responsible for maintaining interest rate risk levels within the limits imposed by the internal risk framework (RAF). The ALCO Committee is responsible for interest rate risks management, monitoring and control, evaluating the development of the Bank's position and the external environment. In functional terms, the management of this risk is carried out by the Financial Department.

The second line of defence is responsible for an independent control and monitoring of the interest rate risk in the banking book. The Global Risk Committee is responsible for that control, which is, in functional terms, ensured by the Global Risk Management Division.

The third line of defence is responsible for conducting an independent review of the management and control of interest rate risks, which is functionally ensured by the Audit and Inspection Division.

Positions subject to banking book interest rate risk are evaluated and monitored using a corporate tool, according to best market practices and the regulators' recommendations. The model calculates the evolution of net interest income and economic value of the Bank for an analysis horizon both in a neutral position and in several scenarios of interest rates change under stress.

OPERATIONAL RISK

BPI has adopted the definition of operational risk provided in the regulation in force (*Regulation (EU) no. 575 / 2013* of the European Parliament and of the Council, of 26 June 2013): "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk." This definition excludes strategy and reputational risks. In BPI's risks catalogue, as identified in the Internal Control Policy, operational risk is broken down into several sub-categories, permitting to identify specialised areas responsible for their management.

The operational risk management model has as main purpose to ensure:

- Alignment with the Risk Appetite Statement established by the Board of Directors, which translates, among others, into a consistent reduction in BPI's operational losses, contributing to long-term sustainability and continuity;
- Compliance with the regulatory requirements and the supervisors' expectations.

Operational risk management at BPI is based on risk-sensitive policies, processes, tools and methodologies designed to achieve three clearly defined objectives:

- Identification and evaluation of operational risk – through decentralised management, each Division of the Bank is responsible for identifying the operational risk inherent to the activities performed, and its evaluation and monitoring is carried out by a second Line of Defence Control Division of Banco BPI. This evaluation is also carried out through Operational Risk indicators (KRIs), a quantitative and qualitative methodology that: i) permits to anticipate the development of operational risks, taking a forward-looking approach to operational risk management, and ii) provides information on the evolution of the operational risk profile and the underlying causes.
- Identification and monitoring of operational risk events – the first line of defence is responsible for logging operational risk events in an internal application, incorporating the knowledge obtained from the critical analysis of events into the risk management cycle. The evaluation and critical analysis of events is performed by the control teams of the Bank's second line of defence.
- Mitigation of operational risk – each Division of the Bank is responsible for the task of detecting situations that trigger the need to devise risk mitigation measures, and for proposing such measures.

Breakdown of gross losses by type of risk
In 2019

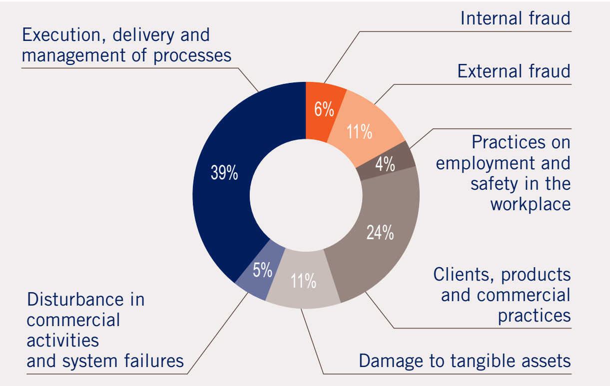


Chart 50

To guarantee that all operational risk sub-categories are correctly managed and controlled, minimising the probability that they will materialise, or establishing concrete measures for the mitigation of events, BPI's Risks Catalogue defines the main risk categories, and establishes specific Risk Management internal functions for each of them:

Legal and regulatory risk – The potential loss or decrease in the Bank's profitability as a result of changes in the legislation, incorrect implementation of this legislation in BPI's processes, inappropriate interpretation of the legislation in various operations, incorrect management of court or administrative injunctions, or claims or complaints received.

Risk of conduct – The application of conduct criteria that run contrary to the interests of Customers and stakeholders, or acts or omissions on the part of the Bank that are not compliant with the legal or regulatory framework, or with internal policies, standards and procedures, or codes of conduct and ethical and good practice standards.

Technology risk – The risk of losses arising from inadequate technological infrastructures, or hardware or software failures, due to cyberattacks or other circumstance liable of compromising the availability, integrity, accessibility and security of the infrastructures and data.

Other operational risks – Losses or damages caused by errors or failures in processes, external events, or actions of third parties outside the Group, whether accidentally or intentionally. It includes, among others, risk factors related to outsourcing, the use of quantitative models, the custody of securities or external fraud.

Risk of reliability of financial information – The risk of deficiencies in the accuracy, integrity and criteria used to prepare the data required to evaluate BPI's financial and equity position.

For each of these Operational Risk categories the Bank stipulates policies, procedures, controls and responsibilities, clearly defined and designed in accordance with their specificities. In order to deal with the evolution of these risk categories and their potential impacts on the banking business, Banco BPI has been reinforcing its governance, making sure that the internal structure is prepared to adequately manage them.

REPUTATIONAL RISK

Reputational risk is defined internally as the loss of competitiveness due to the deterioration of trust in BPI by any of its stakeholders on account of the assessment made of acts or omissions, actual or alleged, by the Bank, its Senior Management or its Governance Bodies.

To prevent and monitor this risk, Banco BPI uses internal and external indicators that allow it to assess the perception and expectations of its various stakeholders. In addition, the development of internal reputational risk policies represents a fundamental tool for control and mitigation of this risk.

RISK TO BUSINESS PROFITABILITY

The risk to business profitability concerns the possibility that the earnings obtained may fall short of market expectations or the targets set in the Bank's business plan and strategy, which ultimately may lead to not achieving sustainable profitability (above the cost of capital).

ACTUARIAL RISK

At BPI this risk is defined as the risk of loss or deterioration of the value of commitments assumed under insurance or pension agreements entered into with Clients or Employees, as a result of differences between the assumptions for estimating the actuarial variables used to calculate the responsibilities and their actual evolution.

RISK OF LOSSES IN OTHER ASSETS

The risk of losses in other assets arises from the reduction in the book value of BPI's equity holdings or non-financial assets (tangible, intangible, tax, and other assets). This type of risk is managed separately according to the nature of the risk, namely equity holdings and deferred tax assets.

RISK OF OWN FUNDS AND SOLVENCY

BPI maintains adequate capital levels, either in terms of regulatory capital or economic capital, and has in place internal management and control mechanisms that allow it to maintain a solid capital structure. In this manner the Bank ensures the mitigation of the risk of any problems affecting BPI's capacity to comply with regulatory requirements concerning capital ratios, or of having to change its risk profile due to insufficient own funds.

EMERGING AND STRATEGIC RISKS

In the development of its activity, BPI faces a range of emerging and strategic risks that may impact its current operations, reputation, and capacity to face new challenges and competitors, or to reach the objectives defined in its business plan. These risks require constant monitoring and adequate mitigation measures:

- **Persistence of an environment of low interest rates**, combined with lower expectations about the evolution of the Eurozone economy and the global economy, with an impact on business profitability and the achievement of the strategic objectives;
- **Uncertainties with regard to the external and internal political environment / regulatory and supervisory pressure**, which may also have direct or indirect impact at macroeconomic level and at management level in the Bank, and affect the objectives and projections of its Strategic Plan.
- **Entry of new competitors in the market** (such as FinTechs), offering services and products liable of having negative impacts on the net interest income and fee and commission income, due to their flexibility, advanced technology and lighter cost structure.
- **The risk of cyberattacks and cybercrime** is a threat that requires careful management of technological risk as well as in terms of the integrity and confidentiality of information, the availability of the information systems and business continuity.
- **Legal and Customer protection risk** requires the Bank to pay constant attention to the privacy and protection of the personal data of its Clients, and to comply with all legal and regulatory rules in the activity developed by its Employees, so as to avoid damaging the interests and rights of the Client.

Sustainability risk, which is linked to the so-called ESG (Environmental, Social & Governance) risks, and represents the possibility of a reputational or economic loss due to failure to identify or manage an existing or emerging risk to sustainability, is another concern of BPI. The Bank factors in social, environmental and good governance criteria in its business decisions, with the aim of mitigating such risks and supporting business projects that are consistent with its corporate values.

The global expansion of the COVID-19 coronavirus has generated an unprecedented sanitary crisis. This event has a significant impact on economic activity and consequently may affect the Bank's financial situation. The magnitude of the impacts will depend on future developments, which cannot be reliably predicted, including the effect of actions to contain or treat the disease and mitigate its impact on the economies of the affected countries, as well as on the social and economic support policies that are being adopted by the governments of the affected countries, among others. Banco BPI has contingency and business continuity plans for crisis situations.

More details on risk management at Banco BPI may be found in the Risk Management chapter of the Notes to the Financial Statements.

Rating

BPI currently holds investment grade ratings for its long-term debt, assigned by the three international agencies – Fitch Ratings and S&P Global Ratings (BBB rating) and Moody's (Baa3 rating), and for long-term deposits (Baa1 rating), assigned by Moody's.

The mortgage covered bonds issued by BPI are rated AA (Low) by DBRS and Aa3 by Moody's and qualify as level 1 assets for purposes of calculation of the LCR ratio.

The relevant rating actions taken on BPI in 2019 are described below:

- In March 2019, S&P Global Ratings improved its long-term debt rating of BPI by one notch, to BBB, with stable outlook. In its note, S&P Global Ratings positively highlighted BPI's solid commercial position, superior asset quality, low reliance on the debt markets and adequate liquidity.
- In June Moody's reaffirmed its Baa1 rating on the long--term Customer deposits, which represent BPI's main source of funding. Moody's highlighted the Bank's enhanced capital levels, its low level of non-performing assets, well below the Portuguese system average and BPI's improving profitability metrics in the activity in Portugal.

On the same date, in connection with the entry into force of a new regulatory framework in Portugal, which, in the case of a bank resolution, strengthens the protection of deposits relative to senior unsecured debt, and reflecting the application of a specific Moody's analysis, this agency downgraded the rating assigned to the Bank's long-term senior unsecured debt, from Baa2 to Ba1. The rating assigned to the long-term senior unsecured debt reflects this debt's very low weight in BPI's total funding (€6.5 million at the end of 2019).

In July, Moody's upgraded its Baseline Credit Assessment (BCA) of BPI by 1 notch, to "baa3", and reaffirmed its ratings on the long-term deposits and long-term debt, with "Stable" Outlook.

On 11 March 2020, Moody's upgraded Banco BPI and its long-term senior unsecured debt ratings to Baa3, and affirmed the deposits rating at Baa1, with stable Outlook.

- In October, Fitch Ratings agency reaffirmed the rating on BPI's long-term debt at BBB, with stable outlook. Fitch Ratings stresses the quality of BPI's assets, above its domestic peers and globally aligned to the total industry average, capitalisation adjusted to the Bank's risk profile and adequate and stable funding and liquidity structure.

At 13 March 2020

	DBRS	Fitch Ratings	Moody's	S&P Global Ratings
Banco BPI credit ratings				
Long-Term Deposits			Baa1	
Short-Term Deposits			Prime-2	
Outlook on MLT deposits			Stable	
Long-Term Debt		BBB	Baa3	BBB
Short-Term Debt		F2	Prime-3	A-2
Outlook on MLT debt		Stable	Stable	Stable
Individual Rating		bb+ *(Viability rating)*	baa3 *(Baseline Credit Assessment)*	bb+ *(Stand-alone credit profile – SACP)*
Collateralised senior debt				
▪ Mortgage	AA (Low)		Aa3	
▪ Public Sector			A1	
Senior non-preferred debt			Ba1	BBB-
Subordinated debt			Ba1	BB+
Junior subordinated debt			Ba2	
Portuguese Republic sovereign risk[1]				
Long-Term	BBB (high)	BBB	Baa3	BBBu
Short-Term	R-1 (low)	F2	Prime-3	A-2u
Outlook	Stable	Positive	Positive	Positive

Figure 5

1) The ratings attributed by S&P Global Ratings to the Portuguese Republic are unsolicited ("u").

Annex

ADOPTION OF THE FINANCIAL STABILITY FORUM (FSF) AND COMMITTEE OF EUROPEAN BANKING SUPERVISORS (CEBS) RECOMMENDATIONS ON THE TRANSPARENCY OF INFORMATION AND VALUATION OF ASSETS

The Bank of Portugal, through *circular-letters 97 / 08 / DSBDR* of 3 December 2008 and *58 / 09 / DSBDR* of 5 August 2009, has recommended that within the accounting documents, a separate chapter or a specific annex be included in the Annual Report, designed to respond to the recommendations of the CEBS and of the FSF, taking into account the principle of proportionality and following the questionnaire presented as an annex to Bank of Portugal's *circular-letter 46 / 08 / DSBDR.*

In order to comply with Bank of Portugal's recommendation, the present chapter provides a response to the aforesaid questionnaire, using cross-references to the more detailed information presented in the 2019 Annual Report.

Recommendation Summary	Reference to 2019 Annual Report
I. BUSINESS MODEL	
1. Description of the business model	*MR – BPI Business Model, page14. NFS – 7. Segments, page 192.*
2. Description of strategies and objectives	*MR – Statement of the Chairman of the Board of Directors, page 6; Statement of the Chairman of the Executive Committee, page 8; Financial review, page 60; Risk management, page 78. NFS – 3. Risk management, page 136.*
3. Description of the importance of the operations carried out and the respective contribution to business	*MR – Individuals, Businesses and Premier and Private Banking, page 50; Corporate and Institutional Banking, page 54; Equity holdings in BFA and BCI, page 58; Financial review, page 60. NFS – 7. Segments, page 192.*
4. Description of the type of activities undertaken	*MR – Individuals, Businesses and Premier and Private Banking, page 50; Corporate and Institutional Banking, page 54; Equity holdings in BFA and BCI, page 58; Background to operations, page 46; Financial review, page 60; Risk management, page 78. NFS – 3. Risk management, page 136; 7. Segments, page 192.*
5. Description of the objective and extent of the institution's involvement relating to each activity undertaken	
II. RISKS AND RISK MANAGEMENT	
6. Description of the nature and extent of the risks incurred in relation to the activities carried out and the instruments used	*MR – Risk management, page 78. NFS – 2.7. Impairment of financial assets, page 123, 3. Risk management, page 136 and Financial assets, notes 10 to 13, page 200 and following.*
7. Description of major risk-management practices in operations	*MR – Risk management, page 78. NFS – 2.7. Impairment of financial assets, page 123, 3. Risk management, page 136 and Financial assets, notes 10 to 13, page 200 and following. GovR – Corporate Governance Report, page 456.*
III. IMPACT OF THE PERIOD OF FINANCIAL TURMOIL ON THE RESULTS	
8. Qualitative and quantitative description of the results	*MR – Financial review, page 60.*
9. Breakdown of the write-downs / losses by types of products and instruments affected by the period of turmoil	*NFS – 3. Risk management, page 136, Financial assets, notes 10 to 13, page 200, 30. Gains / (losses) on financial assets and liabilities, page 244.*
10. Description of the reasons and factors responsible for the impact suffered	*MR – Financial review, page 60; Background to the operations, page 46.*
11. Comparison of the i) impacts between (relevant) periods and ii) the financial statements before and after the period of turmoil	*MR – Financial review, page 60.*
12. Breakdown of write-downs between realised and non-realised	*MR – Financial review, page 60; NFS – Financial assets, notes 10 to 13, page 200, 30. Gains / (losses) on financial assets and liabilities, page 244.*
13. Description of the influence of the financial turmoil on the behaviour of Banco BPI shares	*The Banco BPI shares were excluded from trading on the Euronext Lisbon regulated market on 14 December 2018, following the CMVM's favourable decision on the loss of Banco BPI's public company status. On 27 December 2018 CaixaBank exercised its squeeze-out right on the remaining shares it did not yet hold, following which it now holds the entire share capital of Banco BPI.*

MR – Management Report; NFS – Notes to the Consolidated Financial Statements; GovR – Corporate Governance Report.

Recommendation Summary	Reference to 2019 Annual Report
14. Disclosure of the maximum loss risk	*MR – Risk management, page 78.* *NFS – 3. Risk management, page 136.*
15. Disclosure of the impact that the trend in spreads associated with the institution's own liabilities had on earnings	*MR – Financial review, page 60.* *The Bank did not revalue its liabilities.*
IV. LEVEL AND TYPE OF EXPOSURES AFFECTED BY THE PERIOD OF FINANCIAL TURBULENCE	
16. Nominal value (or amortised cost) and fair value of exposures	*NFS – Financial assets, notes 10 to 13, page 200.*
17. Information about credit risk mitigators and respective effects on existing exposures	*MR – Risk management, page 78 and following.* *NFS – 3.3 Credit risk, page 150 and following.*
18. Detailed disclosure of exposures	*MR – Risk management, page 78.* *NFS – 3. Risk management, page 136; Financial assets, notes 10 to 13, page 200.*
19. Movements in exposures occurred between the relevant reporting periods and the reasons for these movements (sales, write-downs, purchases, etc.)	*MR – Financial review, page 60.* *NFS – 3. Risk management, page 136; Financial assets, notes 10 to 13, page 200.*
20. Explanations about exposures which have not been consolidated (or which have been recognised during the crisis) and the associated reasons	*Banco BPI consolidates all exposures in which it has control or significant influence, as provided for in IFRS 10, 11, IAS 28, IFRS 3 and IFRS 5. No changes were made to BPI Group's consolidation perimeter as a consequence of the period of turmoil in the financial markets.*
21. Exposure to monoline insurers and quality of the assets insured	*At 31 December 2019, BPI had no exposure to monoline insurers*
V. ACCOUNTING POLICIES AND VALUATION METHODS	
22. Classification of transactions and structured products for accounting purposes and respective accounting treatment	*NFS – 2.2 Financial instruments, page 118; 2.7 Impairment of financial assets, page 123; Financial assets, notes 10 to 13, page 200;* *20. Financial liabilities at amortised cost, page 218.*
23. Consolidation of Special Purpose Entities (SPE) and other vehicles and their reconciliation with the structured products affected by the period of turmoil	*The vehicles through which Banco BPI's debt securitisation operations are carried out are recorded in the consolidated financial statements according to the BPI Group's continued involvement in these operations, determined on the basis of the percentage of the equity interest held in the respective vehicles.*
24. Detailed disclosure of the fair value of financial instruments	*NFS – Financial assets, notes 10 to 13, page 200.*
25. Description of the modelling techniques used for valuing financial instruments	*NFS – 2. Accounting policies, page 116 and Financial assets, notes 10 to 13, page 200 and following.*
VI. OTHER RELEVANT ASPECTS OF DISCLOSURE	
26. Description of the disclosure policies and principles used in financial reporting	*GovR – Corporate Governance Report, page 456.*

MR – Management Report; NFS – Notes to the Consolidated Financial Statements; GovR – Corporate Governance Report.

ALTERNATIVE PERFORMANCE MEASURES

The European Securities and Markets Authority (ESMA) published on 5 October 2015 a set of guidelines relating to the disclosure of Alternative Performance Measures by entities (ESMA / 2015 / 1415). These guidelines are to be obligatorily applied with effect from 3 July 2016.

BPI uses a set of indicators for the analysis of performance and financial position, which are classified as Alternative Performance Measures, in accordance with the abovementioned ESMA guidelines.

The information relating to those indicators has already been the object of disclosure, as required by the ESMA guidelines.

In the present report, the information previously disclosed is inserted by way of cross-reference. A summarised list of the Alternative Performance Measures is presented next.

Reconciliation of income statement structure
With the entry into force of IFRS 9 at the beginning of 2018, Banco BPI decided to adopt a structure of the individual and consolidated financial statements consistent with the guidelines of *Regulation (EU) 2017 / 1443* of 29 June 2017 and with the structure of the financial statements presented by CaixaBank (consolidating entity of Banco BPI).

Units, conventional signs and abbreviations

€, Euros, EUR	euros	**n.a.**	data not available
th.€, th. euros	thousand euros	**0, –**	null or irrelevant
M.€, M. euros	million euros	**n.s.**	nonsense
th.M.€, th.M. euros, Bi.€	thousand million or billion euros	**vs.**	*versus*
b.p.	basis points	**E**	Estimate
p.p.	percentage points	**F**	Forecast
Δ	change		
yoy	year-on-year change		

The table below shows, for the income statement of the activity in Portugal, the reconciliation of the structure presented in the Management Report with the structure presented in the financial statements and respective notes.

Income statement from the activity in Portugal

Amounts in € million

Management Report structure	2019	2019	Structure of the Financial Statements and attached notes
Net interest income	436.3	436.3	Net interest income
Dividend income	3.3	3.3	Dividend income
Equity accounted income	20.3	20.3	Share of profit / (loss) of entities accounted for using the equity method
Net fee and commission income	257.9	281.0	Fee and commission income
		(23.1)	Fee and commission expenses
Gains / (losses) on financial assets and liabilities and other	10.8	(0.1)	Gains / (losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net
		5.0	Gains / (losses) on financial assets and liabilities held for trading, net
		(9.8)	Gains / (losses) on financial assets not designated for trading compulsorily measured at fair value through profit or loss, net
		3.1	Gains / (losses) from hedge accounting, net
		12.6	Exchange differences (gain / loss), net
Other operating income and expenses	(21.2)	32.8	Other operating income
		(54.0)	Other operating expenses
Gross income	**707.4**	**707.4**	**GROSS INCOME**
Staff expenses	(246.1)	(246.1)	Staff expenses
Other administrative expenses	(148.1)	(148.1)	Other administrative expenses
Depreciation and amortisation	(53.9)	(53.9)	Depreciation and amortisation
Operating expenses	**(448.1)**	**(448.1)**	**Administrative expenses, depreciation and amortisation**
Net operating income	**259.3**	**259.3**	
Impairment losses and other provisions	36.8	(2.3)	Provisions or reversal of provisions
		39.1	Impairment / (reversal) of impairment losses on financial assets not measured at fair value through profit or loss
Gains and losses in other assets	4.7	1.0	Impairment / (reversal) of impairment in subsidiaries joint ventures and associates
		1.7	Impairment / (reversal) of impairment on non-financial assets
		(1.4)	Gains / (losses) on derecognition of non-financial assets, net
		3.4	Profit / (loss) from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations
Net income before income tax	**300.8**	**300.8**	**PROFIT / (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS**
Income taxes	(70.5)	(70.5)	Tax expense or income related to profit or loss from continuing operations
Net income from continuing operations	**230.2**	**230.2**	**PROFIT / (LOSS) AFTER TAX FROM CONTINUING OPERATIONS**
Net income from discontinued operations		0.0	Profit / (loss) after tax from discontinued operations
Income attributable to non--controlling interests		0.0	Profit / (loss) for the period attributable to non-controlling interests
Net income	**230.2**	**230.2**	**PROFIT / (LOSS) FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT**

The earnings, efficiency and profitability indicators are defined by reference to the aforementioned structure of the income statement presented in the Management Report.

EARNINGS, EFFICIENCY AND PROFITABILITY INDICATORS
Gross income = Net interest income + Dividend income + Net fee and commission income + Equity accounted income + Gains / (losses) on financial assets and liabilities and other + Other operating income and expenses
Commercial banking gross income = Net interest income + Dividend income + Net fee and commission income + Equity accounted income excluding the contribution of stakes in African banks
Operating expenses = Staff expenses + Other administrative expenses + Depreciation and amortisation
Net operating income = Gross income - Operating expenses
Net income before income tax = Net operating income – Impairment losses and other provisions + Gains and losses in other assets
Cost-to-income ratio (efficiency ratio)[1] = Operating expenses / Gross income
Core cost-to-income ratio (core efficiency ratio)[1] = (Operating expenses, excluding costs with early-retirements and voluntary terminations and (only in 2016) gains with the revision of the Collective Labour Agreement (ACT) - Income from services rendered to CaixaBank Group) / Commercial banking gross income
Return on Equity (ROE)[1] = Net income for the period, less the interest cost of AT1 capital instruments recorded directly in shareholders' equity / Average value in the period of shareholders' equity attributable to BPI shareholders, excluding AT1 capital instruments
Return on Tangible Equity (ROTE)[1] = Net income for the period, less the interest cost of AT1 capital instruments recorded directly in shareholders' equity / Average value in the period of shareholders' equity attributable to BPI shareholders (excl. AT1 capital instruments) after deduction of intangible net assets and goodwill of equity holdings
Return on Assets (ROA)[1] = (Net income attributable to BPI shareholders + Income attributable to non-controlling interests - preference shares dividends paid) / Average value in the period of net total assets
Unitary intermediation margin = Loan portfolio (excluding loans to Employees) average interest rate - Deposits average interest rate

BALANCE SHEET AND FUNDING INDICATORS
On-balance sheet Customer resources = Deposits + Capitalisation insurance of fully consolidated subsidiaries + Participating units in consolidated investment funds Where: ▪ Deposits = Demand deposits and other + Term and savings deposits + Interest payable + Retail bonds (Fixed rate bonds placed with Customers: 18.3 M.€ in Dec. 2018 and 6.5 M.€ in Dec. 2019) ▪ Capitalisation insurance of fully consolidated subsidiaries (BPI Vida e Pensões sold in Dec. 17) = Unit links capitalisation insurance and "Aforro" capitalisation insurance and others (Technical provisions + Guaranteed rate and guaranteed retirement capitalisation insurance) Note: The amount of on-balance sheet Customer resources is not deducted of applications of off-balance sheet products (mutual funds and pension funds) in on-balance sheet products
Assets under management = Mutual funds + Capitalisation insurance + Pension funds ▪ Mutual funds = Unit trust funds + Real estate investment funds + Retirement-savings and equity-savings plans ("PPR" and "PPA" in Portuguese) + Hedge funds + Assets from funds under BPI Suisse management + Third-party unit trust funds placed with Customers ▪ Capitalisation insurance = third-party capitalisation insurance placed with Customers ▪ Pension Funds = pension funds under BPI management (includes BPI pension funds) Notes: (i) Amounts deducted of participation units in the Group banks' portfolios and of placements of off-balance sheet products (mutual funds and pension plans) in other off-balance sheet products. (ii) Following the sale of BPI Vida e Pensões in Dec. 17, the capitalisation insurance placed with BPI's Customers was recognised off balance sheet, as "third-party capitalisation insurance placed with Customers" and pension funds management was excluded from BPI's consolidation perimeter.
Subscriptions in public offerings = Customer subscriptions of third-party public offerings

1) Ratio refers to the last 12 months, except where otherwise indicated. The ratio can be computed for the cumulative period since the beginning of the year, in annualised terms, in which case it will be clearly marked.

BALANCE SHEET AND FUNDING INDICATORS (CONT.)
Total Customer resources = On-balance sheet Customer resources + Assets under management + Subscriptions in public offerings
Gross loans to Customers = Gross loans and advances to Customers (financial assets at amortized cost), excluding other assets (guarantee accounts and others) + Gross debt securities issued by Customers (financial assets at amortized cost) Note: gross loans = performing loans + loans in arrears + interest receivable
Net loans to Customers = Gross loans to Customers – Impairments for loans to Customers
Loan to deposit ratio (CaixaBank criteria) = (Net loans to Customers - Funding obtained from the EIB, which is used to provide credit) / Deposits and retail bonds

ASSET QUALITY INDICATORS
Impairments and provisions for loans and guarantees (in income statement) = Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss relative to loans and advances to Customers and to debt securities issued by Customers (financial assets at amortised cost), before deduction of recoveries of loans previously written off from assets, interest and others + Provisions or reversal of provisions for commitments and guarantees
Cost of credit risk = Impairments and provisions for loans and guarantees (in income statement) - Recoveries of loans previously written off from assets, interest and other (in income statement)
Cost of credit risk as % of loan portfolio[1] = [Impairments and provisions for loans and guarantees (in income statement) - Recoveries of loans previously written off from assets, interest and other] / Average value in the period of the gross loans and guarantees portfolio.
Performing loans portfolio = Gross Customer loans - (Overdue loans and interest + Receivable interests and other)
NPE Ratio = Ratio of non-performing exposures (NPE) in accordance with the EBA criteria (prudential perimeter)
Coverage of NPE = [Impairments for loans and advances to Customers (financial assets at amortised cost) + Impairments for debt securities issued by Customers (financial assets at amortised cost) + Impairments and provisions for guarantees and commitments] / Non-performing exposures (NPE)
Coverage of NPE by impairments and associated collaterals = [Impairments for loans and advances to Customers (financial assets at amortised cost) + Impairments for debt securities issued by Customers (financial assets at amortised cost) + Impairments and provisions for guarantees and commitments + Collaterals associated to NPE] / Non-performing exposures (NPE)
Non-performing loans ratio ("*credito dudoso*", Bank of Spain criteria) = Non performing loans (Bank of Spain criteria) / (Gross Customer loans + guarantees)
Non-performing loans (Bank of Spain criteria) coverage ratio = [Impairments for loans and advances to Customers (financial assets at amortised cost) + Impairments for debt securities issued by Customers (financial assets at amortised cost) + Impairments and provisions for guarantees and commitments] / Non performing loans (Bank of Spain criteria)
Coverage of non-performing loans (Bank of Spain criteria) by impairments and associated collaterals = [Impairments for loans and advances to Customers (financial assets at amortised cost) + Impairments for debt securities issued by Customers (financial assets at amortised cost) + Impairments and provisions for guarantees and commitments + Collateral associated to credit] / Non performing loans (Bank of Spain criteria)
Impairments cover of foreclosed properties = Impairments for real estate received in settlement of defaulting loans / Gross value of real estate received in settlement of defaulting loans

PER SHARE INDICATORS
Earnings per share (EPS) = Net income, less the interest cost of AT1 capital instruments / Weighted average no. of shares in the period (basic or diluted) The earnings per shares (basic or diluted) are calculated in accordance with IAS 33 – Earnings per share.
Book value per share (BV per share or BVPS) = Shareholders' equity attributable to BPI shareholders (excluding AT1 capital instruments) / No. of shares at the end of the period Note: the number of shares considered in the denominator is deducted of the treasury stocks portfolio and is adjusted for capital increases, whether by incorporation of reserves (bonus issue) or by subscription reserved for shareholders (rights issue), amongst other events, in a similar way to the calculation of earnings per share.

1) Ratio refers to the last 12 months, except where otherwise indicated. The ratio can be computed for the cumulative period since the beginning of the year, in annualised terms, in which case it will be clearly marked.

Proposed application of results

Whereas:

a) In 2019 financial year, Banco BPI, S.A. (hereinafter Banco BPI) reported a net profit of €327 854 118 in its consolidated accounts, and a net profit of €342 113 106.45 in its individual accounts;

b) In accordance with the provisions of Article 26 of Banco BPI's Memorandum and Articles of Association, the net profit for each year shall be allocated, namely, in the percentage prescribed by law, to the legal reserve, to the payment of priority dividends on any preference shares that the company may have issued, and the remainder, under the terms that the General Meeting, acting freely and under no obligatory distribution, may determine, including the allocation of the profits in question to reserves, their distribution as dividends, their allocation to other specific uses in the interest of the Company or in any combination of these purposes;

c) The Long-Term Dividend Policy of Banco BPI approved by the single shareholder, CaixaBank, S.A., by Unanimous Written Resolution on 31 January 2019, provides for the distribution of an annual dividend, tendentially between 30% and 50% of the net income reported in the individual accounts for the year to which it relates, where the exact amount to be proposed (by the Board of Directors to the General Meeting) shall be defined in light of a prudent judgement which takes into account, in view of the specific situation at the time of Banco BPI, the permanent satisfaction of adequate levels of liquidity and solvency;

d) The net profit reported in the individual accounts of Banco BPI in the 2019 financial year includes €50 741 805.80 resulting from the reversal of deferred tax liabilities (DTL) in connection to the unrealised capital gain in Banco de Fomento Angola, S.A. as a result of the coming into force of the Agreement between Portugal and Angola for the Avoidance of Double Taxation, which eliminated the taxation in Angola of capital gains on the disposal of financial instruments.

e) Bearing in mind the limits set forth in BPI's Long-Term Dividend Policy, it is proposed that an amount corresponding to 40% of the individual net profit adjusted for the considerations in the previous recital (€291 371 300.65) be distributed to the 1 456 924 237 shares representing the share capital of BPI.

f) The aforementioned proposed distribution of dividends does not jeopardise compliance with the target capital ratios of Banco BPI and respects the conclusions and guidelines of the ICAAP and RAF of Banco BPI.

g) The financial statements of Banco BPI as at 31 December 2019 show in the individual balance sheet the amount of €15 186 640.09 corresponding to positive retained earnings resulting from the change of the accounting policy used to recognise the extraordinary levy on the banking sector.

In view of the above, the Board of Directors proposes:

1. That the Net Profit for the 2019 financial year reported in Banco BPI's individual accounts be applied as follows:

Dividends:	€116 548 520.00
Legal Reserve*:	€34 211 310.65
Other Reserves:	€191 353 275.80
Net Profit for the 2019 financial year	€342 113 106.45

2. That the €15 186 640.09 amount booked under "Retained Earnings" be transferred to "Other Reserves".

Porto, 20 March 2020

The Board of Directors

* Under the provisions of Article 97 (1) of the Legal Framework of Credit Institutions and Financial Companies ("RGICSF").

Final acknowledgements

On 1 April 2019, the Chairman of the Remuneration Committee, José Villalonga Pons, handed in his resignation to this position. On 16 April, Abel Suárez Busquets, until then an alternate member of this committee, was appointed its Chairman.

The mandate of the current Board of Directors ended at the end of 2019.

The Board of Directors wishes to express its recognition for the very positive results achieved by acknowledging the committed and competent contribution of the Employees, the loyalty and trust of the Customers, who once again have given the Bank the market leadership in terms of the main satisfaction and service quality indicators, and the trust and collaboration provided by its Shareholder.

The Board also gratefully expresses its recognition for the cooperation received from the Authorities, within the scope of their attributions.

Porto, 20 March 2020

The Board of Directors

Banco BPI, S.A.

Consolidated financial statements at 31 December 2019

BANCO BPI, S.A.

CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2019 AND 2018

(Amounts expressed in thousand euros)

	Notes	31-12-2019	31-12-2018
ASSETS			
Cash and cash balances at central banks and other demand deposits	**9**	**1 068 261**	**2 452 916**
Financial assets held for trading	**10**	**234 476**	**226 772**
Financial assets not designated for trading compulsorily measured at fair value through profit or loss	**11**	**206 066**	**228 582**
Equity instruments		143 221	168 594
Debt securities		62 845	59 988
Financial assets at fair value through other comprehensive income	**12**	**1 886 212**	**1 875 160**
Equity instruments		509 168	597 740
Debt securities		1 377 044	1 277 420
Financial assets at amortised cost	**13**	**27 439 314**	**25 671 943**
Debt securities		4 029 677	3 516 814
Loans and advances - Central Banks and other Credit Institutions		1 452 687	790 659
Loans and advances - Customers		21 956 950	21 364 470
Derivatives - Hedge accounting	**14**	**30 709**	**14 320**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**14**	**48 818**	**26 719**
Investments in joint ventures and associates	**15**	**247 190**	**209 144**
Tangible assets	**16**	**169 564**	**67 252**
Intangible assets	**17**	**65 848**	**55 126**
Tax assets	**25**	**272 456**	**352 763**
Other assets	**18**	**128 077**	**353 422**
Non-current assets and disposal groups classified as held for sale	**19**	**14 561**	**33 896**
Total assets		**31 811 552**	**31 568 015**
LIABILITIES			
Financial liabilities held for trading	**10**	**146 167**	**141 335**
Financial liabilities at amortised cost	**20**	**27 640 187**	**27 515 745**
Deposits - Central Banks		1 374 229	1 352 843
Deposits - Credit Institutions		1 402 879	1 853 501
Deposits - Customers		23 231 413	22 960 252
Debt securities issued		1 358 699	1 118 195
Memorandum items: subordinated liabilities		304 440	304 514
Other financial liabilities		272 967	230 954
Derivatives - Hedge accounting	**14**	**72 799**	**56 010**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**14**	**9 656**	**3 594**
Provisions	**21**	**44 392**	**65 457**
Pending legal issues and tax litigation		25 656	42 245
Commitments and guarantees given		18 736	23 212
Tax liabilities	**25**	**17 239**	**73 802**
Other liabilities	**22**	**444 975**	**506 120**
Total Liabilities		**28 375 415**	**28 362 063**
SHAREHOLDERS' EQUITY			
Capital	**24**	**1 293 063**	**1 293 063**
Equity instruments issued other than capital	**24**	**275 000**	
Other equity	**24**		**371**
Accumulated other comprehensive income	**24**	**(345 273)**	**(253 402)**
Items that will not be reclassified to profit or loss		(335 851)	(232 788)
Tangible assets		703	703
Actuarial gains/ (losses) on defined benefit pension plans		(303 951)	(288 248)
Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates		(416)	(1 858)
Fair value changes of equity instruments measured at fair value through other comprehensive income		(32 187)	56 615
Items that may be reclassified to profit or loss		(9 422)	(20 614)
Foreign currency translation		(33 552)	(35 802)
Fair value changes of debt instruments measured at fair value through other comprehensive income		4 502	1 927
Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates		19 628	13 261
Retained earnings	**24**	**1 769 451**	**1 548 458**
Other reserves	**24**	**116 042**	**126 824**
Profit/(loss) attributable to owners of the parent		**327 854**	**490 638**
Total Equity		**3 436 137**	**3 205 952**
Total Equity and Total Liabilities		**31 811 552**	**31 568 015**

The accompanying notes are an integral part of these financial statements.

The Registered Accountant **The Board of Directors**

BANCO BPI, S.A.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS FOR THE YEARS ENDED ON 31 DECEMBER 2019 AND 2018

(Amounts expressed in thousand euros)

	Notes	31-12-2019	31-12-2018 Restated
Interest income	27	528 404	510 264
Interest expenses	27	(92 130)	(87 688)
NET INTEREST INCOME		**436 274**	**422 576**
Dividend income	28	49 351	1 723
Share of profit/(loss) of entities accounted for using the equity method	15	40 726	271 556
Fee and commission income	29	280 979	319 009
Fee and commission expenses	29	(23 079)	(41 239)
Gains/(losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	30	(94)	1 457
Gains/(losses) on financial assets and liabilities held for trading, net	30	4 961	39 027
Gains/(losses) on financial assets not designated for trading compulsorily measured at fair value through profit or loss, net	30	(9 753)	60 321
Gains/(losses) from hedge accounting, net	30	3 115	1 398
Exchange differences (gain/loss), net	30	(5 672)	(25 328)
Other operating income	31	32 840	27 331
Other operating expenses	31	(58 644)	(55 532)
GROSS INCOME		**751 004**	**1 022 299**
Administrative expenses		**(394 154)**	**(435 092)**
Staff expenses	32	(246 093)	(262 214)
Other administrative expenses	33	(148 061)	(172 878)
Depreciation and amortisation		(53 906)	(23 827)
Provisions or reversal of provisions	21	**(2 273)**	**(1 072)**
Commitments and guarantees given		4 175	(4 161)
Other provisions		(6 448)	3 089
Impairment/(reversal) of impairment losses on financial assets not measured at fair value through profit or loss	34	**39 061**	**48 967**
Financial assets at amortised cost		39 061	48 967
Impairment/(reversal) of impairment in subsidiaries, joint ventures and associates	15	1 028	(6 689)
Impairment/(reversal) of impairment on non-financial assets		1 672	(1 672)
Gains/(losses) on derecognition of non-financial assets, net	36	(1 441)	(55 145)
Profit/(loss) from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	37	3 400	(5 131)
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS		**344 391**	**542 638**
Tax expense or income related to profit or loss from continuing operations		(16 537)	(116 214)
PROFIT/(LOSS) AFTER TAX FROM CONTINUING OPERATIONS		**327 854**	**426 424**
Profit/(loss) after tax from discontinued operations	38		**64 214**
Profit/(loss) before tax from discontinued operations			64 955
Tax expense or income related to profit or loss from discontinued operations			(741)
PROFIT/(LOSS) FOR THE YEAR		**327 854**	**490 638**
PROFIT OR LOSS (-) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT	39	**327 854**	**490 638**

Earnings per share (euros)			
Basic	6	0.222	0.337
Diluted	6	0.222	0.337
Earnings per share from continuing operations (euros)			
Basic	6	0.222	0.293
Diluted	6	0.222	0.293
Earnings per share from discontinued operations (euros)			
Basic	6		0.044
Diluted	6		0.044

The accompanying notes are an integral part of these financial statements.

The Registered Accountant **The Board of Directors**

BANCO BPI, S.A.

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEARS ENDED ON 31 DECEMBER 2019 AND 2018

(Amounts expressed in thousand euros)

	31-12-2019	**31-12-2018**
PROFIT/(LOSS) FOR THE YEAR	**327 854**	**490 638**
Other comprehensive income	**(91 870)**	**(67 103)**
Items that will not be reclassified to profit or loss	**(103 063)**	**19 955**
Actuarial gains/ (losses) on defined benefit pension plans	(21 769)	(6 367)
Share of other recognised income and expense of investments in joint ventures and associates	1 442	(316)
Fair value changes of equity instruments measured at fair value through other comprehensive income	(88 135)	(4 778)
Income tax relating to items that will not be reclassified	5 399	31 416
Items that may be reclassified to profit or loss	**11 193**	**(87 058)**
Foreign currency translation	2 250	(87 764)
Translation gains/(losses) taken to equity	2 250	(245 340)
Transferred to profit or loss		157 576
Debt instruments classified as fair value financial assets through other comprehensive income	3 547	1 640
Valuation gains/(losses) taken to equity	4 332	1 562
Transferred to profit or loss	(785)	81
Other reclassifications		(3)
Share of other recognised income and expense of investments in joint ventures and associates	6 367	(11 578)
Income tax relating to items that may be reclassified to profit or loss	(971)	10 644
Total comprehensive income for the year	**235 984**	**423 535**
Attributable to owners of the parent	235 984	423 535

The accompanying notes are an integral part of these financial statements.

The Registered Accountant **The Board of Directors**

BANCO BPI, S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED ON 31 DECEMBER 2019 AND 2018

(Amounts expressed in thousand euros)

	Capital	Equity instruments issued other than capital	Other equity (Note 24)	Accumulated other comprehensive income (Note 24)	Retained earnings (Note 24)	Other reserves (Note 24)	Treasury shares	Accumulated other comprehensive income relating to discontinued operations	Profit/(loss) for the year	Shareholders equity
Opening balances at 31 December 2017	**1 293 063**		**2 276**	**(163 559)**	**944 225**	**737 934**	**(377)**	**(185)**	**10 209**	**2 823 586**
Effect of changes in accounting policies (IFRS 9)				(22 740)	(2 957)	(14 580)				(40 277)
Opening balances at 1 January 2018	**1 293 063**		**2 276**	**(186 299)**	**941 268**	**723 354**	**(377)**	**(185)**	**10 209**	**2 783 309**
Results application										
Transfer to reserves and retained earnings					108 108	(97 899)			(10 209)	
Dividends distributed by associates					119 983	(119 983)				
Variable Remuneration program ("RVA")			(1 905)		(112)					(2 017)
Other comprehensive income relating to discontinued operations								185		185
Reclassification of equity holding in Banco de Fomento Angola					377 880	(377 880)				
Sale / purchase of treasury shares							377			377
Comprehensive income in the year of 2018				(67 103)					490 638	423 535
Other changes in equity					1 331	(768)				563
Balances at 31 December 2018	**1 293 063**		**371**	**(253 402)**	**1 548 458**	**126 824**			**490 638**	**3 205 952**
Results application										
Transfer to reserves and retained earnings					469 330	21 308			(490 638)	
Dividends distributed					(140 000)					(140 000)
Dividends distributed by associates					12 323	(12 323)				
Variable Remuneration program ("RVA")			(371)							(371)
Additional Tier 1 issue		275 000								275 000
Additional Tier 1 interest						(5 114)				(5 114)
Extraordinary distribution of reserves					(150 000)					(150 000)
Comprehensive income in the year of 2019				(91 871)					327 854	235 983
Other changes in equity					29 340	(14 653)				14 687
Balances at 31 December 2019	**1 293 063**	**275 000**		**(345 273)**	**1 769 451**	**116 042**			**327 854**	**3 436 137**

The accompanying notes are an integral part of these financial statements.

The Registered Accountant **The Board of Directors**

BANCO BPI, S.A.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED ON 31 DECEMBER 2019 AND 2018

	31-12-2019	31-12-2018		
	Total	Continuing operations	Discontinued operations	Total
Cash flows from/(used in) operating activities				
Interest, commissions and other income received	840 346	891 005	17 450	908 455
Interest, commissions and other expenses paid	(174 635)	(299 528)	(22 323)	(321 851)
Dividends received	3 348	1 723		1 723
Dividends received from Banco de Fomento Angola[1]	46 003	94 823		94 823
Gains on business sales		98 842		98 842
Recovery of overdue loans and interest and gains/(losses) on the sale of real estate received in settlement of defaulting loans	23 922	39 679		39 679
Payments to staff and suppliers	(414 829)	(415 300)	(1 961)	(417 261)
Net cash flow from income and expenses	324 155	411 244	(6 834)	404 410
Decreases (increases) in:				
Financial assets held for trading, at fair value through profit or loss, at fair value through other comprehensive income	(89 917)	2 439 666		2 439 666
Financial assets at amortised cost - Central Banks and other Credit Institutions	(782 114)	55 727		55 727
Financial assets at amortised cost - Customers (includes debt instruments)	(1 164 096)	(3 104 644)		(3 104 644)
Other assets	267 442	(118 736)	560	(118 176)
Net cash flow from operating assets	(1 768 685)	(727 987)	560	(727 427)
Increases (decreases) in:				
Financial liabilities measured at amortised cost - Central Banks and other Credit Institutions	(433 803)	(765 982)		(765 982)
Financial liabilities measured at amortised cost - Customers and other	269 472	2 193 081	6 536	2 199 617
Financial liabilities held for trading	4 832	(28 713)		(28 713)
Other liabilities	(38 896)	152 977	(215)	152 762
Net cash flow from operating liabilities	(198 395)	1 551 363	6 321	1 557 684
Contributions to Pension Funds	(10 960)	(13 142)		(13 142)
Income tax paid	(2 751)	39 395	(137)	39 258
	(1 656 636)	**1 260 873**	**(90)**	**1 260 783**
Cash flows from/(used in) investing activities				
Sale of equity holding in BPI Gestão de Activos		75 000		75 000
Sale of equity holding in BPI GIF		8 000		8 000
Impact of desconsolidation of equity holdings sold			90	90
Purchase of other tangible assets and intangible assets	(59 940)	(65 120)		(65 120)
Sale of other tangible assets	2 568	1 800		1 800
Dividends received from investments in joint ventures and associates	7 752	13 246		13 246
	(49 620)	**32 926**	**90**	**33 016**
Cash flows from /(used in) financing activities				
Repurchases and reimbursements of securitisation operations (Note 20.3)	(245 631)	(232 628)		(232 628)
Issuance of debt securities and subordinated debt (Note 20.3)	500 000	550 452		550 452
Redemption of debt securities (Note 20.3)	(11 638)	(216 956)		(216 956)
Purchase and sale of own debt securities and subordinated debt (Note 20.3)	(111)	(1 082)		(1 082)
Interest on debt instruments and subordinated debt	(20 513)	(16 758)		(16 758)
Additional Tier 1 issue	275 000			
Additional Tier 1 interest	(4 479)			
Dividends distribution	(140 000)			
Extraordinary distribution of reserves	(150 000)			
Purchase and sale of treasury shares		377		377
	202 628	**83 405**		**83 405**
Net increase / (decrease) in cash and cash equivalents	**(1 503 628)**	**1 377 204**		**1 377 204**
Cash and cash equivalents at beginning of the year	2 775 773	1 398 569		1 398 569
Cash and cash equivalents at the end of the year	**1 272 145**	**2 775 773**		**2 775 773**
Cash and deposits at Central Banks (Note 9)	951 466	2 229 087		2 229 087
Deposits at other credit institutions (Note 9)	116 795	223 992		223 992
Cheques for collection and other cash items (Note 13.2)	41 651	51 428		51 428
Very short term applications (Note 13.2)	162 233	271 266		271 266
Cash and cash equivalents	**1 272 145**	**2 775 773**		**2 775 773**
Cash and cash equivalents by currency				
EUR	1 025 233	2 406 107		2 406 107
USD	145 072	251 221		251 221
AKZ	19 774	30 293		30 293
Other currencies	82 066	88 152		88 152
Cash and cash equivalents	**1 272 145**	**2 775 773**		**2 775 773**

[1] At 31 December 2018, includes 31 060 t.euros related to the foreign currency hedging operation of dividends.

The accompanying notes are an integral part of these financial statements

The Registered Accountant
Alberto Pitôrra

The Board of Directors
Chairman Fernando Ulrich
Vice-Chairmen Pablo Forero
António Lobo Xavier
Members Alexandre Lucena e Vale
António Farinha Morais
António José Cabral
Cristina Rios Amorim
Fátima Barros
Francisco Barbeira
Gonzalo Gortázar Rotaeche
Ignacio Alvarez-Rendueles
Javier Pano
João Pedro Oliveira e Costa
José Pena do Amaral
Luis Vendrell Pi
Natividad Capella
Pedro Barreto
Tomás Jervell

Banco BPI, S.A.

Notes to the consolidated financial statements at 31 December 2019

(Amounts in thousand euros – t.euros – save where otherwise expressly indicated)

(These notes are a translation of notes originally issued in Portuguese – Note 43)

Notes to the consolidated financial statements of Banco BPI 31 December 2019

NOTES INDEX | PAGE

1. FINANCIAL GROUP, BASIS OF PRESENTATION AND OTHER INFORMATION.

1.1. Financial Group

Banco BPI S.A., (hereinafter referred to as “Banco BPI”, “BPI ” or “Bank”), with corporate tax identification no. 501 214 534 and registered under the same number in the Commercial registry office of Porto, with registered office at Rua Tenente Valadim, no. 284, in Porto, is an entity focusing its activity on commercial banking in Portugal, and provides financial services and products to Individuals and Corporate and institutional Clients. The Bank serves 1.93 million Clients through a multi-specialist, multi-channel and fully integrated distribution network.

BPI started operating in 1981 with the foundation of SPI – Sociedade Portuguesa de Investimentos, S.A.R.L.. By public deed dated December 1984, SPI – Sociedade Portuguesa de Investimentos, S.A.R.L. changed its corporate name to BPI – Banco Português de Investimento, S.A., which was the first private investment bank created in Portugal, after the re-opening, in 1984, of the Portuguese banking sector to private investment. On 30 November 1995 BPI – Banco Português de Investimento, S.A. (BPI Investimentos) was transformed into BPI - SGPS, S.A., which operated exclusively as BPI’s holding company. On 20 December, 2002, BPI SGPS, S.A. incorporated, by merger, the net assets and operations of Banco BPI and changed its corporate name to Banco BPI, S.A.

In the context of its public tender offer for the acquisition of all outstanding shares of Banco BPI, on 8 February 2017 (date of the “Regulated Market Special Session” conducted to announce the result of the public tender offer), CaixaBank acquired shares representative of 39.0% of Banco BPI voting rights. Considering CaixaBank previously owned 45.5%, its overall share ownership reached 84.5% of Banco BPI’s voting rights. As of February 2017, Banco BPI started to be included in CaixaBank Group, and its financial statements are consolidated in accordance with the full consolidation method. Following the acquisition by CaixaBank of an 8.4% stake held by Allianz in the share capital of the Bank, and other acquisitions on the regulated market, on 29 June 2018 Banco BPI’s General Meeting approved the Bank's loss of status of public company under the terms and for the purposes of Article 27-1-b) of the Securities Code. A request for approval of the loss of status of public company was submitted to the Securities and Exchange Commission (CMVM), and was approved on 14 December 2018. On 18 December 2018, CaixaBank launched a Tender Offer Aimed at Full Control and Compulsory Acquisition of Banco BPI S.A. shares. At the end of 2018, CaixaBank became the holder of 100% of Banco BPI’s share capital.

In April 2018, the holdings in BPI Gestão de Activos and BPI Global Investment Management Company (BPI GIF) were sold to the Caixabank Group. The results generated by these entities in 2018 are presented in a single line of the Income Statement under the heading "Profit/(loss) from discontinued operations".

The winding-up process of Banco BPI Cayman, Ltd and BPI Capital Africa (Proprietary) Limited was concluded in 2018 and these two companies were closed down. These companies were fully held by BPI Madeira.

Following the loss of Banco BPI’s significant influence over Banco de Fomento Angola (BFA), the equity holding in BFA was reclassified in the consolidated balance sheet from Investments in joint ventures and associates to Financial assets at fair value through other comprehensive income - equity instruments, and revalued at fair value (Note 15).

In January 2019, the sale of the legal positions related to share brokerage, research and corporate finance activities to Caixabank was realized by Banco Português de Investimento, SA at the book value of the net assets of those activities at the closing date of the transaction (3.9 million euros).

In July 2019, Banco Português de Investimento, S.A. and BPI Private Equity – Sociedade de Capital de Risco were merged by incorporation in Banco BPI. The merger, and consequent extinction of the two companies, became effective on 31 July 2019, with retroactive effects on the accounts as of 1 January 2019.

In November 2019, the liquidation process of BPI Madeira, SGPS, Unipessoal, S.A. was finished.

As of 31 December 2019, the companies that integrated Banco BPI on a consolidated basis were:

	Head office	Shareholders equity [1]	Assets	Profit / (loss) for the year	Holding	Consolidation / Recognition method
Banks						
Banco BPI, S.A.	Portugal	3 283 374	31 664 529	342 113		
Banco Comercial e de Investimentos, S.A.[2]	Mozambique	282 487	2 414 252	58 184	35.67%	Equity method
Asset Management						
BPI (Suisse), S.A.[2]	Switzerland	11 408	13 826	1 414	100.00%	Full consolidation
Venture / development capital						
Inter-Risco – Sociedade de Capital de Risco, S.A.	Portugal	855	1 162	(79)	49.00%	Equity method
Insurance						
Cosec – Companhia de Seguros de Crédito, S.A.	Portugal	49 394	122 014	7 049	50.00%	Equity method
Companhia de Seguros Allianz Portugal, S.A.	Portugal	203 936	1 391 100	40 604	35.00%	Equity method
Other						
BPI, Inc.[2]	USA	758	760	(5)	100.00%	Full consolidation
Unicre - Instituição Financeira de Crédito, S.A.	Portugal	96 688	374 480	16 194	21.01%	Equity method

Note: Unless otherwise indicated, all amounts are as of 31 December 2019 (accounting balances before consolidation adjustments).

[1] Includes net profit (loss) for the year

[1] Amounts converted to euros at the exchange rate of 31 December 2019.

As of 31 December 2018, the companies that integrated Banco BPI on a consolidated basis were:

	Head office	Shareholders equity [1]	Assets	Profit / (loss) for the year	Direct holding	Effective holding	Consolidation / Recognition method
Banks							
Banco BPI, S.A.	Portugal	3 048 617	35 786 366	914 311			
Banco Português de Investimento, S.A.	Portugal	24 391	29 688	2 083	100.00%	100.00%	Full consolidation
Banco Comercial e de Investimentos, S.A.[2]	Mozambique	236 020	2 187 067	57 310	35.67%	35.67%	Equity method
Asset Management							
BPI (Suisse), S.A.[2]	Switzerland	9 626	11 398	2 936	100.00%	100.00%	Full consolidation
Venture / development capital							
BPI Private Equity - Sociedade de Capital de Risco, S.A.	Portugal	30 988	34 731	1 066	100.00%	100.00%	Full consolidation
Inter-Risco – Sociedade de Capital de Risco, S.A.	Portugal	934	1 194	(61)		49.00%	Equity method
Insurance							
Cosec – Companhia de Seguros de Crédito, S.A.	Portugal	46 508	115 247	5 504	50.00%	50.00%	Equity method
Companhia de Seguros Allianz Portugal, S.A.	Portugal	147 936	1 283 060	(2 669)	35.00%	35.00%	Equity method
Other							
BPI, Inc.[2]	USA	743	744	(5)	100.00%	100.00%	Full consolidation
BPI Madeira, SGPS, Unipessoal, S.A.	Portugal	170 023	170 484	18 768	100.00%	100.00%	Full consolidation
Unicre - Instituição Financeira de Crédito, S.A.	Portugal	102 391	349 749	15 343	21.01%	21.01%	Equity method

Note: Unless otherwise indicated, all amounts are as of 31 December 2018 (accounting balances before consolidation adjustments).

[1] Includes net profit (loss) for the year.

[2] Amounts converted to euros at the exchange rate of 31 December 2018.

The financial information provided in the above tables was drawn from the unaudited financial statements of the companies as of 31 December 2019 and 2018. Banco BPI believes that these are properly presented in the consolidated accounts of the Bank.

The vehicles through which Banco BPI's debt securitisation operations are effected are recorded in the consolidated financial statements according to BPI's continued involvement in these operations, determined based on the percentage of the equity interest held in the respective vehicles. As of 31 December 2018, BPI held 100% of the equity pieces in those vehicles, so they were consolidated using the full consolidation method. Securitisations, all issued through SAGRES - Sociedade de Titularização de Créditos, S.A., were as follows:

- Securitisation of residential mortgage loans - Douro Mortgages No. 1
- Securitisation of residential mortgage loans - Douro Mortgages No. 2
- Securitisation of residential mortgage loans - Douro Mortgages No. 3

- Securitisation of loans to SMEs - Douro SME No. 2

These loan securitization operations were refunded in advance during 2019.

1.2. Basis of presentation

The consolidated financial statements were prepared based on the accounting records of Banco BPI and its subsidiary and associated companies, in conformity with the International Accounting Standards / International Financial Reporting Standards (IAS/IFRS) as endorsed by the European Union and in force on 1 January 2019, in accordance with Regulation (EC) 1606/2002 of 19 July of the European Parliament and of the Council, transposed into Portuguese legislation through Bank of Portugal Notice no. 5/2015 of 30 December.

The consolidated financial statements have been prepared on a going concern basis, as provided for in IAS 1 – Presentation of financial statements.

In the preparation of the consolidated financial statements, BPI follows the historical cost convention, modified when applicable for the measurement at fair value of:

- Financial assets and liabilities held for trading
- Financial assets not designated for trading compulsorily measured at fair value through profit or loss
- Financial assets at fair value through other comprehensive income
- Derivatives

The figures are presented in thousands euros (t.euros) unless the use of another monetary unit is stated. Certain financial information in these notes was rounded off and, consequently, the figures shown herein as totals may differ slightly from the arithmetic sum of the individual figures given before them.

Adoption of standards (new or revised) issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as endorsed by the European Union

On 1 January 2019 the following accounting standards came into force (Note 2 - Accounting policies):

Standards and Interpretations	Name
IFRS 16	Leases
Amendments to IFRS 9	Prepayment features with negative compensation
Amendments to IAS 19	Amendment, curtailment or settlement of defined benefit plans
Amendments to IAS 28	Long-term interests in associates and joint ventures
Improvements to standards 2015-2017	Various clarifications: IAS 23, IAS 12, IFRS 3 and IFRS 11
Interpretation to IFRIC 23	Uncertainty about treatment of income tax

On 1 January 2019, Banco BPI adopted the following accounting standards:

- **IFRS 16** (new), ‘Leases’. This new standard replaces IAS 17 – ‘Leases’ with a significant impact on the accounting by lessees who are now required to recognise a lease liability reflecting future lease payments and a “right-of-use asset” for all lease contracts, except for certain short-term leases and for low-value assets. The definition of a lease contract also changed, being based on the “right to control the use of an identified asset”. The application of IFRS 16 may be retrospective or retrospective modified. The impacts from adoption of this standard are described in Note 1.4 – Comparability of the Information.

- **IFRS 9** (amendment), ‘Prepayment features with negative compensation’. The amendment introduces the possibility to classify certain financial assets with negative compensation features at amortized cost, provided that specific conditions are fulfilled, instead of being classified at fair value through profit or loss. There has been no material impact on the Bank’s financial statements as a result of the adoption of this standard.

- **IAS 19** (amendment), Plan amendment, Curtailment or Settlement’. This amendment requires an entity to: i) use updated assumptions to determine the current service cost and net interest for the remaining period after amendment, reduction or settlement of the plan; and ii) recognize in the income statement as part of the cost of past services, or as a gain or loss in the settlement, any reduction in the excess of coverage, even if the excess of coverage had not been previously recognized, due to the impact of the asset ceiling. The impact on asset ceiling is recognised in Other Comprehensive Income, not being allowed to recycle it through profit for the year. There has been no material impact on the Bank’s financial statements as a result of the adoption of this standard.

- **IAS 28** (amendment), 'Long-term interests in Associates and Joint Ventures'. The amendment clarifies that long-term investments in associates and joint ventures (components of an entity's investments in associates and joint ventures), that are not being measured through the equity method, are to be measured in accordance with IFRS 9 – 'Financial instruments'. The long-term investments in associates and joint ventures are subject to the expected credit loss impairment model, prior to being added, for impairment test purposes, to the whole investment in associates and joint ventures, when impairment indicators exist. There has been no material impact on the Bank's financial statements as a result of the adoption of this standard.

- **Annual improvements 2015 – 2017.** The 2015-2017 annual improvements impact: IAS 23, IAS 12, IFRS 3 and IFRS 11. There has been no material impact on the Bank's financial statements as a result of the adoption of these improvements.

- **IFRIC 23** (new), 'Uncertainty over income tax treatment'. This is an interpretation of IAS 12 - 'Income tax' and refers to the measurement and recognition requirements to be applied when there is uncertainty as to the acceptance of an income tax treatment by the tax authorities. In the event of uncertainty as to the position of the tax authority on a specific transaction, the entity shall make its best estimate and record the income tax assets or liabilities under IAS 12, and not under IAS 37 – 'Provisions, contingent liabilities and contingent assets', based on the expected value or the most probable value. The application of IFRIC 23 may be retrospective or retrospective modified. There has been no material impact on the Bank's financial statements as a result of the adoption of this standard.

The standards (new and amendments) endorsed by the EU, which are of mandatory application for annual periods beginning on or after 1 January 2020, are as follows:

Standards and Interpretations issued by the IASB

Standards and Interpretations	**Name**	**Mandatory application for years starting on:**
Approved by the European Union until 31 December 2019		
Amendments to IAS 1 and IAS 8	Definition of material	1 January 2020
Not approved by the European Union until 31 December 2019		
Amendments to IFRS 3	Definition of business	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest rate benchmark reform	1 January 2020
IFRS 17	Insurance contracts	1 January 2021

- **IAS 1 e IAS 8** (amendment), 'Definition of material' (effective for annual periods beginning on or after 1 January 2020). The amendment revises the concept of material. Includes clarifications as to obscured information, its effect being similar to the omission or distortion of information; and also, clarifications as to the term 'primary users of general purpose financial statements', defined as 'existing or potential investors, lenders and other creditors' that rely on general purpose financial statements to obtain a significant part of the information that they need. It is not expected that the future adoption of this standard will result in a material impact in the Bank's financial statements.

- **IFRS 3** 'Definition of a business (effective for annual periods beginning on or after 1 January 2020). This amendment is still subject to endorsement by the European Union. The amendment revises the definition of a business in order to account for business combinations. The new definition requires that an acquisition include an input, as well as a substantial process that jointly generate outputs. Outputs are now defined as goods and services rendered to customers, that generate investment income and other income, and exclude returns as lower costs and other economic benefits for shareholders. Optional 'concentration tests' for the assessment if one transaction is the acquisition of an asset or a business combination, are allowed. This amendment will apply to transactions occurring after its entry into force.

- **IFRS 9, IAS 39 and IFRS 7** (amendment), 'Interest rate benchmark reform' (effective for annual periods beginning on or after 1 January 2020. These amendments were approved by the European Union in 15 January 2020, being part of the first phase of IASB 'IBOR reform' project and provide certain reliefs in connection with interest rate benchmark reform. The relief relate to hedge accounting, in terms of: i) risk components; ii) 'highly probable' requirement; iii) prospective assessment; iv) retrospective effectiveness test (for IAS 39 adopters); and v) recycling of the cash flow hedging reserve, with the objective that interest rate benchmark reform does not cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Most of the hedging ratios carried out by Banco BPI are based on the EURIBOR index, which was not replaced on 31 December 2019, only its calculation methodology was changed. In this context, Banco BPI considers that there is no uncertainty in the date of preparation of the annual accounts in relation to the disappearance of EURIBOR, and, therefore, the detail of the information provided for in the amendment of this standard is not applicable.

- **IFRS 17** (new), 'Insurance contracts' (effective for annual periods beginning on or after 1 January 2021). This standard is still subject to endorsement by the European Union. This new standard replaces IFRS 4 and applies to all entities issuing insurance contracts, reinsurance contracts and investment contracts with discretionary participation characteristics. IFRS 17 is based on the current measurement of technical liabilities at each reporting date. The current measurement can be based on a complete "building block approach" or "premium allocation approach". The recognition of the technical margin is different depending on whether it is positive or negative. IFRS 17 is of retrospective application. Banco BPI does not have subsidiaries that are active in the insurance business and therefore do not anticipate effects on the Bank's financial statements resulting from the adoption of this standard.

1.3. Responsibility for the information and for the main estimates made

BPI's consolidated financial statements as of 31 December 2019 were approved by the Board of Directors on 20 March 2020 and are still pending approval by the sole Shareholder. However, it is expected that they will be approved with no changes. The consolidated financial statements for the previous year were approved by the single Shareholder by unanimous resolution taken on 29 April 2019.

The preparation of the consolidated financial statements required to make certain judgements, estimates and assumptions in order to quantify some of the assets, liabilities, revenues, expenses and obligations recognised in them. These judgements, estimates and assumptions relate primarily to:

- Impairment losses on financial assets and the associated guarantees based on their accounting classification imply the adoption of assumptions relating to: (i) the consideration of "significant increase in credit risk" (SICR), (ii) definition of default; and (iii) the inclusion of forward-looking information (Notes 2.7 and 3.3.2).
- Fair value of some financial assets and liabilities (Note 40). The fair value of unlisted financial assets and derivatives was estimated based on valuation methods and financial theories, the results of which depend on the assumptions used.
- Actuarial assumptions used to measure post-employment liabilities and commitments (Note 23). Retirement and survivor pension liabilities have been estimated based on actuarial tables, assumptions of the increase in pensions and salaries and discount rates. These assumptions are based on Banco BPI's expectations for the period during which the liabilities will be settled.
- Current and deferred taxes have been recognised based on the tax legislation currently applicable to Banco BPI or on legislation already published for future application (Note 25). Different interpretations of tax legislation can influence the amount of income taxes. Deferred tax assets are recognised based on the assumption of future earnings and taxable income.
- As regards the tax impacts of application of IFRS 16, the position of the Tax Authority on the matter is not yet known. The Bank has been considering the accounting records as relevant for tax purposes, as was the case with the previous accounting standards, thus not giving rise to any temporary difference. As this is the best possible judgement of the Bank to date, it is to be expected that the Tax Administration will agree with it when it makes public its position on the matter.
- Assessment of whether there exists control or significant influence over equity holdings in accordance with the criteria defined in IFRS10 and IAS 28 (Note 2.1).
- The measurement of investments in joint ventures and associates and determination of the share of profit/(loss) of these investments (Note 15).
- The measurement of provisions and contingent liabilities and respective probability of occurring (Note 21).
- The useful life of tangible assets, including rights-of-use assets and intangible assets (Notes 16 and 17).

These estimates are based on the best information available at the time of preparation of the annual consolidated financial statements. Subsequent events may require changing the estimates in future periods. In accordance with the applicable legislation and BPI's governance systems, the effects of these changes would be accounted for on a prospective basis in the corresponding income statement, in accordance with IAS 8 - Accounting Policies, change in estimates and errors.

1.4. Comparability of the information

The figures at 31 December 2018 contained in the consolidated financial statements are presented solely for purposes of comparison.

IFRS 16 – "Leases"

As stated in note 1.2-"Basis of presentation", Banco BPI has applied IFRS 16 – "Leases" from 1 January 2019. In this sense, it has decided not to reassess whether an agreement is a lease or contains a lease component in accordance with the criteria of the standard, applying it solely for agreements that had been identified as leases in accordance with the previous standard.

For leases in which the Bank intervenes as lessee, previously classified as operating leases, BPI applied the new standard retroactively, following the modified retrospective approach, which permits to estimate the value of the right of use by reference to the transaction's financial liability, therefore not requiring any adjustment to reserves as at 1 January 2019. In addition, it was decided to exclude from the scope, in line with the simplifications considered in the new regulatory framework, lease agreements whose term expires within the twelve months following the initial application date.

The main type of agreements identified for which a right-of-use asset and a lease liability had to be estimated at 1 January 2019 were real estate leases in connection with Banco BPI's operating activity (office buildings used by the commercial network and central services).

The balance sheet items at 31 December 2018 relative to lease agreements were not restated and therefore their detail is not comparable with the information presented for 31 December 2019.

The implementation of this standard at 1 January 2019 implied the recognition of a right of use in the amount of 109 million euros and a transfer of costs with rents paid, recognised under other administrative expenses up to 31 December 2018, to costs with depreciation and amortisation of tangible assets, during the year of 2019 (25 million euros).

The impact of the adoption of IFRS16 on 1 January 2019, by balance sheet caption, was as follows:

	31-12-2018	IFRS 16 adoption	01-01-2019
Tangible assets	67 252	108 576	175 828
Total assets	**31 568 015**	**108 576**	**31 676 591**
Other financial liabilities	230 954	108 576	339 530
Total liabilities	**28 362 063**	**108 576**	**28 470 639**

The reconciliation between the amounts that were classified as commitments with operating leases on 31 December 2018, with the amount recorded on January 1, 2019 as a lease liability, is as follows:

Commitments with operating leases on 31-12-2018	**62 327**
Different lease term treatment	48 652
Other adjustments (includes financial discount on future payments)	(2 403)
Lease liability on 01-01-2019	**108 576**
Type of discount applied (depending on the lease term)	
Portugal	*[0,00%-2,27%]*

Restatement of the income statement on 31-12-2018

Regarding the income statement reported on 31 December 2018, were made the following reclassifications between captions:

	31-12-2018 Restated	31-12-2018	Difference
Interest income	510 264	510 264	
Interest expenses	(87 688)	(87 688)	
NET INTEREST INCOME	**422 576**	**422 576**	
Dividend income	1 723	1 723	
Share of profit/(loss) of entities accounted for using the equity method	271 556	271 556	
Fee and commission income	319 009	319 009	
Fee and commission expenses	(41 239)	(41 239)	
Gains/(losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	1 457	1 457	
Gains/(losses) on financial assets and liabilities held for trading, net	39 027	39 027	
Gains/(losses) on financial assets not designated for trading compulsorily measured at fair value through profit or loss, net	60 321	60 321	
Gains/(losses) from hedge accounting, net	1 398	1 398	
Exchange differences (gain/loss), net	(25 328)	(25 328)	
Other operating income	27 331	11 487	15 844
Other operating expenses	(55 532)	(24 427)	(31 105)
GROSS INCOME	**1 022 299**	**1 037 560**	**(15 261)**
Administrative expenses	**(435 092)**	**(435 092)**	
Staff expenses	(262 214)	(262 214)	
Other administrative expenses	(172 878)	(172 878)	
Depreciation and amortisation	**(23 827)**	**(23 827)**	
Provisions or reversal of provisions	**(1 072)**	**(1 072)**	
Commitments and guarantees given	(4 161)	(4 161)	
Other provisions	3 089	3 089	
Impairment/(reversal) of impairment losses on financial assets not measured at fair value through profit or loss	**48 967**	**48 967**	
Financial assets at amortised cost	48 967	48 967	
Impairment/(reversal) of impairment in subsidiaries, joint ventures and associates	(6 689)	(6 689)	
Impairment/(reversal) of impairment on non-financial assets	(1 672)	(1 672)	
Gains/(losses) on derecognition of non-financial assets, net	(55 145)	(55 181)	36
Profit/(loss) from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	(5 131)	(5 131)	
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**542 638**	**557 863**	**(15 225)**
Tax expense or income related to profit or loss from continuing operations	(116 214)	(131 439)	15 225
PROFIT/(LOSS) AFTER TAX FROM CONTINUING OPERATIONS	**426 424**	**426 424**	
Profit/(loss) after tax from discontinued operations	**64 214**	**64 214**	
Profit/(loss) before tax from discontinued operations	64 955	64 955	
Tax expense or income related to profit or loss from discontinued operations	(741)	(741)	
PROFIT/(LOSS) FOR THE PERIOD	**490 638**	**490 638**	
PROFIT OR LOSS (-) FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT	**490 638**	**490 638**	

- Gains on financial leases, in the amount of 15 844 t.euros, were reclassified from the caption “Gains/(losses) on derecognition of non-financial assets, net” to the caption "Other operating income".
- Losses on financial leases, in the amount of (15 326) t.euros, and other losses, (554) t.euros, were reclassified from the caption “Gains/(losses) on derecognition of non-financial assets, net” to the captio "Other operating expenses".
- Expenses with the banking sector contribution, in the amount of (15 225) t.euros, were reclassified from the caption “Tax expense or income related to profit or loss from continuing operations” to the caption "Other operating expenses".

2. ACCOUNTING POLICIES

In the preparation of the consolidated financial statements for the year ended on 31 December 2019, the following accounting principles and policies and valuation criteria were applied:

2.1. Consolidation of subsidiaries and jointly controlled entities and recognition of associated companies (IFRS 10, IFRS 11, IAS 28 and IFRS 3)

Banco BPI has direct and indirect holdings in subsidiary and associated companies.

Subsidiaries are entities over which the Bank has control, which is evidenced when the following conditions are cumulatively met:

- the power to conduct the company's relevant activities;
- the ability to use this power over the investee to affect the amount of its variable returns;
- exposure, or right, to variable returns from its involvement with the investee.

As a rule, voting rights give the ability to direct the relevant activities of an investee. To calculate voting rights, all direct and indirect voting rights, as well as potential voting rights (e.g. call options on equity instruments of the investee) are considered. In some circumstances, a company may have power to direct the activities without holding a majority of the voting rights, or vice-versa. In these cases, the investor considers whether it has the practical ability to direct the relevant activities unilaterally (financial and operating decisions, or appointing and remunerating governing bodies, among others).

The financial statements of subsidiaries are consolidated using the full consolidation method. Significant intra-group transactions and account balances are eliminated in the consolidation process. The amount of share capital, reserves and net results corresponding to third party participation in these subsidiaries is reflected in the Non-controlling interests caption, except for investment funds which are recorded in the caption Resources of Customers.

Associated companies are entities over which Banco BPI has direct or indirect significant influence over their management and financial policies but over which it does not have control. As a general rule, significant influence is understood to exist when the Bank holds 20% or more of the share capital of the investee. If it holds less than 20% of the voting rights, significant influence is evidenced by the circumstances indicated in IAS 28. These include representation on the Board of Directors of the investee, participation in financial and operational policy-making processes, material transactions between the Bank and its investee, interchange of managerial personnel or the provision of essential technical information.

Exceptionally, companies are not considered associates when more than 20% of the voting rights are held, but it can clearly be demonstrated that significant influence does not exist and, therefore, the Bank lacks the power to intervene in the investee's financial and operation policies. Based on these criteria, at the end of the year, the Bank holds equity holdings in which it has more than 20% of the share capital in the portfolio of Financial assets at fair value through other comprehensive income.

Associated companies are accounted for using the equity method. In accordance with this method, the amount of the investment, which is initially recognised at cost, is adjusted by post-acquisition changes in the net asset value of the associated companies, in proportion to BPI’s participation.

When necessary, adjustments are made to the subsidiaries’ financial statements to ensure their consistency with BPI’s accounting policies.

Goodwill - arising from positive differences between the cost of acquisition (including expenses) and the fair value of the identifiable assets, liabilities and contingent liabilities of subsidiaries at first consolidation date - is recorded as an asset and is subject to impairment tests. When a subsidiary is sold, goodwill is included in the calculation of the gain or loss on the sale.

Goodwill related to associated companies is included in the book value of the investment. The book value of associated companies (including goodwill) is subject to impairment tests in accordance with IAS 36.

In the case of associated companies acquired in stages, goodwill is calculated at the time that the acquired company becomes an associate, being determined as the difference between the total acquisition cost of the investment and the proportion held of the fair value of the identifiable assets and liabilities of the associate as of that date. As provided for in IAS 28, total acquisition cost corresponds to the fair value of the original investment on the date that significant influence is achieved, plus the amount paid for the additional participation. In accordance with the policy established by BPI, gains or losses on the revaluation of the fair value of the original investment are recognised as profit or loss on the date the acquired company becomes an associate.

Following the loss of significant influence over an associate, and in accordance with IAS 28, the equity holding is reclassified from the Investments in Associates portfolio to the Financial assets at fair value through other comprehensive income portfolio, the respective fair value being determined on the date significant influence is lost. The difference between the fair value of the equity holding and the cost of investment at that date is recognised as profit or loss.

In accordance with IFRS 1 and BPI's accounting policies, up to the date of transition to IAS/IFRS, goodwill on investments acquired up to 1 January 2004 was deducted in full from shareholders' equity.

Negative goodwill - arising from negative differences between the cost of acquisition (including expenses) and the fair value of the identifiable assets, liabilities and contingent liabilities of subsidiaries and associates at first consolidation date or at the date the equity method is first applied is immediately recognised as a profit or loss.

Consolidated net income is the sum of the individual net income of Banco BPI and the percentage of the net income of subsidiary, associated and joint venture companies, equivalent to Banco BPI's effective equity holding in them, considering the holding period, and after consolidation adjustments have been made, namely elimination of income and expenses resulting from inter-group transactions.

Foreign currency subsidiary and associated companies (IAS 21 and IAS 29)

The foreign currency financial statements of subsidiary and associated companies are included in the consolidated financial statements after being translated to Euro at the exchange rates published by Banco de Portugal and, in the case of BFA and BCI, by the Central Banks of Angola and Mozambique, respectively:

- assets and liabilities expressed in foreign currencies are translated to Euro at the exchange rates in force at the balance sheet date;
- income and expenses expressed in foreign currencies are translated to Euro at the exchange rates in force in the month in which they are recognised; and,
- exchange differences resulting from translation to Euro are recognised directly in the shareholders' equity caption Revaluation reserves.

When a foreign entity is sold, the accumulated exchange difference is recognised in the income statement as a gain or loss on disposal.

The exchange rates used for the translation to Euro of the accounts of foreign subsidiaries and associated companies were as follows:

	31-12-2019	31-12-2018
Metical - Mozambique	68.89	70.250
Swiss Franc - Switzerland	1.0854	1.127
US Dollar - USA	1.1234	1.145

Banco de Fomento Angola, SA (BFA)

In January 2017 Banco BPI sold 2% of the share capital of Banco de Fomento Angola to Unitel, reducing its holding in BFA to 48.1%, and entering into an agreement with BFA's shareholders under which BPI is entitled to appoint two, from a maximum of fifteen, members of the Board of Directors of BFA, as well as one member of its Supervisory Board, and one member of the Risk Committee and the Remuneration Committee. BPI's stake in BFA's share capital and participation in BFA's governing bodies, although minoritary and not proportional to the share capital held, permitted to presume the existence of significant influence over BFA, in accordance with the IAS 28 provisions. Therefore, following the sale of 2% of BFA, Banco BPI now classifies its holding in BFA as an associate.

As referred in Note 1.3, at each financial statements preparation date, Banco BPI revises the main estimates and uncertainties associated to the application of the accounting policies in the preparation of the financial information. Therefore, given the existence of indications of a possible loss of significant influence, on the date of preparation of the financial statements with reference to 31 December 2018, the classification of Banco de Fomento Angola as an associate was revised as an associated company. From the main issues considered, one of the most important concerned the absence of BPI representatives in the executive body of BFA - the Executive Committee, which is the body responsible for the bank's operational management -, which determined BPI's lack of real power to participate in the financial and operating policy decisions of BFA under the terms set forth in paragraph 6 of IAS 28. BPI's minority position in BFA's Board of Directors, alongside a shareholder that holds control, also prevented BPI from having a real capacity to exercise significant influence in the management of BFA. In this context, the weight of BPI's participation in BFA's financial and operating policy decisions was much curtailed relative to initial expectations, based on the past experience of shareholders' relationship, where BPI played a key role in the management of BFA.

Taking into account that increase in experience, assessment and knowledge about the shareholder relationship of BPI in BFA, it is considered that at the end of 2018 the circumstances on which the existence of real capacity on the part of BPI to exercise significant influence over BFA was based no longer exist. In view of these circumstances, at the end of 2018, BPI considered it appropriate to limit its presence in the committees and management bodies of BFA in which it was represented, maintaining only the minority presence in the aforementioned corporate bodies of BFA.

In accordance with the accounting standards, the loss of significant influence entailed, in Banco BPI's consolidated balance sheet, reclassifying the equity holding in BFA from Associate to Financial assets at fair value through other comprehensive income - Equity instruments, and its revaluation at fair value at 31 December 2018.

During the year of 2019, there were no changes in the conditions that led to the reclassification of the equity holding in BFA to Financial assets at fair value through other comprehensive income - Equity instruments, so it remained in that portfolio.

2.2. Financial instruments (IAS 32, IFRS 7, IFRS 9 and IFRS 13)

Classification of financial assets

The following table details the criteria established by the accounting standards for the classification of financial instruments:

<table>
<tr><th>Contractual cash flows</th><th>Business Model</th><th>Classification of Financial Assets</th></tr>
<tr><td rowspan="2">Solely payments of principal and interest (SPPI) on principal at the dates indicated (SPPI test)</td><td>With the objective of receiving the contractual cash flows</td><td>Financial assets at amortised cost</td></tr>
<tr><td>With the objective of receiving the contractual cash flows and sale</td><td>Financial assets at fair value through other comprehensive income</td></tr>
<tr><td rowspan="5">Others - do not require SPPI test</td><td>Derivative instruments designated as accounting hedges</td><td>Derivatives - Hedge accounting</td></tr>
<tr><td>Instruments originated or acquired with the aim of being realised in the short term</td><td rowspan="3">Financial assets held for trading</td></tr>
<tr><td>Included in a group of financial instruments identified and managed together, for which there is evidence of a recent pattern of short-term profit-taking</td></tr>
<tr><td>Derivative instruments that do not meet the definition of a financial guarantee contract and have not been designated as hedging instruments.</td></tr>
<tr><td>Other</td><td>Financial assets not designated for trading compulsorily measured at fair value through profit or loss</td></tr>
</table>

Investments in equity instruments are an exception to the aforementioned general classification criteria. In general, at initial recognition the Bank irrevocably exercises the option of including - in the portfolio of financial assets at fair value through other comprehensive income - investments in equity instruments that are not classified as held for trading and that, in the event this option were not exercised, would be classified as financial assets compulsorily measured at fair value through profit or loss.

As for the assessment of the business model, this does not depend on the intentions for an individual instrument, but rather for a set of instruments, taking into account the frequency, amount and schedule of sales in previous years, the reasons for those sales and the expectations for futures sales. Infrequent or insignificant sales, sales near the maturity date of the asset and sales driven by a significant increase in the credit risk of the financial assets or to manage the concentration risk, among others, can be compatible with the model of holding assets to receive contractual cash flows.

If a financial asset is subject to a contractual clause under which the schedule or amount of its contractual cash flows can be modified (e.g. if the asset can be redeemed in advance or if maturity can be extended), the Bank determines whether the contractual cash flows the instrument generates over its life, as a result of the exercise of the aforementioned contractual clause, are solely principal and interest payments on the outstanding principal.

In the case of a financial asset with a periodic adjustment of the interest rate but where the frequency of that adjustment does not match the term of the reference interest rate (e.g., the interest rate is adjusted every three months), at the time of initial recognition the Bank assesses this mismatch in the interest component in order to determine whether the contractual cash flows represent solely principal and interest payments on the outstanding principal.

The contractual conditions contained in financial assets that, at the time of initial recognition, have a minimum effect on the cash flows or depend on exceptional and highly unlikely events taking place (such as liquidation by the issuer) do not prevent the asset from being classified in the amortised cost portfolio or fair value portfolio through other comprehensive income portfolio.

Classification of financial liabilities

Financial liabilities are classified under the following captions: “Financial liabilities held for trading”, “Financial liabilities designated at fair value through profit or loss” and “Financial liabilities at amortised cost”, save for liabilities that must be presented under “Liabilities included in disposal groups classified as held for sale” or relate to “Fair value changes of the hedged items in portfolio hedge of interest rate risk” or “Derivatives – Hedge accounting”, which are presented separately.

The caption "Financial liabilities at amortised cost": includes financial liabilities not classified as financial liabilities held for trading or as other financial liabilities at fair value through profit or loss. The balances recognised in this category, irrespective of how they are used and their maturity, arise from the ordinary funding activities of credit institutions.

Initial recognition and measurement

Upon initial recognition, all financial instruments are recognised at fair value. For the financial instruments that are not subsequently valued at fair value through profit or loss, the fair value amount is adjusted, adding or deducting transaction costs directly attributable to the acquisition or issuance thereof. In the case of financial instruments at fair value through profit or loss, the directly attributable transaction costs are immediately recognised in the income statement.

The transaction costs are defined as expenses directly attributable to the acquisition or sale of a financial asset, or to the issuance or assumption of a financial liability, which would not have been incurred if the Bank had not made the transaction. These include, among others, fees paid to intermediaries (such as promoters) and mortgage arrangement expenses. Under no circumstances are the internal administrative expenses or those deriving from prior research and analysis considered transaction costs.

Subsequent measurement of financial instruments

After its initial recognition, the Bank recognises a financial instrument at amortised cost, at fair value through profit or loss, or at fair value through other comprehensive income.

Receivables for trading operations that do not have a significant financing component and the commercial loans and short-term debt securities that are initially measured by the price of the transaction or its outstanding principal, respectively, continue to be measured by said amount, deducted of impairment losses, as described in section 2.7.

Income and expenses of financial assets and liabilities

The income and expenses of financial instruments at amortised cost are recognised according to the following criteria:

Portfolio		Recognition of revenue and expenses
Financial assets	**At amortised cost**	• **Accrued interest:** On the income statement, with the effective interest rate of the operation on the gross book value of the operation (except for stage 3 assets, where the rate applies to the net book value) • **Other changes in value**: gains or losses when the financial instrument is derecognised from the balance sheet, reclassified, or when there are impairment losses or gains on its subsequent recovery.
	At fair value through profit or loss	• **Changes in fair value:** changes in fair value are recognised directly in the income statement, distinguishing, for non-derivative instruments, between the part attributable to the instrument's return, which will be booked as interest or dividends in accordance with its nature, and the remainder, which will be booked as a gain or loss in financial operations, in the corresponding caption. • **Accrued interest:** in debt securities it is calculated using the effective interest rate method.
	At fair value through other comprehensive income [1]	• Accrued interest or dividends recognised in the income statement. Interest is recognised in assets at amortised cost. • Foreign exchange differences in the income statement, when debt securities, and in other comprehensive income, when equity instruments. • Impairment losses, debt securities or gains for subsequent recovery in the income statement. • The remaining changes in value are recognised in other comprehensive income.
Financial Liabilities	**At amortised cost**	• **Accrued interest:** in the income statement, at the transaction's effective interest rate on the gross amount of the transaction. • **Other changes in value:** gain or loss when the financial instrument is derecognised from the balance sheet or reclassified.
	At fair value through profit or loss	• **Changes in fair value:** changes in the value of a financial liability designated at fair value through profit or loss, when applicable, as follows: a) the change in the fair value of a financial liability attributable to a change in its own credit risk is recognised in other comprehensive income, which would be directly transferred to a reserves caption when the financial liability was derecognised. b) the remainder of the fair value change is recognised as a profit / (loss) for the year. • **Accrued interest:** in debt securities it is calculated using the effective interest rate method.

[1] Thus, when a debt security is recognised at fair value through other comprehensive income, the amounts recognised as profit or loss for the period are the same as those that would be recognised if measured at amortised cost. When a debt security measured at fair value through other comprehensive income is derecognised from the balance sheet, the gain or loss accumulated in other comprehensive income is reclassified as profit or loss for the period. On the other hand, when an equity instrument measured at fair value through other comprehensive income is derecognised from the balance sheet, the gain or loss recognised in other comprehensive income is not reclassified as a profit or loss for the period. For each of the above portfolios, the recognition would change if said instruments form part of a hedging relationship (Note 2.3.).

Reclassifications between financial instrument portfolios

Under the IFRS 9 requirements, reclassifications between financial instruments portfolios can only occur in the event the Bank decides to change its business model for the management of a financial assets portfolio. This reclassification would be carried out prospectively from the date of the reclassification. In accordance with the IFRS 9 approach, in general, changes in the business model occur very infrequently. Financial liabilities cannot be reclassified between portfolios.

2.3. Hedge accounting

Banco BPI uses financial derivatives as a financial risk management tool, mainly to hedge interest rate risk (Note 3 and 14). When these transactions meet certain requirements, they qualify for hedge accounting. The Bank applies the provisions of IFRS 9 relating to hedge accounting.

The Bank maintains the hedging relationship documentation, which includes the identification of the hedging instrument and of the hedged item, the nature of the risk to be hedged and the way in which the Bank assesses whether the hedging relationship meets the requirements of hedging effectiveness. In accordance with IFRS 9, to ensure that the effectiveness requirement is met:

a) there must be an economic relationship between the hedged item and the hedging instrument,

b) the credit risk of the hedged item's counterparty or of the hedging instrument should not have a dominant effect on changes in value resulting from said economic relationship, and

c) the coverage ratio of the hedge accounting relationship, understood as the share of the item hedged by the hedging instrument, must be the same as the coverage ratio used for management purposes.

Fair value hedges

Fair value hedges hedge the exposure to changes in fair value of financial assets and liabilities or unrecognised firm commitments, or an identified portion of such assets, liabilities or firm commitments, that are attributable to a particular risk and could affect the income statement.

In fair value hedges, value changes in the hedging instrument or in the hedged item for the portion attributable to the hedged risk, are recognised in an asymmetrical way according to whether the hedged item is a debt instrument or an equity instrument.

In debt securities, value changes in the hedging instrument or in the hedged item for the portion attributable to the hedged risk are recognised in the income statement, in the "Gains/(losses) from hedge accounting, net" caption. In fair value macro-hedges, value changes in the hedged items are balanced in “Assets – Fair value changes of the hedged items in portfolio hedge of interest rate risk” or “Liabilities – Fair value changes of the hedged items in portfolio hedge of interest rate risk” depending on the substance of the hedged item, rather than in the captions under which the hedged items are recognised.

When hedging derivatives no longer meet the requirements for hedge accounting, they are reclassified as trading derivatives. Fair value changes in debt securities are recognised in profit or loss using the effective interest rate method, as from the date the hedge is interrupted.

Banco BPI does not have hedges for equity instruments.

2.4. Offsetting of financial assets and liabilities

Financial assets and a financial liabilities may be offset and the net amount presented in the balance sheet when, and only when, the Bank has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously, taking the following into consideration:

- The legally enforceable right to set off the recognised amounts should not be contingent on a future event and must be legally enforceable in all circumstances, including cases of default or insolvency of any or all of the counterparties;
- Settlements are considered equivalent to 'net settlement' when they meet the following requirements: they totally eliminate or result in insignificant credit and liquidity risk; and settlement of the asset and liability is made in a single settlement process.

In BPI's financial statements, derivatives and repo security transactions that permit the offsetting of credit risk by counterparty are not offset for accounting purposes - the value of each transaction is recognised in assets or liabilities depending on whether it is positive or negative, respectively.

2.5. Derecognition of financial instruments

A financial asset is totally or partially derecognised when the contractual rights to the cash flows from the financial asset expire or when they are transferred to a third party outside the entity.

The accounting treatment of transfers of financial assets depends on the manner and the extent to which the risks and rewards associated with ownership of the transferred assets are transferred to third parties:

- If substantially all the risks and rewards of ownership of the transferred asset are transferred (such as in the case of, among others: unconditional sales, a sale with an option to repurchase the financial asset at its fair value at the time of repurchase, a sale of a financial asset together with a put or call option that is deeply out of the money, or asset securitisations in which the transferor does not retain any subordinated loans and does not provide any type of credit enhancement to the new owners), it is derecognised, and any rights or obligations retained or arising as a result of the transfer are simultaneously recognised;

- If all the risks and rewards of ownership of the transferred financial asset are retained substantially (such as in the case of among others: sale and repurchase transactions where the repurchase price is a fixed price or the sale price plus a lender's return, a securities lending agreement under which the borrower has the obligation to return the securities or similar) it is not derecognised and continues to be measured by the same criteria used before the transfer and the following are recognised:

  - A financial liability equal to the consideration received, which is subsequently measured at amortised cost, unless it meets the requirements to be classified under other liabilities at fair value through profit or loss.

  - The income generated on the transferred (but not derecognised) financial asset and the expenses of the new financial liability, without offset.

- If substantially all the risks and rewards of ownership of the transferred financial asset are neither transferred nor retained (such as in the case of, among others, a sale of a financial asset together with a put or call option, securitisations in which the transferor assumes a subordinated loan or other type of credit enhancement for part of the transferred asset), the following distinction is made:

  - If the transferor does not retain control over the financial asset transferred, it is derecognised and any right or obligation retained or arising from the transfer is recognised.

  - If the transferor retains control over the financial asset transferred, it continues to recognise the asset for an amount equal to its exposure to changes in value of the asset, recognising a liability associated with the financial asset transferred. The net amount of the transferred asset and the associated liability shall be the amortised cost of the rights and obligations retained, if the asset is measured at amortised cost, or at fair value of the rights and obligations retained, if the transferred asset is measured at fair value.

According to the terms of the transfer agreements in place, the portfolio of loans and receivables securitised by the Group does not meet the criteria for derecognition.

Financial liabilities shall equally be derecognised when the obligation specified in the contract is discharged, cancelled or expires.

2.6. Financial guarantees

<u>Financial guarantees given</u>

Financial guarantees are defined as contracts whereby the issuer thereof undertakes to make specific payments to reimburse the creditor for the loss incurred when a specific debtor fails to meet its payment obligations, irrespective of the legal form of the obligation (guarantee, surety, financial or technical guarantee, insurance contract or other types of contract).

Financial deposits comprise all manner of deposits that directly or indirectly guarantee debt securities such as loans, credit facilities, finance leases and deferred payment arrangements for all types of debt.

All these transactions are recognised as off-balance sheet items.

Financial guarantees are reviewed periodically so as to determine the credit risk to which they are exposed and, if appropriate, estimate any impairment required. The criteria used in this process is similar to those established for quantifying impairment losses on debt securities measured at amortised cost as set out in Note 2.7 - Impairment of financial assets.

Impairment constituted for this type of arrangement are recognised under the "Provisions" balance sheet caption. Additions to and reversals of impairment are recognised in "Provisions or reversal of provisions" in the income statement.

Financial guarantees received

No significant guarantees or collateral were received with regard to which there is authorisation to sell or repledge, without default by the guarantor, except for the collateral inherent to Banco BPI's treasury activity.

2.7. Impairment of financial assets

The Bank determines impairment losses for debt securities that are measured at amortised cost and at fair value through other comprehensive income, as well as for other exposures that involve credit risk, such as granted financial guarantees and other granted commitments.

The aim of the IFRS 9 requirements as regards impairment is to ensure recognition of expected credit losses on operations, assessed collectively or individually, considering all the reasonable, reliable and duly substantiated information available at each reporting date, including forward looking information.

Impairment losses on debt securities in the period are recognised as an expense under the heading "Impairment/(reversal) of impairment losses on financial assets not measured at fair value through profit or loss" in the income statement. Impairment losses on debt securities that are measured at amortised cost are recognised against an accumulated impairment caption on the balance sheet, which reduces the book value of the asset, while impairments of assets measured at fair value through other comprehensive income are recognised against other comprehensive income, in the corresponding equity caption.

Impairment losses in exposures involving credit risk other than debt securities are recorded as a provision under the heading "Provisions – Commitments and guarantees given" on the liabilities side of the balance sheet. Additions to and reversals are recognised under the heading "Provisions or reversal of provisions for commitments and guarantees given" in the income statement.

For the purpose of accounting for impairment losses in debt securities, the following definitions must be taken into account:

- **Credit losses:** these correspond to the difference between all the contractual cash flows owed to the Bank in accordance with the financial asset's contractual conditions and all the cash flows that the Bank is due to receive (i.e. the entire cash flow shortfall), discounted at the original effective interest rate or, for financial assets that were purchased with or that originated with credit impairment, discounted at the effective interest rate adjusted to reflect credit quality, or the interest rate on the date referred to in the financial statements in the case of a variable rate.

  In the case of granted loan commitments, the contractual cash flows that would be owed to the Bank in the event the loan commitment were drawn down are compared to the cash flows that it would expect to receive when the asset is recognised. In the case of granted financial guarantees, the Bank considers the payments that it expects to make less the cash flows it expects to receive from the guarantor holder, with medium hedges being applied, based on the Client's profile, on the estimated amount of payments which the Bank expects to make.

  The Bank estimates the cash flows taking into account the contractual duration established for the operations. In the case of credit cards and overdrafts on current accounts of individual Clients, the Bank considers that the expected life of these operations is 12 months.

  The calculation of cash flows also takes into account those deriving from the sale of collateral, taking into account the cash flows that would be obtained from the sale thereof, minus the costs required to obtain them, maintain them and subsequently sell them, or other guarantees that are an integral part of the contractual conditions, such as financial collaterals.

- **Expected credit losses:** these correspond to the weighted average of the credit losses, using as weighting the respective probability of default events. The following distinction will be taken into account:

  i. Expected credit losses during the lifetime of the operation: these are expected credit losses resulting from possible default events during the expected lifetime of the operation.

  ii. Expected credit losses at 12 months: these are the part of the credit losses expected during the lifetime of the operation corresponding to the expected credit losses resulting from any default events relating to a financial instrument during the twelve months following the reference date.

The amount of the impairment loss is calculated according to whether there has been a significant increase in credit risk since the operation's initial recognition, and whether or not a default event has occurred:

Improvement ← **Credit risk since initial recognition** → Deterioration

Credit Risk Category	***Stage 1***	***Stage 2***	***Stage 3***
Impairment (Updated at each reporting date)	**Expected credit losses at 12 months**	**Expected credit losses during lifetime**	

Classification Criteria	**No material change in credit quality since initial recognition**	**Material increase in credit risk since initial recognition***
		• Tolerance matrix[1]
		• Mandatory criteria:
		  • Scoring / Rating[2] at reference date
		  • Restructurings
		  • Indications in Central Credit Register, List of high-risk users
		  • > 2 active EWS[3] (PARI)
		  • > 30 days overdue
		• Combination of tolerance matrix with 1 active EWS
		• Indicators that, in accordance with market indicators/triggers, may determine a significant deterioration in risk
			Credit classified as in default

Interest on income calculated based on:	**Effective interest rate on gross amount**		**Effective interest rate on amortised cost**

1) To capture a significant deterioration in the probability of default (PD)
2) Scoring / Rating above a given classification
3) Early Warning Signal

* The criteria indicated are considered in case they apply to the risk segment.

Regardless of its subsequent classification, in the event that an operation is bought or originated with credit impairment, its hedging would be equal to the accumulated amount of the changes in the credit losses after initial recognition and the interest income of these assets would be calculated by applying the effective interest rate adjusted to reflect credit quality, at the amortised cost.

The derecognition of credit operations by write-off occurs after (i) the recognition of impairment for the total outstanding amount, (ii) confirmation by individual analysis that the expectations of recovery are nil or very residual, and (iii) the existing tax criteria for the purpose have been met. It should be noted that, broadly speaking, the tax criteria for the write-off of loans granted are met (i) when defaults exceed 24 months and (ii) there is no mortgage security.

2.8. Refinancing or restructuring operations

BPI has a Regulation on loan operations restructured or renegotiated due to financial difficulties, which establishes the following:

- Objective and subjective criteria for the identification of customers in financial difficulties;
- General management principles for this type of exposures, including with regard to the assessment of payment capacity, the reinforcement of guarantees, debt cancellation, etc.;
- Typologies of measures to be applied depending on the customer's characteristics;
- Governance of the credit analysis and decision-making process.

To this effect, restructured loans are deemed to be those in which changes are made to the agreed terms, and renegotiated loans, those that are replaced by other loans. These are the main criteria for financial difficulties defined in the Policy:

- Clients in default;
- Clients in default for more than 30 days (currently, or in the last 3 months with BPI, or in the last 12 months in the banking system);
- Drawings above 95% of the ceiling of renewable credit operations;
- Deterioration of the internal risk rating;
- Other risk deterioration subjective criteria.

Some restructurings or renegotiations imply the classification of the customer's exposure as in default, namely when there is a relevant economic loss or when an individual analysis permits to conclude that the restructuring does not ensure the repayment of the debt within a reasonable period. Internal regulations establish specific cure periods for this type of situation, which are restarted whenever the client undergoes a new restructuring or renegotiation due to risk deterioration or non-performance for more than 30 days. Restructurings or renegotiations due to risk deterioration, but not considered in default, are classified in stage 2, with pre-established probation periods.

2.9. Foreign currency transactions

The Bank’s functional and presentation currency is the euro. Consequently, all non-euro balances and transactions are foreign currency balances and transactions.

All foreign currency transactions are recorded, on initial recognition, by applying the indicative spot exchange rate between the functional currency and the foreign currency, disclosed by Banco de Portugal.

At the end of each reporting period, foreign currency balances are translated to euros at the indicative official foreign exchange rate disclosed by Banco de Portugal.

Unmatured forward foreign exchange purchase and sale transactions not considered as hedges, are translated to euros at the yearend exchange rates on the forward currency market.

The exchange differences arising on the translation of foreign currency balances to BPI’s reporting currency are generally recognised under “Exchange differences (net)” in the income statement. However, exchange differences arising from changes in the value of equity instruments at fair value through other comprehensive income, are recognised under “Equity – Other comprehensive income – Items that will not be reclassified to profit or loss”

Income and expenses expressed in foreign currencies are translated to Euro at the exchange rates in force on the day in which they are recognised.

2.10. Recognition of income and expenses

The main criteria applied to recognise income and expenses are summarised as follows:

	Characteristics		Recognition
Income and expenses from interest, dividends and similar	**Income and expenses from interest and similar**		Based on accrual period, through application of the effective interest rate method, regardless of the resulting cash or financial flow.
	Dividends received		As income at the time it is declared (official announcement date of dividend payment by the company's competent body).
Fee and Commissions charged/paid[1]	**Credit Commissions** - are an integral part of the effective revenue or expense of a financing operation. Are received upfront.	Commissions received for the creation or acquisition of financing operations that are not measured at fair value through profit or loss (for example: payments for activities such as the evaluation of the borrower's financial situation, evaluation and registration of various guarantees, negotiation of the operation's terms, preparation and processing of the documentation and closing of the transaction).	Deferred and recognised over the life of the operation as an adjustment to the operation's effective income or cost.
		Commissions agreed as compensation for the commitment to grant financing, when said commitment is not measured at fair value with changes in profit or loss and it is likely that the Group will enter a specific loan agreement.	Deferred over the expected life of the financing as an adjustment to the operation's effective income or cost. If the commitment expires without the entity making the loan, the fee is recognised as income on expiry.
		Commissions paid on the issuance of financial liabilities at amortised cost.	Included, together with the respective direct costs, in the value of the financial liability, charged as an adjustment to the effective cost of the operation.
	Non-credit Commissions - Commissions derived from the provision of financial services other than financing operations.	Related to the execution of a service provided over time (such as account maintenance fees).	Recognised over time, by measuring the completion stage against full compliance with the performance obligation.
		Related with the provision of a service executed at a specific moment (such as subscription of securities, foreign exchange, consultancy or loan syndication).	Recognised in the income at the time of collection.
Other non-financial income and expenses	**Other revenue from recurring activities**		• As a general criterion, they are recognised when the goods or services contracted with the clients are delivered or provided. The amount of the consideration which the Bank expects to be entitled to in exchange for such goods or services is recognised as a revenue over the duration of the contract. • If a client receives or is entitled to receive a consideration without the transfer of the goods or services, a liability is recognised and remains in the balance sheet until it is debited to the income statement.

[1] Exceptions: Commissions on financial instruments at fair value through profit or loss and unavailability commission (in operations where the offer of funds is optional for the borrower) are immediately recognised in the income statement.
Commissions deriving from products or services that are typical of the financial business are presented separately from those deriving from products and services that are not typical of this activity, the latter being presented under the caption "Other operating income" in the income statement.

As for the accounting of the costs related to the contracts, the costs of obtaining a contract are those in which the Bank incurs to obtain a contract with a Customer and which it would not have incurred if the Bank had not entered into said contract.

Costs are recognised as an asset if they are directly related to a contract that can be identified specifically and the Bank expects to recover them. In this case, they are amortised systematically and consistently with the transfer to the Customer of the contractually related goods or services. However, if the asset's repayment period is equal to or less than one year, these costs are not recognised as an asset and are recorded as an expense.

2.11. Employee benefits

Employee benefits include all forms of compensation given in exchange for services rendered to the Bank by its Employees or for the termination of the employment contract. They can be classified into four categories:

Short-term employee benefits

These are employee benefits (other than termination benefits) which fall due wholly within 12 months after the end of the annual accounting statements period in which the employees render the related service. They include wages, salary supplements, social security contributions and contributions to the medical and healthcare services for banking sector employees (SAMS), allowances (holidays, Christmas, meals, children, etc.), paid sick leave or other, variable remuneration, bonuses and non-monetary benefits payable to current employees such as health, life, personal accidents, and occupational hazards insurance, accommodation expenses and free or subsidised goods or services related to active employees.

The cost of services rendered is recognised under "Administrative expenses – Staff expenses" of the income statement.

Credit facilities made available to Employees at below market rates are considered to be non-monetary benefits and are calculated as the difference between market rates and the rates agreed with Employees. The difference is recognised under “Administrative expenses – Staff expenses” with a balancing entry under “Interest income” in the income statement.

Post-employment benefits

Post-employment benefits are all those undertaken with employees, to be paid after completion of their employment with the Bank. They include retirement benefits, such as pensions and other post-employment benefits, such as post-employment medical care at the end of the employment relationship.

Defined contribution plans

The post-employment obligations with employees are deemed to be defined contribution obligations when the Bank makes predetermined contributions to a separate entity (fund) and has no legal or constructive obligation to make further contributions if the fund assets are not sufficient to pay the all the employee benefits relating to the service rendered in the current and prior periods. Contributions of this type made in each year are recognised under “Administrative expenses – Staff expenses” in the income statement. Post-employment obligations that do not meet the aforementioned conditions are considered defined benefit obligations.

Defined benefit plans

The present value of defined benefit post-employment obligations (pension liabilities), net of the fair value of the pension funds’ assets, is recorded under “Other liabilities - Liabilities for pensions and other defined benefits”, in the case of a coverage shortfall in the pension funds, or under “Other assets - Liabilities for pensions and other defined benefits” in the case of a coverage surplus.

Plan assets are defined as those assets that will be used to directly settle plan obligations and that meet the following conditions:

- They are not owned by the Bank, but rather by a legally separate, non-related third party.
- They are solely available to pay or fund post-employment benefits and are not available to the Bank’s own creditors, even in bankruptcy. They cannot be returned to the Bank unless the remaining assets of the plan are sufficient to meet all the related post-employment benefit obligations of the plan or of the Bank, or are used to reimburse it for post-employment benefits the Bank has already paid to its Employees.

Post-employment benefits are recognised as follows:

- Service cost is recognised in the income statement, in the caption “Administrative expenses - Staff Expenses”, and includes the following components:
  - Current service cost, understood as the increase in the present value of obligations arising from employee service in the current period;
  - Past service cost, resulting from amendments to existing post-employment benefits or the introduction of new benefits, and the cost of curtailments;
  - Any gain or loss arising on settlement of a plan.
- The interest cost/(income) on the net post-employment benefit liability/(asset), understood to be the change during the period in the net pension liability that arises from the passage of time, is recognised in “Administrative expenses – Staff expenses” in the income statement.

- Remeasurements of the net liability/(asset) for defined benefit post-employment benefits are recognised in "Accumulated other comprehensive income" in the balance sheet. It includes:
  - Actuarial gains and losses arising in the period from differences between the previous actuarial assumptions and what has actually occurred and from changes in the actuarial assumptions used.
  - The return on plan assets, excluding the amounts included in the net interest on the liability/(asset) for defined benefit post-employment benefits.
  - Any change in the impact of the asset ceiling, excluding the amounts included in the net interest on the liability/(asset) for defined benefit post-employment benefits.

Other long-term employee benefits

Long-term remuneration, understood as the commitments assumed with pre-retired people (employees who have ceased to provide services, but who, without being legally retired, continue to have economic rights until they acquire the status of legally retired), is treated for accounting purposes, to the extent applicable, as established for defined benefit post-employment plans.

Termination benefits

These benefits are payable as a result of an Entity’s decision to terminate an employee’s employment, a valid expectation having been raised in the employee or an employee’s decision to accept the Bank's irrevocable offer of those benefits in exchange for voluntary redundancy.

A liability and a non-recurring cost for termination benefits are recognised when there is no realistic possibility of withdrawing the offer to pay the termination benefits or when the costs for restructuring which involves the payment of termination benefits are recognised. These amounts are recognised as a liability under "Accrued costs - Staff Expenses” in the balance sheet until they are settled or transferred to Pension Liabilities.

2.12. Employee remuneration based on equity instruments

Within the scope of variable remuneration or participation in long-term incentives plans, Banco BPI's Directors and Employees may be entitled to receive part of the remuneration in financial instruments, preferably CaixaBank shares.

Due to its characteristics, this delivery of CaixaBank shares to Directors and Employees of Banco BPI is accounted for as defined in IFRS 2, i.e., as a cash-settled share-based payment transaction.

Costs with variable remuneration and long-term incentive plans are fully recognised under “Staff Expenses” in the period during which the service is provided, against a liability on the balance sheet. Until its settlement date, this liability is valued as the fair value of the shares to be delivered, with the respective changes being recognised as profit/(loss) for the year.

Banco BPI purchases a portfolio of CaixaBank shares in order to ensure full coverage of this liability. These shares remain booked in the portfolio of “Financial assets not designated for trading compulsorily measured at fair value through profit or loss” until the date when they are delivered. The respective change in fair value is also recognised through profit or loss.

2.13. Income tax

Banco BPI is subject to the tax regime set out in the Portuguese Corporate Income Tax Code and in the Statute of Tax Benefits.

The expense for income tax is recognised in the income statement, except when it results from a transaction recognised directly in equity, in which case the corresponding tax effect is also recognised in equity.

Income tax is calculated as the sum of the current tax for the year resulting from applying the tax rate legally in force to the taxable profit for the year and any changes in deferred tax assets and liabilities recognised in the year in the income statement.

Temporary differences, tax loss carryforwards and unused tax deductions are recognised as deferred tax assets and/or deferred tax liabilities. These amounts are recognised at the tax rates that are expected to apply when the asset is realised or the liability is settled, taking into account the applicable tax legislation.

All tax assets are recognised under "Tax assets" in the balance sheet as current, for amounts to be recovered in the next 12 months, or deferred, for amounts to be recovered in future reporting years. Deferred tax assets are only recognised when it is probable that they will be reversed in the foreseeable future and it is estimated that there will be sufficient taxable profit against which they can be used.

Similarly, tax liabilities are recognised in "Tax liabilities" in the balance sheet, also split into current and deferred. Current tax liabilities are recognised as the amount of tax payable and deferred tax liabilities as the amount expected to be paid in future periods.

Deferred tax liabilities are recognised for all taxable differences that affect future taxable income.

Net income distributed to Banco BPI by subsidiaries and associated companies, is not taxed in Banco BPI as a result of applying the regime established in article 51 of the Corporate Income Tax Code, which provides for the elimination of double taxation of distributed net income.

The Bank does not recognise deferred tax assets or liabilities for deductible or taxable temporary differences relating to investments in associated companies, since the stake held by the BPI Group has exceeded 10% for more than one year, which enables it to be considered in the Participation Exemption regime, except for Banco Comercial e de Investimentos, in which the deferred tax liabilities relating to taxation in Mozambique of all the distributable profits, are recognised.

BPI does not recognise deferred tax assets or liabilities for deductible or taxable temporary differences relating to investments in subsidiaries as it is unlikely that such differences will be reversed in the foreseeable future.

2.14. Tangible assets

Tangible assets include the amount of property, land, furniture, vehicles, IT equipment and other facilities owned or acquired under a finance lease for the Bank's own use.

Tangible assets are generally stated at acquisition cost deducted from accumulated amortization and any impairment losses determined by comparing the carrying amount of each item to its recoverable amount.

Depreciation is calculated using the straight-line method on the basis of the acquisition cost of the assets. Land is not depreciated since it is considered to have an indefinite life.

The depreciation charge of tangible assets is recognised under the "Depreciation and amortisation" caption of the income statement and is calculated basically using the depreciation rates set out in the table below, which are based on the years of estimated useful life of the various assets:

Useful life of tangible assets

	Years of useful life
Buildings	20 to 50
Works in owned property	10 to 50
Non-recoverable expenditure on leasehold property	3 to 10
Equipment	3 to 12
Other tangible assets	3 to 10

Upkeep and maintenance expenses are recognised under "Other administrative expenses" in the income statement.

2.15. Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance acquired from third parties or developed internally.

The Bank recognises, in this caption, expenses relating to the development stage of projects implemented and to be implemented, as well as the cost of acquiring software, in both cases where the impact extends beyond the financial year in which the cost is incurred.

Intangible assets are amortised on a straight-line monthly basis over the estimated period of useful life of the assets which, in general, corresponds to a period of three years.

Computer software developed internally is recognised as an intangible asset when, among other requirements, it is capable of being used or sold, and it is identifiable and its ability to generate future economic benefits can be demonstrated.

Expenses incurred during the research phase are recognised directly in the income statement for the period in which they are incurred, and cannot subsequently be capitalised.

2.16. Assets received in settlement of defaulting loans and non-current assets held for sale and discontinued operations (IFRS 5)

This heading includes individual assets or disposal groups, or assets that form part of a line of business that will be disposed of (discontinued operation) whose sale is highly probable in their present condition within one year from the reporting date. Assets that will be disposed of within a year but where disposal is delayed by events and circumstances beyond the Group's control may also be classified as held for sale, when there is sufficient evidence that the Company is still committed to selling them.

The carrying amount of these assets will be recovered principally through a sale transaction

Assets received in settlement of defaulting loans and other assets

Non-current assets (property, equipment or other) received as total or partial settlement of debtors' payment obligations in credit operations are recognised under "Non-current assets and disposal groups classified as held for sale" unless it has been decided to make continuing use of the assets.

Such assets are recorded at the legal or tax acquisition amount or the amount stated in the settlement agreement. Assets recovered following the resolution of lease contracts are recorded at the outstanding amount due not invoiced.

These assets are subject to regular valuations. Property valuations are carried out by independent appraisers selected from the pool of entities registered with the Securities Market Commission as "expert appraisers", and seeking to ensure adequate diversification and rotation of appraisers.

The independent external appraisals follow the principles defined in:

- IVSC – International Valuation Standards Council, in the International Valuation Standards publication (7th edition, of 2005);
- Bank of Portugal Notice 5/2006 (Valuation of Mortgaged Properties pledged as collateral for Mortgage Bond Loans);
- Regulation no. 575/2013/EU of the European Parliament and of the Council (prudential requirements);

using 3 appraisal methods described in the contracts entered into with the companies: market method, income method and Cost method:

Market method

This method determines an estimate of the amount by which it is understood that a particular property may be traded, after an appropriate period of marketing, between an interested seller and an interested buyer, in which both parties act in an informed, prudent and non-conditioned manner and subject to no coercion.

The value of the property is determined after analysing transaction and offered prices for comparable properties, obtained through knowledge of the local market and exhaustive collection of real estate market data which permit to determine the supply/demand situation for similar properties and act as a decisive factor in determining the Market Value of the property under evaluation.

Income method

In this method, the market value of a property corresponds to the present value of all future rights and benefits deriving from its ownership.

This method relies on the principle that the management and operation of the property is based on principles of legality, rationality and competence. The purpose of the analysis is to determine the property's capacity to generate revenue flows and respective frequency, also inferring all inherent expenses.

Cost method

In this method, the estimate of the value of a property corresponds to the construction cost of another property serving the same purposes and having the same characteristics of the first, in terms of materials and technology, at current market prices. The value determined includes the value of the land, the construction costs and the developer profit margin, minus depreciation, i.e., the property's loss of value due to physical, functional, economic or environmental obsolescence, or a combination of these factors.

For all appraisals not using the 3 appraisal methods, the expert appraiser must take into account the characteristics of the local market and the specific characteristics of the property being appraised. The appraisal value that will be adopted shall be the lower of those determined, as it is the more prudent in terms of guarantee.

In any case, the appraisal reports must contain an explanation of the methodological options, thus complying with Banco de Portugal's instructions.

On-site appraisal by independent external entities takes place:

- On the date the asset is booked in the Bank's balance sheet;
- Regularly:
  - Every 3 years in the case of residential property (with quarterly re-appraisal based on an internal statistical model (RIMO);
  - Annually for all other properties;
  - Whenever available information points to a possible substantial decrease in value.

After initial recognition, the Bank compares the asset's carrying amount with its estimated fair value. The fair value and the impairment allowances created for foreclosed real estate assets are determined in accordance with the appraisal value and the book value of the properties. The appraisal value is the lower of the following:

- On-site appraisal value
- Statistical revaluation value (RIMO)
- Sale value (if purchase/sale agreement concluded)

minus costs to sell, recognising any additional impairment or recoveries in the income statement (up to an amount equal to that of the previously recognised impairment losses). Impairment may be increased due to the time the property has remained in the Bank's portfolio.

Changes in impairment losses on a non-current asset classified as held for sale are recognised under "Profit/(loss) from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations". Unrealised capital gains on these assets are not recognised in the balance sheet or in the income statement.

On the date of sale, the capital gains or losses realised on these assets are recognised in the income statement under "Gains/(losses) on derecognition of non-financial assets, net".

The Bank's tangible assets that are no longer in use (unused property and equipment) and are in the process of being sold, are also booked under this caption. Such assets are transferred from tangible assets at book value (cost less accumulated depreciation and impairment losses) on the date they become available for sale, and are subsequently revalued in the same manner as assets received in settlement of defaulting loans.

Non-current assets held for sale are not depreciated while remaining in this category.

Discontinued operations

A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale, and (i) represents either a separate major line of business or a geographical area of operations, (ii) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or (iii) is a subsidiary held exclusively to sell.

Assets classified in this caption are not depreciated and are valued at the lower of cost and fair value, less costs to be incurred with the sale.

If book value is greater than fair value less costs to sell, an impairment loss is recognised in the caption “Impairment losses and other provisions, net”.

As a result of the agreement established between Banco BPI and CaixaBank for the sale of the equity holdings in BPI Gestão de Activos and BPI GIF, the assets and liabilities of these entities were reclassified to the captions “Non-current assets held for sale and discontinued operations” and “Non-current liabilities held for sale and discontinued operations”, respectively, as provided for in IFRS 5 – Non-current assets held for sale and discontinued operations, at the end of 2017.

2.17. Leases

The Bank adopted IFRS 16 “Leases” on 1 January 2019, opting for applying this standard retrospectively, with the cumulative effect of opening balances being recognised on this date. Therefore, the comparative information was not restated. The comparative information was prepared in accordance with IAS 17, with the Bank acting as lessee and recognising the costs with operational leases on the income statement on a straight-line basis during the life of the agreement.

The following table summarizes how to identify and account for lease operations in which the Bank acts as lessor or lessee:

Determining whether the agreement is or contains a lease [1]
 	
(At the onset or when the contractual conditions are changed)
	Is the asset identified in the agreement?
	Yes → Does the party receiving the asset have the right to control its use?
	    Yes → It is a lease agreement
	    No → It is not a lease agreement
	No → It is not a lease agreement

[1] For agreements that have a leasing component, one or more additional leasing components and others that are not leasing components, the agreement payment will be distributed to each leasing component on the basis of the relative price, regardless of the leasing component and based on aggregate price, regardless of the non-leasing components.

Lessor

	Finance leases	Operating leases
	Operations where, substantially, all the risks and rewards inherent to the leased asset are **transferred to the lessee.**	Operations where, substantially, all the risks and rewards inherent to the leased asset, as well as its ownership, are **maintained by the lessor**.
Recognition as lessor (According to the economic purpose of the operation, regardless of its legal form)	- Are recognised as a **loan granted** under the balance sheet caption “Financial assets at amortised cost” as the sum of the present value of all payments receivable by the lessee during the period of the leasing plus any non-guaranteed residual amount pertaining to the lessor. - Include fixed payments (minus payments made to the lessee) as well as variable payments determined in accordance with an index or rate, and also the exercise price of the purchase option, if there is reasonable certainty that it will be exercised by the lessee and penalties for termination by the lessee if the term of the lease reflects the exercise of the termination option.	The acquisition cost of the leased assets is recognised in the **“Tangible assets” caption of the balance sheet.**
	The financial income obtained as a lessor is recognised in the income statement caption **“Interest income”**.	- They are **depreciated** using the same criteria as for the remaining tangible assets for own use. - Income is recognised in the income statement caption **“Other operating income”**.

Lessee

<table>
<tr><td rowspan="5">Recognition as lessee</td><td>Term of the agreement</td><td colspan="4">Open-ended or automatically renewable agreements (annually or half-yearly): for the purposes of applying IFRS 16, a term of 5 years[1] was assumed, starting on 1 January 2019, taking into account that there are significant economic penalties (namely investment and branch installation costs) that the Bank will incur if it terminates these agreements.

Fixed-term agreements (above 1 year): for these agreements it was assumed that the lease term coincides with the end date of the agreement.</td></tr>
<tr><td rowspan="4">Accounting record</td><td rowspan="3">Agreements where the underlying asset is not of low value (set at 6 000 euros)</td><td></td><td>At the start date of the agreement</td><td>Subsequently</td></tr>
<tr><td>Lease liability (“Other financial liabilities”)</td><td>Valued based on the present value of future lease payments not yet made on this date, using as discount rate the interest rate2 that the lessee would obtain to borrow, with a similar maturity and guarantee, the funds necessary to obtain an asset of similar value to that of the right-of-use asset in a similar economic context.</td><td>Valued at amortised cost using the effective interest rate method and revalued (with the corresponding adjustment to the related right-ofuse asset) when there is a change in future payments due to negotiation, index or rate changes or in the event of a reevaluation of the agreement's options.</td></tr>
<tr><td>Right-of-use asset (“Tangible assets”)</td><td>Valued at cost and includes the initial value of the lease liability, payments made on or before the commencement date, initial direct costs, costs of dismantling or rehabilitation when there is an obligation to bear them.</td><td>Amortised on a straight-line basis and subject to impairment losses, in accordance with the treatment established for the remaining tangible and intangible assets.</td></tr>
<tr><td colspan="2">Remaining agreements</td><td colspan="2">Accounted for as operating leases</td></tr>
</table>

[1] The 5-year term is in line with Banco BPI's strategic guidelines on the renewal of current lease agreements, taking into account the Bank and industry context, from the standpoint of business risk management and management of the fixed assets associated to the agreements.

[2] The Bank calculated these interest rates taking as a reference the cost of debt instruments, adding to the base market curve (swaps vs 6M Euribor) the covered and senior debt spreads for BPI.

The implementation of IFRS16 involved making estimates on the duration of agreements and decisions on the disaggregation of components related to services that were included in the formalised lease agreements.

2.18. Contingent assets

Contingent assets arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits. Contingent assets are not recognised in financial statements, except where an inflow of economic benefits is practically certain. If there is a probable inflow of economic benefits, it will be referred in the explanatory notes on the corresponding contingent asset.

Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements.

2.19. Provisions and contingent liabilities

Provisions cover present obligations at the date of preparation of the annual financial statements arising from past events which could give rise to a loss considered likely to occur; and is certain as to its nature but uncertain as to its amount and/or timing.

The financial statements include all the material provisions with respect to which it is considered more likely than not that the obligation will have to be settled. Provisions are recognised on the liabilities side of the balance sheet.

Provisions, which are quantified based on the best information available on the consequences of the event giving rise to them and are re-estimated at the end of each reporting period, are used for specific expenditures for which the provision was originally recognised. Provisions are fully or partially reversed when the obligations cease to exist or are reduced.

When an obligation exists but an outflow of resources embodying economic benefits is not likely, the obligation is recognised as a contingent liability. Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes more probable than not that an outflow of future economic benefits will be required, a provision is recognised in the balance sheet.

Provisions are recognised under "Provisions" on the liabilities side of the balance sheet. Contingent liabilities are disclosed in the notes to the financial statements.

2.20. Statement of cash flows

The following terms are used in the presentation of the statement of cash flows:

- Cash flows: cash and cash equivalents include cash, cash and deposits at Central Banks and other Credit Institutions, very short-term applications in Credit Institutions and cheques for collection.
- Operating activities: the indirect method is used to present cash flows from operating activities, which are the principal revenue-producing activities of credit institutions and other activities that are not investing or financing activities.
- Investing activities: the acquisition, sale or other disposal of long-term assets, such as equity investments in subsidiaries and associates, acquisition of tangible and intangible assets and other strategic investments not included in operating activities.
- Financing activities: activities that result in changes in the medium and long-term financing activities of the Bank and which do not form part of operating activities, such as issuance of debt securities and subordinated debt, capital increases and dividend distributions.

2.21. Statement of income and other comprehensive income

This statement presents the revenues and expenses recognised as profit or loss from Banco BPI's activity in the year, distinguishing between the profit or loss recognised in the income statement and the other revenues and expenses recognised directly in equity.

2.22. Statement of changes in equity

This statement presents all changes in the Bank's equity, including those due to accounting policy changes and error corrections. This statement presents a reconciliation between the carrying amount of each component of net assets at the beginning and the end of the period, grouping movements by nature under the following headings:

- Adjustments due to accounting policy changes and error corrections: includes changes in equity as a result of the retrospective restatement of financial statement balances, distinguishing between those resulting from changes in accounting policies from those representing the correction of errors.
- Total income and expenditure recognised: represents the aggregate of all items recognised in the statement of income and other comprehensive income.

- Other changes in equity: includes the remaining items recognised in equity, such as capital increases or decreases, distribution of dividends, treasury share transactions, equity-based payments, transfers between equity items, and any other increase or decrease in equity.

3. RISK MANAGEMENT

3.1. Environment and risk factors

The following risk factors had a significant influence on the BPI's risk management in 2019, due to their impact during the year and their long-term implications for the Bank:

- **Macroeconomic environment**

— **Global economy**

In 2019 the global economy suffered a considerable increase in uncertainty stemming from economic and geopolitical factors which to a large extent were already present in 2018. On the economic front, stood out, in first place, the doubts around the pace of growth and risks inherent to the Chinese economy. Until the end of the year this deceleration was gradual, with the authorities having in place mechanisms to control its intensity. However, concerns persisted about certain imbalances in the Chinese economy, namely the excessive indebtedness of the corporate sector. The slowdown of the main advanced economies was a second factor with an impact on global economic growth. This trend resulted, on the one hand, from the extension of the economic cycle, and, on the other hand, from idiosyncratic factors specific to each country. In the USA, in particular, after the tax stimuli implemented at the end of 2017 and beginning of 2018, the economy decelerated given the absence of any additional stimuli. In the Eurozone, the manufacturing sector, and especially the car industry, also faced a difficult situation, having to adapt to technological and regulatory changes.

On the geopolitical front, we should note the stepping up of protectionist policies in the USA, with the progressive imposition of tariffs on trade with China and increased tensions with the European Union (EU), after the World Trade Organization ruled in favour of the USA in a case of public aid to Airbus by the EU. However, it should also be pointed out that expectations of a trade deal between the USA and China increased in the latter part of the year, even if the negotiation process will likely be long and surrounded by some uncertainty.

These risk factors were reflected in the behaviour of the financial markets, which, after the volatility observed at the end of 2018, registered new episodes of instability and risk aversion during the summer, when the stock exchanges of the main advanced economies slumped in response to the publication of weak economic results and the resurgence of the commercial tug-of-war between the USA and China. In this context, and in view of prospects of a more accommodative monetary policy, with the central banks showing willingness to respond in a decisive manner to possible negative risks to economic activity, interest rates on the sovereign debt market fell sharply (to historical lows as of to date, in the case of Europe).

— **Eurozone**

The Eurozone risks context was impacted by geopolitical factors mainly linked to the difficulties of an agreement being reached regarding the United Kingdom's exit from the EU. These political uncertainties were compounded by the economic slowdown that had already started in 2018 and which intensified in 2019, in part due to the difficulties already mentioned that affected the manufacturing sector and in particular the car industry. Hence, after growing by 1.9% in 2018, the Eurozone advanced by 1.2% in 2019 and it is expected that its pace of expansion will be more subdued in 2020.

- **Monetary policy**

In this context of deterioration of macroeconomic conditions, the main central banks recalibrated their economic policies. In the USA, because inflationary pressures were contained, and in view of the expected slowdown of the economy, the Federal Reserve made three cuts in key rates during 2019. In addition, viewing the elimination of possible liquidity strains in the market, the Fed initiated a new asset purchase programme. The ECB, in turn, implemented a new stimulus package in September 2019, lowering by 10 bps the interest rate on credit institutions' deposits in the central bank (complemented by the implementation of a tiering scheme), new asset purchases (€20 billion monthly), and lower interest rates on TLTROs (long-term funding of the financial sector), and indicated that the stimulus would be maintained until inflation approached the target (2%). Even if these measures lack the magnitude of former measures, they reinforce the perspective that the environment of low interest rates will last for a long period of time.

- **Portugal**

The Portuguese economy grew by 2.2% in 2019, decelerating compared to 2018 (-0.4 p.p.), but remaining at a robust level in view of its historical behaviour. This deceleration translated a certain slackening of domestic demand, although investment registered a good performance, as reflected in the growth of imports. Exports also registered some deceleration compared to 2018, in part reflecting the global economic slowdown, but also an adjustment in certain destination markets (such as Angola and Brazil) or in specific sectors (such as textiles and clothing and footwear). Overall, the behaviour of the Portuguese economy may be seen as positive: the public accounts improved, with the budget deficit approaching a level of equilibrium (although public debt remains high); the labour market maintained a favourable trend, even if decelerating given that the rate of unemployment is close to a level of equilibrium; and consumers remained confident about the evolution of their financial situation, with increases in wages and disposable income supporting household consumption, even if their savings rate remained close to historical lows, 6.2% of disposable income.

Within the context of a very accommodative monetary policy, the good performance of the economy contributed to lower the sovereign debt risk premium, which dropped to around 60-70 basis points at the end of the year. A stable political environment also likely contributed to this good behaviour, given that following the legislative elections in October 2019, economic policy is expected to continue along the path of the previous legislature, thus expectedly giving continuity to the process of improvement of the public accounts.

However, the real estate market has been growing at a fast pace, and may possibly stand as a risk factor in the future given the substantial increase in prices in a short period of time: after a 10.3% increase in 2018, house prices are estimated to have risen by 9.3% in 2019. Although most indicators suggest that the slowdown in this market will be moderate, given the importance of the non-residents and the recovery of new construction, the possibility of a more significant correction cannot be excluded, especially in a context of increased risk aversion, with implications in terms of reducing foreign investment.

- **Regulatory framework**

The prudential rules that support the Bank's business model are crucial for its development as well as for the relationship established with the risk management and methodological processes.

During 2019, BPI kept abreast of the main developments in terms of regulatory rules, of which the following are noted here:

- Publication on 25 April 2019 of Regulation (EU) 2019/630 of the European Parliament and of the Council amending Regulation (EU) No 575/2013 as regards minimum loss coverage for non-performing exposures. This Regulation, which came into force on 26 April 2019, complemented the prudential rules already in place and stipulated a deduction to own funds when non-performing exposures (resulting from loans originated after 26 April 2019) were not sufficiently covered by provisions or other adjustments.

- Publication on 7 June 2019 of Regulation (EU) 2019/876 of the European Parliament and of the Council amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, and reporting and disclosure requirements. This Regulation came into force on 27 June 2019, with December 2020 as the deadline for adaptation of the standards, although most of the changes included will apply from June 2021.

- On 30 June 2019 the EBA guidelines on management of non-performing and forborne exposures (EBA/GL/2018/06), published on 31 October 2018, came into force.

- On 22 August 2019 the ECB revised the supervision expectations for prudential provisioning for new non-performing loans to account for the new EU regulation that came into force on 26 April 2019. The supervisor adapted its expectation for Pillar 2 for certain exposures converted into non-performing exposures as from 1 April 2018, aligning them in terms of calendar with the Pillar 1 requirements incorporated into the CRR with regard to minimum coverage of non-performing exposures (known as 'prudential backstop').

- **Strategic Context**

Strategic events are the most relevant adverse events that may result in a threat to Banco BPI in the medium term. Only those events to which the Bank's strategy is exposed due to external causes are considered, although the severity of the impact of these events can be mitigated through management.

- **Uncertainties with regard to the external and internal political environment**

Uncertainty is related to the possible emergence or worsening of political events that may have a direct or indirect impact at macroeconomic level or at the level of the Bank's management and affect the objectives and forecasts of the Strategic Plan, namely demand for credit and credit quality.

Mitigators: an event of this nature could translate into losses in terms of the Catalogue's various risks, mainly credit, Business Profitability, Own Funds/Solvency and Liquidity (depending on the actual trigger). In this context, the Bank believes that the aforementioned risks are sufficiently managed by the Bank's capital and liquidity levels, validated and reported in the annual capital and liquidity self-assessment process (ICAAP and ILAAP, respectively).

- **Persistence of an environment of low interest rates**

Although market expectations point to a very gradual recovery in interest rates over the coming years, the possibility that the ultra-low interest rate environment will continue for longer than expected or even that rates will further decline, cannot be discarded.

Mitigators: an environment of persistently low interest rates may have effects on the materialisation of the structural interest rate risk on the balance sheet and the risk of Business Profitability. Banco BPI manages both risks through the continuous monitoring of budget compliance, the measurement of the impact on the balance sheet economic value and on net interest income, according to CaixaBank Group's internal methodologies, and also through the permanent analysis of the offering of the more adequate new products and services in this environment, from the standpoint of balanced risk/return.

- **New possibly disrupting competitors**

An increase in the efficiency of new competitors, such as Fintechs and Agile Banks, as well as Global Asset Managers and Bigtechs, is expectable, with disruptive potential in terms of skills or services. This type of event can lead to a disaggregation and disintermediation of the value chain, impacting margins and cross sales, in so far as the Bank competes with more agile and flexible institutions, with a very light cost structure.

Mitigators: despite being a threat, the entry of new competitors is also an opportunity, as a source of collaboration, learning and stimulus to meet the objectives of digitization and business transformation established in the Strategic Plan. Thanks to its integration in the CaixaBank Group, BPI benefits from the synergies and expertise thus obtained, from the Group's investment in digitisation, and from a deeper relationship with the Clients, as factors of business transformation and digitisation and as key tools to face with confidence the upcoming changes and challenges in the banking business.

- **Cybercrime and data protection**

In 2019 there was an increase in cybersecurity incidents in terms of both volume and severity. At the same time, regulators and supervisors stressed the priority of these issues in their agendas.

Mitigators: The risk of cyber-attacks and cybercrime is a threat to which the Bank is watchful in the management of its technological risk and in what concerns the integrity and confidentiality of information, the availability of information systems, and business continuity. As regards information security and technological risk, BPI seeks to uphold the levels of excellence of CaixaBank Group, standing at the forefront of information protection and best market practices.

- **Risks associated to climate change**

The risks associated to climate change arise as a result of climate or geological events, or events in the balance of ecosystems, which may be gradual or abrupt. These can cause physical damage to assets (infrastructures, buildings), disruption in production or supply chains and/or changes in the productivity of economic activities (agriculture, energy production). On the other hand, the fight against climate change and for a low-carbon economy involves factors such as changes to regulation and laws, the development of alternative, energy-efficient technologies, changes in market preferences, or reputational factors associated with activities with greater impact.

Mitigators: Banco BPI seeks to minimise these risks by developing its activity in strict compliance with the laws in force and in accordance with strict ethical and professional conduct guidelines, while endeavouring to optimise the relationship between profitability and risk by avoiding, minimising, mitigating and remedying, whenever possible, factors that may represent a significant risk to the environment or to society. Hence Banco BPI factors in social, environmental and good governance criteria in its business decisions, with the aim of mitigating risks and supporting business projects that are consistent with its corporate values.
In 2019 Banco BPI approved an Environmental Risk Management Policy intended to stand as a guide containing the global principles which should steer all actions related to, or having an identified relevant impact on this risk, as well as to establish the governance structure for the authorisation, management, communication and disclosure of these actions. The management of environmental risks, integrated within the Environmental, Social and Governance (ESG) risks, is one of the main action guidelines in the Management of Environmental Risk category defined by CaixaBank Group.

— **Increase of legal and customer protection risk**

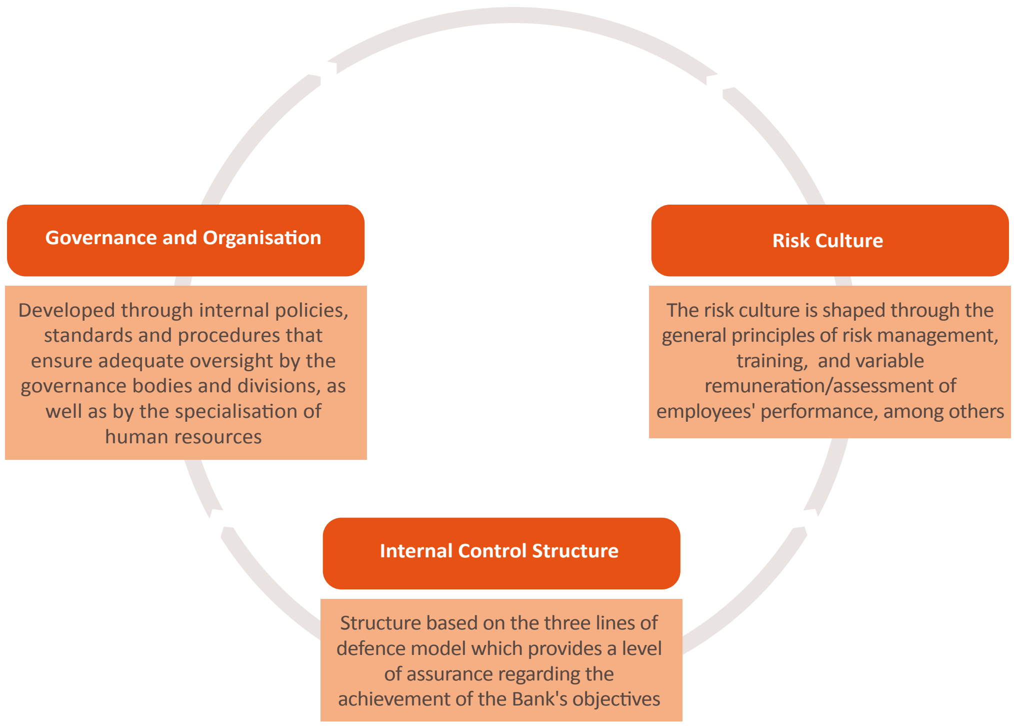
Considering the intense activity of legislators and regulators in the financial sector, new legislative proposals and proposals of changes to current regulations need to be monitored on a continuous basis. There are also increased concerns with the privacy and protection of personal data and compliance with regulations and standards related with activities of employees or other agents that may harm the interests and rights of customers.

Mitigators: Since these risks are part of the Bank's Catalogue of Risks, their management and control are subject to regular monitoring. To this end, the management and governance bodies have been improving the risk appetite monitoring indicators for these risks.

3.2. Risk governance, management and control

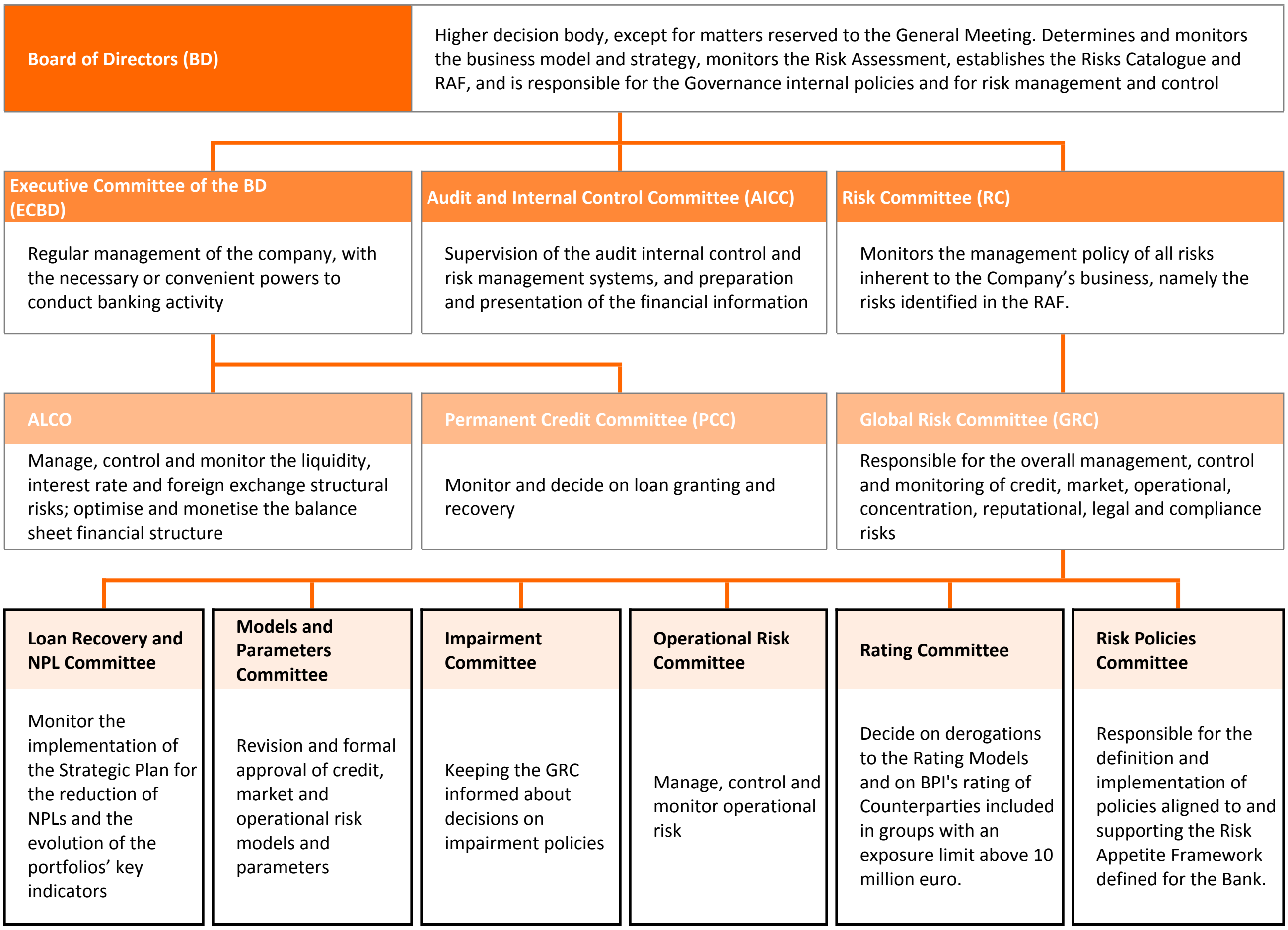
In order to facilitate a complete view of Risk Management and Control, the central elements of the bank's risk management function are as follows :

Strategic risk management processes			
Risk Assessment	**Risk Identification: Risks Catalogue**	**Risk Follow-up: Risk Appetite Framework (RAF)**	**Risks Planning**
Semi-annual risk self-assessment exercise for all risks in the Catalogue and which incorporates a process for identifying emerging risks that may be incorporated into the Catalogue.	List and description of material risks identified in the Risk Assessment process with annual review. It facilitates the internal/external monitoring and reporting of risks.	Comprehensive and prospective tool with which the Board of Directors determines the typology and risk limits that it is willing to accept for communicating the Bank's strategic objectives and for all the risks in the Catalogue.	Institutional processes to assess the evolution of the risk profile (recent, future and hypothetical in stress scenarios).



3.2.1. Governance and organisation

BPI's risk governance and management is schematised in the following chart:



Within Banco BPI's risk governance structure, the **Risk Committee** plays an important role as the body responsible for risk management. The main functions of the **Risk Committee** are to advise the Board of Directors on the risk strategy and global risk appetite, inform the Board of Directors on the Risk Appetite Framework (RAF) and propose risk policies.

One level below, three committees exercise the following relevant functions:

Global Risk Committee - Headed by the Central Manager of the Global Risk Management Division, the committee exercises global management, control and monitoring over the risks included in the Risks Catalogue and analyses the implications of risk appetite on solvency and capital consumption.

Permanent Credit Committee - Headed by the CRO, the committee monitors and decides on loan granting and recovery, obligatorily analysing all loan exposures (including operations fully hedged by financial assets qualifying as mitigators) within its powers.

ALCO Committee - Headed by the CFO, the committee manages, controls and monitors all Liquidity, Interest Rate and Exchange Rate structural risks within the scope of Banco BPI. On the other hand, it seeks to streamline and monetise the financial structure of the balance sheet, including the Net interest income and Net income from Financial Operations.

The Risk Management Function, performed by the Global Risk Management Division, is responsible for developing risk management and control and for the second line of defence. It acts independently from the risk-taking areas and has direct access to the Bank's governance bodies, in particular the Risk Committee, to which it regularly reports on the Bank's risk profile situation and expected evolution.

3.2.2. Risk management strategic processes

The Bank uses the following risk management strategic processes to identify, measure, follow-up, control and report risks:

Risk Assessment

The Bank carries out a semi-annual self-assessment process with the objective of identifying, assessing and reporting internally any significant changes in the risks inherently assumed through its business environment and business model. This semi-annual exercise also includes a self-assessment of the risk management, control and governance capabilities, as a tool to help detect best practices as well as any weaknesses in certain risks.

The result of this self-assessment is also reported, at least on an annual basis, to the Risk Committee, for final approval by the Board of Directors.

Risk Catalogue

The Bank has a Risk Catalogue to aid with the monitoring and reporting, internal and external, of the risks

Risk Catalogue	Risk Definition on the Catalogue
Business Model Risks	
Business Profitability	The risk of BPI posting results below market expectations and the targets set in its business plan and strategy, that prevent it from reaching a sustainable level of profitability above the cost of capital.
Capital/Solvency	The risk of constraints to BPI’s capacity to comply with regulatory requirements concerning capital ratios, or of a change in its risk profile due to insufficient own funds.
Liquidity and Funding	Risk of insufficient liquid assets or limitations on access to market funding that prevent the Bank to meet contractual obligations related with liabilities, with regulatory requirements or with BPI's investment needs.
Risks Specific to Financial Activity	
Credit	Risk of financial loss due to the loss of value of the Bank's assets as a result of the deterioration of the clients and counterparties' capacity to honour their commitments.
Losses in other assets	Reduction in the book value of BPI's equity holdings or non-financial assets (tangible, intangible, deferred tax assets, and other). Note: Includes (i) financial holdings, (ii) buildings (adjudicated, own or other), (iii) intangible assets and (iv) by taxes
Market	Risk of a decrease in the value of assets or increase in the value of liabilities included in BPI’s trading portfolio due to changes in interest rates, exchange rates, credit spreads, external factors or prices in the markets where these assets and liabilities are traded.
Banking Book Interest Rate	Negative financial impact on the Balance sheet economic value, or on the Net interest income, as a result of changes in the time structure of interest or exchange rate curves that affect asset, liability or off-balance sheet products not booked in the trading portfolio.
Actuarial	Risk of loss or decrease in the value of commitments assumed under insurance or pension agreements entered into with clients or employees, as a result of differences between the assumptions used to estimate the actuarial variables used to calculate the responsibilities and their actual performance.
Operational and Reputational Risks	
Legal and Regulatory	Potential losses or reduction in the Bank's profitability as a result of: legal or regulatory changes, an incorrect implementation of said legislation in BPI's processes, inadequate interpretation for different operations, the incorrect management of judicial or administrative requests or complaints and claims received.
Conduct	Application by BPI of action principles that are contrary to the interests of its clients or other stakeholders, or actions or omissions by the Bank that are out of step with the legal and regulatory framework or the internal policies, standards and internal procedures or codes of conduct, ethical standards and good practices.
Technological	Losses arising from inadequate technological infrastructures, or hardware or software failures, due to cyberattacks or other circumstance liable of compromising the availability, integrity, accessibility and security of infrastructures and data.
Other Operating Risks	Losses or damages caused by errors or failures in processes, external events or accidental or malicious action by third parties independent from the Bank. It includes, among others, risk factors related to outsourcing, use of quantitative models, securities custody or external fraud.
Reliability of the financial information	The risk of deficiencies in the accuracy, integrity and criteria applied in the preparation of the data required to evaluate BPI’s financial situation and networth.
Reputational	The risk of loss of competitiveness due to the deterioration of trust in BPI by any of its stakeholders on account of the assessment made of acts or omissions, actual or alleged, by the Bank, carried out or associated with its senior management or government bodies.

The Risks Catalogue is subject to regular review, particularly with regard to risks with a material impact. The Catalogue is reviewed at least annually, and the results are submitted to the Global Risk Committee and the Risk Committee, for final approval by the Board of Directors.

Risk Appetite Framework

The Risk Appetite Framework (RAF) is a management tool used by the Board of Directors to determine the types and thresholds of risk it is willing to assume in achieving the Group's strategic objectives. Based on the RAF, the Board of Directors sets the risk appetite assumed in the development of the Bank's activity.

Risk appetite framework:

Responsible Body			**Board of Directors** (advised by the Risk Committee)	**Global Risk Committee**	**Management areas / Risk and Human Resources controllers**
		Equivalence in Risks Catalogue	Primary statements and metrics **Level 1**	Metrics that complement and develop the Level 1 metrics **Level 2**	Management levers **Level 3**
Priority dimensions	**Protection Against Losses** The objective is to maintain a medium-low risk profile and a comfortable capital adequacy position, strengthening customer confidence through the Bank's financial strength	- Business profitability - Own Funds and Solvency - Credit - Impairment in other assets - Market - Structural interest rates - Actuarial	- Profitability ratios - Regulatory solvency ratios - Model and advanced methodologies based calculations - Cost of risk and nonperforming loan ratios	- Detailed metrics deriving from the factorial decomposition of Level 1 metrics or of other breakdowns. They also include more complex and specialised risk measurement parameters	- Training and Communication - Methodologies for risk measurement and valuation of assets and liabilities (RAF monitoring) - Limits, policies and powers - Incentives and commitments - Tools and processes
	Liquidity and Funding The certainty of being able to meet funding obligations and requirements, including in adverse conditions, through stable and diversified funding	- Liquidity and Funding	- Regulatory and internal liquidity metrics that oversee the maintenance of adequate liquidity levels		
	Business Composition Leadership in retail banking and balanced and diversified generation of income and capital	- Credit	- Indicators that encourage diversification (by sector, etc) and minimize exposure to non-strategic assets		
	Franchise Activity with high standards of ethics and governance, fostering sustainability, social action and operational excellence	- Legal and Regulatory - Conduct - Technological - Other Operational Risks - Reliability of the Financial Information - Reputation	- Quantitative metrics for non-financial risks (reputational, operational) - Operational risk incidence metrics		

Alert System Reports						
Monthly to Global Risk Committee					Quarterly to Risk Committee	Half-yearly to Board of Directors
Level 1	Green	Tolerance - The Global Risk Committee promotes an action plan and establishes a timetable	Breach - Explanation of the reasons why the previous plan's corrective measures did not work and action proposals for approval by the Risk Committee	Recovery Plan - Recovery Plan Governance process to reduce chances of bankruptcy	- Metrics evolution and Level 1 projection - Non-compliance status and action plans	- Metrics evolution and Level 1 projection - Non-compliance status and action plans
Level 2	Based on limits					

Risk planning

In addition to the processes referred, the Bank has processes and mechanisms in place to assess the evolution of the risk profile (current, future and potential under stress scenarios). To this end, the Bank estimates the expected evolution of the boundary values of the future risk profile, and subjects them to permanent review.

Also, in the years subject to regulatory supervision (ICAAP and ILAAP), the Bank makes projections of the evolution of its risk profile under baseline and stress scenarios, which give its governance bodies a vision about the Bank's resilience to internal and/or external events.

3.2.3. Risk culture

General risk management principles

BPI's risk management principles are common to those of CaixaBank Group:

- Risk is inherent to the Bank's business.
- Risk is the ultimate responsibility of the Board of Directors and requires involvement of Senior Management.
- Involvement of the entire organization.
- Management throughout the full cycle of transactions.
- Joint decision-making, with a power delegation system.
- Independence of business and operating units.
- Approval based on the borrower's repayment ability and an appropriate return.
- The use of standard criteria and tools.
- Decentralised decision-making.
- Use of advanced techniques.
- Allocation of adequate resources.
- Continuous training and development of skills.

Training

In 2019 the Training initiatives on Risk covered Employees from several areas, and in particular those who work in the Commercial Networks (Retail and Corporate).

The general purpose of the training contents was to impart knowledge and develop skills permitting to anticipate and act upon critical Risk issues, with a focus on the Code of Business Conduct and Ethics.

Training on Risk was particularly relevant and stressed in the Commercial Networks. Examples of this are the 3 courses on Risk Management, which were attended by a total of 2095 Employees.

Training was essentially provided online and on-the-job.

The main training initiatives on the issue of Risk developed in 2019, were the following:

Course	Addressees	No of participants
Code of Business Conduct and Ethics	Commercial Networks and Central Services	4582
Risk Management. New Rules on Consumer Solvency	Commercial Networks and Central Services	737
Risk Management: Risk Strategic Processes (RAF)	Commercial Networks and Central Services	692
Risk Management: NPL (Non-Performing Loans)	Commercial Networks and Central Services	666
Operational Risks - Central Services	Central Services	316
Credit risk division – Small businesses training	Commercial Networks and Central Services	245
Analysis of and Decision on Loans to Individuals	Commercial Networks and Central Services	190
Data Protection Awareness	Commercial Networks and Central Services	136
Leases (IFRS16) - Regulatory Changes Under Way (implications in terms of Credit Risk)	Central Services	78
Operational Risks - Commercial Networks	Commercial Networks and Central Services	72
Training video - business continuity Pivot	Central Services	27
Segmentation of the Customers' Risk	Commercial Networks and Central Services	16
Webinar - Job Induction of New OR Pivots	Commercial Networks and Central Services	16
Operational Risk Management 2019	Central Services	13
Credit Risk Management	Commercial Networks and Central Services	10

Communication

Spreading a corporate risk culture is essential in order to align all Employees around this theme. The internal communication channels, and in particular the Intranet, are an essential vehicle for spreading this culture, with disclosures and training contents being especially relevant. The following initiatives viewing the development of a corporate risk culture were particularly noteworthy in 2019:

- Video interview with António Farinha Morais, the Board Member responsible for the risk area, focusing on this theme and its alignment with the priorities defined in the Strategic Plan;
- Internal communication campaign dedicated to Compliance, to reinforce a culture of commitment in the Employees, under the motto “Compliance: good for you, good for BPI”;
- Publication of several news about training in non-performing loans.

Performance assessment and remuneration

As stated in the Risk Appetite Framework, Banco BPI seeks to ensure that its Employees motivation is consistent with the risk culture, with risk-taking aligned with the level of risk that the Board of Directors is willing to assume.

To this end, the Bank has in place remuneration schemes directly related to the annual evolution of the RAF metrics, which are described in detail in the Governance Report and in the approved remuneration policies.

3.2.4. Internal control function

In 2019, BPI continued to develop a process of implementation of the internal control function, aligned to CaixaBank Group's methodologies as well as with the regulators’ directives and best practices in the sector, which was still ongoing at the end of the year. BPI’s internal control model is designed based on the “three lines of defence model”.

First Line of Defence

The first line of defence is formed by the business areas, risk-takers, and their support functions. Their responsibility is to develop and maintain effective controls over the businesses, as well as to identify, manage and measure, control, mitigate and report the main risks originated in the ongoing exercise of their activity. Among others, they identify, assess and report their exposures, taking into account the Bank’s risk appetite, and its policies, procedures and controls.

The manner in which the business line carries out its responsibilities must reflect the prevailing risk culture in the Bank, promoted by its Board of Directors.

These functions may be integrated within the business and business support units themselves. However, when the level of complexity, intensity or need for greater focus so require, it is desirable to establish specific control units, with greater specialisation, to ensure an adequate level of risk control over the aforementioned activities.

Second Line of Defence

The second line of defence acts independently from the business units and has the following functions:

- The establishment of risk management and control policies in coordination with the first line of defence, subsequently assessing compliance therewith.
- The identification, measurement and monitoring of risks (including emerging risks), contributing to the definition and implementation of risk indicators aligned with the RAF.
- The identification of control weaknesses and the establishment and implementation of action plans.
- The independent validation of internal models.
- The coordination of the Risk Assessment, Risks Catalogue and RAF processes.

The activities of the second line of defence, as well as i) the weaknesses identified, ii) the follow-up of the action plans and iii) the opinion on the adequacy of the risk control structure at the Bank, are periodically reported to the bodies responsible for the control function, according to established hierarchical norms, as well as to supervisory bodies.

The second line of defence is formed by:

- **Global Risk Management (GRM)**

  GRM is responsible for identifying, monitoring, analysing, measuring, managing and reporting risks, gaining an overall vision of all the risks faced by the Bank.

- **Internal Validation of Risk Models**

  The internal validation function at Banco BPI is performed by the Model Validation and Risk (MVR) area, which reports to the GRM, whose mission is to issue an independent technical opinion on the adequacy of the internal models used for internal management and/or of a regulatory nature. Its scope of action includes the review of methodology and management aspects (use of management models and tools, coverage level, controls, governance and implementation of the models in management processes) and aspects related to the technological environment and the quality of data with regard to the models.

  The MVR activities are aligned with regulatory requirements, with the requirements of the various supervision mechanisms, and with the guidelines established by the CaixaBank Group.

  Any review activity by the MVR is concluded with the issuance of a global opinion and, if weaknesses are identified, with the issuance of recommendations. The MVR makes a periodic follow-up of the weaknesses identified, adjusting the level of monitoring and reporting to the relevance of the recommendations issued.

- **Internal Financial Control (IFC)**

  The Internal Financial Control (IFC) unit reports to the Board member responsible for the areas of Finance, Accounting and Economic and Financial Studies; in functional terms it is integrated in the GRM and performs second line of defence functions with regard to the following risks: i) business profitability, (ii) capital and solvency, (iii) deterioration of other assets (equity holdings and deferred tax assets), and (iv) reliability of financial reporting. In the case of the risk of reliability of financial reporting, the second line of defence functions are split and coordinated with the GRD - Non-financial Risks.

- **Compliance**

  Compliance is a CEO-dependent function, reporting directly, within its sphere of activity, to Senior Management, to the Management and Supervision Bodies, and to the supervisors (Banco de Portugal, European Central Bank, Securities Market Commission, and other bodies).

  The Compliance supervision model relies on four management pillars: (i) definition and maintenance of a detailed taxonomy of risks, in each scope of activity; ii) annual Compliance plan establishing the activities to be monitored and the revision of internal procedures, based on their criticality; iii) identification of deficiencies (in regulatory control or non-compliance), either through the first line of defence, or through the activities listed in the Compliance Plan), or through supervisor inspections, Customer complaints, or other, and periodic monitoring of the corresponding action plans for the implementation of improvements; (vi) reporting and escalation of relevant themes, monitoring of Compliance inspections and deficiencies.

  In this manner, the Compliance function performs advisory activities in matters within its competence, carrying out actions for the development and transformation of the Compliance "Culture" through the review of technology-based processes, awareness-raising and communication actions addressed to the entire organisation, as well as training actions, defining a mandatory regulatory training plan.

Compliance also ensures that good practices are followed in terms of integrity and conduct, with an internal consultation channel and a whistleblowing channel being available to all Employees for this purpose.

Third Line of Defence

The Board of Directors of BPI, through the Audit and Internal Control Committee (AICC) ensures the existence of an Internal Audit Function with an effective, permanent and independent nature, endowing it with the adequate material, human and financial resources required for this Function to fully pursue the mission entrusted to it, and promoting the authority and independence of the Function within the Institution and the BPI Group.

The Supervisory Board watches over compliance with the aforementioned requirements, monitors whether the Audit Function exercises its responsibilities in an independent and effective manner, and makes sure that the AICC adopts, or promotes the adoption, of the necessary corrective measures to overcome deficiencies, or to seize the opportunities for improvement detected in internal governance and internal control.

Through its activity, the Internal Audit Department aims to provide reasonable assurance to the governance bodies about:

- The effectiveness and efficiency of the internal control system in the mitigation of the risks inherent to the Bank's activities;
- Compliance with the legislation in force, namely the regulatory requirements and the adequate implementation of the Internal Control Framework and Risk Appetite Framework;
- Compliance with the internal policies and regulations, including corporate guidelines from CaixaBank, and alignment with the sector's risk appetite and best practices; and
- The integrity, reliability and timeliness of financial, accounting and operational information.

Hence the scope of activity of this function includes assessing:

- The adequacy, effectiveness and implementation of Policies, Regulations and Standards;
- The effectiveness of controls;
- The adequate measurement and monitoring of the 1LoD and 2LoD indicators;
- The existence and correct implementation of action plans for control weaknesses;
- The validation, monitoring and assessment of control by the 2LoD.

And its main functions include:

- Drafting of the annual audit plan under a multi-annual perspective, based on the assessment of risk and taking into account the regulators' requirements and the requests of the Audit and Internal Control Committee (AICC);
- Regular delivery to the AICC and the Board members with this area of responsibility of the audit reports containing the conclusions of the works carried out and the deficiencies detected;
- Added value through the issuance of recommendations on how to solve the deficiencies detected, and monitoring of their adequate implementation by the auditees; and
- Regular communication with the supervisor to exchange information on the Bank's areas/processes with identified risk.

3.3. Credit Risk

3.3.1. Overview

Credit risk is the most significant risk on BPI's balance sheet, and arises mainly from the banking business, treasury operations and the purchase of public and corporate debt securities.

At 31 December 2019 and 2018 the maximum exposures to credit risk on the balance sheet, including counterparty risk, was as follows:

	31-12-2019		31-12-2018	
	Maximum exposure to credit risk	Impairment	Maximum exposure to credit risk	Impairment
Cash balances in other Credit Institutions[1]	116 795		223 992	
Financial assets held for trading				
Debt securities	13 934		13 893	
Financial assets not designated for trading compulsorily measured at fair value through profit or loss				
Debt securities	62 845		59 988	
Financial assets at fair value through other comprehensive income				
Debt securities	1 377 044		1 277 420	
Financial assets at amortised cost				
Debt securities	4 036 017	(6 340)	3 521 342	(4 528)
Loans and advances - Central Banks and other Credit Institutions	1 452 753	(66)	790 928	(269)
Loans and advances - Customers	22 347 267	(390 317)	21 897 593	(533 123)
Trading derivatives and hedge accounting	182 268		191 673	
Total active exposure	29 588 923	(396 723)	27 976 829	(537 920)
Total guarantees given and commitments[2]	4 329 685	(18 736)	4 294 161	(23 212)
Total	33 918 608	(415 459)	32 270 990	(561 132)

[1] Does not include cash and cash balances in Central Banks.
[2] CCF – Credit Conversion Factor for guarantees given and credit commitments. At 31 December 2019 and 2018, total guarantees and commitments, considering the respective CCF, were 3 503 Me. and 3 278 Me. respectively.

The maximum exposure to credit risk is the gross carrying amount, except in the case of derivatives, where it is the exposure value according to the mark-to-market method, which is calculated as the sum of current and potential exposures:

- Current exposure: the highest value between zero and the market value of an operation or of a portfolio of operations with a counterparty which can be offset in the event of default by the counterparty, assuming that nothing from the value of the operations will be recovered in the event of insolvency or liquidation of the counterparty, except for the collateral received.
- Potential risk: change in the credit exposure as a result of future changes in the valuation of an operation or in the valuation of operations that can be offset with a counterparty during the residual term to maturity.

Concerning BPI’s commercial activity, the Bank gears its lending activity towards meeting the financing needs of families (consumer and residential mortgage loans) and businesses, seeking to maintain a medium-low risk profile, as established in the RAF and the 2019- 2021 Strategic Plan.

BPI shares with the CaixaBank Group the principles and policies that support credit risk management, which may be summarised as follows:

- An adequate relationship between income and the commitments assumed by the consumers.
- Documentary proof of the information provided by the borrower concerning its solvency.
- Adequate pre-contractual information about the personal circumstances and characteristics of each Customer and operation.
- Adequate independent assessment of real estate collateral.

Banco BPI receives, among others, the following collateral within the scope of its loan granting business:

- Mortgages on own housing;
- Other real estate mortgages;
- Deposit of assets;
- Pledge of securities;

- Guarantees provided by other credit institutions.

3.3.2. Credit risk cycle

The full credit risk management cycle covers the entire life of the transaction, from feasibility studies to risk-taking in accordance with pre-established criteria. The management of the credit risk cycle is fundamental for the success of the transaction up to reimbursement.

Loan approval and granting

Credit risk management at BPI covers the entire life of the transactions. The process is designed to follow best market practices and is aligned with CaixaBank and the regulators' recommendations.

The credit risk-taking process is based on the collection of information, in order to assess the Customer's reimbursement capacity without resorting to collateral, involving the assessment of aspects such as knowledge about the Customer and the industry sector in which it operates/obtains income, the experience gained in similar operations and the purpose and other characteristics of the operations. To this end, the credit risk-taking processes involves a delegation of powers, including with respect to the relevant information to be assessed. The definition of the level responsible for the approval of operations essentially depends on four elements:

- **Amount** – the contracted and potential exposure of the Customer or risk group*;*
- **Guarantee** – comprises the set of collaterals required to provide for additional situations of risk of default;
- **Specific risk policies** – set of Policies that establish specific risk-taking criteria, such as restructurings, incidents, rejection boundaries, etc.
- **Term –** the operation's intended maturity, depending on the intended purpose.

Credit risk-taking at Banco BPI is independent from the business areas, with the Credit Risk Division (CRD) being essentially responsible for the analysis and granting of loans.

The CRD is organised into specialised teams according to the following areas of activity:

- **Individuals –** exposure to individuals, except for private banking clients;
- **Small Businesses and Private Banking –** exposure to individual entrepreneurs, companies with turnover of up to 2 million euros, loans to individuals for business purposes and loans to private banking clients;
- **Medium-sized Companies –** exposure to companies with turnover between 2 million and 50 million euros;
- **Large Companies, Structured Finance, Institutional Clients, Countries and Financial Institutions,** which includes Risk Centres specialising in exposure to:
  - Companies with turnover or total assets above 50 million euros;
  - Project Finance;
  - Financial entities, insurers (except non-life), sovereign risk and country risk;
  - State business sector, Regional Administration, Municipalities, Catholic Church and Foundations (except Parish Councils).

The CRD Risk Centres are centralised in Lisbon and Porto. For the Small Businesses, Private Banking, Medium-sized Companies and Large Companies segments, the Clients monitored by each Risk Centre are distributed by regions, in line with the organisation of the Bank's commercial structure. However, the Bank has Risk Centres for Medium-sized Companies specialising in specific industries, construction, real estate and hotels.

This organisation ensures independence and at the same time close proximity with the specific dynamics of the regions, industry sectors and Clients, which is achieved through annually scheduled meetings with the commercial areas (which include training on credit risk issues) and with the Clients.

The analysis of the Customer risk and the approval of the loan is based on a system of internal ratings for each counterparty, taking into account the following:

- The probability of default by counterparties and guarantors for the maturities in question;
- The loss in case of default, taking into account any collateral;

- The global value of the exposure in case of default, taking into account all on- and off-balance sheet transactions with the counterparty;
- An historical and forward-looking analysis of the Client to assess its capacity to generate sufficient funds for the timely service of the debt;
- The Clients global indebtedness to Banco BPI and in the financial system.

The most important bodies with delegated credit decision powers are the Credit Board and the Permanent Credit Committee (PCC). The Board of Directors (BD) also delegates powers to the Executive Committee of the Board of Directors (ECBD). This scheme ensures the approval of the largest exposures at the highest level of the organisation.

The delegation of decision powers for lower exposures is parametrised according to the global value of the exposure of the Customer in question, and also depends on the counterparty's rating, the existence of incidents and instances of default, and the individual value of the transactions and respective maturity. These powers are concentrated in the CRD.

Credit management, except for individual clients, is always undertaken from the perspective of Exposure Limits. These reflect a critical analysis of the Client's reimbursement capacity and the maximum credit involvement which, bearing in mind the commercial area's proposed credit relationship, Banco BPI deems acceptable to have with that Client, always based on prudent risk criteria.

The credit workflow is supported, from origination to contracting, by an analysis and decision software application that concentrates, discriminating the origin, all the information about the Client, the proposal, the analysis and the decisions of the competent bodies. The decision level is automatically established in accordance with each specific proposal by means of an algorithm that factors in the approval rules in force.

Exposure Limits are approved or renewed for a maximum period of one year, this period depending on the Client's rating. The Credit Risk Division is thus always called in to assess the exposure to each Client at least once a year, while at the same time the Bank has in place monitoring tools and early warnings of a deterioration in the risk of Customers or transactions, which, among others, may trigger a revision of the Exposure Limit.

This ensures an integrated vision of the relationship with the Client and the centralisation in the credit risk decision of the various factors - counterparty, amount, duration and guarantees for each category (of credit risk products considered homogeneous) and for special operations (which, on account of their specific characteristics, are not included in these categories, namely medium-and long term operations).

Moreover, this permits maximum flexibility and speed by the Commercial Divisions in the implementation of the operations throughout the duration of the Exposure Limit.

The pricing of the transactions is the responsibility of the Commercial Divisions, which for the purpose use tools that measure the Risk Adjusted Return (RAR) for each Client and transaction, bearing in mind market conditions.

Risk mitigation

Lending is always based on the assessment of the Client's capacity to generate sufficient funds for the timely service of the debt, and on a risk-adjusted pricing policy. The requirement of personal or real guarantees, as a risk mitigator, is always considered at the time of granting a loan.

In the decision to require guarantees, several factors are weighted, namely the rating assigned to the Client, and the nature and term of the operations. The term in particular is one of the more sensitive factors due to the uncertainty it entails, which is why medium and long-term transactions usually have associated real guarantees.

The rules on the acceptance of guarantees, control of their formalisation, and monitoring of their value during the transaction's lifetime, through regular evaluations and their release are set out in specific internal regulations.

The guarantees foreseen in the internal regulations are those typified in the law, the most usual being personal guarantees (of individuals or companies) by endorsement or security, and in the case of real guarantees, the mortgage, the pledge of assets and the financial pledge. Financial instruments such as derivatives or repos are covered by standard agreements that establish the daily exchange of collaterals, guaranteeing coverage of the counterparty risk.

All guarantees are recorded in a dedicated software application. The funds are only made available to the Client after or upon verification of the guarantees provided.

The classification by stage of loans to Customers and associated guarantees is as follows:

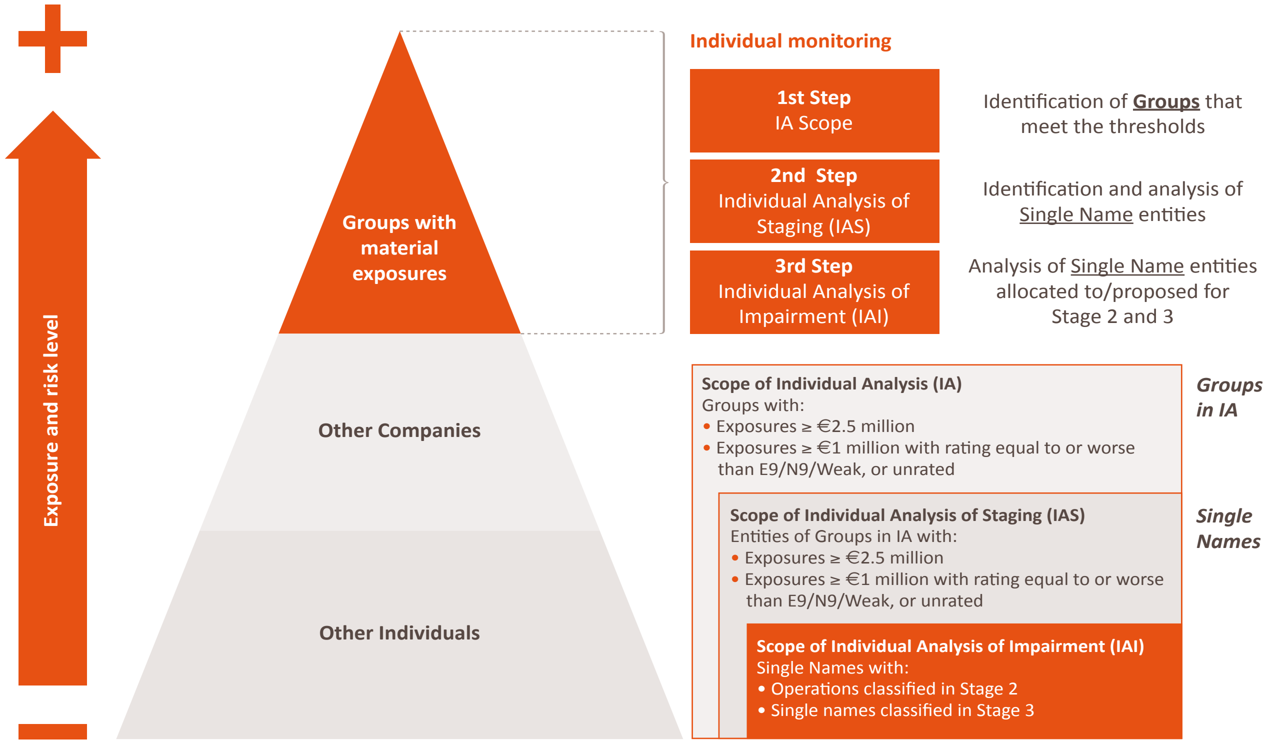
	31-12-2019			31-12-2018		
	Gross amount	**Allowance for Impairment loss**	**Guarantees[1]**	**Gross amount**	**Allowance for Impairment loss**	**Guarantees[1]**
Stage 1:	**20 252 703**	**(33 577)**	**11 044 009**	**19 248 322**	**(25 133)**	**10 447 424**
No associated collateral	6 641 534	(17 937)		6 712 857	(13 227)	
With real estate collateral	11 739 579	(9 628)	10 653 821	11 025 423	(6 934)	10 081 688
With other collateral	1 871 590	(6 012)	390 188	1 510 042	(4 972)	365 736
Stage 2:	**1 240 750**	**(47 709)**	**668 541**	**1 472 225**	**(52 875)**	**787 051**
No associated collateral	289 974	(15 091)		355 715	(14 362)	
With real estate collateral	757 828	(23 438)	653 454	833 868	(28 610)	726 602
With other collateral	192 948	(9 180)	15 087	282 642	(9 903)	60 449
Stage 3:	**737 880**	**(306 153)**	**299 722**	**1 017 326**	**(453 659)**	**352 535**
No associated collateral	171 785	(102 220)		205 964	(123 838)	
With real estate collateral	489 083	(154 738)	298 412	678 130	(270 645)	348 951
With other collateral	77 012	(49 195)	1 310	133 232	(59 176)	3 584
	22 231 333	**(387 439)**	**12 012 272**	**21 737 873**	**(531 667)**	**11 587 010**

[1] The value of the guarantee is the lower of the value of the guarantee received and the value of the loan net of impairments.

Monitoring and measurement of credit risk

The purpose of the monitoring process is to assess the quality of the risk taken in lending operations to a borrower and to decide on any actions that need to be taken, including the estimation of impairment. The targets of risk monitoring are borrowers that bear credit risk, with the results being set as a reference for the future lending policy.

The monitoring of exposures is mainly performed according to the exposure and the risk level of the operations/borrowers, being segregated into different areas in accordance with the analysis methodology, as shown below:



1. Customised monitoring process

The customised monitoring procedures are applied in portfolios with material risk exposures and/or which have specific characteristics. These procedures consist of drafting regular reports on the borrowers' economic groups with the aim of assessing the existence of objective evidence of impairment and/or a significant increase in credit risk (SICR) since the initial recognition.

The triggers of a significant increase in credit risk (SICR) and/or default are grouped into the following categories:

- Financial difficulties of the issuer or debtor (rating deterioration, financial status deterioration, defaults registered in the Banco de Portugal's Central Credit Register, lawsuits brought by third parties, etc.);
- Breach of contract clauses, non-payments or delays in the payment of interest or principal on loans contracted with the Bank;
- Restructuring or expected restructuring of the debtor's exposures due to risk deterioration;
- Other indicators identified in specific Clients through the monitoring of their activity.

Whenever Clients with objective evidence of impairment and/or a significant increase in credit risk since the initial recognition are identified, a specific impairment is established (Individual Analysis of Impairment). For Clients classified as in default, individual impairment is determined on a going concern or gone concern basis, depending on the expectations of recovery for each borrower.

2. Quantification and classification of credit risk

Credit risk parameters

Risk measurement is based on the segmentation of risk and on the factors associated with the calculation of the expected loss:

- **Exposure:** Exposure at default (EAD) provides an estimate of the outstanding debt in the event of default. This measurement is significant for financial instruments with a repayment structure that varies according to customer drawdowns (credit accounts, credit cards and, in general, any revolving credit product).

The estimate is based on the observation of historical data for defaulting borrowers, comparing the drawdown levels between the time of default and during the 12 preceding months. This permits to estimate future drawdown levels according to product type, current drawdown levels and credit ceilings.

- **Probability of default:** the Bank uses management tools covering virtually all its loan portfolios and main risk segments to help predict the probability of default (PD) associated with each borrower.

These tools are an integral part of the credit granting and monitoring process, having been developed and calibrated in accordance with the Bank's past experience of defaults.

- Product-oriented tools are used mainly within the scope of authorisation of new loans to individuals and take account the debtor’s characteristics, information on the relationship with the Customer, internal and external warnings, and the specific characteristics of the transaction - Admission Scoring.
- The monitoring tools for lending operations to individual Customers are also product-oriented, taking into account relationship variables relating to the Bank and the financial system - Behavioural Scoring.

Rating tools for companies and small businesses vary considerably depending on the risk segment. The assessment process for medium-sized Companies is based on a hybrid model that combines two components: (i) a quantitative algorithm that mainly draws information from the financial statements, and (ii) an expert analysis component that takes into account other quantitative and qualitative aspects, namely management quality, market position, and others.

For large companies, the Bank uses models that seek to replicate the ratings assigned by rating agencies and require the expert criteria of rating analysts. In view of the lack of sufficient statistical frequency of internal default delinquency in this segment, the models were built in line with Moody's methodology.

Individual clients’ operations are scored on a monthly basis in order to keep the credit rating up-to-date. Companies’ ratings are updated at least annually, and whenever significant events occur that can alter the borrower's credit quality. In this segment, qualitative information and information about the financial statements is updated on a regular basis so as to achieve the maximum level of coverage and update of the internal rating.

- **Loss given default (LGD):** LGD is the percentage of debt that cannot be recovered in the event of default by the Client.

LGD is calculated based on internal historical information, taking into account the cash flows associated with contracts from the moment of default until the default has been corrected or until there cease to exist any relevant expectations of recovery. This calculation also includes estimates of loan recovery costs.

3. Determination of accounting classification

The accounting classification of operations with credit risk into the different IFRS 9 Stages is established according to whether there has been a significant increase in credit risk since the operation's initial recognition, and/or whether a default event has occurred.

A significant increase in credit risk, and consequent classification of the transaction in Stage 2, is deemed to have occurred, when there are indications of difficulties or weaknesses that could justify an expectation of significantly higher losses than at the time the credit was granted.

In the case of individually significant Clients (Single Names) the classification in Stage 2 (or 3) results from a case-by-case analysis of their financial situation, as part of the credit monitoring process of these Clients or groups of Clients. This process involves the ongoing assessment of evidence or indications of a deterioration in credit risk, namely a significant increase in risk since initial recognition. The monitoring process and corresponding staging of the operations is supported by a set of triggers associated to the Client or the transaction, which may represent indications of a deterioration of the asset. The analysts should value these indications and, on this basis, classify or not the operations in Stage 2 or 3.

Save in duly justified situations, the following operations are classified in Stage 2: i) Credit operations restructured due to financial difficulties, but not classified as in default (Stage 3); (ii) Operations with material arrears of more than 30 days; (iii) Operations with a significant increase in the PD; iv) Operations with Clients with significant arrears communicated through Banco de Portugal's Central Credit Register; v) Operations with Clients in watchlist or showing a series of early warning signals permitting to perceive a significant increase in credit risk.

Operations that no longer meet the conditions for classification in Stage 2 are reclassified to Stage 1.

An event of default is considered to have occurred (leading to the classification of the Client exposure in Stage 3) when there are significant amounts overdue and unsettled for more than 90 days.

In addition to the criterion for reclassification referred above, the following operations are classified in Stage 3: with impairment coverage above 20%, when resulting from individual analysis; ii) of Clients in litigation with the Bank; iii) of Clients that are insolvent or in “Special Revitalisation Process” or subject to lawsuits brought by third parties which signal a deterioration in credit risk; iv) of Clients with material amounts of credit written off from assets; v) that were restructured due to economic difficulties, leading to a significant economic loss; vi) that were restructured due to economic difficulties and classified as non-performing (or in probation period) with overdue and unsettled material amounts for more than 30 days; vii) that were restructured due to economic difficulties and classified as non-performing (or in probation period) and benefit from new restructuring measures due to financial difficulties; ix) in other situations indicating a high probability of defaulting on the conditions contracted.

Except for the Retail segments (residential mortgage loans, personal loans, etc), the classification of default is propagated to all the other operations of the same borrower. In the Retail segments, the other operations of the borrowers are classified in default whenever the portion that meets the above-mentioned criteria exceeds 20% of the total exposure of the operations in which the Client is involved as the holder.

From the moment each of the criteria for classification in Stage 3 cease to apply, the operations shall maintain the classification of default (Stage 3) for a minimum remedial period (of 4 to 12 months).

4. Determination of impairment coverage

In accordance with the IFRS9 requirements for a significant change in credit quality, expected credit losses in operations, assessed collectively or individually, considering all the reasonable and substantiated information available, including forward looking information, must be recognised.

Principles for measuring expected credit losses for the purpose of determining impairment coverage

The coverage or provision calculated is defined as the difference between the gross carrying amount of the operation and the present value of expected future cash flows, discounted at the effective interest rate of the operation and considering the guarantees received that are deemed effective.

The Bank estimates the expected credit losses of an operation so that these losses reflect:

- an amount weighted for the unbiased probabilities of occurrence of a series of possible future results (probabilities of occurrence in the baseline, optimistic and pessimistic scenarios);
- the time value of money; and
- reasonable and sustainable information that is available at the reference date, at no disproportionate cost or effort, on past events, current conditions and forecasts of future economic conditions.

Under the applicable rules, the coverage calculation method is determined according to whether the borrower is individually significant or not and in accordance with its accounting category (operations staging).

- If, in addition to being individually significant, the customer has operations in default or in Stage 2, the specific impairment allowances for these operations are estimated through a detailed analysis of the Customer's capacity to generate cash flows through its activity (going concern approach) or of the cash flows that may result from the enforcement of the guarantees received from the Client (gone concern approach).
- In all other cases, impairment coverage is estimated collectively using internal methodologies, based on past experience of portfolio defaults and recoveries, including recoveries obtained through the enforcement of guarantees received.

Collective credit impairment is calculated using probability of default (PD) estimation models, loss given default (LGD) estimation models, models to estimate drawdowns on credit ceilings, and adjustments to factor in lifetime and forward-looking effects.

The models used are re-estimated or updated at least once a year and executed monthly so as to factor in at all times the economic context at the time and the credit performance. This makes it possible to reduce the differences between estimated loss and recent observations. The models include a forward-looking perspective to determine the expected loss, taking into account the more relevant macroeconomic factors: i) GDP growth, ii) the unemployment rate, iii) the 6-month EURIBOR, and iv) the evolution of home prices. Following on from this, the Group generates a baseline scenario, as well as a range of potential scenarios that make it possible to adjust the estimated expected loss, by weighting the probability of its occurrence.

The calculation process is structured in two steps:

Determination of the basis subject to impairment: Corresponds to the sum of the gross carrying amount of the operation at the time of calculation plus off-balance sheet amounts (available ceiling and guarantees) that could be expected to be disbursed when the Client is classified as impaired (stage 3).

Determination of the coverage to apply to the basis subject to impairment: This calculation is made based on the probability of the borrower defaulting on the operation obligations, and the expected loss in case of default (loss given default), Loss given default reflects, namely in the case of residential real estate collateral, the expected recoverable amount on the future sale of that collateral minus the costs incurred up to that sale.

For portfolios that are not materially relevant, or when past experience is not significant, the expected loss estimation approach is simplified.

In the specific case of exposures that, due to the nature of the borrower or guarantor, are classified as having low credit risk, the impairment coverage rate may be 0% (on the risk hedged). To this effect, operations considered as of low credit risk are those contracted with:

- Central Banks
- Public Administrations (European Union countries)
- Central Governments (European Union countries, Switzerland, United States, Canada, Japan, Australia and New Zealand)
- Deposit guarantee funds and resolution funds (which, on account of their credit quality, are comparable to funds from European Union countries)
- Credit institutions and credit financial institutions (European Union countries, Switzerland, United States, Canada, Japan, Australia and New Zealand)
- Mutual Guarantee Societies and Public Bodies or Companies having as main activity credit insurance or endorsement (European Union countries, Switzerland, United States, Canada, Japan, Australia and New Zealand)
- Non-financial public companies

The coverages estimated individually or collectively must be consistent in terms of the stages in which the operations may be classified. Thus, the coverage level for an operation must be equal to or higher than the coverage level it would have if it were classified in a lower credit risk category.

Any necessary improvements detected during the model revision exercises, namely through backtesting and benchmarking exercises, are introduced in the model. The models developed are documented so they can be replicated by a third party. The documentation contains key definitions, information regarding the process of data collection and processing, the methodological criteria adopted and the results obtained.

Banco BPI has a total of 56 models, in order to obtain the necessary parameters to calculate coverages based on a collective analysis.For each of the risk parameters, different models can be used according to each type of exposure.

The existing models are detailed below:

- 12 Scoring and Rating parameter models
- 12 PD parameter models
- 1 CCF parameter model
- 8 LGD parameter model
- 8 LGD in default parameter models
- 1 Haircut parameter model
- 14 forward looking PD and LGD macroeconomic models

Segments that do not have their own models are, broadly speaking, the State Business Sector (SBS), Specialized credit (SC), Financial companies (F), Insurers (I), Start-UPs (SU), among others.It should be noted, however, that PD and LGD is estimated for these segments.

Incorporation of forward-looking information into the expected loss models

The variables considered for the Portuguese economy are as follows:

Forward looking macroeconomic indicators

	2020	2021	2022
GDP growth			
Baseline scenario	1.72%	1.62%	1.42%
Upside range	2.84%	2.37%	1.86%
Downside range	0.05%	0.16%	0.27%
Unemployment rate			
Baseline scenario	6.14%	5.96%	5.83%
Upside range	5.35%	4.61%	4.49%
Downside range	7.93%	8.31%	8.28%
6M Euribor			
Baseline scenario	-0.34%	-0.05%	0.35%
Upside range	-0.24%	0.15%	0.65%
Downside range	-0.34%	-0.34%	-0.05%
Home prices evolution			
Baseline scenario	6.05%	3.76%	2.74%
Upside range	8.51%	6.08%	3.17%
Downside range	1.25%	0.25%	1.25%

Probability of occurrence of the forecast scenarios

	Baseline Scenario	Upside Scenario	Downside Scenario
Portugal	40%	30%	30%

A sensitivity analysis of the expected loss was performed based on changes in the key hypotheses applied separately to calculate the expected loss. The estimated sensitivity to a change in GDP projected growth in the next 12 months is shown below:

Exposure sensitivity analysis

	Change in Expected Loss
GDP growth	
+0,5%	(2 400)
-0,5%	2 400

5. Determination of impairment of financial assets

A description of impairment of financial assets is given in Note 2.7. Impairment of financial assets.

NPL management

The identification, as soon as possible, of indicators of financial difficulties of clients to which BPI has credit exposure has been a priority for the Bank. In a first phase, it is the commercial network that takes action when a Client shows indications of financial difficulties, as, due to its capillarity and specialisation, it in a better position to know the client, detect the first indications of deterioration and promptly propose adequate measures.

Once these Clients have been identified, there are specific mechanisms for regularly reporting, by Client or portfolio, to specific Committees of Banco BPI. The purpose is to ensure that the Bank acts as soon as possible in order to maximise the amount of recovery.

When necessary, responsibility for monitoring the Client and the recovery process is transferred to a specialised unit (Credit Recovery Division), which uses an integrated model covering all the phases of recovery, including the management of the foreclosed assets.

In the case of loans to Companies or Small Businesses, as a rule the Bank seeks non-judicial restructuring of the debt which, when credible, may involve extending the maturity and possibly even a moratorium on principal with the payment of interest in arrears and reinforced security. Also as a rule, the Bank does not increase its exposure, accept payment in kind or convert debt into capital.

In the case of recovery of loans to Individuals, restructuring or renegotiation agreements are also a preferred path for recovery providing that there is the minimum prospect of their being complied with. The choice is largely dependent on the length of default and on the loan product, and it could involve extending the maturity and implementing a payment plan of outstanding and unpaid instalments, amongst other solutions.

Once a restructuring operation has been completed, the process is duly monitored. Non-compliance with the agreed plan sets into motion the judicial recovery of the debt. Where the debt restructuring is not feasible, the loan is subjected to judicial execution.

The information on the status of the recovery process and likelihood of its success is factored into the determination of individual impairment, considered the worst prospect for recovery.

The table below shows the book value and impairment of property foreclosed for the payment of debt:

	31-12-2019			31-12-2018		
	Gross Value	**Impairment**	**Book value**	**Gross Value**	**Impairment**	**Book value**
Homes	11 835	2 033	9 802	22 591	3 093	19 498
Other	13 032	8 308	4 724	29 014	15 786	13 228
Total	**24 867**	**10 341**	**14 526**	**51 605**	**18 879**	**32 726**

Restructuring policies

A description of the restructuring policies is given in Note 2.8. Refinancing and restructuring operations.

Restructured loans:

The breakdown of refinancing by industry sector is as follows:

31-12-2019

	Total						
	Without collateral		With collateral				Impairment
	Number of transactions	Exposure	Number of transactions	Exposure	Maximum amount of the collateral that can be considered: Real estate mortgage	Maximum amount of the collateral that can be considered: Other collateral	
Public administrations	2	350	1	6 600		6 601	
Other financial corporations and individual entrepreneurs (financial business)	8	180					(75)
Non-financial corporations and individual entrepreneurs (non-financial business)	1 428	101 327	250	211 066	98 882	54 472	(123 271)
Individuals	3 671	26 795	5 950	200 852	197 266	444	(57 797)
Total	**5 109**	**128 652**	**6 201**	**418 518**	**296 148**	**61 517**	**(181 143)**

Note: Includes securitised loans, Customer loans and guarantees

	Of which: Stage 3						
	Without collateral		With collateral				Impairment
	Number of transactions	Exposure	Number of transactions	Exposure	Maximum amount of the collateral that can be considered: Real estate mortgage	Maximum amount of the collateral that can be considered: Other collateral	
Other financial corporations and individual entrepreneurs (financial business)	5	163					(75)
Non-financial corporations and individual entrepreneurs (non-financial business)	952	57 267	143	118 015	71 752	20 972	(113 805)
Individuals	2 045	16 579	4 691	154 725	151 596	179	(55 905)
Total	**3 002**	**74 009**	**4 834**	**272 741**	**223 348**	**21 152**	**(169 785)**

Note: Includes securitised loans, Customer loans and guarantees at stage 3.

31-12-2018

	Total						
	Without collateral		With collateral				Impairment
					Maximum amount of the collateral that can be considered		
	Number of transactions	Exposure	Number of transactions	Exposure	Real estate mortgage	Other collateral	
Public administrations	24	6 340	4	11 819		11 818	
Other financial corporations and individual entrepreneurs (financial business)	7	181	1	19	19		(70)
Non-financial corporations and individual entrepreneurs (non-financial business)	1 969	164 813	427	370 640	152 738	75 958	(199 514)
Individuals	4 638	33 505	6 767	234 214	228 596	583	(76 543)
Total	**6 638**	**204 839**	**7 199**	**616 692**	**381 353**	**88 359**	**(276 127)**

Note: Includes securitised loans, Customer loans and guarantees

	Of which: Stage 3						
	Without collateral		With collateral				Impairment
					Maximum amount of the collateral that can be considered		
	Number of transactions	Exposure	Number of transactions	Exposure	Real estate mortgage	Other collateral	
Other financial corporations and individual entrepreneurs (financial business)	4	106	1	19	19		(66)
Non-financial corporations and individual entrepreneurs (non-financial business)	1 389	86 480	310	249 915	127 707	61 883	(194 038)
Individuals	2 448	21 423	5 398	182 642	177 721	230	(74 320)
Total	**3 841**	**108 009**	**5 709**	**432 576**	**305 447**	**62 113**	**(268 424)**

Note: Includes securitised loans, Customer loans and guarantees at stage 3.

3.3.3. Concentration Risk

In Banco BPI's Risk Catalogue concentration risk is conceptually included within credit risk, and is calculated according to CaixaBank Group's best practices.

Banco BPI's Risk Appetite Framework (RAF) uses metrics to systematically identify overall exposure to a particular Customer or geographic location, as well as appetite limits to concentration risk.

Concentration in customers or in "large exposures"

As part of the risk-taking process, the Bank monitors compliance with the regulatory limits (25% of own funds) as well as with limits to concentration risk appetite. At the end of 2019, there was no breach of the defined limits.

Concentration by geographic location

The breakdown of risk of financial assets and guarantees and sureties provided, by geographical location, is as follows:

31-12-2019

	Total	Portugal	Other EU countries	Other world countries
Central Banks and credit institutions	2 764 270	1 035 394	1 008 548	720 328
Public sector	4 780 922	2 591 940	2 007 302	181 680
Central government	3 625 051	1 436 069	2 007 302	181 680
Other public administrations	1 155 871	1 155 871		
Other financial corporations and individual entrepreneurs (financial business)	770 505	426 182	272 412	71 911
Non-financial corporations and individual entrepreneurs (non-financial business)	10 896 962	10 405 745	465 118	26 099
Real estate construction and development	544 522	540 267	3 540	715
Civil construction	275 167	264 152	11 015	
Other	10 077 273	9 601 326	450 563	25 384
Large companies	6 137 949	5 700 890	421 082	15 977
Small and medium-sized companies	3 939 324	3 900 436	29 481	9 407
Individuals	12 783 858	12 718 031	16 703	49 124
Homes	11 251 313	11 240 839	1 883	8 591
Consumer spending	1 128 752	1 088 355	12 583	27 814
Other	403 793	388 837	2 237	12 719
Total	**31 996 517**	**27 177 292**	**3 770 083**	**1 049 142**

Note: Includes deposits at central banks and credit institutions, financial assets not designated for trading compulsorily measured at fair value through profit or loss, financial assets at fair value through other comprehensive income, financial assets at amortised cost, investments in joint ventures and associates, and guarantees and sureties. Amounts net of impairments.

31-12-2018

	Total	Portugal	Other EU countries	Other world countries
Central Banks and credit institutions	3 624 696	2 360 731	540 182	723 783
Public sector	4 661 776	2 729 873	1 710 069	221 834
Central government	3 583 269	1 651 366	1 710 069	221 834
Other public administrations	1 078 507	1 078 507		
Other financial corporations and individual entrepreneurs (financial business)	846 756	370 493	414 081	62 182
Non-financial corporations and individual entrepreneurs (non-financial business)	10 177 278	9 628 010	512 203	37 065
Real estate construction and development	511 879	506 757	4 248	874
Civil construction	265 659	255 714	9 945	
Other	9 399 740	8 865 539	498 010	36 191
Large companies	5 528 403	5 048 720	455 185	24 498
Small and medium-sized companies	3 871 337	3 816 819	42 825	11 693
Individuals	12 353 896	12 281 310	17 067	55 519
Homes	11 001 828	10 987 944	2 804	11 080
Consumer spending	958 897	913 961	11 703	33 233
Other	393 171	379 405	2 560	11 206
Total	**31 664 402**	**27 370 417**	**3 193 602**	**1 100 383**

Note: Includes deposits at central banks and credit institutions, financial assets not designated for trading compulsorily measured at fair value through profit or loss, financial assets at fair value through other comprehensive income, financial assets at amortised cost, investments in joint ventures and associates, and guarantees and sureties. Amounts net of impairments.

Concentration by industry sector

Risk concentration by economic sector is subject to BPI's RAF limits (level 1), differentiating between private sector economic activities and public sector financing.

At 31 December 2019 and 2018, the breakdown of credit by industry sector, type of collateral and loan to value (LTV) is as follows:

31-12-2019

	Balance net of impairments	Of which: real estate mortgage secured	Of which: other collateral	Collateralised loans Carrying amount based on latest available appraisal (LTV)				
				≤ 40 %	> 40 % ≤ 60 %	> 60 % ≤ 80 %	> 80 % ≤ 100 %	> 100%
Central Banks and credit institutions	1 400 685							
Public sector	1 186 297	3 536	295 332	70 017	61 744	91 625	63 451	12 031
Central government	336 656		8 053					8 053
Other public administrations	849 641	3 536	287 279	70 017	61 744	91 625	63 451	3 978
Other financial corporations and individual entrepreneurs (financial business)	248 996	16 235	987	5 250	939	11 013		20
Non-financial corporations and individual entrepreneurs (non-financial business)	7 644 490	1 548 912	1 504 298	829 919	438 840	362 578	299 151	1 122 722
Real estate construction and development	383 952	192 984	31 775	155 858	21 451	19 681	7 802	19 967
Civil construction	127 942	3 843	41 909	3 336	1 338	915	1 396	38 767
Other	7 132 596	1 352 085	1 430 614	670 725	416 051	341 982	289 953	1 063 988
Large companies	3 459 431	536 371	1 106 155	414 124	112 881	128 997	134 223	852 301
Small and medium-sized companies	3 673 165	815 714	324 459	256 601	303 170	212 985	155 730	211 687
Individuals	12 764 110	11 230 002	276 544	2 635 577	3 722 297	4 210 436	841 705	96 531
Homes	11 251 313	11 179 470	53 292	2 603 194	3 688 072	4 137 268	747 496	56 732
Consumer spending	1 128 752	100	167 213	7 422	17 246	44 049	74 160	24 436
Other	384 045	50 432	56 039	24 961	16 979	29 119	20 049	15 363
Total	**23 244 578**	**12 798 685**	**2 077 161**	**3 540 763**	**4 223 820**	**4 675 652**	**1 204 307**	**1 231 304**

Note: Includes Loans to central banks, credit institutions and Customers (does not include debt securities and other Customer applications) Map built based on commercial segmentation.

31-12-2018

	Balance net of impairments	Of which: real estate mortgage secured	Of which: other collateral	Collateralised loans Carrying amount based on latest available appraisal (LTV)				
				≤ 40 %	> 40 % ≤ 60 %	> 60 % ≤ 80 %	> 80 % ≤ 100 %	> 100%
Central Banks and credit institutions	727 261							
Public sector	1 219 795	3 878	327 232	61 320	82 842	91 762	65 992	29 194
Central government	367 500		13 026					13 026
Other public administrations	852 295	3 878	314 206	61 320	82 842	91 762	65 992	16 168
Other financial corporations and individual entrepreneurs (financial business)	247 210	7 293	32	4 335	40	2 099	16	835
Non-financial corporations and individual entrepreneurs (non-financial business)	7 408 745	1 253 511	1 228 045	517 877	378 942	347 361	239 429	997 947
Real estate construction and development	376 074	120 390	84 030	91 694	13 589	18 260	5 811	75 066
Civil construction	111 454	6 361	31 820	1 507	4 832	57	761	31 024
Other	6 921 217	1 126 760	1 112 195	424 676	360 521	329 044	232 857	891 857
Large companies	3 326 480	361 485	825 970	192 804	111 135	109 732	91 045	682 739
Small and medium-sized companies	3 594 737	765 275	286 225	231 872	249 386	219 312	141 812	209 118
Individuals	12 330 456	10 966 551	296 555	2 267 439	3 050 262	4 441 386	1 363 255	140 764
Homes	11 001 828	10 912 508	60 040	2 238 635	3 018 819	4 371 757	1 253 880	89 457
Consumer spending	958 897	51	187 947	6 355	14 241	42 950	87 114	37 338
Other	369 731	53 992	48 568	22 449	17 202	26 679	22 261	13 969
Total	**21 933 467**	**12 231 233**	**1 851 864**	**2 850 971**	**3 512 086**	**4 882 608**	**1 668 692**	**1 168 740**

Note: Includes Loans to central banks, credit institutions and Customers (does not include debt securities and other Customer applications) Map built based on commercial segmentation.

Concentration by interest rate type and arrears status

The tables below show the detail of loans and advances to Customers and respective impairment by stage.

The breakdown of loans and advances to Customers (net of impairments) is as follows:

	31-12-2019			31-12-2018		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
By industry sector	**20 330 037**	**1 193 936**	**432 977**	**19 378 871**	**1 420 360**	**565 239**
Public sector	1 161 392	33 936		1 189 532	36 089	1 289
Other financial corporations and individual entrepreneurs (financial business)	298 048	171	122	377 074	2 769	177
Non-financial corporations and individual entrepreneurs (non-financial business)						
Real estate construction and development	362 771	6 975	14 219	327 856	32 605	15 627
Civil construction	118 330	9 273	340	94 729	15 035	1 696
Other						
Large companies	3 220 672	256 026	36 434	2 897 568	328 146	108 762
Small and medium-sized companies	3 488 873	133 614	50 906	3 350 770	192 094	61 008
Individuals						
Home loans	10 288 841	657 938	304 534	9 920 402	724 930	356 496
Consumer spending	1 025 349	80 192	23 212	867 491	75 211	16 195
Other	365 761	15 811	3 210	353 449	13 481	3 989
By interest rate type	**20 330 037**	**1 193 936**	**432 977**	**19 378 871**	**1 420 360**	**565 239**
Fixed rate	3 614 472	149 727	45 699	2 714 103	184 009	45 083
Variable rate	16 715 565	1 044 209	387 278	16 664 768	1 236 351	520 156
By number of days in arrears	**20 330 037**	**1 193 936**	**432 977**	**19 378 871**	**1 420 360**	**565 239**
Up to 30 days[1]	20 317 956	1 161 806	148 338	19 372 222	1 395 586	231 556
30 to 60 days	10 683	24 186	25 495	5 187	15 376	24 839
61 to 90 days	691	5 461	18 684	177	5 822	15 724
91 days to 6 months	381	1 925	39 771	181	3 070	41 795
6 to 12 months	87	49	27 654	90	249	48 423
More than 1 year	239	509	173 035	1 014	257	202 902

[1] Includes regular credit (with no days of arrears).

The breakdown of Customer loan impairments by calculation method is as follows:

	31-12-2019			31-12-2018		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Impairments determined individually / collectively						
Specific identified individually		(15 096)	(118 904)		(16 500)	(183 111)
Collective	(33 999)	(32 622)	(189 696)	(25 186)	(36 378)	(271 948)

Concentration by credit quality

The tables below show the concentration of credit risk by rating of exposures in debt securities and loans and advances held by the Bank:

Credit risk quality (rating)

The breakdown of debt securities by rating class at 31 December 2019 and 2018 is as follows:

31-12-2019

	Financial assets held for trading	Financial assets not designated for trading compulsorily measured at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	TOTAL
A+/A/A-				42 166	42 166
BBB+/BBB/BBB-	2 009	1 027	1 377 044	1 747 835	3 127 916
"Investment grade"	**2 009**	**1 027**	**1 377 044**	**1 790 001**	**3 170 082**
	14%	2%	100%	44%	58%
BB+/BB/BB-		56 414		299 684	356 097
No rating	11 925	5 404		1 939 992	1 957 321
"Non-investment grade"	**11 925**	**61 818**		**2 239 675**	**2 313 418**
	86%	98%		56%	42%
	13 934	**62 845**	**1 377 044**	**4 029 677**	**5 483 500**

31-12-2018

	Financial assets held for trading	Financial assets not designated for trading compulsorily measured at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	TOTAL
A+/A/A-				49 950	49 950
BBB+/BBB/BBB-	4 532	1 079	1 277 420	1 797 552	3 080 583
"Investment grade"	**4 532**	**1 079**	**1 277 420**	**1 847 502**	**3 130 533**
	33%	2%	100%	53%	64%
BB+/BB/BB-		53 868		269 991	323 859
No rating	9 361	5 041		1 399 321	1 413 723
"Non-investment grade"	**9 361**	**58 909**		**1 669 312**	**1 737 582**
	67%	98%		47%	36%
	13 893	**59 988**	**1 277 420**	**3 516 814**	**4 868 115**

The breakdown of loans and advances to central banks and other credit institutions by rating class is as follows:

			31-12-2019		31-12-2018	
Exposures			**1 452 687**		**790 659**	
	External Rating	AAA to AA-	147 025	10%	89 924	11%
		A+ to A-	736 096	51%	212 214	27%
		BBB+ to BBB-	533 680	37%	479 019	61%
		BB+ to BB-	35 848	2%	9 502	1%
		B+ to B-	38	0%		
			1 452 687	**100%**	**790 659**	**100%**

Note: Exposure net of impairments (the amounts shown include accrued interest)

The breakdown of loans and advances to Customers by rating class is as follows:

		31-12-2019		31-12-2018	
Exposures *Non-Default*		**21 521 530**	**98%**	**20 799 221**	**97%**
External Rating	AAA to AA-	96 019	0%	111 511	1%
	A+ to A-	1 167	0%	3 124	0%
	BBB+ to BBB-	919 367	4%	870 114	4%
	BB+ to BB-	35 560	0%	40 694	0%
	B+ to B-	45 561	0%	51 749	0%
	< B-	222	0%	34	0%
Rating Project Finance	Strong	58 472	0%	73 565	0%
	Good	628 354	3%	826 533	4%
	Satisfactory	431 549	2%	244 784	1%
	Weak	31 559	0%	17 891	0%
Rating Companies	E01 to E03	403 145	2%	875 301	4%
	E04 to E06	2 607 941	12%	1 973 240	9%
	E07 to E10	1 000 987	5%	972 417	5%
	ED1 to ED2	1 720	0%	907	0%
Rating Small businesses	N01 to N03	199 425	1%	76 262	0%
	N04 to N06	887 128	4%	735 409	3%
	N07 to N10	587 513	3%	800 144	4%
	ND1 to ND2	4 108	0%	3 162	0%
Scoring	01 to 03	4 535 259	21%	4 010 775	19%
	04 to 06	4 972 619	23%	5 083 357	24%
	07 to 10	2 711 809	12%	2 646 132	12%
	D01 to D02	15 141	0%	17 031	0%
No rating		1 346 904	6%	1 365 085	6%
Exposures *Default*		**435 420**	**2%**	**565 249**	**3%**
		21 956 950	**100%**	**21 364 470**	**100%**

Note: Exposure net of impairments (the amounts shown include accrued interest)

CRR default criterion (Regulation (EU) 575/2013)

Concentration by sovereign risk

Banco BPI's exposure to entities with sovereign risk is subject to the general risk-taking policy, which ensures that all positions taken are aligned with the target risk profile. Therefore, metrics and limits of exposure to the Portuguese public sector and to the public sector of all other countries were established in the Risk Appetite Framework. The Bank's exposure to entities with sovereign risk is for the most part concentrated in Portugal, Spain and Italy.

Exposure to entities with sovereign risk

The table below shows the breakdown of BPI's exposure to sovereign debt:

31-12-2019

Country	Residual maturity	Financial assets held for trading	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost[1]
Portugal	Less than 3 months		225 243	4 676
	3 months to 1 year		200 355	53 426
	1 to 2 years	1 195		528 827
	2 to 3 years	367	134 501	77 590
	3 to 5 years			94 227
	5 to 10 years		29 189	529 404
	More than 10 years			562 306
		1 562	**589 288**	**1 850 456**
Spain	1 to 2 years		306 527	707 578
	2 to 3 years		306 795	
			613 322	**707 578**
Italy	3 months to 1 year			400 465
	1 to 2 years			100 408
	5 to 10 years		174 434	
			174 434	**500 873**
Other	1 to 2 years			24 717
	2 to 3 years			7 230
	5 to 10 years			70 522
	More than 10 years			78 199
				180 668
		1 562	**1 377 044**	**3 239 575**

[1] Does not include interest receivable.

31-12-2018

Country	Residual maturity	Financial assets held for trading	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost[1]
Portugal	Less than 3 months		50 044	10 319
	3 months to 1 year		740 618	18 589
	1 to 2 years			53 415
	2 to 3 years	4 167		550 382
	3 to 5 years	365		143 777
	5 to 10 years			475 306
	More than 10 years			533 141
		4 532	**790 662**	**1 784 929**
Spain	2 to 3 years		307 939	712 423
			307 939	**712 423**
Italy	Less than 3 months		178 819	
	1 to 2 years			401 054
	2 to 3 years			100 698
			178 819	**501 752**
Other	2 to 3 years			49 486
	3 to 5 years			9 698
	5 to 10 years			83 434
	More than 10 years			78 283
				220 901
		4 532	**1 277 420**	**3 220 005**

[1] Does not include interest receivable.

3.3.4. Relevant information regarding financing for property construction and development, home purchasing, and foreclosed assets

Relevant information regarding financing for property development, home purchasing, and foreclosed assets is provided in the following section.

Financing for real estate construction and development

The tables below show the level of financing provided to real estate construction and development (does not include advances).

31-12-2019

	Gross amount	Impairment	Value net of impairments	Excess over the maximum recoverable value of collateral
Real estate construction and development	423 691	(39 738)	383 952	165 711
Of which: Stage 3	51 761	(37 542)	14 219	1 923

31-12-2018

	Gross amount	Impairment	Value net of impairments	Excess over the maximum recoverable value of collateral
Real estate construction and development	430 347	(54 273)	376 074	229 498
Of which: Stage 3	64 959	(49 331)	15 628	2 672

The following table presents the value of financial guarantees given for real estate construction and development, which indicates the maximum level of exposure to credit risk, corresponding to the amount the Bank would have to pay if the guarantees were called on.

	31-12-2019		31-12-2018	
	Gross amount	Impairments and provisions	Gross amount	Impairments and provisions
Guarantees provided				
Real estate construction and development	149 288	6 221	135 490	5 972

The table below provides information on guarantees received for real estate development loans, broken down by classification of customer insolvency risk:

	31-12-2019		31-12-2018	
	Real estate mortgage	Other collateral	Real estate mortgage	Other collateral
Real estate construction and development	**592 200**	**70 590**	**468 950**	**46 194**
of which: Non-performing	70 348	468	80 116	63

Home loans

The table below shows the evolution of home loans:

	31-12-2019 [2]		31-12-2018 [2]	
Not real estate mortgage secured	71 843	1%	89 320	1%
Of which: Default [1]	877		12 155	
Real estate mortgage secured	11 179 470	99%	10 912 508	99%
Of which: Default [1]	303 656		344 341	
Total home loans	**11 251 313**	**100%**	**11 001 828**	**100%**

[1] CRR default criterion (Regulation (EU) 575/2013)

[2] Exposure net of impairments (the amounts shown include accrued interest)

The table below shows the amount of residential mortgage loans, by LTV brackets:

	31-12-2019 [1]		31-12-2018 [1]	
	Total	Of which: Default [2]	Total	Of which: Default [2]
LTV ≤ 40%	2 602 262	47 981	2 237 156	41 331
40% < LTV ≤ 60%	3 682 663	73 879	3 014 636	66 139
60% < LTV ≤ 80%	4 124 678	107 520	4 357 477	113 699
80% < LTV ≤ 100%	716 034	42 272	1 216 816	70 860
LTV > 100%	53 833	32 004	86 423	52 312
Total home loans	**11 179 470**	**303 656**	**10 912 508**	**344 341**

[1] Exposure net of impairments (the amounts include accrued interest).

[2] CRR default criterion (Regulation (EU) 575/2013).

3.3.5. Derivatives and repos credit risk

Control of exposures in derivatives and repos at Banco BPI is an integral part of control of exposure to credit risk. In the case of derivatives, where exposure changes according to the change in the market price of the underlying asset, the characteristics of the operation are adapted to the system, by considering the maximum potential exposure (calculated with a statistical confidence level of 99%) and considering the derivative, for limits control purposes, as equivalent to a credit with the same value, maturity, counterparty and other characteristics. An additional control is made to determine whether the effective exposure remains within the limits through the lifetime of the operation.

The value of the maximum potential exposure in derivatives is reviewed periodically (for the main counterparties), or at request, in order to update the limits. In normal circumstances this revision will release limits in so far as, save in case of very strong market fluctuations, the potential exposure decreases with time.

Sales with repurchase agreement (reverse repos) are treated as applications and deposits for which there are associated guarantees, with limits being allocated at net value, taking into account the applicable haircuts.

For both derivatives and repos, it is legally possible to offset the value of the operations, providing there is an agreement to this effect between the two parties. In accordance with Banco BPI's policy, the derivative and repo agreements entered into by the Bank provide for this offsetting, i.e., even in case of bankruptcy, the amounts payable by the Bank to the counterparty correspond to the algebraic sum of the amounts payable or receivable for the set of transactions included in the agreement (therefore the normal obligation of paying immediately the amount of the operations for which the Bank is the debtor and entering the list of creditors in order to receive the amount of the operations for which it is the creditor does not exist).

In the case of repos and derivatives with other banks, the Bank enters collateral exchange agreements that allow the exposure to be maintained at a pre-set level. Receivable and payable collaterals for derivatives and repos are controlled on a daily basis, which permits to maintain a strict control of the exposure in those products and counterparties (the most important in terms of the Bank's exposure).

Finally, compliance with the European Market Infrastructure Regulation also plays a role in the mitigation of the counterparty credit risk in the derivatives portfolio, as it imposes that a significant part of over-the-counter (OTC) operations be made with central counterparties (CCP) and establishes strict control rules for OTC derivatives traded with all other counterparties.

The policies on the control and mitigation of credit risk arising from OTC derivative and repo trading with other banks or professional counterparties are based on the use of solid contractual instruments, such as:

- ISDA contracts: Standard contract that regulates trading in the OTC derivatives market, usually used between two professional parties (such as two banks or possible one bank and a large company). ISDA contracts provide for the possibility referred above of offsetting the flows of outstanding collections and payments between the parties.
- Credit support annex (CSA) to ISDA contract: Annex to the ISDA contract whereby each of the parties undertakes to provide collateral (usually a cash deposit) to the other as security for the net counterparty risk position arising from the set of derivatives traded between them under the CSA, on the basis of a prior close-out netting agreement included in the clauses of the ISDA contracts.
- GMRA/ CME/ GMSLA contracts: standard contracts that regulate sale and repurchase agreements and reverse repurchase agreements (repos). These contracts also include exposure offsetting clauses as well as clauses on the exchange of collaterals to hedge the net remaining exposure.
- Central Counterparties (CCP) The use of CCPs in derivatives and repo transactions permits a substantial reduction in the associated counterparty risk, as these entities act as intermediaries between the two parties to the transaction, with the Bank absorbing the CCP risk and not the risk of a less creditworthy entity. The EMIR regulations set forth, among others, an obligation, for certain OTC derivatives, to transfer the counterparty credit risk to a CCP.

For other counterparties (with which there is no interprofessional relationship), the Bank uses derivatives Framework Contracts, which were developed internally and are subject to Portuguese law. In certain situations an ISDA agreement may be entered into. As referred, the policy on derivatives trading is similar to the lending policy in terms of the control of exposure, for which it is the Bank's practice to require guarantees or collateral, which in this case hedge not only the credit exposure but also the derivatives exposure.

3.3.6. Risk associated with investee portfolio

The risk of the investee portfolio is the risk associated with the possibility of incurring losses in the book value of equity holdings in portfolio within a medium to long term horizon as a result of fluctuations in macroeconomic conditions or in the specific financial situation of each investee.

In the case of investees with which there is a credit relationship and therefore credit risk, the Bank makes an analysis of the risk of financial loss due to the loss of value of the Bank's assets as a result of the deterioration of the counterparties' capacity to honour their commitments.

Control and financial analysis of the main investees are also performed through specialists exclusively responsible for monitoring changes in economic and financial data, based on documents provided by the companies in question. Regulatory changes and competition in the geographical areas and industry sectors where the investees operate are also analysed. This analysis is made in cooperation with other departments of the Bank, namely the Economic and Financial Studies Unit ("UEEF"), and in close collaboration with the areas in CaixaBank responsible for monitoring investees. As far as possible, the analysis is also supported by third-party documentation (from research houses, rating agencies or consultancy firms) in order to obtain an overall perspective of the possible risks to the value of the investees.

Banco BPI's equity holdings are registered in three major investee groups: Non-trading financial assets mandatorily accounted for at fair value through profit or loss, Financial assets at fair value through other comprehensive income, and Investments in subsidiaries, joint ventures and associates. For the more relevant investees, DCF and/or market multiples periodic valuations are made, in accordance with the nature of each investee, and also impairment tests to be recorded in the Bank's accounts.

3.4. Market risk

3.4.1. Overview

The market risk perimeter covers Banco BPI's trading portfolio as defined for risk purposes.

3.4.2. Market risk cycle

Monitoring and measurement of market risk

On a daily basis, the responsible departments realise and monitor the transactions in portfolio, calculate how changes in the market will affect the positions held (daily marked-to-market results), quantify the market risk taken and monitor compliance with the established limits. The results of these activities are compiled into daily position reports, which include the quantification of risks and the utilisation of risk limits, and these are distributed to the various levels in the hierarchy.

As a general rule, there are two types of measurements which constitute a common denominator and market standard for the measurement of market risk:

Sensitivity

Sensitivity represents risk as the impact a slight change in risk factors has on the value of positions, without providing any assumptions about the probability of such a change (e.g. one of the most common methods used to measure interest rate sensitivity is to project a change of one basis point in the interest rates curve).

Value-at-risk (VaR)

The benchmark market risk measurement is VaR, with a confidence level of 99% and a two-week (10 business days) time horizon based on a parametric model where the return on the risk factors considered follow a zero average normal distribution and the standard deviation is obtained from an historical series of values observed over one year. The diversification effect is considered based on correlations between the returns of the various factors considered (interest rates, exchange rates, equity prices). Total VaR results from the aggregation of VaR arising from fluctuations in interest rates, exchange rates and equity prices, taking into account the diversification effect.

The table below shows the values of average VaR at 99% with a time horizon of two weeks (10 business days) in accordance with BPI's different risk factors. As can be seen, the value of the risk is immaterial, given the limited expression of open positions in the trading book.

	Total	Interest Rate	Exchange Rate	Share prices
Average VAR 2019	194	165	56	41
Average VAR 2018	264	58	48	245

In 2019 the average and the maximum value of the VaR at 99% with a time horizon of one day (adjusted for root of 10) in BPI's trading activities was 0.194 and 0.507 million euros, respectively.

Capital requirements for market risk are determined based on the standardised approach. The values calculated are insignificant, given the low representativeness of the portfolio. It should be noted that BPI's foreign-exchange risk mainly derives from its equity holdings in financial institutions outside the Eurozone.

3.4.3. Mitigation of market risk

As part of the required monitoring and control of the market risks taken, there is a structure of overall VaR limits complemented by the definition of sublimits, stop losses and sensitivity analyses for the various management units that could assume market risk.

The risk factors are managed using economic hedges on the basis of the return/risk ratio determined by market conditions and expectations, always within the assigned limits. Many of these hedges are back-to-back.

Beyond the trading portfolio, fair-value hedge accounting is used, which eliminates potential accounting mismatches in the balance sheet and the income statement caused by the different treatment of hedged instruments and those used to hedge in the market. Limits are established and monitored for each hedge, normally expressed as the ratio between the sensitivity of the hedging items and the sensitivity of the hedged items.

3.5. Operational risk

3.5.1. Overview

BPI has adopted the definition of operational risk provided in the regulation in force (Regulation (EU) no. 575/2013 of the European Parliament and of the Council, of 26 June 2013): "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk." This definition excludes strategy and reputational risks. In BPI’s catalogue of risks, as indicated in the Internal Control Policy, operational risk is broken down into several subcategories, which, on account of their specific nature, justify the establishment of specialised areas responsible for their management: legal & regulatory, conduct and compliance, technological, operational processes and external events, and reliability of the financial information.

The operational risk management model has as main purpose to ensure:

- alignment with the Risk Appetite Statement established by the Board of Directors, which translates, among others, into a consistent reduction in BPI’s operational losses, contributing to long-term sustainability and continuity;
- compliance with the regulatory requirements and the supervisors' expectations.

The accomplishment of these purposes is ensured through the setting of specific objectives for operational risk management:

- to identify and pre-empt the existing operational risks arising from internal and external factors, so as to increase control over BPI's results (reducing volatility), by adopting measures to sustainably mitigate and reduce operational losses;
- to ensure BPI's long-term continuity, namely through business continuity and technological contingency plans, managing the factors that may pose a risk to its survival;
- to promote the establishment of continuous improvement systems for operational processes and in the control structure in place at BPI, so as to facilitate decision-taking on risk;
- to take advantage of synergies in the management of operational risk at BPI's level;
- to promote a culture of management of operational risk based on risk awareness, responsibility, commitment and service quality;
- to comply with the regulatory framework and the requirements for application of the chosen management and calculation models, including the capital consumption requirements.

3.5.2. Operational risk management cycle

Operational risk management at BPI is based on risk-sensitive policies, processes, tools and methodologies, in accordance with best market practices.

- **Identification and assessment of operational risk**

Each Division under the aegis of the Executive Committee is responsible for identifying the operational risk inherent in the activities carried out by the respective areas (OR self-assessment). This assessment should be made annually, although adjustments may be made more frequently, if necessary.

The operational risk management central unit, as the second line of defence, is responsible for assisting the Divisions in the assessment of operational risk, monitoring the corresponding processes and collecting inputs on specific OR categories, jointly promoting the enrichment of the operational risk evaluation process carried out by the Divisions.

OR self-assessment is made using forms obtained through an operational risk management software application, which stores all the operational risks identified, classified, evaluated and monitored at BPI.

Additionally, measurement via Operational Risk indicators (KRIs) is a quantitative/qualitative methodology that: i) permits to anticipate the development of operational risks, taking a forward-looking approach to their management and ii) provides information on the evolution of the operational risk profile and the underlying causes.

The Global Risk Committee is responsible for ascertaining whether BPI's operational risk profile remains aligned to the Risk Appetite Statement and BPI's global risk profile.

- **Operational risk events**

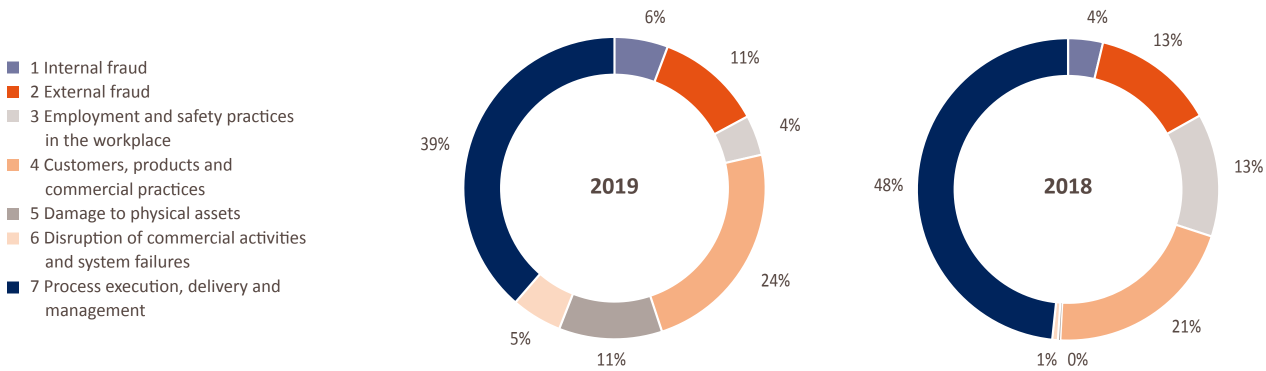
The materialisation of operational risks (operational risk events) should be taken into account for the purpose of new identification of risks or reassessment of risks already identified and considered under a critical perspective for purposes of identification of mitigation measures.

Therefore, within the scope of the identification and monitoring of operational risk events, all the Bank's Divisions and Units, as the first line of defence, have as main responsibilities to i) promptly record these events in the internal database, and ii) incorporate the knowledge obtained through the critical analysis of these occurrences into the risk management cycle.

The second line of defence has as main functions to:

- appraise the consistency of the records of events made by the Divisions;
- harmonise the records of events that involved several Divisions;
- compile and make a critical analysis of the information, such as fosters the quality of the analysis of the pattern of events with a view to improving risk management.

Gross losses breakdown by type of risk



- **Mitigation of operational risk**

BPI's operational risk management model establishes that it is the responsibility of Divisions to detect any situations that trigger the need to assess whether it is pertinent, opportune and feasible to devise risk Mitigation Measures and to propose such measures.

These measures are planned and implemented to reduce or eliminate the probability of a future occurrence of a certain risk and/or the severity of its impacts.

3.6. Legal and regulatory risk

Legal and regulatory risk is defined as the possibility of potential losses or reduction in the Bank's profitability as a result of legal or regulatory changes (of any nature, including tax), changes in their interpretation or application by the competent authorities, or compliance with court rulings or administrative or tax proceedings.

In the realm of legal and regulatory risks mitigation, the following deserve particular attention: the analysis of the legal framework and the identification of any misalignments with the regulations; the analysis of the likelihood of changes in the legal/regulatory framework and their consequences; the clarification of the nature of contractual relationships and their interpretation by the counterparties; the analysis of products and their legal status; and the identification and proposal of measures capable of reducing possible litigation risks.

In this regard, it is worth noting the main legal and regulatory changes with an impact on the Group:

- Approval of the Legal Framework on Payment Services and Electronic Money through Decree-Law no. 91/2018, of 12 November, which transposes into Portuguese law the Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market.

- Approval of Law no. 35/2018, of 20 July, which changes the rules on the marketing of financial products and on the organisation of financial intermediaries, transposing, among others, the Directive 2014/65/EU of the European Parliament and of the Council of 15 May (MiFID 2).

- Approval of Law no. 58/2019, of 8 August, on the approval of the General Data Protection Regulation [Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016];

On the other hand, with regard to ongoing administrative proceedings, it is worth noting, due to its materiality, the infringement proceedings initiated by the Competition Authority (CA) in 2012, related to the alleged exchange of sensitive information (volumes and spreads) between banks on home loans and other forms of credit, where the Competition Authority considers that such exchange of information constitutes a concerted practice between companies contrary to the law, under which the Bank was sentenced, in September 2019, to a single fine of €30 million. It should be noted that this fine was challenged in the third quarter of 2019, Banco BPI having lodged an appeal with the Competition, Regulation and Supervision Court, and maintaining the belief that it will be cleared of the aforementioned conviction.

The Group has in place policies, rules, analysis and monitoring procedures, as well as specific periodic controls to identify and update the provisions required to cover present obligations arising from past events from which may result material loss, when it is considered that such loss is likely to occur as a result of unfavourable, judicial or extrajudicial, decisions, in the context of civil, criminal, tax or administrative litigation.

3.7. Conduct risk

The risk of conduct and compliance is defined as the risk arising from the application by BPI of action principles that are contrary to the interests of its Clients or other stakeholders, or actions or omissions by the Bank that are not compliant with the legal and regulatory framework or the internal policies, standards and procedures. The objective of BPI is to minimise the probability of this risk occurring and, if it does, to promptly detect, report and address the weaknesses.

The management of compliance and conduct risk is undertaken across the entire institution, which, through its employees, must ensure compliance with the regulations in force and applying appropriate procedures to the activity they perform.

In order to manage compliance and conduct risk, the values and principles set out in the Code of Ethics and Conduct of BPI are actively promoted both to its Employees and to the Members of the Governing Bodies, who must assume compliance therewith as a guiding principle of their day-to-day activities.

3.8. Technological risk

Technological risk refers to risk of losses due to hardware or software inadequacies or failures in technical infrastructure, due to cyberattacks or other circumstances, which could compromise the availability, integrity, accessibility and security of the infrastructures and data. This risk is divided into 5 categories: 1) Availability and continuity of Information and Communication Technologies; 2) Security of Information and Communication Technologies; 3) Changes to Information and Communication Technologies; 4) Integrity of IT Data; 5) Externalisation of Information and Communication Systems.

To prevent impacts caused by failures in IT infrastructures, BPI has implemented recovery mechanisms based on high availability solutions for both hardware and software applications and data. These solutions’ speed and efficacy of response is systematically gauged through an annual testing plan.

Specifically, business continuity refers to the capability of an organisation to continue delivery of products or services at acceptable predefined levels following a disruptive incident. Therefore, Business Continuity management at BPI consists in identifying potential threats to the organisation and its activity, providing a framework for building organisational resilience and the capability for an effective response that safeguards the interests of its key stakeholders, its reputation, brand, and value - creating activities.

Accordingly, BPI has decided to align its Business Continuity Management System (BCMS) to the international standard ISO 22301:2012.

Banco BPI maintains emergency plans, internal regulations and controls covering the various aspects of Information Security, in key areas such as: 1) cybersecurity; 2) the fight against Customer fraud and internal fraud; 3) data protection; 4) internal awareness raising about security; and 5) Supplier security.

3.9. Other operational risk

Within the context of Operational Risk, this is defined as the risk of losses or damage caused by operational errors in processes related to BPI’s activity, due to external events beyond its control, or provoked by third parties, either accidentally or fraudulently. It includes, among others, errors in the management of suppliers, in the model, and in the custody of securities.

Operational risk that arise from operating processes and external events is managed across all areas of BPI. This implies identifying, assessing, managing, controlling and reporting the operational risks of their activity and cooperating with the Bank's operational risk management area in the implementation of the management model.

3.10. Risk of reliability of financial reporting

The Risk of reliability of financial information is defined as the risk that there will be deficiencies in the accuracy, integrity and criteria of the processes used in the preparation of the data required to evaluate the Bank's financial situation and networth.

The control activities performed by the 1st line of defence include: (i) defining the accounting circuits that encode the contribution of BPI's different applications for the automatic integration in the accounting application, (ii) reviewing the reasonableness of judgements and estimates as well as the evolution of accounting magnitudes, (iii) liaising with CaixaBank's *Departamento de Políticas Contables* for application of the accounting policies, (iv) controlling the accounting originating in the different applications and manual processes, and (v) analysing the reasonableness of consolidated results and equity.

To manage and monitor the risk of reliability of financial reporting, Banco BPI has a Financial Information Internal Control System ("SCIIF"), which is defined as the set of processes undertaken to provide reasonable assurance about the individual and consolidated financial information, understood as the content of the annual or interim accounts, which include the balance sheet, the income statement, the statement of changes in equity, the statement of cash flows, and the accounting data provided in the management reports and disclosures to the market.

The management of this risk includes assessing whether the information produced complies with the following principles:

- The transactions and other events reflected in the financial information in fact exist and were recorded at the right time (existence and occurrence);
- The information includes the totality of transactions and other events in which Banco BPI is the affected party (completeness);
- The transactions and other events are recorded and valued in accordance with applicable standards (valuation);
- The transactions and other events are classified, presented and disclosed in the financial information in accordance with applicable standards (presentation, detail and comparability);
- The financial information shows, at reporting date, the entity's rights and obligations through the corresponding assets and liabilities, in accordance with applicable standards (rights and obligations).

It should also be noted that the Bank has in place a "Policy on the Disclosure and Verification of Financial Information", approved by the Board of Directors, having the following main objectives:

- To define the scope of the information to be disclosed, as well as the general policy and the criteria related to the control and verification of Financial Information;
- To provide the Bank with a regulatory framework applying to the information to be disclosed and to the verification of this information.

3.11. Banking book interest rate

3.11.1. Structural interest rate risk

The management of this market risk by Banco BPI seeks to i) optimise the net interest income and ii) preserve the economic value of the balance sheet, while at all times taking into account the metrics and thresholds of the risk appetite framework in terms of the volatility of the net interest income and the sensitivity of economic value. These objectives are defined in accordance with the policies established at CaixaBank Group level.

This risk is analysed considering a broad set of market interest rate scenarios, analysing the impact of the inherent shocks on possible sources of structural interest rate risk, i.e. repricing risk, curve risk, base risk and optionality risk. Optionality risk considers automatic optionality related to the behaviour of interest rates and the optionality of customer behaviour, which is not only dependent on interest rates.

Banco BPI applies best market practices and the recommendations of regulators in measuring the interest rate risk of the banking book, using various measurement techniques that make it possible to analyse its positioning and risk situation. These notably include:

- Static gap: it shows the contractual distribution of maturities and interest rate repricings for applicable balance sheet and/or off-balance sheet aggregates at a particular date. GAP analysis is based on comparison of the values of assets and liabilities that are repriced or mature in the same particular period.
- Sensitivity of net interest income: Sensitivity is measured by comparing the net interest income at 12 and 24 months, calculated for a baseline scenario, and for extreme scenarios of interest rate changes (instantaneous and progressive parallel shock with different intensities, and changes in slope of interest rate curves). The most likely scenario, which is obtained using the implicit market rates, including the business trend and hedge management forecasts, is compared with other scenarios of rising or falling interest rates with parallel and non-parallel movements in the slope of the curve. The difference between these stressed net interest income figures compared to the baseline scenario give us a measure of the sensitivity, or volatility, of net interest income.
- Balance sheet economic value: it is calculated as the sum of i) the fair value of net interest-rate sensitive assets and liabilities on the balance sheet; ii) the fair value of off-balance sheet products (derivatives); and iii) the net carrying amounts of non interest-rate sensitive asset and liability items.
- Economic value sensitivity: The economic value of interest-rate sensitive on- and off-balance sheet items is calculated at the current market rates (baseline scenario) and under different stressed interest-rate scenarios. The difference between the values obtained in the baseline scenario and those obtained in the stressed scenarios permit to assess the sensitivity of economic value to interest rate changes.

To mitigate the banking book interest rate risk, the Bank actively manages this risk through hedging operations contracted in the financial markets which permit to correct situations where hedging is not provided naturally through operations carried out with the Clients or other counterparties.

The table below shows, using a static gap, the distribution of contractual maturities and interest rate repricings of interest-rate sensitive amounts in the banking book, at 31 December 2019:

	1 year	2 years	3 years	4 years	5 years	> 5 years	TOTAL
ASSETS							
Interbank and Central Banks	1 976 868						1 976 868
Loans and advances to Customers	20 116 376	829 275	411 020	283 617	224 454	1 125 718	22 990 460
Fixed income portfolio	1 719 741	1 607 126	459 894	18 461	34 682	496 094	4 335 998
Total Assets	**23 812 985**	**2 436 401**	**870 914**	**302 078**	**259 136**	**1 621 812**	**29 303 326**
LIABILITIES							
Interbank and Central Banks	2 451 463	500 000					2 951 463
Customer deposits	11 405 767	2 573 543	2 467 002	1 379 508	1 379 345	3 841 330	23 046 495
Own issues	856 382	162			775 000		1 631 544
Total Liabilities	**14 713 612**	**3 073 705**	**2 467 002**	**1 379 508**	**2 154 345**	**3 841 330**	**27 629 502**
Assets minus Liabilities	**9 099 373**	**(637 304)**	**(1 596 088)**	**(1 077 430)**	**(1 895 209)**	**(2 219 518)**	**1 673 824**
Hedges	**(1 614 917)**	**747 802**	**1 406 853**	**(230 468)**	**392 255**	**(699 768)**	**1 757**
Total difference	**7 484 456**	**110 498**	**(189 235)**	**(1 307 898)**	**(1 502 954)**	**(2 919 286)**	**1 675 581**

The table below shows, using a static gap, the distribution of contractual maturities and interest rate repricings of interest-rate sensitive amounts in the banking book, at 31 December 2018:

	1 year	2 years	3 years	4 years	5 years	> 5 years	TOTAL
ASSETS							
Interbank and Central Banks	2 723 964						2 723 964
Loans and advances to Customers	19 681 053	550 090	298 871	204 604	129 933	656 642	21 521 194
Fixed income portfolio	1 844 872	404 046	1 605 562	22 313	4 631	181 690	4 063 115
Total Assets	**24 249 890**	**954 136**	**1 904 433**	**226 918**	**134 564**	**838 333**	**28 308 273**
LIABILITIES							
Interbank and Central Banks	2 750 284	410 000	953 830				4 114 114
Customer deposits	14 873 541	1 045 851	1 600 965	1 106 239	1 105 301	2 209 721	21 941 619
Own issues	1 107 169	6 493	162				1 113 824
Total Liabilities	**18 730 994**	**1 462 344**	**2 554 957**	**1 106 239**	**1 105 301**	**2 209 721**	**27 169 557**
Assets minus Liabilities	**5 518 896**	**(508 208)**	**(650 524)**	**(879 322)**	**(970 737)**	**(1 371 389)**	**1 138 717**
Hedges	**(726 058)**	**985 279**	**491 306**	**(122 429)**	**(178 037)**	**(442 917)**	**7 144**
Total difference	**4 792 838**	**477 070**	**(159 217)**	**(1 001 751)**	**(1 148 774)**	**(1 814 305)**	**1 145 861**

The sensitivity of net interest income and economic value are complementary measures that provide an overview of structural interest rate risk, which is more focused on the short and medium term in the first case and on the medium and long term in the second.

The table below shows the sensitivity of the net interest income and the economic value of interest rate-sensitive assets and liabilities to a 200 basis points interest rate instantaneous increase and decrease, in 31 December 2019:

Amounts as % of baseline scenario	+200 bp	-200 bp[3]
Net interest income [1]	25.8%	-13.7%
Asset value (banking book)[2]	7.4%	1.9%

[1] Net interest income sensitivity at 1 year

[2] Economic value baseline sensitivity

[3] In the case of falling-rate scenarios the applied internal methodology accepts negative interest rates. Given the current level of interest rates, the methodology accepts an interest-rate decline shock of up to approximately -1%. For example, considering a EONIA curve interest rate of -0.40%, the interest rate subject to a shock of -1% in this curve could be as low as -1.40%.

3.11.2. Structural exchange rate risk

Banco BPI has foreign currency assets and liabilities in its balance sheet, mainly as a result of its commercial activity, including foreigncurrency assets and liabilities deriving from the transactions carried out to mitigate exchange rate risk in that activity. The Bank also has some foreign currency structural positions related to equity holdings in financial Institutions outside the Eurozone.

At 31 December 2019, the equivalent euro value of all foreign currency assets and liabilities was as follows:

	USD	AKZ	MZN	Other currencies
Cash and cash balances at central banks and other demand deposits	20 338	19 774		44 012
Financial assets held for trading	9 780			484
Financial assets not designated for trading compulsorily measured at fair value through profit or loss	61 771			
Financial assets at fair value through other comprehensive income	10 039	413 747		102
Financial assets at amortised cost	1 083 608			80 548
Derivatives - Hedge accounting	6 144			138
Fair value changes of the hedged items in portfolio hedge of interest rate risk	3 861			
Investments in subsidiaries, joint ventures and associates			106 045	
Tangible assets				257
Tax assets				27
Other assets	169		4 691	3 997
Foreign exchange operations pending settlement and forward position operations	729 766			66 533
Total Assets	**1 925 476**	**433 521**	**110 736**	**196 098**
Financial liabilities held for trading	2 428			459
Financial liabilities at amortised cost	1 907 574			182 466
Derivatives - Hedge accounting	3 818			6
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1 695			(36)
Tax liabilities			9 295	
Other liabilities	1 447			2 181
Total Liabilities	**1 916 962**		**9 295**	**185 076**

The exchange rate risk in the Bank's regular activity may be hedged through on-balance sheet operations (deposits or foreign currency investments) or through financial derivatives that mitigate the risk of positions in foreign currency. It should be noted that the nominal value of derivatives is not reflected directly in the balance sheet but in off-balance sheet accounts. The approach to foreign-exchange risk management at Banco BPI is to seek to minimise the positions assumed, which explains the Bank's low exposure to this risk.

The relevant foreign exchange positions held by Banco BPI result from the equity holdings in financial institutions of countries outside the Eurozone, notably in Banco de Fomento de Angola (position in Angolan Kwanzas) and Banco Comercial e de Investimentos S.A. (Positions in Mozambique Metical). BFA's fair value estimate factors in a projection of the foreign exchange devaluation of the Kwanza, and in the case of the equity holdings (sensitivity analysis presented in Note 40), the impact of foreign exchange changes also depends on the composition of the balance sheet of each of those companies.

Excluding the foreign currency positions in Kwanza and Metical resulting from the equity holdings in BFA and BCI, BPI's exposure and sensitivity to exchange rate risk is not significant, taking into account the existing hedges.

At 31 December 2018, the equivalent euro value of all foreign currency assets and liabilities was as follows:

	USD	AKZ	MZN	Other currencies
Cash and cash balances at central banks and other demand deposits	16 237	30 293		51 794
Financial assets held for trading	10 623			629
Financial assets not designated for trading compulsorily measured at fair value through profit or loss	64 931			
Financial assets at fair value through other comprehensive income	6 888	522 000		100
Financial assets at amortised cost	453 980			95 860
Derivatives - Hedge accounting	3 564			140
Fair value changes of the hedged items in portfolio hedge of interest rate risk	792			
Investments in subsidiaries, joint ventures and associates			90 157	
Tangible assets				319
Other assets	191			2 771
Non-current assets and disposal groups classified as held for sale				
Foreign exchange operations pending settlement and forward position operations	1 329 520			62 198
Total Assets	**1 886 726**	**552 293**	**90 157**	**213 811**
Financial liabilities held for trading	1 977			574
Financial liabilities at amortised cost	1 895 058			196 919
Derivatives - Hedge accounting	1 503			32
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(679)			(34)
Tax liabilities		50 748	8 038	
Other liabilities	(6 248)			(68)
Total Liabilities	**1 891 611**	**50 748**	**8 038**	**197 423**

3.12. Liquidity risk

3.12.1. Overview

Banco BPI manages liquidly risk with the objective of maintaining a level of liquidity allowing it at all times to meet all its payment obligations, without investment activities being affected by lack of funds, while maintaining a balanced balance sheet structure in the long term. Liquidity risk is managed in its various aspects: i) the ability to keep up with assets growth and to meet cash requirements without incurring exceptional losses; ii) the maintenance in the portfolio of tradable assets that constitute a sufficient liquidity buffer; (iii) compliance with the various regulatory requirements in the context of liquidity risk.

The strategic principles followed to reach this objective are:

- Autonomous management of liquidity within Banco BPI's prudential consolidation scope, subject to governance practices aligned to those implemented by CaixaBank as well as to the recommendations and best practices set forth by the supervision authorities.
- Active liquidity management, namely through the ongoing monitoring of liquid assets and the balance sheet structure.
- Maintaining a sufficient level of liquid funds to meet obligations assumed, fund business plans and comply with regulatory requirements.
- Sustainability and stability of the funding sources, based on i) funding structure mainly supported by Customer deposits ii) limited recourse to the ECB medium- and long-term facilities and reduced dependence on the capital and money markets.

The liquidity risk strategy and appetite for liquidity and financing risk involves:

- Identification of significant liquidity risks for Banco BPI;
- Formulation of the strategic objectives for each of these risks and definition of the management requirements to reach these objectives;
- Definition of the relevant metrics for each of these risks;
- Setting of limits and objectives for each of these metrics within the context of the Risk Appetite Framework;
- Establishment of management, monitoring and control procedures for each of the risks, including mechanisms of regular internal and external reporting;
- Definition of a stress testing framework and a Liquidity Contingency Plan to ensure the management of liquidity risk in situations of moderate and serious crisis;
- Recovery Plan setting out scenarios and measures for extreme stress situations.

In particular, Banco BPI has specific strategies with regard to: i) management of intra-day liquidity; ii) management of short-term liquidity; iii) management of funding sources; iv) management of concentration risk; v) management of liquid assets; and vi) management of collateralised assets. In addition, Banco BPI has in place procedures to minimise liquidity risks in stress conditions through i) early detection; ii) proactive management to overcome potential situations of crisis; and iii) minimisation of negative impacts.

3.12.2. Mitigation of liquidity risk

On the basis of the principles referred in the previous section, a Contingency Plan has been drawn up which establishes action plans for each crisis scenario and sets out the measures to be taken at commercial, institutional and internal/external communication level to deal with each situation. In a stress situation, the main priority of the net liquid assets portfolio management is to minimise liquidity risk.

The usual liquidity management measures include:

- Resorting to funding from the ECB, for which a series of guarantees have been provided that permit to obtain immediate liquidity.

Available balance in the ECB facility

	31-12-2019	31-12-2018
Value of guarantees delivered as collateral	5 454 460	6 953 749
Drawn down		
Targeted longer-term refinancing operations ("TLTROs") (Note 20)	1 380 000	1 363 830
Total available balance in the ECB facility	**4 074 460**	**5 589 919**

- Maintenance of debt issuance programmes with the objective of expediting formalisation of securities issuances in the market or to keep these securities in the Bank's own portfolio, as eligible assets for obtaining funding from the ECB.

Debt issuance capacity

	Maximum amount of Programme	Nominal used at 31-12-2019
Euro Medium Term Note (EMTN) Programme[1]	7 000 000	582 751
Mortgage Covered Bonds Programme[2]	9 000 000	7 300 000 [3]
Public Sector Covered Bonds Programme[4]	2 000 000	600 000 [5]

[1] Registered on Luxembourg's "Commission de surveillance du secteur financier" ("CSSF") on 28 June 2019.

[2] Registered on the "Comissão do Mercado de Valores Mobiliários" ("CMVM") on 19 February 2019.

[3] Of which 6 250 million euros concern securities retained by Banco BPI and included in the portfolio of eligible assets for funding from the ECB.

[4] Registered on the "Comissão do Mercado de Valores Mobiliários" ("CMVM") on 19 March 2019.

[5] The securities have been retained by Banco BPI and included in the portfolio of eligible assets for funding from the ECB.

- Covered bonds issuance capacity (mortgage and public sector covered bonds):

Capacity to issue collateralised and securitised debt

	31-12-2019	31-12-2018
Mortgage Bonds		
use of retained issues [1]	6 250 000	5 950 000
issues with additional credit portfolio [2]	312 000	87 000
Public Sector Bonds		
use of retained issues [1]	600 000	600 000
Securitisation of mortgage loans (senior tranche)	424 000	220 000
Securitisation of loans to SMEs (senior tranche)	3 232 000	1 190 000

[1] The Bank may use the issues retained to place them with third parties, or cancel them and replace them by new issues to be subscribed by third parties.

[2] Issuance capacity based on eligible credit portfolio, not included in the cover pool of the Mortgage Bonds.

- Access to the short-term funding market:
  - Interbank facilities with various national and international counterparties
  - Access to the repos market with several types of assets
  - Access to the Clearing House (LCH) for repo business

- The Contingency Plan and the Recovery Plan contain a series of measures that allow for liquidity to be generated in diverse crisis situations. The adequacy of each measure is assessed for each of the scenarios, and descriptions are provided of the steps necessary for their execution and expected period of execution.

3.12.3. Liquidity position

The table below shows the breakdown of BPI's liquid assets, in accordance with criteria established to determine the high-quality liquid assets used for the calculation of the LCR.

The breakdown of BPI's total liquid assets is as follows:

Total liquid assets

	31-12-2019		31-12-2018	
	Market value	Eligible value	Market value	Eligible value
Level 1 Assets	4 015 609	4 015 609	3 853 627	3 853 627
Level 2A Assets	41 887	35 604	50 695	43 091
Level 2B Assets	87 344	43 672		
Total HQLA [1]	**4 144 840**	**4 094 885**	**3 904 322**	**3 896 718**
Other non-HQLA		**4 080 054**		**5 600 891**
Total liquid assets (HQLA + other non-HQLA)		**8 174 939**		**9 497 609**

[1] HQLA in accordance with the liquidity coverage ratio (LCR) calculation criteria. Corresponds to high quality assets available to meet liquidity needs in a 30-day stress period.

The table below shows the consolidated liquidity ratios of BPI

Liquidity ratios

(Average in last 12 months)	31-12-2019	31-12-2018
High quality liquid assets (numerator)	4 367 546	3 930 433
Total net outflows (denominator)	2 520 063	2 347 632
Cash outflows	3 514 157	3 319 896
Cash inflows	994 094	972 264
Liquidity coverage ratio (LCR) [1]	**173%**	**167%**
Net stable funding ratio (NSFR) [2]	**129%**	**119%**

[1] The table presents the simple arithmetic mean in the last 12 months of the LCR ratio and respective calculation components. According to Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions. The established regulatory limit for the LCR ratio is 100% from 1 January 2018.
[2] NSFR will enter into force in June 2021.

At 31 December 2019 the main ratings assigned by international rating agencies to Banco BPI were the following:

	Long-term debt	Short-term debt	Outlook	Date of last review	Mortgage covered bonds rating
DBRS Rating Limited	-	-	-	-	AA (Low)
Fitch Ratings	BBB[1]	F2	Stable	10-12-2019	-
Moody's Investors Service	Ba1[2]	NP	Stable	26-07-2019	Aa3
Standard & Poor's Global Ratings	BBB[3]	A-2	Stable	17-09-2019	-

[1]Long-term issuer default rating
[2]Long-term debt rating / issuer rating
[3]Long-term issuer credit rating

In the event of a downgrade of the current credit rating, additional collateral must be delivered to certain counterparties, or there are early redemption clauses. The breakdown of the impact on liquidity deriving from 1, 2 and 3-notch downgrading (not cumulative) is shown below:

Liquidity sensitivity to credit rating changes at 31 December 2019

	Downgrade 1 notch	Downgrade 2 notches	Downgrade 3 notches
Trading in derivatives (CSA agreements)	-	1 780	3 561

Liquidity sensitivity to credit rating changes at 31 December 2018

	Downgrade 1 notch	Downgrade 2 notches	Downgrade 3 notches
Trading in derivatives (CSA agreements)	8 686	8 686	10 607

3.12.4. Asset encumbrance

This note includes information about encumbered and unencumbered assets, as defined by Banco de Portugal in Instruction 28/2014, of 23 December. The amounts disclosed are median values for the last four quarters, as set forth in Title II of the EBA Guidelines (EBA/GL/2014/03). The information below concerns the prudential supervision perimeter, as defined in Regulation (EU) no. 575/2013, CRD IV / CRR.

An encumbered asset is considered as an asset explicitly or implicitly pledged as security, or subject to an agreement to secure, collaterise, or improve the credit quality in any operation from which it cannot be freely withdrawn.

At 31 December 2019, the breakdown of assets by encumbered and unencumbered was as follows:

Encumbered assets	Book value	Fair value
Portuguese sovereign debt securities		
Debt securities sold with repurchase agreement	650 553	650 553
Commitments to the Deposit Guarantee Fund and Investors Compensation Scheme	49 895	49 895
Total Portuguese sovereign debt	**700 448**	**700 448**
Credit operations		
Funding from the European Investment Bank (EIB) collateralised by mortgage bonds	692 694	
Funding from the European Central Bank (ECB) collateralised by covered bonds	1 689 550	
Bonds collateralised by mortgage loans	1 227 043	
Securitisation operations	61 969	
Total credit operations	**3 671 256**	
Other assets		
Derivatives	203 109	
Other collateral	64 143	
Total other assets	**267 252**	
Total amount of encumbered assets	**4 638 956**	

Unencumbered assets	Book value	Fair value
Equity instruments	808 947	808 947
Debt instruments	4 603 915	4 486 387
Credit	20 231 831	
Other assets	1 477 772	
Total amount of unencumbered assets	**27 122 465**	

At 31 December 2018, the breakdown of assets by encumbered and unencumbered was as follows:

Encumbered assets	Book value	Fair value
Portuguese sovereign debt securities		
Debt securities sold with repurchase agreement	1 233 821	1 233 821
Commitments to the Deposit Guarantee Fund and Investors Compensation Scheme	49 347	49 347
Total Portuguese sovereign debt	**1 283 168**	**1 283 168**
Credit operations		
Funding from the European Investment Bank (EIB) collateralised by mortgage bonds	1 382 990	
Funding from the European Central Bank (ECB) collateralised by Public Sector bonds	1 938 685	
Bonds collateralised by mortgage loans	145 515	
Bonds collateralised by loans to the Public Sector	290	
Securitisation operations	251 326	
Total credit operations	**3 718 806**	
Other assets		
Derivatives	197 870	
Other collateral	84 161	
Total other assets	**282 031**	
Total amount of encumbered assets	**5 284 005**	

Unencumbered assets	Book value	Fair value
Equity instruments	443 186	443 186
Debt instruments	4 037 621	3 963 811
Credit	19 709 228	
Other assets	2 013 080	
Total amount of unencumbered assets	**26 203 115**	

The encumbered assets included in this table correspond to operations that were given as a guarantee or collateral, without being derecognised from the Bank's assets, such as securities sold with repurchase agreements and autonomous pool of collateralised bonds.

As defined in Commission Implementing Regulation (EU) 2015/79 of 18 December 2014, assets included in the liquidity pool deposited in the European Central Bank and not used, or credit operations associated with mortgage bonds and Public Sector bonds and securitisations not placed on the market are not considered encumbered assets.

At 31 December 2019, the fair value of the encumbered collateral received was as follows:

	Fair value of collateral received	
	Encumbered	**Free**
Debt securities		
Sovereign debt		321 706
Total debt securities		321 706
Other assets (derivatives)	10 294	

This table includes the amount of collateral received that does not meet the conditions for recognition in the balance sheet, such as securities received as collateral for repo operations. These assets may or may not be reusable and provided as collateral in other operations.

At 31 December 2019, the liabilities associated with encumbered assets and collaterals received were as follows:

	Associated and contingent liabilities	**Assets and collateral received**
Financial Liabilities		
Derivatives	229 812	265 219
Deposits		
Funding from the European Central Bank	1 350 789	1 689 550
Funding from the European Investment Bank (EIB)	468 536	707 962
Debt securities sold with repurchase agreement	644 699	650 553
Other deposits	11 224	
Securities issued		
Bonds collateralised by mortgage loans	1 047 312	1 227 043
Securitisation operations	59 120	61 969
	3 811 492	**4 602 296**
Other encumbrance sources		
Commitment to the Deposit Guarantee Fund	47 427	44 668
Commitment to the Investor Compensation Scheme	10 365	5 546
European Central Bank liquidity facility		17
	57 792	**50 231**
Total amount of encumbrance sources	**3 869 284**	**4 652 527**

Relevance of asset encumbrance in BPI's financing policy

Assets may be encumbered for several reasons, namely:

- the existence of legal requirements, such as in the case of assets pledged as collateral for the Deposit Guarantee Fund and the Investor Compensation Scheme;
- the existence of an initial or trading margin underlying financial derivative transactions;
- the financing and liquidity needs of banking activity;

At Banco BPI, the main reason for asset encumbrance are liquidity and funding operations, namely with:

- the European Central Bank
- the European Investment Bank
- using mortgage bonds and Public Sector bonds and credit securitisations placed on the market, and
- through repo operations on securities of the Group's own portfolio.

3.12.5. Residual maturity of operations

The tables below show the breakdown of certain balance sheet items by contractual term to maturity, under normal market conditions:

Term to maturity of operations at 31 December 2019

	On demand	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
Cash and cash balances at central banks and other demand deposits	1 068 261						1 068 261
Derivatives							
Financial assets held for trading		1 299	4 970	5 560	17 051	104 318	133 198
Hedge accounting		988	1 266	5 405	17 965	5 085	30 709
Debt securities							
Financial assets held for trading				5 010	8 924		13 934
Financial assets not designated for trading compulsorily measured at fair value through profit or loss				1 027		61 818	62 845
Financial assets at fair value through other comprehensive income			225 243	200 356	747 822	203 623	1 377 044
Financial assets at amortised cost	438	455 574	305 778	712 989	1 888 852	666 046	4 029 677
Loans and advances	550 585	1 375 509	1 147 169	2 533 443	6 538 213	11 264 588	23 409 507
Total Assets	1 619 284	1 833 370	1 684 426	3 463 790	9 218 827	12 305 478	30 125 175
Derivatives							
Financial liabilities held for trading		1 182	4 932	6 409	20 629	113 015	146 167
Hedge accounting		50	30	6 696	15 738	50 285	72 799
Financial liabilities at amortised cost							
Deposits							
Central Banks					1 374 229		1 374 229
Credit Institutions	175 805	665 895	84 637	1 398	10 007	465 150	1 402 892
Customers	14 621 995	1 244 458	1 109 261	3 478 112	2 775 947	1 818	23 231 591
Debt securities issued							
Mortgage bonds					800 000	250 000	1 050 000
Fixed rate bonds					4 259		4 259
Other subordinated bonds						304 440	304 440
Other financial liabilities	65 075	1 865	24 994	2 304	101 415	77 314	272 967
Total Liabilities	14 862 875	1 913 450	1 223 854	3 494 919	5 102 224	1 262 022	27 859 344
Of which wholesale funding:					800 000	554 440	1 354 440
Assets minus Liabilities	**(13 243 591)**	**(80 080)**	**460 572**	**(31 129)**	**4 116 603**	**11 043 456**	**2 265 831**

Note: Does not include future interest cash flows, except accrued interest.

Term to maturity of operations at 31 December 2018

	On demand	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
Cash and cash balances at central banks and other demand deposits	2 452 916						2 452 916
Derivatives							
Financial assets held for trading	4 990	8 579	7 556	2 734	19 728	88 121	131 708
Hedge accounting		683	2 399	3 195	7 732	311	14 320
Debt securities							
Financial assets held for trading					13 893		13 893
Financial assets not designated for trading compulsorily measured at fair value through profit or loss				1 079		58 909	59 988
Financial assets at fair value through other comprehensive income			228 863	740 618	307 939		1 277 420
Financial assets at amortised cost		270 214	243 012	177 370	2 133 929	692 289	3 516 814
Loans and advances	627 252	544 266	716 301	997 300	3 452 336	15 817 955	22 155 410
Total Assets	**3 085 158**	**823 742**	**1 198 131**	**1 922 296**	**5 935 557**	**16 657 585**	**29 622 469**
Derivatives							
Financial liabilities held for trading		8 781	7 686	2 435	21 514	100 919	141 335
Hedge accounting		84	4 009	12 219	15 861	23 837	56 010
Financial liabilities at amortised cost							
Deposits							
Central Banks					1 352 843		1 352 843
Credit Institutions	239 455	869 451	238 890	35 353	2	470 295	1 853 446
Customers	13 373 377	1 865 017	1 710 541	4 143 667	1 865 379	2 271	22 960 252
Debt securities issued							
Mortgage bonds					300 000	250 000	550 000
Fixed rate bonds		528	5 425	5 732	6 671		18 356
Liabilities relating to assets not derecognised in securitization operations		2 633	4 272	18 415	140 831	79 179	245 330
Other subordinated bonds						304 514	304 514
Other financial liabilities	166 671	2 037	21 289	2 691	14 450	23 816	230 954
Total Liabilities	**13 779 503**	**2 748 531**	**1 992 112**	**4 220 512**	**3 717 551**	**1 254 831**	**27 713 040**
Of which wholesale funding:	13 779 503	2 748 531	1 992 112	4 220 511	3 717 550	1 254 832	27 713 039
Assets minus Liabilities	**(10 694 345)**	**(1 924 789)**	**(793 981)**	**(2 298 216)**	**2 218 006**	**15 402 754**	**1 909 429**

Note: Does not include future interest cash flows, except accrued interest.

3.13. Reputational risk

Reputational risk is the risk of loss of competitive capacity due to the deterioration of trust on the part of clients, the financial community (financial analysts or investors), employees, the media, regulators, suppliers, trade unions or the public opinion in general as a result of their perception of actions or omissions attributed to BPI or its Management or Governance Bodies.

The risk is monitored using internal and external selected reputational indicators from various sources of stakeholder expectations and perception analysis. The indicators are weighted according to their strategic importance and are grouped in a balanced reputation scorecard that enables a Global Reputation Index (GRI) to be obtained. This metric permits to monitor the perception of the diferent stakeholders concerning the institution on an annual basis, to make comparisons with the competition, and to define the tolerance ranges in accordance with the Bank's risk appetite, thus enabling a more effective management of reputation.

Control and mitigation of reputational risk involve the development of policies that engage different areas of BPI.

3.14. Actuarial risk

The risk in the Pension Fund of Banco BPI, managed by BPI Vida e Pensões, is followed and monitored at level 1 and level 2 of the risk appetite framework (RAF), with tolerance objectives and ranges being defined.

The Pension Fund risks are analysed and monitored on an ongoing basis by the risk team of BPI Vida e Pensões, and these risks are monitored and annually quantified by the Bank in the ICAAP exercise, whereupon the Bank assesses whether or not economic capital must be allocated to the Pension Fund. The ICAAP analyses the Pension Fund’s asset and liability risks separately.

In so far as the Fund's asset portfolio basically comprises shares, bonds, public debt, mutual fund participation units, and real estate, the risks inherent in the Fund's assets are those specifically inherent in the various types of investment (market risk, liquidity risk, etc.). The Fund's liabilities, which are liabilities for the payment of pensions, are subject to various risks that may have a negative impact on their value: inflation rate, growth of salaries and pensions, increase in the average life expectancy, discount rate.

3.15. Risk to business profitability

The risk to business profitability concerns the possibility of obtaining lower earnings than those expected by shareholders, or targeted by BPI, which ultimately may lead to not achieving sustainable profitability (above the cost of capital).

BPI's profitability objectives, backed by a process of financial planning, are defined in the strategic plan and in the budget.

3.16. Risk of impairment of other assets

The risk of impairment of other assets relates to the reduction in the book value of the Bank's equity holdings and non-financial assets. This type of risk is managed separately according to the nature of the risk: equity holdings and deferred tax assets (DTA).

The risk of the investee portfolio corresponds to the risk associated with the possibility of incurring losses in the book value of equity positions in portfolio within a medium to long time horizon as a result of fluctuations in macroeconomic conditions or in the specific financial situation of each investee. Equity positions may result from explicit management decisions of investment, from the integration of other entities or from the restructuring or enforcement of guarantees in the context of credit operations.

These equity holdings are managed and monitored in the framework of Banco BPI's strategic objectives. This monitoring focuses on the evolution of the investees’ economic and financial data, based on documents provided by the investee companies. Regulatory changes and competition in the geographical areas and industry sectors where the investees operate are also analysed. For the more relevant investees, DCF and/or market multiples periodic valuations are made, in accordance with the nature of each investee, and also impairment tests for purposes of recognition in the Bank's accounts.

Deferred tax assets (DTA) correspond to assets generated as a result of temporary differences mainly arising from i) the application of rules for the calculation of the accounting result that are different from those used to calculate the tax result, and from ii) tax losses generated either within the Group or as a result of integration/merger processes.

3.17. Capital adequacy and solvency risk

BPI has set the objective of maintaining a medium-low risk profile and a solid capital position. The adequate level of capital to cover unexpected losses is measured under two different approaches: regulatory capital and economic capital.

The regulatory capital of financial entities is determined under Regulation (EU) 575/2013 (CRR) and Directive 2013/36/EU of the European Parliament and of the Council, which provide the global supervision framework and prudential rules with regard to Solvency, known as Basel III (BIS III), and it corresponds to the metric i) required by the regulators and ii) used by analysts and investors for purposes of comparative analysis of financial entities. Subsequently, the Basel Committee and other relevant bodies published additional rules and documents, containing new specifications for the calculation of own funds. In view of the permanent evolution of the regulatory framework, the Bank continually adapts its processes and systems in order to ensure that the calculation of minimum capital requirements is permanently aligned to the new requirements.

As a complement to the assessment of capital adequacy relative to the risk-weighted assets on a regulatory basis, BPI measures the adequacy of its available own funds relative to its economic needs, this being the metric used to:

- the self-assessment of capital, which is subject to presentation to and review by the Bank's relevant bodies;
- update the economic capital ratio, as a control and monitoring tool
- calculating the Risk Adjusted Return (RAR) and pricing adjusted return.

In contrast with regulatory capital, economic capital always requires an internal estimate, which the Entity adjusts according to its level of tolerance to risk, volume, and type of business activity. Hence, economic capital complements the regulatory vision of solvency to provide a closer view of the real profile of risk taken by the Bank, and to capture risks not considered, or only partially considered, in the regulatory requirements. In addition to the risks already contemplated under Pillar I (credit, market, and operational risks), others are also included in the catalogue of risks (namely structural interest rate risk, liquidity risk, business risk, actuarial risk, etc.). To manage these risks, the Group uses the same confidence level as that used for calculations under Pillar I - a 99.9% confidence level, in accordance with the Basel III definition.

4. SOLVENCY MANAGEMENT

4.1. Regulatory framework

The global regulatory framework for supervision and prudential rules on solvency, known as Basel III, came into force in the European Union through Directive 2013/36 (CRD IV) and Regulation 575/2013 (CRR).

Furthermore, the Supervisory Review and Evaluation Process (SREP), which configures Pillar II of the Basel regulatory framework, consists of an ongoing supervision process to evaluate the adequacy of capital, liquidity, corporate governance, and risk management and control, harmonised at European level by the EBA. The SREP process may require additional capital or liquidity, or other qualitative measures in response to any risks and weaknesses specifically detected. The SREP seeks to assess the individual viability of entities, considering cross-cutting analyses and comparisons against their peers. Any potential additional capital requirements are complemented by combined capital buffer requirements.

4.2. Capital management

At 31 December 2019, Banco BPI had a Common Equity Tier 1 (CET1) ratio of 13.4%, a Tier 1 of 14.9% and a total ratio of 16.6%.

The following table shows the composition of Banco BPI consolidated own funds:

	31-12-2019		31-12-2018[1]	
	Amount	**%**	**Amount**	**%**
CET1 instruments	**3 039 011**		**3 060 727**	
Accounting shareholders' equity (without AT1)	3 161 137		3 205 952	
Dividends payable	(116 549)		(140 000)	
AVA adjustments and gains/(losses)	(5 577)		(5 226)	
CET1 Deductions	**(633 671)**		**(725 689)**	
Intangible assets	(78 654)		(66 904)	
Deferred taxes assets and financial investments	(487 817)		(613 356)	
Other deductions	(67 201)		(45 429)	
CET1	**2 405 340**	**13.4%**	**2 335 038**	**13.8%**
AT1 Instruments	275 000			
TIER 1	**2 680 340**	**14.9%**	**2 335 038**	**13.8%**
TIER2 Instruments	300 000		300 000	
TIER2	**300 000**	**1.7%**	**300 000**	**1.8%**
TOTAL CAPITAL	**2 980 340**	**16.6%**	**2 635 038**	**15.5%**
RWA	**17 949 330**		**16 976 755**	

Note: unaudited amounts

[1] Considering the distribution in dividends of 140 million euros.

The following chart sets out a summary of the minimum regulatory capital requirements on a consolidated basis at 31 December 2019.

	31-12-2019		31-12-2018[2]	
	Amount	**%**	**Amount**	**%**
BAS III minimum requirements				
CET1[1]	1 660 313	9.25%	1 485 466	8.75%
Tier1	1 929 553	10.75%	1 740 117	10.25%
Total Capital	2 288 540	12.75%	2 079 653	12.25%

[1]Includes the minimum requirement of Pilar I of 4.5%; the requirement of Pilar II (2.25% in 2018 and 2% in 2019); the capital conservation buffer (1.875% in 2018 and 2.5% in 2019); and the O-SII (Other Systemically Important Institution) buffer of 0.25% in 2019 (0.5% to be phased in over 4 years through to 2021).

[2] Considering the distribution in dividends of 140 million euros.

The following table shows the breakdown of the leverage ratio:

Leverage ratio

	31-12-2019		31-12-2018[1]	
	Amount	**%**	**Amount**	**%**
Exposure	32 087 379		31 963 096	
Leverage ratio		**8.4%**		**7.3%**

Note: Unaudited amounts

[1] Considering the distribution in dividends of 140 million euros.

The changes in own funds are as follows:

Change in own funds

	31-12-2019		31-12-2018[1]	
	Amount	%	Amount	%
CET1 at beginning of the year	**2 335 038**	**13.8%**	**2 234 010**	**13.2%**
Changes in CET1 instruments	(21 716)		257 624	
Profit/(loss)	327 854		490 638	
Dividends payable	(116 549)		(140 000)	
Reserves	(232 670)		(108 272)	
Value adjustments and other	(352)		15 258	
Changes in CET1 deductions	92 018		(156 596)	
Intangible assets	(11 750)		(20 841)	
Financial investments	97 593		(97 792)	
Deferred tax assets	27 946		(36 556)	
Other CET1 deductions	(21 772)		(69 733)	
AT1 deductions covered by CET1			68 326	
CET1 at end of the year	**2 405 340**	**13.4%**	**2 335 038**	**13.8%**
Additional Level 1 own funds at beginning of the year				
AT1 instruments movement	275 000			
Changes in CET1 deductions				
AT1 deductions			68 326	
Deductions to be covered with CET1			(68 326)	
Additional Level 1 own funds at end of the year	**275 000**			
Level 2 own funds at beginning of the year	**300 000**	**1.8%**	**238 463**	**1.4%**
Changes in TIER2 instruments			**(611)**	
Redemption of subordinated issuances			(611)	
Changes in TIER2 deductions			**62 148**	
TIER2 at end of the year	**300 000**	**1.7%**	**300 000**	**1.8%**

Note: Unaudited amounts

[1] Considering the distribution in dividends of 140 million euros.

The main factors that influenced the evolution of the (fully loaded) CET1 ratio in 2019 are set out below:

[1] Considers the income from the banking and insurance businesses in Portugal and the change in credit risk weighted assets.

In 2019, the performance of the CET1 ratio was essentially determined by the distribution of free reserves, which accounted for a -97 bps impact on this ratio, by the organic generation of capital (+84 bps), minus dividends to be distributed (-69 bps), and by the contribution of BFA, which was underpinned by the reversal of deferred tax assets in connection to an unrealised capital gain, upon the signature of an agreement between Portugal and Angola for the Avoidance of Double Taxation, and by the dividends distributed (+43 bps).

The breakdown of risk weighted assets by type of risk and by calculation method is given below:

Breakdown of risk-weighted assets by type of risk and by method

	31-12-2019		31-12-2018[1]	
	Risk-weighted assets	%	Risk-weighted assets	%
Credit risk				
Standardised Approach	15 529 104	87%	14 663 299	86%
Equity holdings risk				
Simple method	843 057	5%	770 969	5%
Market risk				
Standardised Approach	256 261	1%	246 191	1%
Operational risk				
Standardised Approach	1 320 908	7%	1 296 295	8%
	17 949 330	**100%**	**16 976 755**	**100%**

[1] Considering the distribution in dividends of 140 million euros.

5. DIVIDEND DISTRIBUTION

Dividend policy

In line with the amendment to the articles of association of Banco BPI approved at the General Shareholders' Meeting of 20 April 2006, these articles now include the following rule (Article 26- 3): "The General Shareholders' Meeting shall decide on the long-term dividend policy proposed by the Board of Directors, which shall justify any deviations from that policy."

For compliance with this statutory rule, Banco BPI's long-term dividend policy was approved on 31 January 2019, as follows:

1. **General Principle**
   Subject to a proposal to be submitted by the Board of Directors to the General Meeting, distribution of an annual dividend tendentially between 30% and 50% of the net income reported in the individual accounts for the year to which it relates, with the exact amount to be proposed being defined in accordance with a prudent judgement that balances the situation of the Bank at the time with the need to maintain at all times adequate levels of liquidity and solvency.

2. **Conditioning factors**
   The provisions of point 1 above represent a mere principle, which, as such, is not binding upon the General Meeting, which can at any time, not only change it, but also resolve on a percentage of distribution below the minimum 30% threshold or above the maximum 50% threshold therein referred, or on no distribution at all.

   The provisions of item 1 are therefore only intended to:

   i) give the shareholders and third parties a medium/long term perspective of the company's objectives in terms of dividend distribution;
   ii) impose on the Board of Directors, when it intends to propose a dividend distribution outside the thresholds therein established, the duty of substantiating this option.

   In addition, the distribution principle set out in the previous paragraph shall be subject to:

   a) Compliance with the capital ratios at any time applicable to the Bank, whether under Pillar 1 or Pillar 2, as well as with other applicable legal provisions, namely those governing what is considered the "maximum distributable amount ";

   b) When the net income determined in the individual accounts includes dividends from companies that have not yet been paid to the Bank, the Board of Directors shall exclude the amount of these dividends from the base used for the definition of the dividends to be distributed, whenever a prudent judgement so advises;

   c) Respect for the findings and guidelines of the Bank's ICAAP and RAF at any time in force;

   d) the absence of exceptional circumstances that justify, in the Board of Directors reasoned opinion, submitting to the Shareholders' deliberation the distribution of a dividend below the 30% threshold or above the 50% threshold.

The proposed appropriation of profit for the year of 2019 is as follows:

	2019
Net income reported in the individual accounts of Banco BPI	342 113
Reversal of deferred tax liabilities associated with gains in BFA's revaluation	(50 742)
Net profit for dividend distribution purposes	**291 371**
Proposed appropriation of profit	
To dividends	116 549
To legal reserve	34 211
To other reserves	191 353
Individual profit of Banco BPI in 2019	**342 113**
Payout ratio for dividend distribution purposes	**40.0%**

6. EARNINGS PER SHARE

Basic and diluted earnings per share, as per the consolidated profit of Banco BPI attributable to its shareholders, are calculated as follows:

	31-12-2019	31-12-2018 Restated
Numerator (in thousand euros)		
Profit/(loss) after tax and minority interests from continuing operations	327 854	426 424
Interest cost of perpetual subordinated bonds (Additional Tier 1) [1]	(5 114)	
Adjusted profit/(loss) from continuing operations	322 740	426 424
Profit/(loss) after tax from discontinued operations		64 214
Adjusted consolidated profit/(loss)	**322 740**	**490 638**
Denominator (in thousand shares)		
Average number of outstanding shares	1 456 924	1 456 924
Average number of treasury shares		149
Adjusted number of shares (basic earnings per share) [2]	**1 456 924**	**1 456 775**
Basic earnings per share (in euros)		
Profit/(loss) per share from continuing operations	0.222	0.293
Profit/(loss) per share from discontinued operations		0.044
Consolidated basic earnings per share	**0.222**	**0.337**
Diluted earnings per share (in euros)[3]		
Diluted earnings per share from continuing operations	0.222	0.293
Diluted earnings per share from discontinued operations		0.044
Consolidated diluted earnings per share	**0.222**	**0.337**

[1] Recorded directly in equity.

[2] Average number of shares outstanding, excluding the average number of treasury shares held during the period.

[3] There were no dilutive effects on earnings per share in 2019 and 2018. Perpetual subordinated bonds (Additional Tier 1) have an automatic mechanism for absorbing losses (“temporary write-down”) if there is a deterioration of the consolidated or individual CET1 ratio for a value less than 5.125% (“trigger”).

7. SEGMENTS

The objective of business segment reporting is to allow internal supervision and management of BPI’s activity and consolidated income. The information is broken down into the various lines of business according to the Bank’s organisational structure. To define and segregate segments, the inherent risks and management characteristics of each segment are considered. The information reporting used by management is essentially prepared on an accounting basis supported by the IFRS. Their preparation relies on i) the same presentation principles used for the Bank's management information, and ii) the same accounting principles and policies used to prepare the annual financial statements:

At 31 December 2019, BPI's segment reporting considers the following segments:

- Domestic operations: includes the commercial banking business in Portugal and the equity holdings activity.
- International operations: corresponds to the activity developed in Mozambique by Banco Comercial e de Investimentos, S.A.R.L. and the results associated to the equity holding in Banco de Fomento Angola, classified in the portfolio of equity instruments at fair value through other comprehensive income.

Commercial Banking

Banco BPI’s operations are focused mainly on commercial banking. Commercial banking includes:

- Retail Banking - Commercial operations with individual clients, individual entrepreneurs and companies with turnover of up to 5 million euros, developed through a multi-channel distribution network comprising traditional branches and investment centers. It also includes the Private Banking area, which is responsible for implementing strategies and submitting investment proposals to the Customers, and for the management of their financial assets.
- Corporate Banking, Project Finance and Institutional Banking - Commercial operations with companies with turnover above 2 million euros, operating alongside Retail banking in the segment of up to 5 million euros. Also includes project finance services and the relationship with Public Sector entities, state-owned and municipal Companies, the State Business Sector, Foundations and Associations. This segment operates through a network of corporate centers and institutional centers that cater to the area's business needs.

This segment also includes the Bank’s residual activity, comprising segments that represent individually less than 10% of the Bank's total income, net profit and assets.

Equity holdings

This segment essentially comprises the income generated by associated companies and joint ventures in Portugal (Cosec, Allianz, Unicre and Inter-Risco) as well as the income associated to participation units in credit recovery and private equity funds, and to investments in shares.

The amount of inter-segment transactions is presented based on the effective conditions of the transactions and in accordance with the accounting policies used to prepare BPI’s consolidated financial statements.

At 31 December 2019, the income statement by business segment of BPI was as follows: [1]

	Domestic Activity				International Activity			Banco BPI consolidated
	Commercial Banking	Equity holdings	Inter-segment transactions	Total	Angola	Mozambique	Total	
1.Interest income	527 704	700		**528 404**				**528 404**
2.Interest expense	(92 130)			**(92 130)**				**(92 130)**
3.Net interest income [1+2]	**435 574**	**700**		**436 274**				**436 274**
4.Dividend income	131	3 217		**3 348**	46 003		**46 003**	**49 351**
5.Equity accounted income		20 276		**20 276**		20 450	**20 450**	**40 726**
6.Fee and commission income	281 016		(37)	**280 979**				**280 979**
7.Fee and commission expenses	(23 116)		37	**(23 079)**				**(23 079)**
8.Net fee and commission income [6+7]	**257 900**			**257 900**				**257 900**
9.Gains/(losses) on financial assets and liabilities and other	21 930	(11 148)		**10 782**	(18 225)		**(18 225)**	**(7 443)**
10.Other operating income and expenses	(21 204)			**(21 204)**	(4 600)		**(4 600)**	**(25 804)**
11.Gross income [3+4+5+8+9+10]	**694 331**	**13 045**		**707 376**	**23 178**	**20 450**	**43 628**	**751 004**
12.Staff expenses	(246 093)			**(246 093)**				**(246 093)**
13.Other administrative expenses	(148 060)	(1)		**(148 061)**				**(148 061)**
14.Depreciation and amortisation	(53 906)			**(53 906)**				**(53 906)**
15.Operating expenses [12+13+14]	**(448 059)**	**(1)**		**(448 060)**				**(448 060)**
16.Net operating income [11+15]	**246 272**	**13 044**		**259 316**	**23 178**	**20 450**	**43 628**	**302 944**
17.Impairment losses on financial assets	43 236			**43 236**				**43 236**
18.Other impairments and provisions	(6 448)			**(6 448)**				**(6 448)**
19.Gains and losses in other assets	3 631	1 028		**4 659**				**4 659**
20.Net income before income tax [16+17+18+19]	**286 691**	**14 072**		**300 763**	**23 178**	**20 450**	**43 628**	**344 391**
21.Income tax	(73 204)	2 666		(70 538)	55 739	(1 738)	54 001	(16 537)
22.Net income from continuing operations [20+21]	**213 487**	**16 738**		**230 225**	**78 917**	**18 712**	**97 629**	**327 854**
23.Net income from discontinued operations								
24.Net income attributable to minority interests								
25.Net income [22+23+24]	**213 487**	**16 738**		**230 225**	**78 917**	**18 712**	**97 629**	**327 854**

[1] Income statement structure presented in accordance with Banco BPI management information.

At 31 December 2018, the income statement by business segment of BPI was as follows: [1]

	Domestic Activity						International Activity			
	Commercial banking	Investment banking	Asset management	Equity holdings	Inter-segment transactions	**Total**	Angola	Mozambique	**Total**	**Banco BPI consolidated**
1.Interest income	509 927	47		298	(8)	**510 264**				**510 264**
2.Interest expense	(87 673)	(22)			8	**(87 687)**		(1)	**(1)**	**(87 688)**
3.Net interest income [1+2]	**422 254**	**25**		**298**		**422 577**		**(1)**	**(1)**	**422 576**
4.Dividend income	1 446			277		**1 723**				**1 723**
5.Equity accounted income				7 456		**7 456**	241 645	22 455	**264 100**	**271 556**
6.Fee and commission income	308 307	12 209			(1 507)	**319 009**				**319 009**
7.Fee and commission expenses	(41 892)	(847)		(7)	1 507	**(41 239)**				**(41 239)**
8.Net fee and commission income [6+7]	**266 415**	**11 362**		**(7)**		**277 770**				**277 770**
9.Gains/(losses) on financial assets and liabilities and other	22 949	2		61 688		**84 639**	(7 764)		**(7 764)**	**76 875**
10.Other operating income and expenses	(28 130)	(70)		(2)		**(28 202)**		1	**1**	**(28 201)**
11.Gross income [3+4+5+8+9+10]	**684 934**	**11 319**		**69 710**		**765 963**	**233 881**	**22 455**	**256 336**	**1 022 299**
12.Staff expenses	(257 153)	(5 033)		(28)		**(262 214)**				**(262 214)**
13.Other administrative expenses	(170 013)	(2 827)		(14)		**(172 854)**		(24)	**(24)**	**(172 878)**
14.Depreciation and amortisation	(23 697)	(130)				**(23 827)**				**(23 827)**
15.Operating expenses [12+13+14]	**(450 863)**	**(7 990)**		**(42)**		**(458 895)**		**(24)**	**(24)**	**(458 919)**
16.Net operating income [11+15]	**234 071**	**3 329**		**69 668**		**307 068**	**233 881**	**22 431**	**256 312**	**563 380**
17.Impairment losses on financial assets	44 806					**44 806**				**44 806**
18.Other impairments and provisions	(325)			3 204		**2 879**		210	**210**	**3 089**
19.Gains and losses in other assets	91 593	89		(6 689)		**84 993**	(154 030)	400	**(153 630)**	**(68 637)**
20.Net income before income tax [16+17+18+19]	**370 145**	**3 418**		**66 183**		**439 746**	**79 851**	**23 041**	**102 892**	**542 638**
21.Income tax	(106 556)	(922)		(193)		**(107 671)**	(6 634)	(1 909)	**(8 543)**	**(116 214)**
22.Net income from continuing operations [20+21]	**263 589**	**2 496**		**65 990**		**332 075**	**73 217**	**21 132**	**94 349**	**426 424**
23.Net income from discontinued operations			64 214			**64 214**				**64 214**
25.Net income [22+23+24]	**263 589**	**2 496**	**64 214**	**65 990**		**396 289**	**73 217**	**21 132**	**94 349**	**490 638**

[1] Income statement structure presented in accordance with Banco BPI management information.

The caption Gains/(losses) on financial operations, in the segment of equity investments, includes 59 581 t.euros relating to the capital gain on the sale of the equity holding in Viacer.

8. DISCLOSURE OF THE REMUNERATION OF THE CORPORATE BODIES

CaixaBank in 29 April 2019, as the sole shareholder of BPI, approved the "Remuneration Policy of Banco BPI applicable to the members of the Board of Directors and of the Supervisory Board" (hereinafter the "Remuneration Policy).

In accordance with Banco BPI's Articles of Association, the members of the corporate bodies shall have a fixed remuneration and the members of the Executive Committee may receive, in addition to a fixed remuneration, a variable remuneration determined in accordance with the criteria defined in the remuneration policy for the members of the supervision and management bodies.

The remuneration of the elected members of the corporate bodies shall be fixed, after consultation with the Nominations, Evaluation and Remuneration Committee with respect to the remuneration of the members of the Executive Committee, by a Remuneration Committee.

The Remuneration Policy defines the limits for the total annual remuneration attributable to the members of the management and supervision bodies. The Remuneration Policy approved by the General Meeting of 20 April 2018 establishes the following limits:

a) Non-executive Directors (not including, for this purpose, attendance fees): 1 600 000 euros;

b) Executive Directors:

   — fixed component: 5 500 000 euros

   — variable component: (variable remuneration in the form of a bonus):1 550 000 euros

c) Members of the Supervisory Board: Chairman 80 000 euros; members (each) 70 000 euros.

The remuneration of the Executive Directors is made up of a fixed component and a variable component, the latter in the form of a bonus. The variable component in the form of a bonus is in turn composed of a part in cash and another part in financial instruments, preferably CaixaBank shares, attributed in the framework and under the terms of the Remuneration Policy.

One part of the variable remuneration is paid immediately after its award, i.e., the cash and instruments that compose this nondeferred portion of the variable remuneration are transferred to the Executive Director.

The other part of the variable remuneration (the deferred part) is subject to a deferral period, phased in under the following terms:

a) On the date of payment of the variable remuneration, its non-deferred portion must be paid (hereinafter "Initial Payment Date"), i.e., the cash and instruments included in that non-deferred portion of the variable remuneration must be transferred to the Executive Director. Half of this non-deferred portion of the variable remuneration is paid in cash and the remaining half is paid in instruments.

b) Provided that the reduction assumptions set forth in Section 5.2. of the Remuneration Policy do not materialise, the deferred portion of the risk-adjusted variable remuneration shall be paid in five tranches, the amounts and dates of which are as follows:

   - 1/5 12 months after the Initial Payment Date
   - 1/5 24 months after the Initial Payment Date
   - 1/5 36 months after the Initial Payment Date
   - 1/5 48 months after the Initial Payment Date
   - 1/5 60 months after the Initial Payment Date

The cash and instruments whose award is subject to the deferral period shall only be transmitted to the Executive Director after the end of the respective phase of the deferral period.

The percentage of deferral that applies to the variable remuneration of the Executive Directors is 60 percent. This percentage of deferral may be changed if the competent authorities set absolute or relative limits for the calculation of "particularly high variable remuneration amounts", pursuant to the provisions of the EBA Guidelines.

Fixed remuneration earned in 2019

In 2019, the overall fixed remuneration of the members of the Board of Directors totalled 6 118 018 euros.

Over and above this amount there were attendance fees of 357 300 euros for their participation in the meetings of the advisory and support committees of the Board of Directors foreseen in the Articles of Association.

Board of Directors	Fixed Remuneration	Attendance Fees
Fernando Ulrich	750 000	
Pablo Forero	1 028 396	
António José Cabral	60 000	66 600
António Lobo Xavier	81 000	53 900
Alexandre Lucena e Vale	468 990	
António Farinha Morais	542 232	
Cristina Rios Amorim	60 000	37 000
Fátima Barros	60 000	40 700
Francisco Manuel Barbeira	402 117	
Gonzalo Gortázar Rotaeche	60 000	
Ignacio Alvarez-Rendueles	824 961	
Javier Pano Riera	60 000	40 700
João Pedro Oliveira Costa	499 045	
José Pena do Amaral	542 232	
Lluís Vendrell	60 000	66 600
Natividad Capella Pifarre	60 000	25 900
Pedro Barreto	499 045	
Tomas Jervell	60 000	25 900

Variable remuneration

General Features

As referred, the members of the Board of Directors who are members of the Executive Committee may be entitled to receive a variable remuneration. This variable remuneration is dependent upon the performance of the members of the Executive Committee during a given year, and its attribution is usually decided and made during the first half of the following year.

Under the terms of the applicable Remuneration Policy, this variable remuneration is subject to deferral, i.e., one part thereof is paid in the year in which it is attributed and another over subsequent years.

Variable remuneration relative to the performance of the members of the Executive Committee in 2019

The existence and amount of this variable remuneration shall be subject to a decision to be taken in the first half of 2020, under the terms referred to hereinabove. However, and in accordance with the applicable accounting rules, it was considered in Banco BPI's 2019 financial statements that the variable remuneration to be attributed to the members of the Executive Committee in the first half of 2020, with reference to financial year 2019, would match the limit approved in the Remuneration Policy (total amount of 1.55 million euros).

Variable remuneration relative to the performance of the members of the Executive Committee in financial years before 2019

Portions of variable remuneration attributed to the members of the Executive Committee for their performance in years prior to 2019, the payment of which was subject to deferral under the terms referred to hereinabove, were paid in 2019.

This remuneration does not therefore concern the year 2019 in so far as it rewards performance of previous years, but it was paid in 2019 due to the rules on deferral set forth in the Remuneration Policy.

Hence, with regard to performance in 2015, 2017 and 2018, the members of the Executive Committee then in office received the following amounts of variable remuneration in 2019:

In equity instruments (CaixaBank shares)

(Amounts in euros)	**2017**	**2018**
Pablo Forero	12 000	44 000
Alexandre Lucena e Vale	6 628	26 492
António Farinha Morais	7 980	30 000
Francisco Manuel Barbeira	6 383	37 800
Ignacio Alvarez-Rendueles	10 661	40 800
João Pedro Oliveira Costa	12 329	48 970
José Pena do Amaral	6 780	26 600
Pedro Barreto	12 329	45 846

In cash

(Amounts in euros)	**2015**	**2017**
Fernando Ulrich	319 302	
Pablo Forero		12 000
Alexandre Lucena e Vale	76 970	6 628
António Farinha Morais		7 980
Francisco Manuel Barbeira		6 383
Ignacio Alvarez-Rendueles		10 661
João Pedro Oliveira Costa	225 447	12 329
José Pena do Amaral	225 447	6 780
Manuel Ferreira da Silva	225 447	
Maria Celeste Hagatong	225 447	
Pedro Barreto	225 447	12 329

Finally, and with regard to performance in 2018, the General Meeting of Shareholders of 16 April 2019, upon a proposal of the Nominations, Evaluation and Remuneration Committee and under the transitory provision set out in Article 28 (5) of the Articles of Association, approved the attribution of the following variable remuneration:

Variable remuneration relative to 2018

(Amounts in euros)	**Amount attributed**	**Amount paid in 2019**	**Deferred amount to be paid from 2020 to 2024 (one fifth in each year)**
Pablo Forero	220 000	88 000	132 000
Alexandre Lucena e Vale	132 460	52 984	79 476
António Farinha Morais	150 000	60 000	90 000
Francisco Manuel Barbeira	189 000	75 600	113 400
Ignácio Alvarez-Rendueles	204 000	81 600	122 400
João Oliveira e Costa	244 849	97 940	146 909
José Pena do Amaral	133 000	53 200	79 800
Pedro Bissaia Barreto	229 231	91 692	137 539

The amounts referred in the above table, i.e., both those paid in 2019 and those whose payment was deferred and are scheduled for phased payment over each of the five years of the 2020-2024 period, shall be paid half in cash and half in kind (the latter, in CaixaBank shares, valued at 2.8805 euros per share). The amounts paid in kind shall be subject to an unavailability period of one year starting on the date when the respective payment takes place.

Long-term incentives

General Features

Banco BPI, in alignment with CaixaBank, has implemented a conditional variable remuneration scheme (Long-term Incentives Plan) linked to the 2019-2021 Strategic Plan for the Executive Board Members and a restricted group of Key Employees. The Plan's recipients are called the Beneficiaries.

Objective

- To drive the new Strategic Plan, by motivating the Beneficiaries to reach its Objectives. To retain the Beneficiaries.
- To be competitive and adapt to the trends followed by comparable credit institutions, maintaining a remuneration system pegged to a multi-annual objective, as provided for in the legislation applying to credit institutions.
- To make the remuneration of the Beneficiaries of the Plan coincide with the interest of the shareholders, in the long term.

- To reinforce the link between variable remuneration and risk appetite.
- To comply with the recommendations on corporate governance issued by the European Union, the National Securities Market Commission, proxy advisors and institutional investors, to the effect of having a Multi-Year Variable Remuneration System.

The Plan

The Plan consists in a Variable Remuneration Scheme that combines short- and long-term metrics based on the Strategic Plan. It provides for the allocation of a certain number of Units to each beneficiary, free of charge and multi-annually (2019, 2020 and 2021), which will subsequently serve as a basis to determine the number of Shares to be delivered, providing the requirements set forth in the Regulation are met.

The allocation of Units does not by itself give the Beneficiaries the status of shareholders of the Company, as it does not imply the attribution of economic, political or other rights resulting from the status of shareholder. Under the current Plan the status of shareholder results from the holding of Shares.

Beneficiaries

The beneficiaries are members of the Executive Committee of the Board of Directors who are invited to participate by the Remuneration Committee. The beneficiaries also include certain Key Employees of Banco BPI, who are invited to participate in the Plan by the Board of Directors, upon the opinion of the Appointments, Assessment and Remuneration Committee, and accept to participate, in accordance with the established procedure.

The maximum number of Beneficiaries of the Plan and of Shares to be allocated for each cycle will be that approved by the Remuneration Committee, for the Executive Board Members, and by the Board of Directors, for the Employees. These numbers already include any possible new inclusions of Beneficiaries in the Plan during its period of validity. In no case may the number of proposed Beneficiaries exceed the maximum number authorised by each of the said bodies.

The target incentive defined for the 2019 plan was the following:

- Chairman of the Executive Committee of the Board of Directors – 100 000 euros
- Other members of the Executive Committee of the Board of Directors – 50 000 euros per member

Remuneration of the members of the Supervisory Board in 2019

The overall remuneration of the members of the Supervisory Board in 2019 totalled 264 000 euros. The individual amounts were as follows:

(Amounts in euros)	**Fixed Remuneration**
Manuel Ramos Sebastião	73 200
Rui Campos Guimarães	63 600
Ricardo Filipe Pinheiro	63 600
Elsa Roncon Santos	63 600

Remuneration of the Chairman of the General Meeting in 2019

In 2019, the overall amount of the remuneration awarded to the Chairman of the General Meeting was 14 400 euros, paid in 12 instalments.

The members of the General Meeting do not benefit, under this circumstance, from any retirement rights.

Supplementary pensions or early retirement schemes

The members of the management body who are or have been Executive Directors (or, under the previous governance model, members of the Management body) benefit from the pension plan applicable to Banco BPI's Employees in general under the same circumstances, to the extent that they were Banco BPI Employees before holding those positions and their employment suspended was suspended, under the terms of the law.

The members of the management body who were Executive Directors in the 2014/2016 term of office or who were members of this body (or, under the previous governance model, members of the Management body) in earlier terms of office, also enjoy a defined benefit scheme, a supplementary retirement benefit, as approved at the Bank's General Council meeting of 25 July 1995, which provides them with a retirement supplement the monthly amount of which depends on their monthly income as Executive Directors and on the number of years served in said positions.

The rules which govern the aforesaid benefit are set out in the Retirement Entitlement Regulations for the Members of the Management Board, approved at the above-mentioned General Council meeting.

There is a provision that the pensions paid under the Social Security which fall within any one of the following three categories shall be deducted from the pensions paid under the Executive Directors' plan:

- those relating to functions performed at BPI;
- those relating to functions performed at third party entities at BPI's indication and which BPI has recognised for that purpose;
- the pensions paid under other BPI pension plans.

Executive Directors are also entitled to a defined contribution supplementary pension benefit.

The members of the management and supervision bodies who are not nor have ever been Executive Directors (or, under the previous governance model, members of the Management body) are not entitled to any retirement benefit attributed by the Bank.

A sum of 11 894 t.euros, corresponding to the present value of past service liabilities, was allocated to the Executive members of the Board of Directors who at 31 December 2019 are beneficiaries of a defined contribution pension plan:

(Amounts in thousand euros)	**Amount**
José Pena do Amaral	3 965
Pedro Barreto	1 782
João Oliveira e Costa	1 626
António Farinha Morais	4 521

For Executive Directors Alexandre Lucena e Vale and Francisco Manuel Barbeira, who benefit from a pension scheme under the Collective Wage Agreement and/or the Social Security, the sum allocated, corresponding to the present value of past service liabilities, was 1 026 t.euros:

(Amounts in thousand euros)	**Amount**
Alexandre Lucena e Vale	689
Francisco Manuel Barbeira	337

In 2019, the annual cost of retirement and survivor's pensions calculated based on the actuarial evaluation of 31 December 2018 was 446 t.euros, broken down as follows:

(Amounts in thousand euros)	**Normal cost**
José Pena do Amaral	202
Pedro Barreto	98
João Oliveira e Costa	110
António Farinha Morais	26
Alexandre Lucena e Vale	7
Francisco Manuel Barbeira	3

9. CASH AND CASH BALANCES AT CENTRAL BANKS AND OTHER DEMAND DEPOSITS

The detail of this heading is as follows:

	31-12-2019	31-12-2018
Cash	324 936	278 878
Demand deposits at Bank of Portugal	626 530	1 950 209
Other demand deposits	116 795	223 992
Interest on demand deposits at Bank of Portugal		(163)
	1 068 261	**2 452 916**

The caption 'demand deposits at Bank of Portugal' includes deposits made to comply with the Minimum Cash Reserve requirements of the Eurosystem The component of these deposits made to comply with the Minimum Cash Reserve requirements is currently remunerated at 0% and the surplus funds up to 6 times the minimum reserve also have a 0% remuneration rate. For surplus funds above this amount the remuneration rate is -0,5%. The minimum cash reserve corresponds to 1% of the amount of deposits and debt securities issued maturing in up to 2 years, excluding liabilities to other institutions subject to and not exempt from the same minimum cash reserve system and the liabilities to the European Central Bank and national central banks that participate in the euro.

10. FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

Financial assets held for trading

The detail of this heading is as follows:

	31-12-2019	31-12-2018
Trading derivatives	133 198	131 708
Equity instruments	87 344	81 171
Debt securities	13 934	13 893
	234 476	**226 772**

Financial liabilities held for trading

The detail of this heading is as follows:

	31-12-2019	31-12-2018
Trading derivatives	146 167	141 335
	146 167	**141 335**

10.1. Trading derivatives (assets and liabilities)

The detail of this heading is as follows:

	31-12-2019			31-12-2018		
	Notional value	Book value		Notional value	Book value	
		Assets	Liabilities		Assets	Liabilities
Foreign currency purchase / sale						
Foreign currency purchases against euros	144 490	662	3	1 033 212	2 503	7
Foreign currency purchases against foreign currencies	891	4	4	558		
Sale of foreign currencies against euros	99 558	6	627	77 625	11	427
Financial futures on shares and interest rates						
Bought	2 512	9		9 045		83
Share options						
Issued	1 250	12		1 218 823	5 702	
Interest rate options						
Bought	472 848	3 544		205 039	1 267	
Issued	488 317	197	3 582	205 673	231	1 328
Collar	53 409	181	123	183 230	723	761
Currency options						
Bought	147 655	1 115		102 290	1 032	
Issued	133 742		1 108	102 288		1 033
Collar	662 751	972	1 031	164 897	244	238
Other share and interest rate transactions						
Share swaps	566 216	5 551	5 310	606 766	13 733	10 843
Interest rate swaps	2 605 779	120 945	134 379	3 765 145	106 262	126 615
	5 379 418	**133 198**	**146 167**	**7 674 591**	**131 708**	**141 335**
Of which: contracted in organised markets	3 762	20		27 420	712	83
Of which: contracted in non-organised markets	5 375 656	133 178	146 167	7 647 171	130 996	141 252

The Bank usually hedges the market risk associated with derivatives contracted with customers by contracting symmetric derivatives on the market and records both in the trading portfolio. Thus, the market risk of these operations can be considered to be insignificant.

At 31 December 2018 and 2019, the trading derivatives balance sheet captions include 13 496 t.euros and 15 641 t.euros of Credit Valuation Adjustments (CVAs) and 510 t.euros and 133 t.euros of Debit Valuation Adjustments (DVAs), respectively.

10.2. Equity instruments

The detail of this heading is as follows:

	31-12-2019	31-12-2018
Equity instruments		
Shares in Portuguese issuers	87 344	81 171
	87 344	**81 171**

At 31 December 2019 and 2018, this heading includes 87 344 t.euros and 81 171 t.euros, respectively, in shares of Portuguese issuers to hedge equity swaps contracted with Clients.

10.3. Debt securities

The detail of this heading is as follows:

	31-12-2019	31-12-2018
Debt securities[1]		
Bonds issued by Portuguese government entities[2]	1 562	4 532
Bonds issued by other foreign entities	12 372	9 361
	13 934	**13 893**

[1] Ratings classification in Note 3.3.3, section 'Concentration according to credit quality'.

[2] Classification by residual time to maturity in Note 3.3.3, section 'Concentration according to sovereign risk'.

11. FINANCIAL ASSETS NOT DESIGNATED FOR TRADING COMPULSORILY MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

The detail of this heading is as follows:

	31-12-2019	31-12-2018
Equity instruments		
Shares in Portuguese issuers	4 786	7 859
Shares in foreign issuers	1 102	
Participation units of Portuguese issuers	119 942	136 248
Participation units of foreign issuers	17 391	24 487
	143 221	**168 594**
Debt securities		
Bonds issued by other Portuguese entities	48	44
Bonds issued by other foreign entities	62 797	59 944
	62 845	**59 988**
	206 066	**228 582**

In June 2018 Banco BPI and the Banco BPI Pension Fund sold their stake in Viacer – Sociedade Gestora de Participações Sociais, Lda, which in turn holds 56% of Super Bock Group, SGPS, SA. Banco BPI and the Banco BPI Pension Fund held 14% and 11%, in Viacer, having sold their equity holdings for 130 and 103 million euros, respectively. This transaction generated a 59 581 t.euros capital gain in the income statement caption 'profit/(loss) in financial assets not designated for trading compulsorily measured at fair value through profit or loss' (Note 30).

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

This caption is made up as follows:

	31-12-2019	31-12-2018
Equity instruments		
Shares in Portuguese issuers	82 866	66 232
Shares in foreign issuers	426 302	531 508
	509 168	**597 740**
Debt securities		
Bonds issued by Portuguese government entities	589 289	790 661
Bonds issued by foreign government entities	787 755	486 759
	1 377 044	**1 277 420**
	1 886 212	**1 875 160**

In 2019 the movement in the caption 'equity instruments at fair value through other comprehensive income' was as follows:

	31-12-2018	Purchases	Sales	Gains/(losses) recognised under other comprehensive income (Note 24)	Potential gains/(losses) recognised under other comprehensive income and exchange variation (Note 24)	31-12-2019
Banco de Fomento Angola, S.A.	522 000				(108 253)	413 747
SIBS	50 000				12 500	62 500
Other	25 740	3 881	(4 319)	625	6 994	32 921
	597 740	3 881	(4 319)	625	(88 759)	509 168

In 2018 the movement in the caption 'equity instruments at fair value through other comprehensive income' was as follows:

	Impact of transition to IFRS9	01-01-2018	Reclassi-fication of BFA	Purchases	Sales	Gains/(losses) recognised under other comprehensive income (Note 24)	Potential gains/(losses) recognised under other comprehensive income and exchange variation (Note 24)	31-12-2018
Banco de Fomento Angola, S.A.			522 000					522 000
SIBS	50 000	50 000						50 000
Other	35 170	35 170		2 014	(6 672)	(2 844)	(1 928)	25 740
		85 170	522 000	2 014	(6 672)	(2 844)	(1 928)	597 740

Following Banco BPI's loss of significant influence in BFA, this equity holding was reclassified from 'Investments in joint ventures and associates' 'to 'Financial assets at fair value through other comprehensive income - equity instruments' (Notes 2.1 and 15).

The estimated valuation values for BFA and SIBS were obtained based on a methodology of discounted future cash flows, combined with comparable multiples methodologies.

The financial information on the most relevant equity holdings classified as 'Financial assets at fair value through other comprehensive income - equity instruments' is as follows:

	Registered Office	BPI ownership (%)	Voting rights (%)	Book value at 31-12-2019	Investee financial data (100%)	
					Equity	Net profit / (loss)
Banco de Fomento Angola, S.A.[1]	Angola	48.1%	48.1%	413 747	851 666	309 316
SIBS[2]	Portugal	15.0%	15.9%	62 500	134 308	24 782

[1] Equity values (unaudited accounts) converted to euros at the exchange rate of 31 December 2019 and net income converted monthly at the end of month exchange rate.

[2] Equity and net profit/(loss) values for 31-12-2018.

In 31 December 2019 the detail in the caption ''Financial assets at fair value through other comprehensive income - Debt securities'' is as follows:

	Quantity (unit value)	Acquisition value	Book value	Net gain/(loss)	Hedge accounting effect
Debt securities					
Bonds issued by Portuguese government entities					
Treasury Bills	425 000 000	426 446	425 599	153	
Treasury Bonds	150 000 000	164 315	163 690	1 475	
Bonds issued by foreign government entities	750 000 000	784 752	787 755	4 574	
		1 375 513	**1 377 044**	**6 202**	

In 31 December 2018 the detail in the caption ''Financial assets at fair value through other comprehensive income - Debt securities'' is as follows:

	Quantity (unit value)	Acquisition value	Book value	Net gain/(loss)	Hedge accounting effect
Debt securities					
Bonds issued by Portuguese government entities					
Treasury Bills	475 050 000	476 127	475 875	183	
Treasury Bonds	300 000 000	318 513	314 786	5 979	(5 185)
Bonds issued by foreign government entities	475 000 000	491 737	486 759	2 910	(1 233)
		1 286 377	**1 277 420**	**9 072**	**(6 418)**

The portfolio ''Financial assets at fair value through other comprehensive income - Debt securities'', in 31 December 2018, includes securities designated as interest rate hedged assets in the amount of 493 606 t.euros, whose fair value change of the hedged risk amounted to 6 418 t.euros (Note 14).

In 2019 the movement in the caption ''Financial assets at fair value through other comprehensive income - Debt securities'' was as follows:

	Total[1]
Balance at 31-12-2018	**1 277 420**
Purchases	1 069 235
Gains/(losses) recognised under other comprehensive income	4 332
Sales and redemptions	(986 689)
Gains/(loses) recognised as profit/(loss)	(785)
Accrued interest	13 531
Balance at 31-12-2019	**1 377 044**

[1] The totality of the assets that make up this heading are in Stage 1.

In 2018 the movement in the caption ''Financial assets at fair value through other comprehensive income - Debt securities'' was as follows:

	Total[1]
Balance at 31-12-2017	
Impact of transition to IFRS 9	3 498 654
Balance at 01-01-2018	**3 498 654**
Purchases	782 409
Gains/(losses) recognised under other comprehensive income	1 562
Gains/(losses) from hedge accounting	(19 010)
Sales and redemptions	(2 985 214)
Gains/(loses) recognised as profit/(loss)	81
Accrued interest	(1 062)
Balance at 31-12-2018	**1 277 420**

[1] The totality of the assets that make up this heading are in Stage 1.

13. FINANCIAL ASSETS AT AMORTISED COST

The detail of financial assets at amortised cost at 31 December 2019 and 2018 is as follows:

31-12-2019

	Nominal value	Accrued interest	Discount premium	Impairment	Book value
Debt securities	4 057 465	22 187	(43 635)	(6 340)	4 029 677
Loans and advances					
Central Banks and credit institutions	1 452 464	289		(66)	1 452 687
Customers	22 324 485	22 782		(390 317)	21 956 950
	27 834 414	**45 258**	**(43 635)**	**(396 723)**	**27 439 314**

31-12-2018

	Nominal value	Accrued interest	Discount premium	Impairment	Book value
Debt securities	3 519 123	21 415	(19 196)	(4 528)	3 516 814
Loans and advances					
Central Banks and credit institutions	790 712	216		(269)	790 659
Customers	21 865 562	32 031		(533 123)	21 364 470
	26 175 397	**53 662**	**(19 196)**	**(537 920)**	**25 671 943**

13.1. Debt securities

The detail of this heading is as follows:

	31-12-2019	31-12-2018
Sovereign debt		
Portuguese sovereign debt	536 970	555 844
Foreign sovereign debt	1 210 865	1 216 597
	1 747 835	**1 772 441**
Customer debt		
Other Portuguese public issuers	331 122	252 570
Other Portuguese issuers	1 926 128	1 455 969
Other foreign issuers	30 932	40 362
	2 288 182	**1 748 901**
Impairment	**(6 340)**	**(4 528)**
	4 029 677	**3 516 814**

The detail of debt securities at amortised cost at 31 December 2019 is as follows:

	Quantity	Acquisition value	Book value
Sovereign debt			
Portuguese sovereign debt	500 000 000	558 433	536 970
Foreign sovereign debt	1 200 000 000	1 218 863	1 210 865
	1 700 000 000	**1 777 296**	**1 747 835**
Customer debt			
Other Portuguese public issuers	329 155 000	329 155	331 122
Other Portuguese issuers	1 927 447 249	1 920 246	1 926 128
Other foreign issuers	29 016 261	30 770	30 932
	2 285 618 510	**2 280 171**	**2 288 182**
			4 036 017
Impairment			**(6 340)**
	3 985 618 510	**4 057 467**	**4 029 677**

In 2018 Banco BPI bought a portfolio of medium-long term public debt in the amount of 1 800 million euros. At 31 December 2019 the average residual maturity of this portfolio is approximately 1 year. The foreign sovereign debt portfolio is made up of Spanish and Italian public debt securities.

Customer debt securities at amortised cost include essentially issues of commercial paper and bonds of Corporate Banking, Project Finance and Institutional Banking Customers associated to Banco BPI's commercial loans portfolio.

The portfolio of Customer debt securities at amortised cost includes securities designated as interest rate hedged assets, the fair value change of which at 31 December 2019 and 2018 amounted to 12 975 t.euros and 2 621 t.euros, respectively.

At 31 December 2019 and 2018, Customer debt securities included operations allocated to the Cover Pool given as collateral for Covered Bonds issued by Banco BPI (Note 20), namely 40 734 t.euros and 49 879 t.euros, respectively, allocated as collateral for public sector bonds.

In 2019 the movement in the caption Debt securities at amortised cost was as follows:

		Of which:		
	Debt securities	Stage 1:	Stage 2:	Stage 3:
Balance at 31-12-2018	**3 521 342**	**3 492 443**	**16 334**	**12 565**
Exposure increases / reductions	514 675	523 883	(9 408)	200
Transfers:				
From stage 2			(972)	972
Balance at 31-12-2019	**4 036 017**	**4 016 326**	**5 954**	**13 737**

In 2018 the movement in the caption Debt securities at amortised cost was as follows:

		Of which:		
	Debt securities	Stage 1:	Stage 2:	Stage 3:
Balance at 31-12-2017	**1 315 852**			
IFRS 9 Adoption	(5 053)			
Balance at 01-01-2018	**1 310 799**	**1 288 808**	**8 913**	**13 078**
Exposure increases / reductions	2 210 542	2 204 559	6 497	(513)
Transfers:				
From stage 1		(1 010)	1 010	
From stage 2		86	(86)	
Balance at 31-12-2018	**3 521 342**	**3 492 443**	**16 334**	**12 565**

In 2019 the movement in impairments due to expected loss on debt securities at amortised cost was as follows:

		Of which:		
	Debt securities	Stage 1:	Stage 2:	Stage 3:
Balance at 31-12-2018	**(4 528)**	**(452)**	**(306)**	**(3 770)**
Increase / (reversal) of impairments	(1 812)	(972)	1 216	(2 056)
Transfers:				
From stage 2			(972)	972
Balance at 31-12-2019	**(6 340)**	**(1 424)**	**(62)**	**(4 854)**

In 2018 the movement in impairments due to expected loss on debt securities at amortised cost was as follows:

		Of which:		
	Debt securities	Stage 1:	Stage 2:	Stage 3:
Balance at 31-12-2017	**(9 722)**			
IFRS 9 Adoption	5 332			
Balance at 01-01-2018	**(4 390)**	**(477)**	**(226)**	**(3 687)**
Increase / (reversal) of impairments	(138)	25	(80)	(83)
Balance at 31-12-2018	**(4 528)**	**(452)**	**(306)**	**(3 770)**

13.2. Loans and advances

Loans and advances - Central Banks and other Credit Institutions

The detail of this heading is as follows:

	31-12-2019	31-12-2018
Loans and advances to the Bank of Portugal	5 900	5 000
Loans and advances to Credit Institutions in Portugal		
Very short-term applications	35 606	9 502
Cheques for collection	40 054	49 906
Loans	268 225	204 639
Reverse repurchase agreements		6 661
Other	417	490
Other loans and advances	7 873	
Interest receivable and commissions relating to amortised cost	178	153
	352 353	271 351
Loans and advances to other Credit Institutions abroad		
Very short-term applications	126 627	261 764
Deposits	409 471	72 367
Cheques for collection	1 180	1 032
Reverse repurchase agreements	397 916	
Other loans and advances	148 777	167 380
Interest receivable and commissions relating to amortised cost	111	63
Debtors for futures operations	10 418	11 971
	1 094 500	514 577
Impairment	(66)	(269)
	1 452 687	**790 659**

Loans and advances - Customers

This caption is made up as follows:

	31-12-2019	31-12-2018
Loans to Customers		
Companies		
Loans	6 404 788	6 307 114
Loans on current account	560 806	781 578
Demand deposits - overdrafts	330 871	204 444
Invoices received – factoring	905 461	868 612
Finance leases	364 776	356 639
Real estate leasing	420 153	414 978
Car finance	274 260	227 296
Other loans	38 583	35 093
Individuals	12 934 311	12 545 982
Other loans and advances	113 258	155 857
Impairment	(390 317)	(533 123)
	21 956 950	**21 364 470**

The caption "Other loans and advances" essentially refers to margin accounts.

The portfolio of Loans to Customers includes Loans designated as interest rate hedged assets, the fair value change of which at 31 December 2019 and 2018 amounted to 35 843 t.euros and 24 097 t.euros, respectively (Note 14).

The breakdown of loans and advances to Customers by activity at 31 December 2019 is as follows:

	31-12-2019	
	Gross amount	**Impairment**
Public sector	1 195 567	(237)
Other financial corporations and individual entrepreneurs (financial business)	298 678	(336)
Non-financial corporations and individual entrepreneurs (non-financial business)	7 918 711	(220 280)
Real estate construction and development	423 708	(39 743)
Civil construction	130 944	(3 002)
Other	7 364 059	(177 535)
Large companies	3 609 845	(96 713)
Small and medium-sized companies	3 754 214	(80 822)
Individuals	12 934 311	(169 464)
Homes	11 377 323	(126 010)
Consumer spending	1 165 862	(37 109)
Other	391 126	(6 345)
	22 347 267	**(390 317)**

The breakdown of loans and advances to Customers by activity at 31 December 2018 is as follows:

	31-12-2018	
	Gross amount	**Impairment**
Public sector	1 227 118	(208)
Other financial corporations and individual entrepreneurs (financial business)	380 428	(406)
Non-financial corporations and individual entrepreneurs (non-financial business)	7 744 064	(318 169)
Real estate construction and development	430 388	(54 300)
Civil construction	119 214	(7 755)
Other	7 194 462	(256 114)
Large companies	3 467 960	(133 485)
Small and medium-sized companies	3 726 502	(122 629)
Individuals	12 545 983	(214 340)
Homes	11 176 948	(175 120)
Consumer spending	990 214	(31 316)
Other	378 821	(7 903)
	21 897 593	**(533 123)**

Loans and advances to Customers include the following non-derecognised securitised assets:

	31-12-2018
Non-derecognised securitised assets [1]	
Loans	
Home loans	1 150 034
Loans to SMEs	3 214 901
Interest receivable	10 003
	4 374 938

[1] Excludes overdue loans and interest.

Credit securitization bonds were repaid in advance during 2019. Consequently:

- The loans subject to securitisation operations carried out by Banco BPI that had not been derecognised from the Bank's balance sheet and were recorded under the caption 'Loans not represented by securities', were fully desecuritised during 2019.
- The amounts received by Banco BPI from these operations recorded under the caption "Financial liabilities at amortised cost - debt securities issued" were reimbursed to these operations' management entity. (Note 20).

At 31 December 2019 and 2018 the caption 'Loans and advances to Customers' included operations allocated to the Cover Pool given as collateral for Covered Bonds issued by Banco BPI (Note 20), namely:

- 8 522 977 t.euros and 7 576 415 t.euros, respectively, allocated as collateral to mortgage bonds;
- 736 508 t.euros and 694 340 t.euros, respectively, allocated as collateral to public sector bonds.

The movement in the caption Loans and advances to Customers in 2019 was as follows:

	Loans and advances	Of which: Stage 1	Stage 2	Stage 3
Balance at 31-12-2018	**21 897 593**	**19 404 057**	**1 473 238**	**1 020 298**
Exposure increases / reductions	**508 662**	**963 370**	**(235 398)**	**(219 310)**
Transfers				
From stage 1:		(550 538)	497 486	53 052
From stage 2:		532 287	(599 584)	67 297
From stage 3:		14 866	105 914	(120 780)
Write-offs	(58 988)	(4)	(2)	(58 982)
Balance at 31-12-2019	**22 347 267**	**20 364 037**	**1 241 654**	**741 575**

The movement in the caption Loans and advances to Customers in 2018 was as follows:

	Loans and advances	Of which: Stage 1	Stage 2	Stage 3
Balance at 31-12-2017	**20 959 033**			
IFRS 9 Adoption	3 785			
Balance at 01-01-2018	**20 962 818**	**18 192 775**	**1 474 777**	**1 295 266**
Exposure increases / reductions	**992 379**	**1 381 705**	**(228 369)**	**(160 957)**
Transfers				
From stage 1:		(572 204)	529 035	43 169
From stage 2:		370 672	(446 069)	75 397
From stage 3:		31 110	143 863	(174 973)
Write-offs	(57 604)			(57 604)
Balance at 31-12-2018	**21 897 593**	**19 404 057**	**1 473 238**	**1 020 298**

In 2019 the movement in impairments due to expected loss on Loans and advances to Customers was as follows:

	Impairments for loans and advances	Of which: Stage 1:	Stage 2:	Stage 3:
Balance at 31-12-2018	**(533 123)**	**(25 186)**	**(52 878)**	**(455 059)**
Impairment / reversal of impairment due to changes in credit risk	(6 614)	(978)	2 044	(7 680)
Impairment for new financial assets[1]	(46 222)	(13 702)	(1 624)	(30 896)
Reversal of impairments due to reimbursements and recoveries	157 848	5 922	4 788	147 138
Write-offs	58 988	4	2	58 982
Transfers and other	(21 194)	(59)	(50)	(21 085)
Balance at 31-12-2019	**(390 317)**	**(33 999)**	**(47 718)**	**(308 600)**

[1] Includes automatically renewed operations.

In 2018 the movement in impairments due to expected loss on Loans and advances to Customers was as follows:

	Impairments for loans and advances	Of which: Stage 1:	Stage 2:	Stage 3:
Balance at 31-12-2017	**(575 276)**			
IFRS 9 Adoption	(43 518)			
Balance at 01-01-2018	**(618 605)**	**(23 811)**	**(64 226)**	**(530 568)**
Impairment / reversal of impairment due to changes in credit risk	2 725	7 832	4 578	(9 685)
Impairment for new financial assets[1]	(25 347)	(16 360)	(2 674)	(6 313)
Reversal of impairments due to reimbursements and recoveries	70 186	7 317	9 888	52 981
Write-offs	57 604			57 604
Transfers and other	(19 686)	(164)	(444)	(19 078)
Balance at 31-12-2018	**(533 123)**	**(25 186)**	**(52 878)**	**(455 059)**

[1] Includes automatically renewed operations.

13.3. Written-off loans

<u>Written-off loans</u>

The movement in loans written off from assets in 2019 and in 2018 is as follows:

	31-12-2019	31-12-2018
Balance at the beginning of the year	**1 114 459**	**1 262 523**
Increases:		
Value correction due to depreciation of assets	58 988	57 604
Other	201	
Decreases:		
Recovery of written-off principal and interest	(13 941)	(14 802)
Amount received on sale of written-off loans	(8 627)	(22 090)
Remission of written-off credits due to disposals	(113 933)	(162 855)
Other	(4 739)	(5 921)
Balance at the end of the year	**1 032 408**	**1 114 459**

Written-off loans because its recovery was deemed to be remote are recognised under the off-balance sheet caption "Written-off loans".

In the 4th quarter of 2018 Banco BPI sold a portfolio of non-performing loans for a global amount of 186 million euros, of which 171 million euros in written-off loans (recognised in off-balance sheet items) and 3 million euros in loans net of impairments (recognised in the balance sheet) (Note 34).

In the 4th quarter of 2019 Banco BPI sold a portfolio of non-performing loans for a global amount of 138 million euros, of which 123 million euros in written-off loans (recognised in off-balance sheet items) and 15 million euros in loans net of impairments (recognised in the balance sheet) (Note 34).

14. DERIVATIVES – HEDGE ACCOUNTING

The detail of hedging derivatives is as follows:

	31-12-2019			31-12-2018		
	Notional Amount	**Assets**	**Liabilities**	**Notional Amount**	**Assets**	**Liabilities**
Interest rates	8 187 218	30 709	72 799	7 703 360	14 320	56 010
By type of counterparty:						
Of which: OTC - credit institutions	921 014	9 802	27 443	2 374 616	7 707	43 501
Of which: OTC - other financial companies	7 266 204	20 907	45 356	5 328 744	6 613	12 509

The residual time to maturity of hedging items at 31 December 2019, was as follows:

	Notional Amount					
	< 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**> 5 years**	**Total**
Fair value hedges	**287 311**	**419 875**	**2 059 384**	**4 608 737**	**811 911**	**8 187 218**
Credit	5 000	11 200	79 171	1 077 179	809 911	1 982 462
Term Deposits	282 311	403 675	1 977 213	3 031 558	2 000	5 696 756
Debt issues		5 000	3 000	500 000		508 000

The residual time to maturity of hedging items at 31 December 2018 was as follows:

	Notional Amount					
	< 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**> 5 years**	**Total**
Fair value hedges	**304 668**	**1 366 070**	**2 570 873**	**2 867 168**	**594 581**	**7 703 360**
Credit	11 000	10 000	57 500	887 108	585 581	1 551 189
Fixed rate securities in portfolio		175 000	285 000			460 000
Term Deposits	293 668	1 171 070	2 228 373	1 972 060	9 000	5 674 171
Debt issues		10 000		8 000		18 000

Hedging items - Fair value hedges

	Hedged risk	Hedging instrument used	Hedged item	31-12-2019 Hedging instrument value Nominal	31-12-2019 Hedging instrument value Assets	31-12-2019 Hedging instrument value Liabilities	2019 Fair value change in hedging instruments in the period	2019 Gains/(losses) from hedge accounting, net	31-12-2018 Hedging instrument value Nominal	31-12-2018 Hedging instrument value Assets	31-12-2018 Hedging instrument value Liabilities	2018 Fair value change in hedging instruments in the period	2018 Gains/(losses) from hedge accounting, net
Macro-hedges	Transformation from fixed to floating flows	Interest rate swaps	Credit (loans and securities)	1 982 462	6 754	67 754	(21 483)	618	1 551 189	1 448	39 953	(5 431)	714
			Fixed rate securities in portfolio				6 384	(34)	460 000		14 824	18 641	3
			Term deposits	5 696 756	19 154	5 045	2 124	2 558	5 674 171	12 827	1 233	3 183	693
			Debt issues	508 000	4 801		5 573	(27)	18 000	45		(37)	(13)
				8 187 218	**30 709**	**72 799**	**(7 402)**	**3 115**	**7 703 360**	**14 320**	**56 010**	**16 356**	**1 397**

Hedged items - Fair value hedges

	Hedged risk	Hedging instrument used	Hedged item	31-12-2019 Hedged instrument Assets	31-12-2019 Hedged instrument Liabilities	31-12-2019 Accumulated fair value adjustments in the hedged item Assets	31-12-2019 Accumulated fair value adjustments in the hedged item Liabilities	2019 Fair value change in hedged items in the period	31-12-2018 Hedged instrument Assets	31-12-2018 Hedged instrument Liabilities	31-12-2018 Accumulated fair value adjustments in the hedged item Assets	31-12-2018 Accumulated fair value adjustments in the hedged item Liabilities	2018 Fair value change in hedged items in the period
Macro-hedges	Transformation from fixed to floating flows	Interest rate swaps	Credit (loans and securities)	1 923 721		48 818		22 101	1 421 569		26 719		6 145
			Fixed rate securities in portfolio					(6 418)	493 606		6 418		(18 637)
			Term Deposits		5 205 567		4 022	434		5 084 484		3 560	(2 490)
			Debt issues		510 866		5 634	(5 600)		18 325		34	24
				1 923 721	**5 716 433**	**48 818**	**9 656**	**10 517**	**1 915 175**	**5 102 809**	**33 137**	**3 594**	**(14 958)**

In 2019 and 2018, the changes in fair value of the Hedged items in the caption "Term Deposits" include 2 575 t.euros and 738 t.euros respectively related to gains on the early settlement of term deposits.

15. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

The detail of investments in joint ventures and associates is as follows:

	Effective holding (%)		Book value	
	31-12-2019	31-12-2018	31-12-2019	31-12-2018
Banco Comercial e de Investimentos, S.A.	35.7%	35.7%	106 045	90 156
Companhia de Seguros Allianz Portugal, S.A.	35.0%	35.0%	75 580	54 598
Cosec – Companhia de Seguros de Crédito, S.A.	50.0%	50.0%	37 345	34 883
Inter-Risco - Sociedade de Capital de Risco, S.A.	49.0%	49.0%	419	462
Unicre - Instituição Financeira de Crédito, S.A.	21.0%	21.0%	27 801	29 045
			247 190	**209 144**

The changes in investments in joint ventures and associates in 2019 were as follows:

	Book Value	Goodwill	Impairment[1]	Total
Balance at 31-12-2018	**197 366**	**18 467**	**(6 689)**	**209 144**
Net profit / (loss) for the year	40 726		1 028	
Dividends distributed	(12 830) [2]			
Exchange difference	1 837			
Changes in associates' other comprehensive income	7 808			
Other	(523)			
Balance at 31-12-2019	**234 384**	**18 467**	**(5 661)**	**247 190**

[1] Impairment for Unicre equity holding.

[2] Corresponds to 5 078 t.euros of dividends received from Banco Comercial e de Investimentos, S.A., 5 000 t.euros from Unicre - Instituição Financeira de Crédito, S.A., and 2 752 t.euros from Cosec - Companhia de Seguros de Crédito, S.A.

The value of goodwill resulted from the acquisition of equity holdings in Unicre (13 194 t.euros) and BCI Moçambique (5 273 t.euros).

The breakdown of profit/(loss) of investments in joint ventures and associates accounted for using the equity method is as follows:[1]

	31-12-2019	31-12-2018
Banco de Fomento Angola, S.A.		241 645
Banco Comercial e de Investimentos, S.A.R.L.	20 450	22 455
Companhia de Seguros Allianz Portugal, S.A.	13 326	(832)
Cosec – Companhia de Seguros de Crédito, S.A.	4 613	4 128
Inter-Risco - Sociedade de Capital de Risco, S.A.	(43)	(26)
Unicre - Instituição Financeira de Crédito, S.A.	2 380	4 186
	40 726	**271 556**

[1]Banco BPI's subsidiaries and associates contribution to the consolidated net income is detailed in note 39.

Banco de Fomento Angola (BFA)

Following the sale of 2% of the share capital of Banco de Fomento Angola to Unitel, in January 2017 BPI's holding in BFA's share capital became 48.1% and a contract between BFA's shareholders was signed, according to which BPI has the right to appoint two members of the Board of Directors of BFA, from a maximum of fifteen, as well as one member of its Supervisory Board and one member of the Risk Committee and the Remuneration Committee. BPI's stake in BFA's share capital and its presence in BFA's governing bodies, albeit a minority stake and not proportional to the share capital held, allowed to presume the existence of significant influence over BFA, according to the IAS 28. Therefore, following the sale of 2% of BFA, Banco BPI started to classify its holding in BFA as an associated company.

In 2018, an assessment of the conditions on which the assumption of significant influence of Banco BPI over BFA in accordance with IAS 28 was based permitted to conclude that no real significant influence existed. This implied reclassifying the equity holding in BFA to the portfolio of Financial assets at fair value through other comprehensive income – equity instruments. The analysis and justification for the non-existence of significant influence are provided in Note 2.1.

During 2019 there were no changes in the conditions that led to the reclassification of the equity holding in BFA in the portfolio of Financial assets at fair value through other comprehensive income - equity instruments, and therefore this holding was maintained in said portfolio.

In accordance with the accounting standards, the loss of significant influence entailed, in Banco BPI's consolidated balance sheet, reclassifying the equity holding in BFA from Associate to Financial assets at fair value through other comprehensive income – Equity instruments, and its revaluation at fair value. This change generated an impact of (138 626) t.euros in BFA's contribution to Banco BPI's net income, of which:

- (157 975) t.euros resulting from the transfer to profit/(loss) of foreign exchange differences accumulated in other comprehensive income in 2017 and 2018 (Note 36),
- 3 946 t.euros resulting from the revaluation of the equity holding in BFA at fair value, from 518 054 t.euros, to 522 000 t.euros (Note 36),
- 15 403 t.euros of deferred tax liabilities associated to the above amounts.

In 2018 the total contribution of BFA to net consolidated income was as follows:

Income generated by BFA recognised in share of profit/(loss) in associates recognized by the equity method in 2018	241 645
Other Gains/(losses) on financial operations	(7 764)
Deferred taxes on net income/(loss) associated with BFA	(22 037)
Reclassification of equity holding in BFA at 31 December 2018	**(138 626)**
Gains/(losses) on derecognition of non-financial assets (Note 36)	(154 029)
Deferred taxes	15 403
Impact of BFA reclassification on 2018 net income	**73 218**

As from 2019, fair value changes in the equity holding in BFA are recognised under other comprehensive income, in accordance with the accounting policy presented in Note 2.2.

At 31 December 2019 the financial information relating to BPI's associated companies is broken down as follows:

	Current assets	**Non-current assets**	**Current liabilities**	**Non-current liabilities**
Banco Comercial e de Investimentos, S.A.[1]	1 249 180	1 165 072	2 002 494	129 271
Companhia de Seguros Allianz Portugal, S.A.	133 039	1 258 060	163 720	1 023 443
Cosec – Companhia de Seguros de Crédito, S.A.	117 797	4 217	72 020	600
Inter-Risco - Sociedade de Capital de Risco, S.A.	883	279	263	44
Unicre - Instituição Financeira de Crédito, S.A.	121 622	252 858	196 389	81 403

	Net income from continuing operations	**Net profit/(loss) from continuing operations**	**Other comprehensive income**	**Total comprehensive income[2]**
Banco Comercial e de Investimentos, S.A.[1]	196 092	58 184	(2 125)	56 059
Companhia de Seguros Allianz Portugal, S.A.	n.d.	40 604	15 396	56 000
Cosec – Companhia de Seguros de Crédito, S.A.	n.d.	7 049	2 235	9 284
Inter-Risco - Sociedade de Capital de Risco, S.A.	1 099	(79)	0	(79)
Unicre - Instituição Financeira de Crédito, S.A.	69 173	16 194	1 903	18 098

[1] Amounts converted to euros at the exchange rate of 31 December 2019

[2] Corresponds to the sum of net profit/(loss) from continuing operations and other comprehensive income.

At 31 December 2018 the financial information relating to BPI's associated companies is broken down as follows:

	Current assets	**Non-current assets**	**Current liabilities**	**Non-current liabilities**
Banco Comercial e de Investimentos, S.A.[1]	1 049 856	1 137 211	1 880 815	70 232
Companhia de Seguros Allianz Portugal, S.A.	252 268	1 030 792	118 895	1 016 229
Cosec – Companhia de Seguros de Crédito, S.A.	104 911	10 336	68 424	315
Inter-Risco - Sociedade de Capital de Risco, S.A.	968	226	260	
Unicre - Instituição Financeira de Crédito, S.A.	97 384	252 365	142 855	104 503

	Net income from continuing operations	**Net profit/(loss) from continuing operations**	**Other comprehensive income**	**Total comprehensive income[2]**
Banco Comercial e de Investimentos, S.A.[1]	175 985	57 310	(376)	56 934
Companhia de Seguros Allianz Portugal, S.A.	n.d.	(2 669)	(11 352)	(14 021)
Cosec – Companhia de Seguros de Crédito, S.A.	n.d.	5 504	991	6 495
Inter-Risco - Sociedade de Capital de Risco, S.A.	1 052	(61)		(61)
Unicre - Instituição Financeira de Crédito, S.A.	71 122	15 343	551	15 894

[1] Amounts converted to euros at the exchange rate of 31 December 2018

[2] Corresponds to the sum of net profit/(loss) from continuing operations and other comprehensive income.

Impairment test on the book value of associated companies

To assess the recoverable amount of its portfolio of associated companies under IAS 36, BPI periodically monitors indicators of possible deterioration in the value of its associated companies. Particularly, the following items are considered, among others: i) business performance; and ii) peer performance, since the associates in question are not listed companies.

To conduct impairment tests on its equity holdings, BPI uses generally accepted valuation methods, such as the dividend discount model (DDM) and market and transaction multiples analysis, also using linear regression curves. It was not considered any potential control premiums or discounts existing in a market transaction.

When the assessment method used is the dividend discount model (DDM), the balance sheet and income statement projections are made for a time horizon of 5 years, using assumptions that are based on the macroeconomic data for the countries and industry sectors in which the investees operate, as well as these entities' financial information. The results obtained are compared with those that would be obtained through the application of market and transactions multiples.

When the assessment method used is the market and transactions multiples analysis, the benchmark values are the Price Book Value (PBV) and Price Earnings Ratio (PER) multiples implicit in the market value obtained through sampling of comparable listed companies, using several statistical methods for sample analysis, namely linear regression.

16. TANGIBLE ASSETS

The movement in tangible assets in 2019 and 2018 was as follows:

	2019					2018			
	Buildings	**Equipment and other**	**Tangible assets in progress**	**IFRS 16 rights of use**	**Total**	**Buildings**	**Equipment and other**	**Tangible assets in progress**	**Total**
Gross amount									
Balance at beginning of the year	73 630	316 216	32 992		422 838	75 740	338 528	6 313	420 581
Acquisitions		5 475	16 253	3 967	25 695	5	3 686	33 772	37 463
Disposals and write-offs	(2 084)	(4 721)		(1 210)	(8 015)	(2 115)	(30 887)		(33 002)
Transfers and other	606	19 347	(17 222)	108 576 [1]	111 307		4 797	(7 093)	(2 296)
Foreign exchange differences		67			67		92		92
Balance at the end of the year	72 152	336 384	32 023	111 333	551 892	73 630	316 216	32 992	422 838
Depreciation									
Balance at beginning of the year	62 507	292 433			354 940	64 145	311 127		375 272
Depreciation in the year	397	8 639		24 951	33 987	403	10 162		10 565
Disposals and write-offs	(2 079)	(4 146)		(431)	(6 656)	(2 041)	(28 934)		(30 975)
Transfers and other							(4)		(4)
Foreign exchange differences		57			57		82		82
Balance at the end of the year	60 825	296 983		24 520	382 328	62 507	292 433		354 940
Impairments									
Balance at beginning of year		646			646				
Allowances/(Reversals)		(646)			(646)		646		646
Balance at the end of the year							646		646
Net value at the end of the year	**11 327**	**39 401**	**32 023**	**86 813**	**169 564**	**11 123**	**23 137**	**32 992**	**67 252**

[1] Corresponds to the initial adjustment resulting from the application of IFRS 16 (Note 1.4)

The coming into force of IFRS 16 on 1 January 2019 implied the recognition of a right of use in the amount of 108 576 t.euros and a transfer of costs for rents paid, recognised under other administrative expenses up to 31 December 2018, to costs with depreciation and amortisation of tangible assets, in the amount of 24 951 t.euros, in 2019.

In 2019, Banco BPI revised the estimated useful life of "equipment - hardware and means of payment", changing the amortisation periods to between 3 and 10 years, taking into account the changes in the Bank's investment policies in the last two years. This change was applied prospectively starting in 2019, having no significant impact on depreciation and amortisation expenses.

17. INTANGIBLE ASSETS

The movement in intangible assets in 2019 and 2018 was as follows:

	2019				2018			
	Automatic data processing software	Intangible assets in progress	Other intangible assets	Total	Automatic data treatment software	Intangible assets in progress	Other intangible assets	Total
Gross amount								
Balance at beginning of year	135 285	16 044	16 646	167 975	104 561	22 033	16 796	143 390
Acquisitions	4 559	29 687		34 246	1 810	25 847		27 657
Disposals and write-offs			(1 979)	(1 979)	(2 541)		(150)	(2 691)
Transfers and other	29 930	(32 774)		(2 844)	31 455	(31 836)		(381)
Balance at the end of year	169 774	12 957	14 667	197 398	135 285	16 044	16 646	167 975
Amortisation								
Balance at the beginning of year	96 966		14 857	111 823	86 230		14 845	101 075
Amortisation in the year	19 917		1	19 918	13 251		12	13 263
Disposals and write-offs			(191)	(191)	(2 515)			(2 515)
Balance at the end of year	116 883		14 667	131 550	96 966		14 857	111 823
Impairments								
Balance at beginning of year			1 026	1 026				
Allowances/(Reversals)			(1 026)	(1 026)			1 026	1 026
Balance at the end of year							1 026	1 026
Net value at the end of year	**52 891**	**12 957**		**65 848**	**38 319**	**16 044**	**763**	**55 126**

18. OTHER ASSETS

The detail of this heading is as follows:

	31-12-2019	31-12-2018
Accrued income		
Fees from Allianz's profit sharing	23 178	24 436
Other accrued income	29 590	29 211
	52 768	**53 647**
Deferred expenses		
Rents	1 349	1 496
Other deferred expenses	5 243	7 755
	6 592	**9 251**
Other assets	4 132	3 042
Foreign exchange transactions pending settlement	1 959	3 624
Securities transactions pending settlement - stock exchange transactions		303
Credit operations pending settlement	62 626	283 555
	68 717	**290 524**
	128 077	**353 422**

The value of the caption 'Credit operations pending settlement' includes:

- At 31 December 2018, 224 613 t.euros relating to securitisation operations carried out by Banco BPI (Notes 13 and 20.3), resulting from temporary differences between settlement of the securitised loans and settlement of the liability for assets not derecognised; These loan securitisation operations were reimbursed in advance in 2019;
- At 31 December 2019 and 2018, 3 757 t.euros and 26 627 t.euros, respectively, relating to taxes paid but which were challenged by Banco BPI. At the date of the financial statements there was no expected date for a decision in this regard. The main ongoing tax processes concern processes paid under Decree-Law no. 248-A/02, of 14 November, in the amount of 2 172 t.euros. The remaining 1 585 t.euros concerns other processes prior to the merger carried out in 2002, relating to tax processes of various types; In addition, the balance at 31 December 2018 also includes 22 871 t.euros relating to VAT processes and other taxes of Banco BPI, which was paid under Decree-Law 151-A/13 of 31 October, and was simultaneously fully provisioned for due to the uncertainty about whether this amount would be recovered. Consequently, the amount of the asset and liability arising from these processes was derecognised in 2019;
- At 31 December 2019 and 2018, 30 675 t.euros and 3 157 t.euros, respectively, concerning transactions pending settlement in respect of services provided to other CaixaBank Group companies.
- At 31 December 2019 and 2018, 3 324 t.euros e 2 683 t.euros, respectively, relating to home loans pending settlement.

19. NON-CURRENT ASSETS AND LIABILITIES AND DISPOSAL GROUPS CLASSIFIED AS AVAILABLE FOR SALE

The detail of this heading is as follows:

	31-12-2019	31-12-2018
Assets received in settlement of defaulting loans and other tangible assets		
Buildings	24 867	52 879
Equipment	179	225
Other	1	61
Impairment	(10 486)	(19 269)
	14 561	**33 896**

The amounts recognised in this caption are valued in accordance with the accounting policy described in Notes 2.15 e 40.2.

The changes in assets received in settlement of defaulting loans and other tangible assets in 2019 were as follows:

	Balance at 31-12-2018			Acquisitions and transfers	Sales and write-offs		Increase / reversals of impairment	Balance at 31-12-2019		
	Gross amount	Impairment	Net value		Gross amount	Impairment		Gross amount	Impairment	Net value
Assets received in settlement of defaulting loans										
Buildings	51 605	(18 879)	32 726	6 435	(33 173)	7 193	1 347	24 867	(10 339)	14 528
Equipment	225	(151)	74	271	(317)	30	(25)	179	(146)	33
Other	61	(61)			(60)	55	5	1	(1)	
Other tangible assets										
Buildings	1 274	(178)	1 096		(1 274)	176	1			
	53 165	**(19 269)**	**33 896**	**6 706**	**(34 824)**	**7 454**	**1 328**	**25 047**	**(10 486)**	**14 561**

In November 2019, Banco BPI sold a 119 buildings portfolio, integrated into the sale of a non-performing loan portfolio, whose gross book value amounted to 14.1 million euros and impairments value amounted to 6.4 million euros. This operation generated a net gain of 1.7 million euros (Note 37).

The changes in assets received in settlement of defaulting loans and other tangible assets in 2018 were as follows:

	Balance at 31-12-2017			Acquisitions and transfers	Sales and write-offs		Increase / reversals of impairment	Balance at 31-12-2018		
	Gross amount	Impairment	Net value		Gross amount	Impairment		Gross amount	Impairment	Net value
Assets received in settlement of defaulting loans										
Buildings	80 310	(15 773)	64 537	10 590	(39 295)	5 236	(8 342)	51 605	(18 879)	32 726
Equipment	568	(301)	267	99	(442)	163	(13)	225	(151)	74
Other	61	(51)	10				(10)	61	(61)	
Other tangible assets										
Buildings	1 419	(233)	1 186		(145)	2	53	1 274	(178)	1 096
	82 358	**(16 358)**	**66 000**	**10 689**	**(39 882)**	**5 401**	**(8 312)**	**53 165**	**(19 269)**	**33 896**

At 31 December 2019, the detail of real estate received in settlement of defaulting loans is as follows:

		Buildings			Land		
		Housing	**Commercial**	**Other[1]**	**Urban**	**Rural**	**Total**
No. of properties		166	28	29	18	2	**243**
Fair value		15 550	1 555	5 499	1 218	8	**23 830**
Book value		**9 731**	**827**	**3 507**	**463**		**14 528**
No. of years in portfolio	< 1 year	2 828	251	1 776	43		**4 898**
	>= 1 year and < 2.5 years	2 225	410	363			**2 998**
	>= 2.5 years and < 5 years	3 268	23	40			**3 331**
	>= 5 years	1 410	143	1 328	420		**3 301**

[1] This category includes all buildings that are not exclusively commercial or housing buildings.

At 31 December 2018, the detail of real estate received in settlement of defaulting loans is as follows:"

		Buildings			Land		
		Housing	**Commercial**	**Other[1]**	**Urban**	**Rural**	**Total**
No. of properties		331	164	75	25	19	**614**
Fair value		29 069	9 630	10 086	3 212	344	**52 341**
Book value		**19 678**	**5 837**	**5 863**	**1 204**	**144**	**32 726**
No. of years in portfolio	< 1 year	5 527	559	366			**6 452**
	>= 1 year and < 2.5 years	5 009	443	456	13	5	**5 926**
	>= 2.5 years and < 5 years	6 882	1 599	706	1 175	8	**10 370**
	>= 5 years	2 260	3 236	4 335	16	131	**9 978**

[1] This category includes all buildings that are not exclusively commercial or housing buildings.

20. FINANCIAL LIABILITIES AT AMORTISED COST

The detail of financial liabilities at amortised cost at 31 December 2019 and 2018 is as follows:

31-12-2019

	Nominal value	**Accrued interest**	**Premium discount**	**Book value**
Deposits				
Central Banks	1 380 000	(5 771)		1 374 229
Credit Institutions	1 402 664	215		1 402 879
Customers	23 215 362	16 051		23 231 413
Debt securities issued	1 356 544	5 361	(3 206)	1 358 699
Other financial liabilities	272 953	14		272 967
	27 627 523	**15 870**	**(3 206)**	**27 640 187**

31-12-2018

	Nominal value	**Accrued interest**	**Premium discount**	**Book value**
Deposits				
Central Banks	1 363 830	(10 987)		1 352 843
Credit Institutions	1 852 637	864		1 853 501
Customers	22 943 768	16 484		22 960 252
Debt securities issued	1 113 924	4 924	(653)	1 118 195
Other financial liabilities	230 885	69		230 954
	27 505 044	**11 354**	**(653)**	**27 515 745**

20.1. Deposits – Central Banks and Credit Institutions

The detail of this heading is as follows:

	31-12-2019	31-12-2018
Deposits - Central Banks		
Deposits	1 380 000	1 363 830
Interest payable	(5 771)	(10 987)
	1 374 229	**1 352 843**
Deposits - Credit Institutions		
Funds of credit institutions in Portugal		
Very short-term funds		26 201
Deposits	44 672	95 785
Other funds		820
Interest payable	1	112
	44 673	**122 918**
Funds of credit institutions abroad		
International financial organisations	466 833	471 052
Very short-term funds	38 458	
Deposits	485 861	564 864
Repurchase agreements	306 839	663 117
Other funds	60 001	30 798
Interest payable	186	677
Commissions relating to amortised cost	28	75
	1 358 206	**1 730 583**
	1 402 879	**1 853 501**
	2 777 108	**3 206 344**

20.2. Deposits – Customers

The detail of this heading is as follows:

	31-12-2019	31-12-2018
By type		
Demand deposits	14 568 006	13 233 854
Term deposits	8 348 386	8 633 430
Saving accounts	47 853	50 199
Compulsory deposits	26 382	100 143
Repurchase agreements	222 783	926 142
Other Customer resources	1 952	
Interest payable	16 042	16 424
Commissions relating to amortised cost, net	9	60
	23 231 413	**22 960 252**
By sector		
Public sector	538 431	359 113
Private sector	22 692 982	22 601 139
	23 231 413	**22 960 252**

The portfolio of Customer deposits at amortised cost includes deposits designated as interest rate hedged liabilities, the fair value change of which at 31 December 2019 and 2018 amounted to (4 022) t.euros and (3 560) t.euros, respectively (Note 14).

20.3. Debt securities issued

The detail of this heading is as follows:

	31-12-2019				31-12-2018			
	Issues	Repurchased	Balance	Average interest rate	Issues	Repurchased	Balance	Average interest rate
Covered bonds	7 900 000	(6 850 000)	1 050 000	0.2%	7 100 000	(6 550 000)	550 000	0.3%
Fixed-rate bonds	7 751	(1 207)	6 544	0.3%	21 578	(3 285)	18 293	0.3%
Interest payable			921				57	
Commissions relating to amortised cost, net			(3 206)					
			1 054 259				**568 350**	
Other subordinated bonds	300 000		300 000	5.4%	300 000		300 000	5.5%
Interest payable			4 440				4 514	
			304 440				**304 514**	
Liabilities related to assets not derecognised in securitization operations (Note 15)					4 540 366	(4 294 735)	245 631	
Interest payable							353	
Commissions relating to amortised cost, net							(653)	
							245 331	
			1 358 699				**1 118 195**	

In 2019 the securitisation operations of mortgage loans and loans to SMEs were reimbursed in advance.

The portfolio of debt issued at amortised cost includes securities designated as interest rate hedged liabilities, the fair value change of which at 31 December 2019 and 2018 amounted to (5 634) t.euros and (34) t.euros, respectively (Note 14).

The movement in debt securities issued by BPI in 2019 was as follows:

	Covered bonds	Fixed rate bonds	Other subordinated bonds	Total
Balance at 31 December 2018	**550 000**	**18 293**	**300 000**	**868 293**
Debt issues in the period	1 900 000			1 900 000
Issues retained	(1 400 000)			(1 400 000)
Issues redeemed		(11 638)		(11 638)
Repurchases (net of resales)		(111)		(111)
Balance at 31 December 2019	**1 050 000**	**6 544**	**300 000**	**1 356 544**

In 2019 the result of bond repurchases was 1 t.euros.

The movement in debt securities issued by BPI in 2018 was as follows:

	Covered bonds	Fixed rate bonds	Other subordinated bonds	Participation securities	Total
Balance at 31 December 2017	**200 000**	**35 268**	**300 000**	**611**	**535 879**
Debt issues in the period	850 000	452			850 452
Issues retained	(300 000)				(300 000)
Issues redeemed	(200 000)	(16 345)		(611)	(216 956)
Repurchases (net of resales)		(1 082)			(1 082)
Balance at 31 December 2018	**550 000**	**18 293**	**300 000**		**868 293**

In 2018 the result of bond repurchases was 8 t.euros.

The detail of subordinated debt issuance is as follows:

Issue date	Maturity date	Nominal value	Interest rate	Amount pending redemption 31-12-2019	Amount pending redemption 31-12-2018
24-03-2017	24-03-2027	300 000 [1]	6M Euribor +5.74%	300 000	300 000

[1] This issue was fully subscribed by CaixaBank.

Covered Bonds

BPI has two covered bond programmes under the terms of Decree-Law 59 / 2006. Under these programmes, BPI has issued mortgage bonds and public sector bonds, as described below.

In accordance with this law, the holders of covered bonds benefit from a special creditor privilege over the cover pool which acts as guarantee for the debt to which the bondholders will have access in the event of the issuer's insolvency.

Mortgage bonds

The mortgage bonds programme was set up for up to a maximum of 9 000 000 t.euros.

The mortgage bonds are secured by a portfolio of mortgage loans and other assets that together constitute a cover pool.

Assets allocated to the cover pool may include mortgage loans for housing or commercial purposes located in a European Union Member State and other eligible assets, such as deposits at the Bank of Portugal, deposits at financial institutions with ratings equal to or greater than "A-" and other low risk and highly liquid assets. The total value of the other assets cannot exceed 20% of the cover pool. The amount of the allocated mortgage loans cannot exceed 80% of the value of the mortgaged property in the case of residential property, or 60% of the value of the mortgaged property, in the case of commercial property.

The legislation applicable to mortgage bonds imposes prudential limits, which must be met during the period of the bonds:

- The total nominal amount of the outstanding mortgage bonds cannot exceed 95% of the total amount of mortgage loans and other assets allocated to the bonds;
- The average maturity of the outstanding mortgage bonds cannot exceed, at any time, the average maturity of the mortgage loans and other assets allocated to the bonds;
- The total amount of interest payable on the mortgage bonds cannot exceed, at any time, the amount of interest receivable on the mortgage loans and other assets allocated to the mortgage bonds;
- The present value of the liabilities arising from the outstanding mortgage bonds cannot exceed, at any time, the net present value of the cover pool given as collateral of these bonds, after consideration of any financial derivative instruments. This ratio must be maintained when considering a 200 basis points parallel up or down shift of the yield curve.
- The credit institutions' risk exposure, except for positions with residual maturity of less than or equal to 100 days, cannot exceed 15% of the total nominal amount of the outstanding mortgage bonds.

At 31 December 2019, the amount of mortgage bonds issued by BPI was 7 300 000 t.euros, split into 10 issues, as follows:

Issue	Issue date	Maturity date	Nominal amount	Coupon	Interest payment frequency	Reimbursement	Rating	Repurchases
OH-Serie 9	21-05-2010	21-05-2025	350 000	Euribor 3 m + 0.65%	Quarterly	Full on expiration date	Aaa/-/-/-	350 000
OH-Serie 14	30-03-2015	27-03-2025	1 250 000	Euribor 3 m + 0.50%	Quarterly	Full on expiration date	Baa2/-/-/-	1 250 000
OH-Serie 16	30-05-2016	30-05-2023	500 000	Euribor 3 m + 0.80%	Quarterly	Full on expiration date	A3/-/-/A(High)	500 000
OH-Serie 17	22-02-2017	22-02-2024	700 000	Euribor 3 m + 1.00%	Quarterly	Full on expiration date	A2/-/-/A(High)	700 000
OH-Serie 18	25-07-2017	25-07-2022	1 750 000	Euribor 3 m + 0.60%	Quarterly	Full on expiration date	A2/-/-/A(High)	1 750 000
OH-Serie 19	02-03-2018	02-03-2023	300 000	Euribor 3 m + 0.40%	Quarterly	Full on expiration date	A1/-/-/A(High)	300 000
OH-Serie 20	26-09-2018	26-09-2025	250 000	Euribor 6 m + 0.30%	Quarterly	Full on expiration date	A1/-/-/AA(Low)	
OH-Serie 21	13-12-2018	13-12-2022	300 000	Euribor 6 m + 0.30%	Quarterly	Full on expiration date	Aa3/-/-/AA(Low)	
OH-Serie 22	22-03-2019	22-03-2024	500 000	Fixed rate 0.25%	Annual	Full on expiration date	Aa3/-/-/AA(Low)	
OH-Serie 23	20-12-2019	20-12-2024	1 400 000	Euribor 3 m + 0.30%	Quarterly	Full on expiration date	Aa3/-/-/AA(Low)	1 400 000

At 31 December 2019 and 2018, the cover pool allocated to the mortgage bonds amounted to 8 556 268 t.euros and 7 598 026 t.euros, respectively, of which 8 522 977 t.euros and 7 576 415 t.euros corresponded to credit and accrued interest (Note 13.2).

Public sector bonds

The public sector bonds programme was set up for up to a maximum of 2 000 000 t.euros.

The public sector bonds are secured by a portfolio of loans to public sector entities and other assets that together constitute a cover pool.

Loans granted to central public administrations, regional or local authorities of any EU Member State as well as loans with a specific guarantee from these entities may be allocated to the cover pool.

The prudential limits applicable to the public sector bonds are similar to those applicable to the mortgage bonds, except for the limit on the maximum nominal amount of outstanding bonds in relation to the loans and other assets allocated to the cover pool, which in the case of public sector bonds is 100%.

At 31 December 2019, the amount of public sector bonds issued by BPI was 600 000 t.euros, split into 3 issues, as follows:

Issue	Issue date	Maturity date	Nominal amount	Coupon	Interest payment frequency	Reimbursement	Rating	Repurchases
OSP-Serie 3	07-10-2015	07-10-2022	100 000	Euribor 3 m + 0.65%	Quarterly	Full on expiration date	Baa1/-/-	100 000
OSP-Serie 4	15-06-2016	15-06-2023	150 000	Euribor 3 m + 0.80%	Quarterly	Full on expiration date	Baa1/-/-	150 000
OSP-Serie 5	20-10-2017	20-10-2022	350 000	Euribor 3 m + 0.50%	Quarterly	Full on expiration date	A3/-/-	350 000

At 31 December 2019 and 2018, the cover pool allocated to the public sector bonds amounted to 783 862 t.euros and 773 910 t.euros, respectively, of which 777 241 t.euros and 744 219 t.euros corresponded to credit and accrued interest (Note 13.2).

The coverage level of the mortgage bonds and public sector bonds is detailed as follows:

	31-12-2019	31-12-2018
Covered bonds issued **(A)**	**1 050 000**	**550 000**
Portfolio of loans and mortgage loans pending reimbursement	9 300 226	8 320 644
Covered bonds repurchased	(6 850 000)	(6 550 000)
Portfolio of loans and mortgage loans used as collateral for bond issuance **(B)**	**2 450 226**	**1 770 644**
Collateralisation **(B)/(A)**	**233%**	**322%**
Overcollateralisation **[(B)/(A)-1]**	**133%**	**222%**

20.4. Other financial liabilities

This caption is made up as follows:

	31-12-2019	31-12-2018
Other Customer funds		
Cheques and orders payable	44 084	43 473
Guaranteed rate deposits	1 625	4 821
Interest payable	14	69
Creditors and other resources		
Creditors for futures operations	12 171	13 026
Consigned resources	30 814	35 555
Captive account resources	3 599	4 747
Guarantee account resources	2 501	11 540
Administrative public sector		
VAT payable	140	272
Tax withheld at source	13 843	14 319
Contributions to the Social Security	3 258	3 786
Other	2 740	2 740
Contributions to other healthcare systems	1 349	1 337
Creditors for factoring agreements	21 139	43 854
Creditors for the supply of goods	6 238	7 988
Subscribed but not paid-up capital in venture capital funds		
Fundo de Recuperação, FCR	8 273	8 639
Fundo InterRisco II CI	4 672	5 428
Fundo InterRisco II - Fundo de Capital de Risco	1 331	1 601
Fundo de Reestruturação Empresarial, FCR	308	661
Fundo Pathena SCA Sicar	3 173	3 429
Other funds	635	7
Sundry creditors	23 869	23 662
Lease liabilities (IFRS 16)	87 191	
	272 967	**230 954**

At 1 January 2019 IFRS 16 - "Leases" entered into force, which implied a recognition of a lease liability of 109 million euros (Note 2.B - Comparability).

The caption “Other financial liabilities - lease liabilities (IFRS 16)” shows the present values of future payments to be made by the Bank during the period of the operational leasing agreements. The movement in this heading during the year is as follows:

	01-01-2019	Increases/ (Reductions)	Updates	Payments	31-12-2019
Usage rights (IFRS 16)	108 576	2 343	852	(24 580)	87 191

21. PROVISIONS AND CONTINGENT LIABILITIES

The detail of this heading is as follows:

	31-12-2019	31-12-2018
Pending legal issues and tax litigation		
VAT Recovery processes	3 962	29 711
Tax contingencies and other	21 694	12 534
Impairment and provisions for guarantees and commitments	18 736	23 212
	44 392	**65 457**

The movement in provisions in 2019 was as follows:

	Balance at 31-12-2018	Increases	Restitutions / Reversals	Amounts used	Balance at 31-12-2019
Pending legal issues and tax litigation	42 245	6 560	(112)	(23 037)	25 656
Commitments and guarantees given	23 212	2 660	(6 835)	(301)	18 736
	65 457	**9 220**	**(6 947)**	**(23 338)**	**44 392**

The movement in provisions in 2018 was as follows:

	Balance at 31-12-2017	IFRS 9 impact	Increases	Restitutions/ Reversals	Amounts used	Exchange differences and others	Balance at 31-12-2018
Pending legal issues and tax litigation	42 367		592	(267)	(447)		42 245
Commitments and guarantees given	18 441	785	5 228	(1 067)	(175)		23 212
Other provisions	3 430			(3 414)	(19)	3	
	64 238	**785**	**5 820**	**(4 748)**	**(641)**	**3**	**65 457**

21.1. Provisions for pending legal issues and tax litigation

Banco BPI is party to several legal and administrative proceedings arising from the normal course of its business, including claims in connection with lending activities, relationships with employees and other commercial or tax matters.

Based on available information, Banco BPI considers that it had reliably estimated the obligations arising from each case under litigation and that it has recognised, where appropriate, sufficient provisions to reasonably cover the liabilities that may arise as a result of these tax and legal situations. It also considers that any responsibility arising from the said proceedings will not, as a whole, have a material adverse effect on the Bank's businesses, financial position or results of operations.

21.2. Provisions for commitments and guarantees given

This heading includes the provisions for credit risk of the guarantees and contingent commitments given (Note 26).

21.3. Contingent liabilities

Competition Authority

In 2012, the Portuguese Competition Authority (CA), under the powers legally attributed to it, opened administrative infraction proceedings against 15 banks operating in the Portuguese market, including BPI, due to alleged competition restrictive practices. On 1 June 2015 Banco BPI was served the corresponding notice of illicit act. On 27 September 2017 the Bank presented its defence. Furthermore during the process, and whenever appropriate, Banco BPI appealed against several interlocutory rulings issued by the Competition Authority, which the Bank considered as susceptible of violating its rights.

On 9 September 2019, the CA notified BPI and the other banks of its ruling whereby they had been found guilty. The penalty imposed on BPI was 30 million euros.

In its ruling, the CA:

a) Accuses BPI, as well as the other banks, of having engaged in exchanges of information during the period from May 2002 to March 2013 concerning (i) mortgage loan and consumer loan production volumes, and (ii) the commercial conditions for these types of loans and for loans to small businesses and SME, including spread tables;
b) Considers that such an exchange constitutes an infringement by object, i.e., an infringement which is deemed to have been committed irrespective of whether or not the conduct in question had negative effects on the competition, and therefore it is not necessary to prove such effects; in other words, for the infringement to be deemed as committed, it is sufficient to prove that the conduct is, in the abstract, capable of having adverse effects on competition.

Banco BPI argues that it did not commit the infringement of which it was accused by the CA, and on 23 October 2019 appealed against the aforementioned decision to the Competition, Regulation and Supervision Court, from where the appeal will be filed with the Lisbon Court of Appeal. The appeal lodged by the Bank includes a request for the attribution of suspensive effect to the same. If this request is granted, the duty to pay the fine is suspended.

In addition to disputing that the exchange of information took place in the manner alleged in the decision imposing the sanction, BPI considers that the information allegedly exchanged, either on account of its form and the time at which such exchange occurred, or on account of its content, was not capable of producing negative effects on the competition, there being no grounds for the assumptions on which the existence of an infringement by object, and therefore the decision imposing the sanction, were based. It is also the understanding of BPI that the alleged exchange of information did not have any negative effects on the market or on consumers, but on the contrary, at least in part, that it had pro-competitive effects.

Based on this framework of non-existent grounds for the decision and sentencing to be maintained by a final court ruling, and supported by the substantiated opinion of external legal consultants, the Executive Committee of the Bank's Board of Directors believes that the probabilities of the process ending without the Bank having to pay a fine are higher than the reverse occurring, and therefore no provision for this process has been recognised in the Bank's financial statements as at 31 December 2019.

National Resolution Funds

Resolution measure of Banco Espírito Santo, S.A.

On 3 August 2014, Banco de Portugal applied a resolution measure to Banco Espírito Santo, S.A. (BES) pursuant to paragraph b) of number 1 of article 145 C of the General Regulation of Credit Institutions and Financial Companies (RGICSF), in the form of a partial transfer of assets, liabilities, off-balance sheet items and assets under management into a transition bank, Novo Banco, S.A. (Novo Banco), incorporated by a decision of Banco de Portugal on the same date. As part of this process, the Resolution Fund made a capital contribution to Novo Banco in the amount of 4 900 000 t.euros, becoming the sole shareholder.

In this context, the Resolution Fund contracted loans amounting to 4 600 000 t.euros, of which 3 900 000 t.euros granted by the Portuguese State and 700 000 t.euros, to which BPI contributed with 116 200 t.euros, by a banking syndicate.

On 29 December 2015, Banco de Portugal issued a public announcement informing that it had " (…) made a final adjustment to the perimeter of the assets, liabilities, off-balance-sheet items and assets under management transferred to Novo Banco, namely including:

a. Clarification that no liabilities have been transferred to Novo Banco that were contingent or unknown on the date the resolution measure was applied to Banco Espírito Santo, S.A.;

b. Retransfer to Banco Espírito Santo, S.A. of the shareholding in BES Finance, which is necessary to ensure full compliance with and application of the resolution measure as regards the non-transfer to Novo Banco of subordinated debt instruments issued by Banco Espírito Santo, S.A.;

c. Clarification that it is the Resolution Fund's responsibility to make neutral for Novo Banco – through compensatory measure – potential negative effects of future decisions, resulting from the resolution process and giving rise to liabilities or contingencies."

On 7 July 2016, the Resolution Fund stated that it would analyse and evaluate the necessary steps to be taken following the disclosure of the results of the independent valuation exercise, performed to estimate the level of credit recovery by each creditor class in the hypothetical scenario of a normal insolvency proceeding of BES.

Pursuant to applicable law, if at the completion of BES's winding-up, it is concluded that creditors, whose credits have not been transferred to Novo Banco, suffered a loss higher than the loss they would have hypothetically suffered if BES had initiated its windingup process immediately before the resolution measure was adopted, such creditors will have the right to receive the difference from the Resolution Fund.

Finally, it has surfaced in the media that judicial proceedings against the Resolution Fund have been initiated.

Resolution measure of Banif – Banco Internacional do Funchal, S.A.

On 19 December 2015, the Board of Directors of Banco de Portugal declared that Banif was failing or likely to fail and decided to start the institution's urgent resolution process through the total or partial sale of its business, which led to Banif's business being sold to Banco Santander Totta, S.A. (BST), on 20 December 2015, for 150 000 t.euros.

Most of the assets that were not sold were transferred to an asset management vehicle, called Oitante, S.A. (Oitante), created specifically for this purpose, the sole shareholder of which is the Resolution Fund. As a way of financing this transfer, Oitante issued debt securities for an initial amount of 746 000 t.euros, to which the Resolution Fund provided a guarantee and the Portuguese State a counter-guarantee.

The operation involved additional support of around 2 255 000 t.euros to cover future contingencies, of which 489 000 t.euros were provided by the Resolution Fund and 1 766 000 t.euros directly by the Portuguese State. The referred state support is net of the amount due by BST for the acquisition of the set of assets, liabilities and business of the former Banif. The 489 000 t.euros provided by the Resolution Fund was funded under a loan agreement with the Portuguese State.

General matters

In order to reimburse the loans obtained by the Resolution Fund and any other responsibilities that the Resolution Fund may have to take on with respect to the above-mentioned resolution measures, the Resolution Fund is entitled essentially to the contributions of the participating credit institutions (including the Bank) and to the banking sector contribution ("contribuição sobre o setor bancário").

By a public statement on 28 September 2016, the Resolution Fund announced that it had agreed with the Portuguese Ministry of Finance to revise the terms of the 3 900 000 t.euros loan originally granted by the Portuguese State to the Resolution Fund in 2014 to finance the resolution measure applied to BES. According to the Resolution Fund, the extension of the maturity of the loan was intended to ensure the capacity of the Resolution Fund to meet its obligations through its regular revenues, regardless of the contingencies to which the Resolution Fund is exposed. On the same day, the Office of the Portuguese Minister of Finance also announced that increases in liabilities arising from the materialisation of future contingencies would determine maturity adjustment to the Portuguese State and bank loans to the Resolution Fund in order to maintain the current levels of the required effort regarding the contributions from the banking sector.

In addition, according to the communication of the Resolution Fund on 21 March 2017:

- "The terms of the loans obtained by the Fund to finance the resolution measures applied to Banco Espirito Santo, S.A. and Banif – Banco Internacional do Funchal, S.A. were changed." These loans amount to 4 953 million euros, of which 4 253 million euros granted by the Portuguese State and 700 million euros granted by a banking syndicate, of these, 116 million euros were granted by the Bank.
- "Those loans now mature in December 2046, without prejudice to the possibility of early redemption based on the use of proceeds from the Resolution Fund. The maturity will be adjusted in such terms as guarantee the capacity of the Resolution Fund to fully meet its obligations based on regular revenues and without the need for special contributions or any other extraordinary contributions." The liabilities arising from contracts entered into by the Resolution Fund with the Portuguese State and a syndicate of banks in accordance with the resolution measures of BES and Banif rank *pari passu* with each other.
- "The revision of the terms of the loans aimed to ensure the sustainability and financial balance of the Resolution Fund, on the basis of a stable, predictable and sustainable burden for the banking sector".
- "The new conditions allow for the full payment of the Resolution Fund's liabilities and respective remuneration, without the need for special contributions or any other extraordinary contributions from the banking sector."

On 31 March 2017, the Bank of Portugal made a communication in which it referred, among others, the following:

- "The Bank of Portugal has today selected LONE STAR to complete the sale of Novo Banco and the Resolution Fund has signed the operation's contract documents."
- "Through the capital injection to be realised, LONE STAR will hold 75% of the share capital of Novo Banco and the Resolution Fund will maintain 25% of the share capital."
- The terms agreed also include a contingent capital mechanism, under which the Resolution Fund, as a shareholder, undertakes to make capital injections in case certain cumulative conditions are met related to: i) the performance of a specific portfolio of assets of Novo Banco and ii) the capitalisation levels of the bank going forward.
- "The agreed conditions also provide for mechanisms to safeguard the interests of the Resolution Fund and to align incentives, as well as supervision mechanisms, notwithstanding the limitations arising from the application of State aid rules."
- "The completion of the sale is conditional on the customary regulatory approvals (including by the European Central Bank and the European Commission), and on a liability management exercise, subject to acceptance of the bondholders, which will cover the non-subordinated bonds of Novo Banco, and, through the issuance of new bonds, generate at least 500 million euros of eligible own funds for the calculation of the CET1 ratio."

On 2 October 2017, the Council of Ministers approved a resolution by which it authorised the conclusion by the Portuguese State, in its role of ultimate guarantor of financial stability, of a framework agreement with the Resolution Fund, for the provision of financial resources to the Resolution Fund, if and when considered necessary for the fulfilment of its contractual obligations under the sale of the 75% stake in Novo Banco, S.A.

The abovementioned framework agreement was signed on the same date and determines that additional funds are to be made available when necessary to ensure compliance with the responsibilities assumed within the scope of the sale process of Novo Banco, while also establishing that the refund of any such funds will be scheduled taking into consideration that one of the objectives of this framework agreement is to ensure the stability of the contributive burden that falls on the banking sector, i.e., to ensure that no special contributions or any other extraordinary contributions are required from the participants of the Resolution Fund.

On 18 October 2017 Banco de Portugal and the Resolution Fund announced the conclusion of the sale of Novo Banco to Lone Star.

On 1 March 2019, after Novo Banco's capital call relative to 2018 had been made public, the Minister for Finance issued a communication where it confirmed *"(...) its commitment to the targets assumed and to promoting the stability of the banking sector to allow reaching these targets."*

Currently it is not possible to predict the possible effects for the Resolution Fund arising from: (i) the sale of the holding in Novo Banco; (ii) the application of the principle that no creditor of the credit institution under resolution may incur in a loss greater than that it would incur if the institution had entered into liquidation; (iii) the guarantee provided to the bonds issued by Oitante; and (iv) other liabilities which the Resolution Fund may have to assume.

Notwithstanding the possibility of collection of special contributions provided for in the applicable legislation, considering the renegotiation of the terms of the loans granted to the Resolution Fund by the Portuguese State and by a syndicate of banks, where the Bank is included, and the public announcements made by the Resolution Fund and the Office of the Portuguese Minister of Finance, which indicate that this possibility will not be used, the financial statements as of 31 December 2019 reflect the Board of Directors' expectation that the Bank will not be required to make any special or extraordinary contribution to finance the resolution measures applied to BES and Banif or any other liability or contingent liability assumed by the Resolution Fund.

Possible changes regarding these issues may have relevant implications on the Bank's financial statements.

22. OTHER LIABILITIES

This caption is made up as follows:

	31-12-2019	31-12-2018
Liabilities for pensions and other benefits		
Pension fund assets (Note 23)	(1 824 131)	(1 662 358)
Past service liabilities (Note 23)	1 862 164	1 695 496
	38 033	**33 138**
Expenses payable		
Staff Expenses	74 255	82 728
Other administrative expenses	50 264	63 249
Banking sector contribution		15 187
Interest payable on Additional Tier 1 issue	635	
Other	2 585	2 418
	127 739	**163 582**
Deferred income		
From guarantees given and other contingent liabilities	1 640	1 940
Other	53	119
	1 693	**2 059**
Other adjustment accounts		
Securities transactions pending settlement-stock exchange transactions	13	
Liabilities pending settlement	124 516	110 316
Other transactions pending settlement	152 981	197 025
	277 510	**307 341**
	444 975	**506 120**

The main actuarial assumptions used to calculate liabilities for end-of-career bonuses and for medical services (SAMS) of former Employees of the Bank are the same as those used to calculate employee pension liabilities (Note 23). In 2019 and 2018, (2 998) t.euros and (276) t.euros, respectively, were recognised for actuarial deviations arising from the change in the financial and demographic assumptions used to calculate these liabilities.

The caption 'Stock exchange transactions pending settlement' relates to the acquisition of securities for which settlement only occurred in the following month.

The caption 'Liabilities pending settlement' includes:

- At 31 December 2018, 66 641 t.euros relating to transactions with loan securitisation funds;
- At 31 December 2019 and 2018, 72 452 t.euros and 24 501 t.euros, respectively, relating to ATM transactions pending settlement;
- At 31 December 2019 and 2018, 36 267 t.euros and 14 955 t.euros, respectively, relating to transactions with SIBS pending settlement;

At 31 December 2019 and 2018, the caption 'Other transactions pending settlement' includes 128 596 t.euros and 189 072 t.euros, respectively, relating to transfers under SEPA (Single Euro Payment Area).

23. LIABILITIES FOR PENSIONS AND OTHER BENEFITS

Past service liabilities for Pensioners, Employees and Directors that are, or have been, at the service of BPI, are calculated in accordance with IAS 19.

Benefits established by BPI are defined benefits based on the last salary earned and length of service, providing for the payment of benefits in the event of retirement due to old age or disability, death and end-of-career bonuses. The rules used to calculate these benefits are mainly drawn from the provisions of the Collective Labour Agreement for the Portuguese Banking Sector. There is also a restricted group of management staff that is covered by a supplementary defined benefit pension plan, based on the last salary earned and length of service.

With the publication of Decree-Law no. 1-A / 2011 of 3 January, from 1 January 2011 all banking sector employees who were beneficiaries of "CAFEB – Caixa de Abono de Família dos Empregados Bancários" were integrated into the General Social Security Scheme, being henceforth covered by this scheme for old-age pensions as well as for maternity, paternity and adoption allowances, which the Bank ceased to support. Given the complementary nature of the scheme under the rules of the Collective Labour Agreement for the Portuguese Banking Sector ("ACT"), the Bank continues to cover the difference relative to the amount of the benefits paid under the General Social Security Regime for the eventualities covered and the benefits established in the ACT.

Following the instructions of the National Council of Financial Supervisors (Conselho Nacional dos Supervisores Financeiros), the amount of past service liabilities remained unchanged at 31 December 2010. Current service cost decreased as from 2011 and the Bank became subject to the Single Social Tax (Taxa Social Única - TSU) at the rate of 23.6%.

Disability and survivor pensions and sick leave for these Employees continue to be the Bank's responsibility.

Decree-Law 127/2011 of 31 December established the transfer to the Social Security of liabilities for retirement and survivor pensions of retired personnel and pensioners that were in that situation at 31 December 2011 and were covered by the substitute social security regime included in the collective labour regulations instrument in force for the banking sector (Pillar 1), as well as the transfer to the Portuguese State of the corresponding pension fund assets covering these liabilities. Since the transfer to the Social Security corresponded to a settlement, extinguishing the corresponding liability of Banco BPI, the negative difference (99 507 t.euros) between the amount of the pension fund assets transferred to the Portuguese State and the amount of the liability transferred based on actuarial assumptions used by Banco BPI was fully recognised as a cost in 2011/12. For tax purposes, this cost is recognised over a period of 18 years.

Through its pension fund, Banco BPI retains the liability for payment of (i) the amount of updates to the pensions mentioned above, according to the criteria set out in the ACT; (ii) the complementary benefits to the retirement and survivor pensions assumed by the ACT; (iii) the fixed contribution to the Social and Medical Support Services (SAMS); (iv) death allowance; (v) survivor pensions to children and surviving spouse related to the same Employee and (vi) survivor pension due to the family member of a retired Employee, in which the conditions for being granted occurred as from 1 January 2012.

BPI Vida e Pensões is the entity responsible for the actuarial calculations used to determine the amounts of the retirement and survivor pension liabilities, as well as for managing the respective Pension Funds.

The "Projected Unit Credit" method was used to calculate the normal cost and past service liabilities due to old age, and the "Single Successive Premiums" method was used to calculate the cost of the disability and survivor benefits.

The commitments assumed in the regulations of Banco BPI Pension Plans are funded by Pension Funds and therefore Banco BPI is exposed to risks resulting from the valuation of the liabilities and the value of the related pension funds. Banco BPI's Pension Funds are disclosed in Note 41.

The funding scheme of the Pension Fund is defined in Bank of Portugal Notice no. 4/2005, which establishes the requirement to fully fund (100%) the liabilities with pensions under payment and a minimum of 95% of the past service liabilities for current personnel.

The main actuarial assumptions used to calculate the pension liabilities of the employees are as follows:

	31-12-2019	31-12-2018
Demographic assumptions:		
Mortality Table	TV 88/90-H TV 88/90-M - 3 years [1]	TV 88/90-H TV 88/90-M - 3 years [1]
Disability table	EKV 80	EKV 80
Staff turnover	0%	0%
Decreases	by mortality	by mortality
Financial assumptions		
Discount rate		
Start of the year	2.0%	2.0%
Year-end	1.3%	2.0%
Pensionable salaries growth rate [2]	0.9%	1.0%
Pensions growth rate	0.4%	0.5%

[1] Life expectancy considered for women was 3 years longer than considered in the mortality table used.

[2] The mandatory promotions under the current ACT and the projected seniority payments are considered separately, i.e., directly in the estimate of salaries evolution, corresponding to an increase of approximately 0.5%.

The actual results obtained in relation to the main financial assumptions were:

	31-12-2019	31-12-2018
Pensionable salaries growth rate [1]	2.43%	2.40%
Pensions growth rate [2]	0.80%	1.00%
Pension fund assets' return rate		
Banco BPI	12.60%	5.50%
Other companies	-	-5.50%

[1] Calculated based on average pensionable salary changes for current Employees present at the beginning and at the end of the year (includes changes in remuneration levels, the effect of mandatory promotions due to time of service and seniority payments and does not consider new admissions and leavers).

[2] Corresponds to the ACT table update rate.

At 31 December 2019 and 2018, the number of pensioners and Employees covered by the pension plans funded by the pension funds was as follows:

	31-12-2019	31-12-2018
Retired pensioners		
Retired pensioners	7 375	7 399
Survivor pensioners	1 626	1 553
Current Employees	5 030	4 958
Former Employees (clause 98 of the ACT)	3 357	3 357
	17 388	**17 267**

The past service liabilities for Pensioners and Employees of BPI and respective coverage by the Pension Fund show the following evolution over the last five years:

	31-12-2019	31-12-2018	31-12-2017	31-12-2016	31-12-2015
Total past service liabilities	(1 803 833)	(1 639 393)	(1 601 350)	(1 463 137)	(1 279 923)
Net assets of the Pension Fund	1 766 672	1 612 353	1 564 913	1 355 356	1 391 069
Contributions to be transferred to the Pension Fund	3 810	5 547	9 010	75 455	1 279
Coverage surplus/(shortfall)	(33 351)	(21 493)	(27 427)	(32 326)	112 425
Coverage ratio of liabilities	98%	99%	98%	98%	109%

In accordance with Decree-Law 12/2006 of 20 January, only in very special conditions is it possible to return excess funding, so it is assumed that any excess will be used to reduce future contributions.

The return of the pension fund in 2019 was 12.6%. The return of the pension fund in the period benefited from the appreciation of the fixed rate bond portfolio.

In 2019 the movement in the present value of past service liabilities and in the Employee's pension fund was as follows:

	Total past service liabilities	Net assets of the pension fund	Net (Assets)/Liabilities for responsabilities with pensions and other benefits
Amount at 31 December 2018	**(1 639 393)**	**1 612 353**	**(27 040)**
Recognised as profit/(loss) (Note 32)	**(22 792)**	**26 280**	**3 488**
Current service cost	6 668		6 668
Liabilities interest cost	(27 187)		(27 187)
Income on plan assets computed based on the discount rate		26 280	26 280
Early retirements	(2 997)		(2 997)
Voluntary terminations	724		724
Recognised in shareholders' equity (Note 24)	**(193 839)**	**174 683**	**(19 156)**
Deviation in pension funds return		176 174	176 174
Update in ACTV table above the expected	(9 169)		(9 169)
Change in financial and demographic assumptions			
Change in discount rate	(196 497)		(196 497)
Change in salary and pension growth rates	43 878		43 878
Impact on ACT table from the national minimum wage increase	(18 575)		(18 575)
Deviation in pensions paid		(1 491)	(1 491)
Other deviations	(13 476)		(13 476)
Other	**52 191**	**(46 644)**	**5 547**
Employee contributions	(3 568)	3 568	
BPI contributions		5 547	5 547
Pensions payable (estimate)	55 034	(55 034)	
Transfer of Banco BPI Employees to BPI Gestão de Activos	725	(725)	
Amount at 31 December 2019	**(1 803 833)**	**1 766 672**	**(37 161)**

In 2018 the movement in the present value of past service liabilities and in the Employee's pension fund was as follows:

	Total past service liabilities	Net assets of the pension fund	Net (Assets)/Liabilities for responsabilities with pensions and other benefits
Amount at 31 December 2017	**(1 601 350)**	**1 564 913**	**(36 437)**
Recognised as profit/(loss) (Note 32)	**(32 501)**	**32 798**	**297**
Current service cost	5 929		5 929
Liabilities interest cost	(31 876)		(31 876)
Income on plan assets computed based on the discount rate		32 798	32 798
Early retirements	(7 936)		(7 936)
Voluntary terminations	1 382		1 382
Recognised in shareholders' equity (Note 24)	**(52 420)**	**51 110**	**(1 310)**
Deviation in pension funds return		52 581	52 581
Update increase in ACTV table above expected increase	(17 112)		(17 112)
Change in financial and demographic assumptions			
Change in discount rate	(8 174)		(8 174)
Impact on ACT table from the national minimum wage increase	(5 609)		(5 609)
Deviation in pensions paid		(1 471)	(1 471)
Other deviations [1]	(21 525)		(21 525)
Other	**46 878**	**(36 468)**	**10 410**
Employee contributions	(3 519)	3 519	
BPI contributions		10 410	10 410
Pensions payable (estimate)	49 874	(49 874)	
Transfer of Banco BPI Employees to BPI Gestão de Activos	523	(523)	
Amount at 31 December 2018	**(1 639 393)**	**1 612 353**	**(27 040)**

[1] Includes (8 431) t.euros relative to mortality deviations and (7 200) t.euros relative to deviations in the amount of early pensions.

The movement in deviations in 2019 was as follows:

Amount at 31 December 2018	**(212 528)**
Deviation in pension funds return	176 174
Update increase in ACTV table above expected increase	(9 169)
Change in discount rate	(196 497)
Change in salary and pension growth rates	43 878
Impact from the national minimum wage increase on ACT table	(18 575)
Deviation in pensions paid	(1 491)
Other deviations	(13 476)
Amount at 31 December 2019	**(231 684)**

At 31 December 2019 and 2018, Banco BPI's Employees' Pension Funds comprised the following assets:

	31-12-2019		**31-12-2018**	
	Value	**%**	**Value**	**%**
Liquidity	28 410	1.6%	59 228	3.7%
Fixed-rate bonds				
Listed	1 022 581	57.9%	902 542	56.0%
Variable-rate bonds				
Listed	85 343	4.8%	83 231	5.2%
Not Listed			1	
Shares				
Listed	199 648	11.3%	174 328	10.8%
Not Listed				
Real Estate	389 131	22.0%	318 285	19.7%
Other				
Listed	41 559	2.4%	74 738	4.6%
	1 766 672	**100.0%**	**1 612 353**	**100.0%**

The sensitivity analysis to a change in the main financial assumptions for the entire period covered by the actuarial valuation (and not just a change in a given year) would result in the following impact on the present value of past service liabilities [1]:

	(decrease)/increase	
	%	**Amount**
Change in discount rate		
0.25% increase	-4.3%	(77 412)
0.25% decrease	4.6%	82 725
Change in salaries growth rate [2]		
0.25% increase	1.2%	22 124
Change in pensions growth rate [3]		
0.25% increase	4.9%	89 008
Mortality Table		
+1 year	3.7%	65 964

[1] The calculation method and assumptions were the same as used for the calculation of the liabilities, except for the assumption under analysis.
[2] The change in the increase in salaries applies only to the pensionable salaries component of the pension plan foreseen in ACT, there being no change in the growth rate of the pensionable salaries for Social Security pension purposes, since what is considered is the maximum risk in the wage evolution component.
[3] The change in the pension increase applies to pensions and supplements provided by the Bank, as well as to pensions transferred to the Social Security, for whose future revisions the Bank remain responsible.

The average duration of the pension liability for Banco BPI Employees is 18 years, including both current and retired Employees.

The estimated Employee contributions to the pension plan in 2020 amount to 3 552 t.euros.

The Members of the Executive Committee of the Board of Directors of Banco BPI, S.A. and the former Board Members of Banco Português de Investimento benefit from a supplementary retirement and survivor pension plan, the funding coverage of which is ensured through a pension fund.

The main actuarial assumptions used to calculate the pension liabilities of Board members are as follows:

	31-12-2019	31-12-2018
Demographic assumptions:		
Mortality Table	TV 88/90-H TV 88/90-M - 3 years [1]	TV 88/90-H TV 88/90-M - 3 years [1]
Disability table	EKV 80	EKV 80
Staff turnover	0%	0%
Decreases	by mortality	by mortality
Financial assumptions:		
Discount rate		
Start of the year	2.0%	2.0%
Year-end	1.3%	2.0%
Pensionable salaries growth rate	0.4%	0.5%
Pensions growth rate [2]	0.4%	0.5%

[1] Life expectancy considered for women was 3 years longer than considered in the mortality table used.

[2] Rate of increase corresponds to Consumer Price Index rate of change, as per the pension plan rules.

The liabilities for past services of Board members and respective coverage by the Pension Fund show the following evolution in the last five years:

	31-12-2019	31-12-2018	31-12-2017	31-12-2016	31-12-2015
Present value of past service liabilities	(58 331)	(56 103)	(55 980)	(52 266)	(43 979)
Net assets of the Pension Fund	57 459	50 005	51 219	41 790	42 311
Contributions to be transferred to the Pension Fund	89	5 413	4 132	8 900	364
Coverage surplus/(shortfall)	(783)	(685)	(629)	(1 576)	(1 304)
Coverage ratio of liabilities	99%	99%	99%	97%	97%

The return of the pension fund in 2019 was 9%.

In 2019 the movement in the present value of past service liabilities for Directors and in the pension fund was as follows:

	Total past service liabilities	Net assets of the pension fund	Net (Assets)/Liabilities for responsabilities with pensions and other benefits
Amount at 31 December 2018	**(56 103)**	**50 005**	**(6 098)**
Recognised as profit/(loss) (Note 32)	**(1 445)**	**884**	**(561)**
Current service cost	(534)		(534)
Liabilities interest cost	(911)		(911)
Income on plan assets computed based on the discount rate		884	884
Recognised in shareholders' equity (Note 24)	**(3 608)**	**3 982**	**374**
Deviation in pension funds return		3 631	3 631
Change in financial and demographic assumptions			
Change in discount rate	(4 434)		(4 434)
Change in salary and pension growth rates	703		703
Deviation in pensions paid		351	351
Other deviations	123		123
Other	**2 825**	**2 588**	**5 413**
BPI contributions		5 413	5 413
Pensions payable (estimate)	2 825	(2 825)	
Amount at 31 December 2019	**(58 331)**	**57 459**	**(872)**

In 2018 the movement in the present value of past service liabilities for Directors and in the pension fund was as follows:

	Total past service liabilities	Net assets of the pension fund	Net (Assets)/Liabilities for responsabilities with pensions and other benefits
Amount at 31 December 2017	**(55 980)**	**51 219**	**(4 761)**
Recognised as profit/(loss) (Note 32)	**(1 776)**	**1 090**	**(686)**
Current service cost	(660)		(660)
Liabilities' interest cost	(1 116)		(1 116)
Income on plan assets computed based on the discount rate		1 090	1 090
Recognised in shareholders' equity (Note 24)	**(1 176)**	**(3 607)**	**(4 783)**
Deviation in pension funds return		(3 948)	(3 948)
Change in financial and demographic assumptions			
Change in discount rate	(183)		(183)
Deviation in pensions paid		341	341
Other deviations	(993)		(993)
Other	**2 829**	**1 303**	**4 132**
BPI contributions		4 132	4 132
Pensions payable (estimate)	2 829	(2 829)	
Amount at 31 December 2018	**(56 103)**	**50 005**	**(6 098)**

The movement in deviations in 2019 was as follows:

Amount at 31 December 2018	**(17 247)**
Deviation in pension funds return	3 631
Change in financial and demographic assumptions	
Change in discount rate	(4 434)
Change in salary and pension growth rates	703
Deviation in pensions paid	351
Other deviations	123
Amount at 31 December 2019	**(16 873)**

At 31 December 2019 and 2018, the Pension Funds of BPI's Directors comprised the following assets:

	31-12-2019		**31-12-2018**	
	Value	**%**	**Value**	**%**
Liquidity	2 713	4.7%	1 448	2.9%
Fixed-rate bonds				
Listed	33 125	57.6%	29 494	59.0%
Variable-rate bonds				
Listed	2 878	5.0%	2 796	5.6%
Not Listed			2	
Shares				
Listed	15 316	26.7%	12 412	24.8%
Real Estate	564	1.0%	568	1.1%
Other				
Listed	2 863	5.0%	3 285	6.6%
	57 459	**100.0%**	**50 005**	**100.0%**

The sensitivity analysis to a change in the main financial assumptions for the entire period covered by the actuarial valuation (and not just a change in a given year) would result in the following impact on the present value of past service liabilities [1] :

	(decrease)/increase	
	%	Value
Change in discount rate		
0.25% increase	-2.8%	(1 662)
0.25% decrease	3.0%	1 743
Change in salaries growth rate [2]		
0.25% increase	0.1%	58
Change in pensions growth rate [3]		
0.25% increase	3.1%	1 781
Mortality Table		
+1 year	3.7%	2 173

[1] The calculation method and assumptions were the same as used for the calculation of the liabilities, except for the assumption under analysis.
[2] The change in the increase in salaries applies only to the pensionable salaries component of the pension plan foreseen in ACT, there being no change in the growth rate of the pensionable salaries for Social Security pension purposes, since what is considered is the maximum risk in the wage evolution component.
[3] The change in the pension increase applies to pensions and supplements provided by the Bank, as well as to pensions transferred to the Social Security, for whose future revisions the Bank remains responsible.

The average duration of the pension liability for Banco BPI Directors is 12 years, including both current and retired Directors.

24. SHAREHOLDER' EQUITY

Capital

At 31 December 2019 and 2018, Banco BPI's share capital was 1 293 063 t.euros, represented by 1 456 924 237 ordinary dematerialised registered shares with no nominal value.

Equity instruments issued other than capital

In 2019, Banco BPI issued 275 000 t.euros in Additional Tier 1 Undated Deeply Subordinated Notes - Series 1132 under the EMTN Programme, which qualify as Additional Tier I Capital for the Tier 1 ratio, under the terms of Directive 2013/36/EU (CRD IV – Capital Requirements Directive). The interest on these notes is recognised under "Other reserves". The notes were fully purchased by CaixaBank.

Other equity instruments

This caption has the following composition:

	31-12-2019	31-12-2018
Cost of shares to be made available to Group Employees		371
		371

Until 2018, the caption 'Other equity' includes the accrued costs of the share-based variable remuneration programme (RVA) relating to shares to be made available.

From 2018 onwards, and with reference to the 2017 variable remuneration programme, in accordance with the Remuneration Policies approved for the members of the Board of Directors and members of the Identified Collective, any payments in equity instruments will be made, preferably, in CaixaBank shares.

Accumulated other comprehensive income

The main movements in Accumulated other comprehensive income are shown in detail in the tables of the consolidated statements of profit and loss and other comprehensive income.

In 2019 and 2018 the amount of other comprehensive income not included in the income for the year was (91 871) t.euros and (67 103) t.euros, respectively. In 2018, the most significant change in this caption resulted from the impact of foreign exchange differences in the holding in Banco de Fomento Angola (Note 15).

Retained earnings and other reserves

This caption is made up as follows:

	31-12-2019	31-12-2018
Retained earnings		
Legal reserve	244 789	153 358
Other reserves and retained earnings	1 503 107	1 001 557
Reserves of fully consolidated companies	6 368	396 380
Profit/(loss) generated on change of accounting policies	15 187	(2 837)
	1 769 451	**1 548 458**
Other reserves		
Merger reserve	1 665	2 530
Interest payable on Additional Tier 1 issue	(5 114)	0
Reserves of equity consolidated companies	119 491	124 294
	116 042	**126 824**

In accordance with Article 97 of the General Law on Credit Institutions and Financial Companies, approved by Decree-Law no. 298/92 of 31 December and amended by Decree-Law no. 201/2002 of 26 September, Banco BPI must appropriate at least 10% of its net income each year to a legal reserve until the amount of the reserve equals the greater of the amount of share capital or the sum of the free reserves plus retained earnings.

Changes in accumulated other comprehensive income - 2019

	31-12-2018	Valuation gains / (losses)	Amounts transferred to the income statement (before taxes)	Realized gains/(losses) in equity instruments	Taxes	31-12-2019
Items that will not be reclassified to profit or loss	**(232 788)**	**(109 086)**		**625**	**5 399**	**(335 850)**
Actuarial gains/ (losses) on defined benefit pension plans	(288 248)	(21 769)			6 067	(303 950)
Equity instruments measured at fair value through other comprehensive income	56 615	(88 759)		625	(668)	(32 187)
Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates	(1 858)	1 442				(416)
Tangible assets	703					703
Items that may be reclassified to profit or loss	**(20 614)**	**14 817**	**(2 654)**		**(971)**	**(9 422)**
Foreign currency translation	(35 802)	2 250				(33 552)
Debt securities at fair value through other comprehensive income	1 927	6 200	(2 654)		(971)	4 502
Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates	13 261	6 367				19 628
	(253 402)	**(79 452)**	**(5 308)**		**3 457**	**(345 272)**

Changes in accumulated other comprehensive income - 2018

	31-12-2017	1st time adoption IFRS 9	01-01-2018	Valuation gains / (losses)	Amounts transferred to income statement (before taxes)	Realized gains/(losses) in equity instruments	Taxes	31-12-2018
Items that will not be reclassified to profit or loss	**(313 417)**	**60 673**	**(252 744)**	**(14 302)**		**2 842**	**31 416**	**(232 788)**
Actuarial gains/ (losses) on defined benefit pension plans	(312 310)		(312 310)	(6 366)			30 428	(288 248)
Equity instruments measured at fair value through other comprehensive income		60 673	60 673	(7 620)		2 842	720	56 615
Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates	(1 810)		(1 810)	(316)			268	(1 858)
Tangible assets	703		703					703
Items that may be reclassified to profit or loss	**149 858**	**(83 413)**	**66 445**	**(255 360)**	**157 657**		**10 644**	**(20 614)**
Foreign currency translation	43 104		43 104	(245 340)	157 576		8 858	(35 802)
Available-for-sale financial assets	84 150	(84 150)						
Debt securities at fair value through other comprehensive income		737	737	1 558	81		(449)	1 927
Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates	22 604		22 604	(11 578)			2 235	13 261
	(163 559)	**(22 740)**	**(186 299)**	**(269 662)**	**157 657**	**2 842**	**42 060**	**(253 402)**

25. TAX POSITION

25.1. Tax assets and liabilities

The breakdown of tax assets and liabilities is as follows:

Tax assets

	31-12-2019	31-12-2018
Current tax assets	4 061	3 701
Recoverable VAT	5 665	20 049
Deferred tax assets	262 730	329 013
	272 456	**352 763**

Tax liabilities

	31-12-2019	31-12-2018
Current tax liabilities	2 109	2 750
Deferred tax liabilities	15 130	71 052
	17 239	**73 802**

25.2. Income taxes

At 31 December 2019 and 2018, the cost of income tax recognised in the income statement, as well as the tax burden, measured as the ratio of the tax charge to the profit/(loss) of continuing operations, were as follows:

	31-12-2019	31-12-2018 Restated
Profit / (loss) for the year before tax (A)[1]	**344 391**	**542 638**
Profit / (loss) of equity accounted companies (B)	(40 726)	(271 556)
Effect of BFA deconsolidation '(C)		154 030
Profit / (loss) for the year subject to tax (A)+(B)+(C)=(D)	**303 665**	**425 112**
Total taxes recognised in the income statement (E)	**(16 537)**	**(116 214)**
Current taxes	(1 932)	(7 512)
Deferred taxes	(14 656)	(108 577)
Recognition and reversal of temporary differences	(65 430)	(108 390)
Tax loss carry forwards	32	(187)
Reversal of deferred tax liabilities BFA	50 742	
Corrections of previous years	51	(125)
Average tax rate (E)/(D)	**5.4%**	**27.3%**
Profit / (loss) for the year after tax (A)+(E)	**327 854**	**426 424**

[1] In 2018, Income before taxes was adjusted to incorporate the amount of the banking sector contribution.

As from 2019 the banking sector contribution is recognised directly under “Other Operating expenses”. The amount of the banking sector contribution recognised in 2018 was reclassified from the “Income tax” caption of the income statement to the caption “Other Operating expenses” (Note 1.4 Comparability of the information).

In 2019 and 2018 the Bank recorded directly in other comprehensive income, income tax of 4 427 t.euros and (30 699) t.euros, respectively, resulting from actuarial deviations in pensions and end-of-career bonus and from fair value changes in equity instruments and debt securities.

In 2019, Banco BPI adopted the new tax regime for impairment losses for credit risk provided for in Law no. 98/2019, of 4 September, which amended the Income tax code for corporations. Therefore, impairment losses for credit risk recognised in the accounts as from 1 January 2019 are now relevant for tax purposes in the year of their accounting record. Impairment losses recognised in the accounts up to 31 December 2018 are, overall, treated in accordance with the tax regime previously in force.

The reconciliation between the nominal income tax rate and the average tax rate, in accordance with IAS 12, at 31 December 2019 and 2018, as well as the reconciliation between the tax cost/gain and the product of multiplying the accounting profit by the average tax rate, are as follows:

	2019		2018	
	Tax rate	Value	Tax rate	Value
Net income before income tax		**303 665**		**425 112**
Income tax computed based on the nominal tax rate	28.7%	87 144	28.4%	120 732
Capital gains and impairments in equity holdings, net	-3.4%	(10 369)	-4.2%	(17 678)
Capital losses in tangible assets, net			-0.3%	(1 324)
Non taxable dividends	-6.8%	(20 688)	-0.4%	(1 878)
Taxable temporary differences (BFA and BCI)	-0.5%	(1 391)	6.1%	26 086
Effect of BFA deconsolidation (Note 15)			-3.6%	(15 403)
Tax benefits	-0.3%	(790)	-0.1%	(302)
Impairment and provisions for loans	3.5%	10 685	0.0%	(7)
Non-deductible pension costs			0.0%	120
Correction of previous years	0.2%	473	0.1%	364
Banking sector contribution	1.4%	4 189	1.0%	4 172
Autonomous taxation	0.3%	960	0.3%	1 119
Remuneration of AT1 instruments issue	-0.5%	(1 401)		
Implementation of the Portugal Angola double taxation agreement to BFA participation	-16.7%	(50 742)		
Other non taxable income and expenses	-0.5%	(1 533)	0.1%	213
	5.4%	**16 537**	**27.3%**	**116 214**

25.3. Deferred tax assets and liabilities

Deferred tax assets and liabilities correspond to the amount of tax recoverable and payable in future periods resulting from temporary differences between the amount of assets and liabilities on the balance sheet and their tax base. Deferred tax losses carried forward and tax credits are also recognised as deferred tax assets.

In accordance with IAS 12, deferred tax assets and liabilities are recognised to the extent that it is probable that taxable profits will be available in the future against which they can be utilised. Accordingly, Banco BPI prepared future taxable income projections to support the deferred tax assets accounted for, namely regarding the consumption of reportable tax losses.

Deferred tax assets and liabilities were measured at the tax rates that are expected to apply to the period when the asset is expected to be realised or the liability settled.

The movement in deferred tax assets in 2019 was as follows:

	31-12-2018	Movement in the year		31-12-2019
		Increases	Decreases	
Tax losses	20 372	26		20 398
Application of Art. 4 of the regime set forth in Law 61/2014	5 170	18 697		23 867
Taxed provisions and impairments	179 743		(71 600)	108 143
Tax deferral of the impact of the partial transfer of pension liabilities to the Social Security	16 682		(1 507)	15 175
Pension liabilities	33 059		(7 145)	25 914
Actuarial deviations	66 837		(8 774)	58 063
Voluntary terminations programme	4 604		(860)	3 744
End-of-career bonus	1 772	550		2 322
Dividends receivable from BCI		1 391		1 391
Financial instruments at fair value	456	359		815
Other	318	2 580		2 898
	329 013	**23 603**	**(89 886)**	**262 730**

At 31 December 2019, BPI's consolidated balance sheet included deferred tax assets in the amount of 262 730 t.euros, of which:

(i) 109 217 t.euros are eligible to benefit from the Special Regime applicable to Deferred Tax Assets approved by Law no.61/2014, of 26 August;

(ii) 153 513 t.euros depend on the existence of future taxable profits (not eligible for the Special Regime), including:

- 54 258 t.euros related to impairments for loans and guarantees;
- 24 324 t.euros relating to other taxed impairments and provisions;
- 54 534 t.euros related to Employee benefits (actuarial deviations, transfer to Social Security, early retirements, end-of-career premium and compensations and other benefits payable under the voluntary termination programme);
- 20 397 t.euros corresponding to tax losses carried forward (2014: 11 981 t.euros and 2016: 7 628 t.euros), including tax losses transmitted due to merger operations of Banco Português de Investimento, S.A. and BPI Private Equity – Sociedade de Capital de Risco, S.A. in Banco BPI (788 t.euros). According to Law no. 2/2014, of 16 January, the use of tax losses carried forward in future taxation periods cannot exceed 70% of taxable income in each of those periods, and tax losses carried forward are subject to a preestablished period during which they can be used. Based on the projections made by the Bank, the existing taxable profits up to the end of the reporting period should permit to fully recover the deferred tax assets originated by those tax losses.

The movement in deferred tax liabilities in 2019 was as follows:

	31-12-2018	Movement in the year		31-12-2019
		Increases	Decreases	
Taxable temporary differences in subsidiaries and associated companies (BCI)	8 045	1 256		9 301
Financial instruments at fair value	62 747		(58 783)	3 964
Other	260	1 605		1 865
	71 052	**2 861**	**(58 783)**	**15 130**

As a result of the coming into force on 22 August 2019 of the Convention between the Republic of Portugal and the Republic of Angola for the Avoidance of Double Taxation with respect to Taxes on Income, as from 1 January 2020 the taxation in Angola of capital gains on the disposal of financial instruments was eliminated. Therefore, and pursuant to the provisions of the accounting standards, the 50 748 t.euros deferred tax liability associated to the unrealised capital gain in BFA was derecognised.

Profits distributed to Banco BPI by subsidiaries and associated companies are not taxed in Banco BPI as a result of application of the regime established in article 51 of the Corporation Income Tax Code, which provides for the elimination of double taxation of profits distributed.

In this context, Banco BPI does not recognise deferred tax assets or liabilities for deductible or taxable temporary differences relating to investments in associated companies, since the stake held by BPI has exceeded 10% and been held for more than one year, which enables it to be considered in the Participation Exemption regime, except for Banco Comercial e de Investimentos, in which the deferred tax liabilities relating to taxation in Mozambique, of all the distributable profits, are recognised.

BPI does not recognise deferred tax assets or liabilities for deductible or taxable temporary differences relating to investments in subsidiaries as it is unlikely that such differences will be reversed in the foreseeable future.

26. OFF-BALANCE SHEET ITEMS

This caption is made up as follows:

	31-12-2019	31-12-2018
Loan commitments given		
Irrevocable credit lines	317	161
Securities subscribed	318 883	475 233
Revocable commitments	2 465 001	2 125 401
	2 784 201	**2 600 795**
Financial guarantees given		
Financial guarantees and sureties	168 624	241 355
Financial standby letters of credit	2 475	7 280
Documentary credits	114 184	192 339
	285 283	**440 974**
Other commitments given		
Non-financial guarantees and sureties	1 193 453	1 169 116
Non-financial standby letters of credit	8 581	25 475
Term liabilities for annual contributions to the Deposit Guarantee Fund	38 714	38 714
Term liabilities for annual contributions to the Resolution Fund	8 713	6 715
Potential liability to the Investor Compensation Scheme	9 804	11 639
Other irrevocable commitments	937	732
	1 260 202	**1 252 391**
	4 329 686	**4 294 160**
Assets pledged as collateral		
European System of Central Banks	6 369 270	7 939 263
Deposit Guarantee Fund	44 467	43 341
Investors Compensation Scheme	5 204	5 926
European Investment Bank	597 944	619 956
Repos	529 563	1 604 613
Other collateral		53
	7 546 448	**10 213 152**
Securities deposit and custody responsibilities	**28 899 991**	**27 403 225**

The breakdown by stage of the exposure and impairment in guarantees and commitments at 31 December 2019 is as follows:

	Exposure				Impairments			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loan commitments given	2 753 258	25 051	5 892	2 784 201	121	1	5	127
Financial guarantees given	281 185	3 430	668	285 283	703	210	430	1 343
Other commitments given	1 142 494	33 210	84 498	1 260 202	755	221	16 291	17 267
	4 176 937	61 691	91 058	4 329 686	1 579	432	16 726	18 737

The breakdown by stage of the exposure and impairment in guarantees and commitments at 31 December 2018 is as follows:

	Exposure				Impairments			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loan commitments given	2 561 991	34 174	4 630	2 600 795	57	1	7	65
Financial guarantees given	436 855	3 240	879	440 974	402	36	549	987
Other commitments given	1 103 616	53 153	95 622	1 252 391	296	457	21 407	22 160
	4 102 462	90 567	101 131	4 294 160	755	494	21 963	23 212

BPI is only obliged to pay the sum of guarantees and contingent liabilities if the counterparty guaranteed fails to comply with its obligations, at the moment of default. The Bank believes that most of these commitments will reach maturity without materialising.

With respect to contingent commitments given for loans, BPI has undertaken to facilitate funds to Customers through drawdowns on credit lines and other commitments, whenever it is requested to do so and subject to compliance with certain conditions. The Bank believes that a large portion of them will expire prior to drawdown, either because they will not be requested by Customers or because the necessary conditions will not be met by the Customers.

The detail of “Loan commitments given” is as follows:

	31-12-2019		31-12-2018	
	Available	**Limits**	**Available**	**Limits**
Drawable by third parties				
Credit institutions	34 736	72 875	62 922	87 825
Public sector	110 297	162 378	67 319	106 787
Other sectors	2 639 167	6 522 496	2 470 554	6 117 838
	2 784 200	**6 757 749**	**2 600 795**	**6 312 449**

The table below details the contractual maturities of the loan commitments given at 31 December 2019 :

	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years
Drawable by third parties	1 185 852	313 285	502 434	341 156	441 473

The table below details the contractual maturities of the loan commitments given at 31 December 2018 :

	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years
Drawable by third parties	1 114 594	358 766	507 448	368 694	251 293

27. NET INTEREST INCOME

This caption is made up as follows:

	31-12-2019	31-12-2018
Interest income		
Financial assets held for trading	41 664	45 923
Financial assets not designated for trading compulsorily measured at fair value through profit or loss	4 558	4 864
Financial assets at fair value through other comprehensive income	5 046	14 401
Financial assets at amortised cost		
Debt securities	28 907	25 221
Loans and advances - central banks and other credit institutions	15 139	9 152
Loans and advances - Customers	391 588	380 033
Derivatives - Hedge accounting, interest rate risk	10 018	3 637
Other assets	1 283	3 721
Interest income on liabilities	5 510	2 301
Commissions received relating to amortised cost	24 691	21 011
	528 404	**510 264**
Interest expense		
Financial liabilities held for trading	(25 906)	(21 519)
Financial liabilities at amortised cost		
Deposits - Credit Institutions	(6 823)	(4 560)
Deposits - Customers	(23 282)	(21 049)
Debt securities issued	(24 341)	(22 820)
IFRS 16 rights of use	(852)	
Derivatives - Hedge accounting, interest rate risk	(2 589)	(14 952)
Interest on deposits at Banco de Portugal	(4 382)	
Other liabilities	(2 876)	(2 460)
Interest expense on assets		(21)
Commissions paid relating to amortised cost	(1 079)	(307)
	(92 130)	**(87 688)**
Net interest income	**436 274**	**422 576**

The detail of the average return on assets and liabilities is as follows:

	31-12-2019	31-12-2018
Average return on assets		
Financial assets at fair value through other comprehensive income - debt securities	0.32%	0.71%
Financial assets at amortised cost	1.67%	1.69%
Loans and advances - Central Banks	-0.43%	-0.41%
Loans and advances - Credit Institutions	1.45%	1.18%
Loans and advances - Customers[1]	1.68%	1.70%
Average return on liabilities		
Financial liabilities at amortised cost	0.18%	0.17%
Deposits - Central Banks	-0.40%	-0.13%
Deposits - Credit Institutions	0.40%	0.19%
Deposits - Customers	0.11%	0.10%
Debt securities issued [2]	0.71%	1.44%
Subordinated liabilities	5.54%	5.54%

[1] Includes debt securities.

[2] Does not include subordinated liabilities.

28. DIVIDEND INCOME

The detail of this heading is as follows:

	31-12-2019	31-12-2018
Financial assets at fair value through other comprehensive income		
Banco de Fomento Angola, S.A.	46 003	
Digitmarket - Sist. Inf. - N	44	234
SIBS - Sociedade Interbancária de Serviços	1 573	1 116
Vialitoral	1 447	
Conduril	92	276
Other	192	97
	49 351	**1 723**

29. FEE AND COMMISSION INCOME AND EXPENSES

The detail of this heading is as follows:

	31-12-2019	31-12-2018
Fee and commission income		
On guarantees provided	13 449	14 130
On commitments to third parties	2 454	3 131
On insurance brokerage services	67 302	66 672
On other banking services provided	172 897	202 350
On operations performed on behalf of third parties	10 664	14 634
Other	773	406
Refund of expenses	4 234	8 812
Income from provision of sundry services	9 206	8 874
	280 979	**319 009**
Fee and commission expenses		
For guarantees received	(42)	(33)
On financial instruments transactions	(336)	(265)
On banking services provided by third parties	(11 598)	(31 215)
On operations performed by third parties	(3 082)	(2 676)
Commission-equivalent expenses	(6 212)	(6 664)
Other	(1 809)	(386)
	(23 079)	**(41 239)**

At 31 December 2019 and 2018, income from insurance or reinsurance brokerage services provided is broken down as follows:

	31-12-2019	31-12-2018
Life		
Savings	14 540	14 696
Housing	19 747	21 544
Consumer	3 171	2 669
Other	9 175	9 202
	46 633	**48 111**
Non life		
Housing	6 218	6 029
Consumer	6 106	3 464
Other	8 345	9 068
	20 669	**18 561**
	67 302	**66 672**

At 31 December 2019 and 2018, remunerations for insurance brokerage services were fully received in cash, and more than 99% of the fee and commission income relates to insurance brokerage services for Allianz and BPI Vida e Pensões.

30. GAINS / (LOSSES) ON FINANCIAL ASSETS AND LIABILITIES

The detail of this heading is as follows:

	31-12-2019	31-12-2018
Gains/(losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	**(94)**	**1 457**
Financial assets at fair value through other comprehensive income		
Debt securities	34	589
Financial assets at amortised cost		
Debt securities	(141)	(2 766)
Financial liabilities at amortised cost	12	3 632
Other	1	2
Gains/(losses) on financial assets and liabilities held for trading, net	**4 961**	**39 027**
Financial assets held for trading		
Trading derivatives	(11 167)	66 820
Debt securities	1 722	187
Equity instruments	14 395	(27 970)
Financial liabilities held for trading	11	(10)
Gains/(losses) on financial assets not designated for trading compulsorily measured at fair value through profit or loss, net	**(9 753)**	**60 321**
Debt securities	1 465	(2 969)
Equity instruments	(11 218)	63 290
Gains/(losses) from hedge accounting (net)	**3 115**	**1 398**
Hedging derivatives (Note 14)	(7 402)	16 356
Hedged items (Note 14)	10 517	(14 958)
Exchange differences (gain/loss), net	**(5 672)**	**(25 328)**
	(7 443)	**76 875**

At 31 December 2019 and 2018, the caption “Gains / (losses) on financial assets and liabilities held for trading – Hedging derivatives includes (14 382) t.euros and 27 533 t.euros, respectively, concerning equity swaps contracted with Clients, which are hedged through a portfolio of equity instruments, in the caption “Gains / (losses) on financial assets and liabilities held for trading - Equity instruments”.

At 31 December 2018 gains/(losses) on equity instruments not designated for trading compulsorily measured at fair value through profit or loss, included 59 581 t.euros relating to the sale of the equity holding in Viacer - Sociedade Gestora de Participações Sociais, Lda. (Note 11).

31. OTHER OPERATING INCOME AND EXPENSES

The detail of this heading is as follows:

	31-12-2019	31-12-2018 Restated
Other operating income		
Service provision agreements with CaixaBank Group companies	14 397	6 286
Realized gains on finance leases	14 223	15 844
Other operating income	4 220	5 201
	32 840	**27 331**
Other operating expenses		
Contributions and donations	(2 554)	(2 824)
Contributions to the Deposit Guarantee Fund	(33)	(34)
Contribution to the Resolution Fund	(6 970)	(5 452)
Contributions to the Single Resolution Fund	(11 323)	(11 761)
Contribution to the Investor Compensation Scheme	(7)	(7)
Losses on finance leases	(13 431)	(15 326)
Other operating expenses	(2 313)	(2 255)
Banking sector contribution	(15 289)	(15 225)
Direct taxes	(4 750)	(383)
Indirect taxes	(1 974)	(2 265)
	(58 644)	**(55 532)**

As from 2019 the banking sector contribution is recognised under “Other Operating expenses”. The amount of the banking sector contribution recognised in 2018 was reclassified from the “Income tax” caption of the income statement to the caption “Other Operating expenses” (Note 1.4 Comparability of the information).

At 31 December 2019 the caption “direct taxes” includes 4 600 t.euros relating to the tax on dividends received from BFA, withheld in Angola.

32. STAFF EXPENSES

The detail of this heading is as follows:

	31-12-2019	31-12-2018
Staff expenses		
Remuneration	(190 585)	(191 145)
Other mandatory social costs	(50 725)	(51 484)
Pension costs		
Current service cost	6 134	5 269
Interest cost relating to the liabilities	(28 098)	(32 992)
Income on plan assets computed based on the discount rate	27 164	33 888
Other	(854)	(635)
Other staff costs	(7 628)	(4 022)
	(244 592)	**(241 121)**
Costs with early retirements and terminations		
Early retirements	(1 288)	(16 112)
Voluntary terminations	(213)	(4 981)
	(1 501)	**(21 093)**
	(246 093)	**(262 214)**

In 2019 and 2018, the average headcount was broken down as follows:

	2019		Of which:	2018		Of which:
	Men	**Women**	With disability above 33%	**Men**	**Women**	With disability above 33%
Directors[1]	8			8		
Senior management	253	134	9	290	147	8
Other management staff	1777	2449	91	1739	2321	77
Other employees	91	131	13	155	233	19
	2129	**2714**	**113**	**2192**	**2701**	**104**

[1]Executive Directors of Banco BPI.

In 31 December 2019 and 2018, the headcount was broken down as follows:

	2019		Of which: With disability above 33%	2018		Of which: With disability above 33%
	Men	Women		Men	Women	
Directors[1]	8			8		
Senior management	249	135	8	281	143	8
Other management staff	1776	2455	88	1791	2433	80
Other employees	90	127	13	91	141	13
	2123	**2717**	**109**	**2171**	**2717**	**101**

[1] Executive Directors of Banco BPI.

33. OTHER ADMINISTRATIVE EXPENSES

The detail of this heading is as follows:

	31-12-2019	31-12-2018
General administrative expenses		
Supplies		
Water, energy and fuel	(6 831)	(7 324)
Consumables	(2 475)	(1 837)
Other	(440)	(324)
Services		
Rents and leases	(10 880)	(39 371)
Communications and IT	(43 315)	(39 419)
Travel, lodging and representation	(4 488)	(4 835)
Advertising and publishing	(9 460)	(13 668)
Maintenance and repairs	(11 087)	(11 255)
Insurance	(1 334)	(1 740)
Fees	(2 804)	(3 624)
Legal expenses	(2 884)	(3 457)
Security and cleaning	(4 701)	(3 808)
Information services	(2 735)	(3 867)
Temporary labour	(583)	(1 739)
Studies, consultancy and auditing	(15 554)	(10 859)
SIBS	(3 311)	(3 233)
Other	(25 179)	(22 518)
	(148 061)	**(172 878)**

The detail of remunerations paid to auditors and respective network[1], according to the nature of the services provided and the company providing them, in 2019, is as follows:

31 December 2019	Banco BPI	Other companies[2]	Total
PwC - SROC fees			
Audit	540	8	548
Other services			
Other non-audit services required by law	180	11	191
Other non-audit services	271		271
	991	**19**	**1 010**
Fees of other companies of the PwC network			
Audit		13	13
Other services			
Other non-audit services required by law		11	11
Other non-audit services	96	26	122
	96	**50**	**146**
CMVM fees and reimbursement of PwC expenses	**72**		**72**
	1 159	**69**	**1 228**

[1] In accordance with the definition of network given by the European Commission in its Recommendation no. C(2002) 1873, of 16 May 2002.

[2] By decreasing order of importance of the amount paid: BPI Suisse, Banco Português de Investimento and BPI Madeira.

The breakdown of payments to suppliers in 2019 and 2018 is as follows:

	31-12-2019	31-12-2018
Amounts outstanding	2 572	3 038
Amount of payments made	288 117	376 145
	290 689	**379 183**
Average supplier payment period in days	30	30

34. IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

The detail of this heading is as follows:

	31-12-2019	31-12-2018
Financial assets at amortised cost		
Loans and advances		
Net allowances		
Credit Institutions	269	(269)
Customers	18 037	12 482
Recovery of written-off loans	22 568	36 892
Debt securities		
Net allowances	(1 813)	(138)
	39 061	**48 967**

In the 4th quarter of 2019 Banco BPI sold a portfolio of non-performing loans for a global amount of 138 million euros, of which 123 million euros in written-off loans (recognised in off-balance sheet items) and 15 million euros in loans net of impairments (recognised in the balance sheet). The income statement caption “Impairments of financial assets not measured at fair value through profit or loss” includes a 13 920 t.euros decrease in impairments, and a 8 627 t.euros gain originated from the recovery of written-off loans (Note 13.3).

35. IMPAIRMENT/(REVERSAL) OF IMPAIRMENT ON NON-FINANCIAL ASSETS

The movement in this caption in 2019 and 2018 was as follows:

	31-12-2019	31-12-2018
Tangible and intangible assets		
Tangible assets - Equipment and other		
Net allowances	(646)	646
Intangible assets - other		
Net allowances	(1 026)	1 026
Balance at end of period	**(1 672)**	**1 672**

36. GAINS/(LOSSES) ON DERECOGNITION OF NON-FINANCIAL ASSETS

The detail of these captions is as follows:

	31-12-2019	31-12-2018 Restated
Gains in non-financial assets		
Gains in investments in joint ventures and associates		400
Gains on the sale of businesses		98 842
Gains in other tangible assets	42	43
	42	**99 285**
Losses in non-financial assets		
Losses in investments in joint ventures and associates		(154 030)
Losses in other tangible assets	(1 483)	(400)
	(1 483)	**(154 430)**
	(1 441)	**(55 145)**

In 31 December 2018, the gains on the sale of businesses refer to the gains on the sale of the legal positions in the merchant acquiring business to Comercia Global Payments, Entidad de Pago, S.L., in August 2018 (57 788 t.euros) and on the sale of the cards business to Caixabank Payments E.F.C. E.P., S.A., in November 2018 (41 054 t.euros).

In 31 December 2018, the losses in joint ventures and associates refer to the recognition of adjustments to the valuation of BFA, essentially deriving from the devaluation of the kwanza, recognised under other comprehensive income in 2017 and 2018 (before tax) following the loss of significant influence, which led to the reclassification in Banco BPI’s balance sheet of the equity holding in BFA from Associate to Financial assets at fair value through other comprehensive income - equity instruments, and its revaluation at fair value (Note 15).

37. PROFIT/(LOSS) FROM NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE NOT QUALIFYING AS DISCONTINUED OPERATIONS

This caption is made up as follows:

	31-12-2019	31-12-2018
Profit/(loss) on assets received in settlement of defaulting loans		
Real Estate	1 652	2 740
Equipment	(64)	(46)
Impairments on assets received in settlement of defaulting loans		
Real Estate	1 347	(8 342)
Equipment and others	(20)	(23)
Impairments on other tangible assets		
Real Estate	1	53
Other profit/(loss)	484	487
	3 400	**(5 131)**

38. PROFIT/(LOSS) OF DISCONTINUED OPERATIONS

In 2018 the contribution of BPI Gestão de Activos and BPI GIF as well as their capital gains on sale, were included in the income statement caption 'Profit/(loss) after tax from discontinued operations', broken down as follows:

	31-12-2018 BPI Gestão de Activos and BPI GIF
Net interest income	**(1)**
Technical result of insurance contracts	
Fee and commission income and expenses	5 747
Gains/(losses) on financial operations	3
Other operating income and expenses	(118)
Gross income	**5 631**
Administrative expenses	(2 431)
Depreciation and amortisation	
Net income before income tax	**3 200**
Taxes	(741)
Net Profit/(Loss)	**2 459**
Gain/(loss) on sale	61 755
Profit/(loss) after tax from discontinued operations	**64 214**

39. PROFIT

In 2019 and 2018, the contribution of Banco BPI and its subsidiaries and associates to the consolidated net income was as follows:

	31-12-2019	31-12-2018
Banks		
Banco BPI, S.A.	287 012	384 269
Banco Português de Investimento, S.A.	(36)	2 083
Banco de Fomento Angola, S.A.		73 217
Banco Comercial e de Investimentos, S.A.R.L.	18 712	20 546
Banco BPI Cayman, Ltd		(13)
Asset management		
BPI Gestão de Activos - Sociedade Gestora de Fundos de Investimento Mobiliários, S.A.		1 725
BPI - Global Investment Fund Management Company, S.A.		735
BPI (Suisse), S.A.	1 365	2 899
Venture / development capital		
BPI Private Equity - Sociedade de Capital de Risco, S.A.	(433)	1 100
Inter-Risco - Sociedade de Capital de Risco, S.A.	(43)	(26)
Insurance		
Cosec - Companhia de Seguros de Crédito, S.A.	4 613	4 128
Companhia de Seguros Allianz Portugal, S.A.	13 326	(832)
Other		
BPI, Inc	(5)	(5)
BPI Madeira, SGPS, Unipessoal, S.A.	(65)	(476)
BPI Capital Africa		588
Unicre - Instituição Financeira de Crédito, S.A.	3 408	700
	327 854	**490 638**

40. INFORMATION ON FAIR VALUE

The fair value of financial instruments is estimated, whenever possible, on the basis of prices in an active market. A market is considered active, and therefore liquid, when it is accessed by equally knowledgeable counterparties and where transactions are carried out on a regular basis. For financial instruments for which there is no active market, due to lack of liquidity or regular transactions, valuation methods and techniques are used to estimate fair value.

40.1. Fair value of financial instruments

Financial instruments on the balance sheet at fair value are classified into levels using the hierarchy defined in IFRS 13.

Debt securities and equity instruments

- **Level 1:** This category includes, in addition to financial instruments listed on regulated markets, bonds and participating units in harmonised funds, valued based on prices / quotations in active markets, published in trading platforms, taking into account also the liquidity and quality of the prices.

  The classification of fair value in level 1 is made automatically by SIVA ("Asset Valuation Integrated System") whenever the financial instruments are traded in an active market, considering, for this purpose, that this is the case when:

  (i) financial instruments are priced daily by at least 6 contributors, at least three of them with firm offers, or there is a multi-contributed price (price formed by several firm offers from contributors available in the market) (active market), or;
  (ii) such financial instruments have been classified as level 1, in accordance with the rule referred to in the preceding paragraph, in at least 50% of the last 30 calendar days.

  For financial instruments that do not have a history in the 30 days calendar available in the system, allocation of fair value level will be carried out taking into account the history available in SIVA.

- **Level 2:** Financial instruments that have not been traded on an active market or that are valued by reference to valuation techniques based on market data for financial instruments having the same or similar characteristics in accordance with the rules referred to below are considered as level 2. Level 2 fair value classification is determined automatically by SIVA in accordance with the following rules:

  a) Financial instruments are classified daily in Level 2 if they are:

  (i) Quoted by less than 6 contributors, regardless of the type of price, or;
  (ii) valued based on models using inputs which are mainly observable in the market (such as interest rate curves or exchange rates), or;
  (iii) valued based on third party indicative purchase prices, based on observable market data, and
  (iv) have been classified as level 1 and level 2, in accordance with the rules mentioned above, in at least 50% of the last 30 calendar days.

  b) For financial instruments that do not have a history in the 30 days calendar available in the system, allocation of fair value level will be carried out taking into account the history available in SIVA.

- **Level 3:** Financial instruments are classified as Level 3 when they do not meet the criteria to be classified as Level 1 or Level 2, or if their value is the result of inputs not based on observable market data, namely:

  a) financial instruments not admitted to trading on a regulated market, which are valued based on valuation models for which there is no generally accepted market consensus as to the inputs to be used, namely:

  (i) valuation based on Net Asset Value of non-harmonized funds, updated and disclosed by their managing companies;
  (ii) valuation based on indicative prices disclosed by the entities involved in the issue of certain financial instruments, without an active market; or
  (iii) valuation based on impairment tests, using indicators of the performance of the underlying operations (degree of protection by subordination of notes held, delinquency rates of the underlying assets, evolution of ratings, among others).

  b) financial instruments valued at indicative purchase prices based on theoretical models, disclosed by specialized third parties.

Automatic classification proposed by SIVA relating to the level of fair value is made on the day of measurement, being supervised by a specialized team, in order to ensure that the classification of the fair value level is considered the most appropriate, according to the principles set forth herein.

Derivative financial instruments

Financial derivative transactions in the form of foreign exchange contracts, interest rate contracts, contracts on shares or share indices, inflation contracts or a combination of these, are carried out in over-the-counter (OTC) markets and in organized markets (mainly stock exchanges). For the over-the-counter derivatives (swaps and options) the valuation is based on generally accepted methods, always giving priority to values from the market.

- **Level 1:** This category includes futures and options and other derivative financial instruments traded on regulated markets.

- **Level 2:** Level 2 includes derivatives, traded on over-the-counter markets, without an optional component.

  Valuation of these derivatives is made by discounting the cash flows of the operations, using interest rate market curves deemed appropriate for the currency concerned, prevailing at the time of calculation. The interest rates are obtained from reliable sources of information (e.g. Bloomberg or Reuters). The same interest rate curves are used in the projection of non-deterministic cash flows such as interest calculated from indices. The rates for required specific periods are determined by appropriate interpolation methods.

- **Level 3:** Level 3 includes options and derivatives traded in the over-the-counter market, with embedded optional elements.

  The valuation of options is carried out using statistical models that consider the market value of the underlying assets and their volatilities (considering that the latter are not directly observable in the market). The theoretical models used to value derivatives classified in Level 3 are of two types:

  (i) For simpler options the Black-Scholes model and their derivatives is used (commonly used models by the market in the valuation of this type of operation). The unobservable market inputs (implied volatility of the underlying assets) are collected from Bloomberg.

  (ii) For exotic options or complex derivatives incorporating optional elements for which there are no valuation models available, the Bank contracts specialized entities that perform the valuation of these operations based on specific models that they develop using criteria and methodologies generally accepted by the sector for these types of instruments. On 31 December 2018, there were no outstanding operations of this type, therefore the Bank did not use valuations prepared by these entities.

In accordance with the policy defined by the Banco BPI as regards the management of exposures in options, significant open positions are not maintained, the risk being managed mainly through "back-to back" hedges and portfolio hedges. Thus, the impact of possible changes in the inputs used in the valuation of the options, in terms of the Bank's income statement, tends to be negligible.

Valuations thus obtained are, in the case of interbank transactions, valued against those used by the counterparties and whenever there are significant differences, the models or assumptions are reviewed.

The valuation of the non-optional components, not adjusted for credit risk (cash flows from operations), is made based on discounted cash flows, using a methodology similar to that used for derivatives without an optional component. Nevertheless, the derivative instrument is classified (as a whole) in level 3.

Financial instruments recorded in the balance sheet at amortized cost

The fair value of financial instruments recorded in the balance sheet at amortized cost is determined by Banco BPI through valuation techniques.

The valuation techniques used are based on market conditions applicable to similar operations as of the date of the financial statements, such as the value of their discounted cash flows based on interest rates considered as most appropriate, namely:

- the cash flows relating to Financial assets at amortised cost - Loans and advances to Central Banks and Credit Institutions, and Financial liabilities at amortised cost - deposits from Central Banks and Credit institutions, were discounted based on interest rate curves for interbank operations on the date of the financial statements, except for medium and long term resources, the cashflows of which were discounted based on the interest rate curve used by the Bank for senior issuances;

- in operations with Customers (Financial assets at amortised cost - loans and advances to Customers and Financial liabilities at amortised cost - Customer deposits), the weighted average of the reference rates used by the Bank in the previous month to contract similar operations is considered;

- for bonds issued (Financial liabilities at amortised cost - debt securities issued), the Bank considered the reference interest rates and spreads available in the market, considering the residual maturity and degree of subordination of the issuances. For subordinated debt, the Bank used issuance proposals submitted to the Bank by other credit institutions, as the basis for the construction of subordination spread curves, also considering the senior debt curve, the Portuguese public debt curve and the evolution of the spread between the Portuguese and German public debts.

For on demand operations (namely Cash and cash balances at central banks and other demand deposits, deposits included in Financial liabilities at amortised cost) and on the balance sheet's captions Other assets and Other liabilities, fair value corresponds to the respective balance-sheet value

Note that the fair value presented for these financial instruments may not correspond to their realizable value in a sale or liquidation scenario, as it was not determined for that purpose.

The fair value of the financial assets on the balance sheet, broken down by levels, is as follows:

	31-12-2019					31-12-2018				
	Book value	Fair value				Book value	Fair value			
		Total	Level 1	Level 2	Level 3		**Total**	Level 1	Level 2	Level 3
Financial assets held for trading	**234 476**	**234 476**	**88 565**	**107 389**	**38 523**	**226 772**	**226 772**	**83 415**	**122 162**	**21 195**
Derivatives	133 198	133 198	20	107 027	26 151	131 708	131 708	712	119 162	11 834
Equity instruments	87 344	87 344	87 344			81 171	81 171	81 171		
Debt securities	13 934	13 934	1 201	362	12 372	13 893	13 893	1 532	3 000	9 361
Financial assets not designated for trading compulsorily measured at fair value through profit or loss	**206 066**	**206 066**	**1 102**	**56 414**	**148 550**	**228 582**	**228 582**			**228 582**
Equity instruments	143 221	143 221	1 102		142 119	168 594	168 594			168 594
Debt securities	62 845	62 845		56 414	6 431	59 988	59 988			59 988
Financial assets at fair value through other comprehensive income	**1 886 212**	**1 886 212**	**1 378 346**	**10 039**	**497 827**	**1 875 160**	**1 875 160**	**1 278 796**	**6 888**	**589 476**
Equity instruments	509 168	509 168	1 302	10 039	497 827	597 740	597 740	1 376	6 888	589 476
Debt securities	1 377 044	1 377 044	1 377 044			1 277 420	1 277 420	1 277 420		
Financial assets at amortised cost	**27 439 314**	**29 082 251**		**1 449 370**	**27 632 881**	**25 671 943**	**27 899 914**		**720 510**	**27 179 404**
Debt securities	4 029 677	4 142 593			4 142 593	3 516 814	3 516 513			3 516 513
Loans and advances	23 409 637	24 939 658		1 449 370	23 490 288	22 155 129	24 383 401		720 510	23 662 891
Central Banks and Credit Institutions	1 452 687	1 449 370		1 449 370		790 659	783 908		720 510	63 398
Customers	21 956 950	23 490 288			23 490 288	21 364 470	23 599 493			23 599 493
Derivatives - Hedge accounting	**30 709**	**30 709**		**30 709**		**14 320**	**14 320**		**14 320**	
Total	**29 796 777**	**31 439 714**	**1 468 012**	**1 653 921**	**28 317 781**	**28 016 777**	**30 244 748**	**1 362 211**	**863 880**	**28 018 657**

The fair value of financial liabilities on the balance sheet, broken down by levels, is as follows:

	31-12-2019					31-12-2018				
		Fair value					Fair value			
	Book value	**Total**	Level 1	Level 2	Level 3	**Book value**	**Total**	Level 1	Level 2	Level 3
Financial liabilities held for trading	**146 167**	**146 167**	**0**	**123 970**	**22 197**	**141 335**	**141 335**	**83**	**136 531**	**4 721**
Derivatives	146 167	146 167	0	123 970	22 197	141 335	141 335	83	136 531	4 721
Financial liabilities at amortised cost	**27 640 187**	**27 574 360**		**1 341 967**	**26 232 393**	**27 515 745**	**27 532 378**		**1 352 964**	**26 179 414**
Deposits	26 008 521	25 879 881		1 341 967	24 537 914	26 166 596	26 158 936		1 352 964	24 805 972
Central Banks	1 374 229	1 374 229		1 374 229		1 352 843	1 352 964		1 352 964	
Credit Institutions	1 402 879	1 404 630			1 404 630	1 853 501	1 841 891			1 841 891
Customers	23 231 413	23 243 820			23 243 820	22 960 252	22 964 081			22 964 081
Debt securities issued	1 358 699	1 421 512			1 421 512	1 118 195	1 142 488			1 142 488
Other financial liabilities	272 967	272 967			272 967	230 954	230 954			230 954
Derivatives - Hedge accounting	**72 799**	**72 799**		**72 799**		**56 010**	**56 010**		**56 010**	
Total	**27 859 153**	**27 793 326**	**0**	**1 538 735**	**26 254 590**	**27 713 090**	**27 729 723**	**83**	**1 545 506**	**26 184 134**

In order to determine whether there were significant changes in the estimated fair value of financial instruments classified in level 3 as a result of changes in one or more base parameters of the valuation model, Banco BPI made a sensitivity analysis on the estimated fair value of BFA using the Dividend Discount Method (DDM), as shown below:

Sensitivity analysis to the valuation of BFA (DDM)

	Baseline scenario	Sensitivity scenario (Cost of capital)		Sensitivity scenario (Objective capital ratio)		Sensitivity scenario (Change in AKZ/USD exchange rate between 01-01-2020 and 31-12-2023)	
(in million euros)		+1p.p.	-1p.p.	+1p.p.	-1p.p.	-20%	+20%
Estimated value for 48.1% of BFA	**414**	400	429	401	426	360	467
Change versus baseline scenario		-14	15	-12	12	-54	54

The valuation of BFA as at 31 December 2019 was not affected by the events and news subsequent to this date.

The main valuation techniques, assumptions and inputs used in fair value estimation for levels 2 and 3 by type of financial instruments are as follows:

Valuation methodologies and inputs

		Instrument type	Valuation method	Main assumptions
Financial assets and liabilities held for trading	Derivatives [1]	Swaps	Discounted cash flow method [2]	Interest rate curves
		Exchange rate options	Black-Scholes model	Implicit volatilities
		Interest rate options	Normal method	Probability of default for calculation of CVA and DVA
	Debt securities		Discounted cash flow method [2]	Interest rate curves Risk premiums Comparable assets[3] Prices observed on the market
Financial assets not designated for trading compulsorily measured at fair value through profit or loss	Equity instruments Debt securities		Discounted cash flow method [2]	Interest rate curves Risk premiums Comparable assets[3] Prices observed on the market
Financial assets at fair value through other comprehensive income	Equity instruments Debt securities		Discounted cash flow method [2]	Interest rate curves Risk premiums Comparable assets[3] Net asset value (NAV) Nominal Amount
Financial assets at amortised cost	Debt securities Loans and receivables		Discounted cash flow method [2]	Interest rate curves Spreads
Derivatives - Hedge accounting	Swaps[1]		Discounted cash flow method [2]	Interest rate curves Implicit volatilities Probability of default for calculation of CVA and DVA
Financial liabilities at amortised cost	Term deposits Debt securities issued		Discounted cash flow method [2]	Interest rate curves Spreads

[1] The valuation of derivatives is adjusted to consider the counterparty credit risk when the exposure lies with the Bank, and the Bank's credit risk when the exposure lies with the counterparty (CVA - Credit Valuation Adjustment and DVA - Debit Valuation Adjustment).
[2] Discounted cash flow method (net present value): this model uses the cash flows of each instrument, which are established in the different contracts, and discounts them to calculate the present value.
[3] Comparable assets (similar asset prices): comparable financial instrument prices, or market benchmark indices are employed to calculate return from purchase price to current valuation, making subsequent adjustments to take into account the differences between the measured asset and the one taken as reference. It can also be assumed that the price of an instrument is equivalent to the price of another instrument.

Credit Risk Valuation Adjustments

Credit Valuation Adjustments (CVA) and Debit Valuation Adjustment (DVA) are incorporated in the valuation of over-the-counter (OTC) derivatives due to the risk associated to the counterparty's and own credit risk exposure, respectively.

The CVA is calculated bearing in mind the expected exposure with each counterparty in each future maturity. The CVA for an individual counterparty is equal to the sum of the CVA for all maturities. Adjustments are calculated by estimating the counterparty's exposure at default (EAD), probability of default (PD) and loss given default (LGD) for all derivatives traded under the same contract with Banco BPI with close-out netting (under the same netting set). Similarly, DVA is calculated by multiplying the expected negative exposure by the probability of default and by the LGD of Banco BPI.

To calculate PD and LGD, counterparty credit market data are used (Credit Default Swaps), when such information is available. Where such information is not available, PD and LGD are calibrated through market data, using for the purpose the counterparty's rating and sector, or historical PD data.

Changes in the value of the CVA/FVA and DVA/FVA adjustments are recognised in “Gains/(losses) on financial assets and liabilities held for trading” in the income statement. The table below shows the changes to these adjustments:

CVA/FVA and DVA/FVA changes

	2019		2018	
	CVA/FVA	DVA/FVA	CVA/FVA	DVA/FVA
Opening balance	**15 640**	**133**	**22 825**	**1**
Additions/changes in derivatives	(1 524)	378	(5 576)	133
Cancellation or maturity of derivatives	(170)	(1)	(1 609)	(1)
Closing balance	**13 946**	**510**	**15 640**	**133**

The values of CVA and DVA are reflected on the balance sheet (Note 10).

The movement in level 3 financial assets at fair value and financial liabilities held for trading, in 2019 and 2018, was as follows:

	31-12-2019					31-12-2018				
	Financial assets and liabilities held for trading		Financial assets not designated for trading compulsorily measured at fair value through profit or loss		Financial assets at fair value through other comprehensive income	Financial assets and liabilities held for trading		Financial assets not designated for trading compulsorily measured at fair value through profit or loss		Financial assets at fair value through other comprehensive income
	Debt securities	Trading derivatives[1]	Equity instruments	Debt securities	Equity instruments	Debt securities	Trading derivatives[1]	Equity instruments	Debt securities	Equity instruments
Balance at beginning of period	**9 361**	**7 113**	**168 594**	**59 988**	**589 476**	**12 184**	**4 734**	**243 048**	**54 983**	**74 673**
Total profit or loss	402	(1 961)	(12 253)	25	(92 504)	(137)		117 183	(1 814)	(18 235)
Losses or gains	402	(3 159)	(12 253)	25		(3)	34 136	115 889	(867)	(13 683)
Adjustments to equity		1 198			(92 504)	(134)		1 294	(947)	(4 552)
Purchases	2 608		3 134	101	1 705	2 870		21 577	6 982	16 841
Reclassifications to/from Level 3										
Liquidations and other		(1 198)	(17 356)	(53 682)	(850)	(5 556)	(31 757)	(213 214)	(163)	516 197
Balance at end of period	**12 372**	**3 954**	**142 119**	**6 431**	**497 827**	**9 361**	**7 113**	**168 594**	**59 988**	**589 476**

[1] Net value

40.2. Fair value of assets received in settlement of defaulting loans

The detail of this heading is as follows:

	31-12-2019	31-12-2018
Gross value	24 866	51 605
Impairments	10 339	18 879
Book value	14 527	32 726
Fair value	23 830	52 341

External Evaluation Companies

In 2019 the companies that appraised the properties allocated were the following:

Company	% of total assets allocated that were appraised
CPU - Consultores, Valores Hipotecários, LDA	1.2%
ESTILOVALOR - Engenharia e Avaliação Imobiliária, LDA	17.6%
EUROVALOR - Sociedade Geral Imobiliária LDA	0.8%
EUROVALOR MADEIRA - Engenharia e Consultoria Imobiliária, LDA	0.4%
J.CURVELO, LDA	1.0%
MENCOVAZ - Consultoria Imobiliária e Avaliação, LDA	28.5%
PVW – Price Value and Worth, Lda.	13.5%
QUANTIMO - Projetos de Engenharia e Avaliações de Imóveis LDA	14.9%
TERRAVAL - Avaliação e Consultadoria Imobiliária, LDA	8.0%
TINSA PORTUGAL - Avaliações e Consultoria, S.A	13.1%
VALTECSA - Sociedade de Avaliação de Bens, Lda	1.0%
	100.0%

41. RELATED PARTIES

In accordance with IAS 24, the entities considered to be related to Banco BPI are:

- those in which the Bank has direct or indirect significant influence over their management and financial policies Associated companies and jointly controlled entities and pension funds;
- those that have direct or indirect significant influence over the management and financial policies of the Bank - Shareholders, this is presumed to happen when the equity holding is greater than 20%;
- the members of the key management personnel of Banco BPI, such being considered for this purpose the executive and nonexecutive members of the Board of Directors and individual persons and companies related with them.

In accordance with these criteria, BPI's related parties at 31 December 2019, were the following

Name of related entity	Registered office	Effective holding	Direct holding
Shareholders of Banco BPI			
CaixaBank Group	Spain	100.0%	
Associated and jointly controlled entities of Banco BPI			
Banco Comercial e de Investimentos, S.A.	Mozambique	35.7%	35.7%
Companhia de Seguros Allianz Portugal, SA	Portugal	35.0%	35.0%
Cosec - Companhia de Seguros de Crédito, SA	Portugal	50.0%	50.0%
Inter-Risco – Sociedade de Capital de Risco, S.A.	Portugal	49.0%	49.0%
Unicre - Instituição Financeira de Crédito, SA	Portugal	21.0%	21.0%
Pension Funds of BPI Employees			
Fundo de Pensões Banco BPI	Portugal	100.0%	
Fundo de Pensões Aberto BPI Acções	Portugal	7.3%	
Fundo de Pensões Aberto BPI Valorização	Portugal	37.2%	
Fundo de Pensões Aberto BPI Segurança	Portugal	20.2%	
Fundo de Pensões Aberto BPI Garantia	Portugal	7.5%	
Members of the Board of Directors of Banco BPI			
Fernando Ulrich			
Pablo Forero			
António Lobo Xavier			
Alexandre Lucena e Vale			
António Farinha Morais			
António José Cabral			
Cristina Rios Amorim			
Fátima Barros			
Francisco Barbeira			
Gonzalo Gortázar Rotaeche			
Ignacio Alvarez-Rendueles			
Javier Pano Riera			
João Pedro Oliveira e Costa			
José Pena do Amaral			
Lluís Vendrell			
Natividad Capella			
Pedro Barreto			
Tomás Jervell			

In accordance with these criteria, BPI's related parties at 31 December 2018, were the following:

Name of related entity	Registered office	Effective holding	Direct holding
Shareholders of Banco BPI			
CaixaBank Group	Spain	100.0%	
Associated and jointly controlled entities of Banco BPI			
Banco Comercial e de Investimentos, S.A.	Mozambique	35.7%	35.7%
Companhia de Seguros Allianz Portugal, SA	Portugal	35.0%	35.0%
Cosec - Companhia de Seguros de Crédito, SA	Portugal	50.0%	50.0%
Inter-Risco – Sociedade de Capital de Risco, S.A.	Portugal	49.0%	
Unicre - Instituição Financeira de Crédito, SA	Portugal	21.0%	21.0%
Pension Funds of BPI Employees			
Fundo de Pensões Banco BPI	Portugal	100.0%	
Fundo de Pensões Aberto BPI Acções	Portugal	7.8%	
Fundo de Pensões Aberto BPI Valorização	Portugal	38.1%	
Fundo de Pensões Aberto BPI Segurança	Portugal	20.1%	
Fundo de Pensões Aberto BPI Garantia	Portugal	8.2%	
Members of the Board of Directors of Banco BPI			
Fernando Ulrich			
Pablo Forero			
António Lobo Xavier			
Alexandre Lucena e Vale			
António Farinha Morais			
António José Cabral			
Cristina Rios Amorim			
Fátima Barros			
Francisco Barbeira			
Gonzalo Gortázar Rotaeche			
Ignacio Alvarez-Rendueles			
Javier Pano Riera			
João Pedro Oliveira e Costa			
José Pena do Amaral			
Lluís Vendrell			
Natividad Capella			
Pedro Barreto			
Tomás Jervell			

At 31 December 2019 the total amount of assets, liabilities, results, capital and off-balance sheet commitments relating to transactions with associated and jointly controlled companies, pension funds of BPI Employees, Shareholders of Banco BPI, members of the Board of Directors and companies in which these hold significant influence were broken down as follows:

	Shareholders of Banco BPI CaixaBank Group [1]	Associated and jointly controlled entities	Pension Funds of BPI Employees	Members of the Board of Directors of Banco BPI	Companies in which the Members of the Board of Directors of Banco BPI have significant influence [2]
Assets					
Cash and cash balances at central banks and other demand deposits	2 173				229
Financial assets held for trading	18 938				
Financial assets not designated for trading compulsorily measured at fair value through profit or loss - Equity instruments	1 102				62 525
Financial assets at fair value through other comprehensive income - equity instruments	648				
Financial assets at amortised cost					
Debt securities					103 750
Loans and advances - central banks and other credit institutions	16 738	28 425			
Loans and advances - Customers	151 635			2 688	44 929
Derivatives - Hedge accounting	7 424				
Tangible assets	229				
Intangible assets	11 486				
Other assets	16 093	27 869			
	226 466	**56 294**		**2 688**	**211 433**
Liabilities					
Financial liabilities held for trading	18 424				
Financial liabilities at amortised cost					
Deposits - Customers	198 499	30 208	38 830	8 187	16 145
Deposits - Credit Institutions	10 156	395			22
Debt securities issued	304 440				
Other financial liabilities	9	(16)		24	
Derivatives - Hedge accounting	2				
Fair value changes of the hedged items in portfolio hedge of interest rate risk	33				
Provisions - Commitments and guarantees given					22
Other liabilities	1 695				
	533 258	**30 587**	**38 830**	**8 211**	**16 189**
Capital					
Equity instruments issued other than capital	275000				
Other reserves	(5 114)				
	269 886				
Results					
Net interest income	927	54	(118)	(4)	482
Dividend income	80				1 573
Fee and commission income	43 759	52 948	10	4	201
Fee and commission expenses	(3 212)	(38)			
Gains/(losses) on financial assets and liabilities held for trading, net	(894)				
Gains/(losses) on derecognition of financial assets not measured at fair value through profit or loss, net	36				
Gains/(losses) from hedge accounting, net	1 454				
Other operating income and expenses	15 272				(600)
Administrative expenses - Other administrative expenses	(19 932)	(973)	(12 771)		
Depreciation	(5 449)				
Provisions or reversal of provisions - Commitments and guarantees given					(21)
Impairment/(reversal) of impairment losses on financial assets not measured at fair value through profit or loss	(11)			7	(70)
Profit/(loss) from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	460				
	32 490	**51 991**	**(12 879)**	**7**	**1 565**
Off-balance sheet					
Guarantees given and other contingent liabilities					
Guarantees and sureties	341	12 109	60	3	27 413
Guarantees received				90	2 331
Commitments to third parties					
Revocable commitments	69 611	1 188		36	34 618
Irrevocable commitments					29 375
Liabilities for services provided					
Deposit and safekeeping of valuables	5 927 038	1 132 668	1 452 903	2 322	132 685
Other	33 652				18 750
Foreign exchange transactions and derivative instruments					
Purchase	2 096 158				
Sale	(1 667 914)				
	6 458 886	**1 145 965**	**1 452 963**	**2 451**	**245 172**

[1] Includes the CaixaBank Group and the companies which it controls.

[2] Includes the companies in which the Members of the Board of Directors have significant influence, not included in other categories.

At 31 December 2018, the total amount of assets, liabilities, results, capital and off-balance sheet commitments relating to transactions with associated and jointly controlled companies, pension funds of BPI Employees, Shareholders of Banco BPI, members of the Board of Directors and companies in which these hold significant influence were broken down as follows:

	Shareholders of Banco BPI CaixaBank Group [1]	Associated and jointly controlled entities	Pension Funds of BPI Employees	Members of the Board of Directors of Banco BPI	Companies in which the Members of the Board of Directors of Banco BPI have significant influence[2]
Assets					
Cash and cash balances at central banks and other demand deposits	7 941				
Financial assets held for trading	3 547				
Financial assets at fair value through other comprehensive income - equity instruments	618				50 000
Financial assets at amortised cost					
Debt securities					55 000
Loans and advances - central banks and other credit institutions	94	24 714			
Loans and advances - Customers	200 661			7 319	50 756
Derivatives - Hedge accounting	3 312				
Tangible assets	167				
Intangible assets	12 728				
Other assets	18 699	24 436			
	247 767	**49 150**		**7 319**	**155 756**
Liabilities					
Financial liabilities held for trading	1 421				
Financial liabilities at amortised cost					
Deposits - Customers	623 990	19 855	90 690	6 604	22 606
Deposits - Credit Institutions	14 485	1 272			
Debt securities issued	304 514				
Other financial liabilities	3	97		24	
Fair value changes of the hedged items in portfolio hedge of interest rate risk	86				
Provisions - Commitments and guarantees given					1
	944 499	**21 224**	**90 690**	**6 628**	**22 607**
Capital					
Fair value changes of equity instruments measured at fair value through other comprehensive income	(188)				
	(188)				
Results [3]					
Net interest income	(6 163)	(4 809)	(510)	(4)	490
Dividend income	13				1 116
Fee and commission income	41 552	51 914	334	3	2
Gains/(losses) from hedge accounting, net	179				
Other operating income	6 543				
Administrative expenses - other administrative expenses	(1 600)	(882)	(15 098)		
Depreciation and amortisation	(2 058)				
Provisions or reversal of provisions - Commitments and guarantees given		21			83
Impairment/(reversal) of impairment losses on financial assets not measured at fair value through profit or loss	2			17	290
Gains/(losses) on derecognition of non-financial assets, net	98 842				
Profit/(loss) from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	460				
Profit/(loss) before tax from discontinued operations	61 755				
	199 525	**46 244**	**(15 274)**	**16**	**1 981**
Off-balance sheet					
Guarantees given and other contingent liabilities					
Guarantees and sureties	341	11 870	60	3	3 509
Guarantees received				2 298	1 783
Commitments to third parties					
Revocable commitments	225	5 000		53	27 558
Irrevocable commitments					10 000
Liabilities for services provided					
Deposit and safekeeping of valuables	5 817 006	1 114 160	1 598 194	6 754	38 584
Other					2 500
Foreign exchange transactions and derivative instruments					
Purchase	997 170				
Sale	(751 779)				
Written-off loans					200
	6 062 963	**1 131 030**	**1 598 254**	**9 108**	**84 134**

[1] Includes the CaixaBank Group and the companies which it controls.
[2] Includes the companies in which the Members of the Board of Directors have significant influence, not included in other categories.
[3] Includes the results of operations with BFA since the reclassification of this equity holding from associate to financial assets at fair value through other comprehensive income - equity instruments only occurred at the end of 2018 (Note 2.1).

Operations with CaixaBank Group companies are part of the Bank's regular business activity and are carried out on arm's length terms. The most significant operations carried out in 2019 and 2018 (included in this note) are the following:

- In September 2019 Banco BPI issued undated deeply subordinated notes - Additional Tier 1 (AT1) capital instruments for a nominal amount of 275 million euros. The issue, whose conditions are described in Note 24, was fully subscribed by CaixaBank, S.A. The value of this operation is recognised in the caption "Equity instruments issued, except for share capital", and its remuneration is recognised under "Other reserves (Note 24).

- The sale operations of businesses and equity holdings to Caixabank agreed in the last quarter of 2017 were concluded in 2018. Given that these transactions constitute related party transactions, the corresponding resolutions taken by the Board of Directors required a previous analysis and opinion issued by a Board of Directors committee composed of non-executive members of the Board of Directors and by the Supervisory Board.

  The sale of the legal positions in the merchant acquiring business to Comercia Global Payments, Entidad de Pago, S.L., in August 2018, generated a gain of 57 788 t.euros, and the sale of the cards business to Caixabank Payments E.F.C. E.P., S.A., in November 2018 generated a gain of 41 054 t.euros. In 2018, these gains were included in the caption Gains/(losses) with derecognition of nonfinancial assets, net (Note 36).

  The gains on the sale of BPI Gestao de Activos and BPI GIF to CaixaBank Group totalled 61 755 t.euros and, in 2018, were included in the caption profit/(loss) before tax from discontinued operations (Note 38).

- In 2018 Banco BPI approved a loan on current account to Caixabank Payments E.F.C. E.P., S.A. up to the amount of 200 000 t.euros at an interest rate equivalent to the 12-month EURIBOR + 0.99%.
  In July 2019 a new agreement was entered into that changed the loan on current account to a contracted overdraft, with a commitment fee of 0.40% and interest rate at the 12-month Euribor + 0.80%. In December 2019 the ceiling on the contracted overdraft was changed to 175 000 t.euros. At 31 December 2019 and 2018 the amount of this transaction was 138 337 t.euros and 200 341 t.euros, respectively, being recognised under the caption "loans and advances - Customers". At 31 December 2019 the unused amount of the credit amounted to 36 707 t.euros and was recognised in the off-balance sheet caption "revocable commitments".

- In March 2017 Banco BPI made a 300 000 t.euros issue of subordinated bonds, at a rate equivalent to the 6-months EURIBOR + 5.74%, that was fully subscribed by CaixaBank. This operation is recognised in the caption Financial liabilities at amortised cost – debt securities issued, and at 31 December 2019 and 2018 amounts to 304 440 t.euros and 304 514 t.euros respectively. (Note 20).

The fees charged by the Bank for guarantees provided to related entities vary between 0% and 4% and are recognised in the caption "Fee and commission income".

For compliance with article 477 of the Portuguese Commercial Code, it is hereby informed that at 31 December 2019 the members of the Board of Directors held no Banco BPI shares or share options.

42. SUBSEQUENT EVENTS

On 6 March Banco BPI made an issue of senior non-preferred debt in the amount of 450 million euros, maturing in March 2025. This issue, which was fully subscribed by CaixaBank, S.A. aimed at reinforcing eligible liabilities for compliance with the forthcoming MREL requirement (Minimum Requirement for own funds and Eligible Liabilities). The issue has a yield equivalent to the 5-year swap rate plus a spread of 130 basis points.

The global expansion of the COVID-19 coronavirus has generated an unprecedented sanitary crisis. This event has a significant impact on economic activity and consequently may affect the Bank's financial situation. The magnitude of the impacts will depend on future developments, which cannot be reliably predicted, including the effect of measures to contain or treat the disease and mitigate its impact on the economies of the affected countries, as well as on the social and economic support policies that are being adopted by the governments of the affected countries, among others. Banco BPI has contingency and business continuity plans for crisis situations.

43. NOTE ADDED FOR TRANSLATION

These consolidated financial statements are a translation of financial statements originally issued in Portuguese in conformity with the International Financial Reporting Standards (IFRS) as endorsed by the European Union, some of which may not conform to or be required by generally accepted accounting principles in other countries. In the event of discrepancies, the Portuguese language version prevails.

(Free translation from a report originally issued in Portuguese language. In case of doubt, the Portuguese version will always prevail)

Statutory Audit Report and Auditors' Report

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of Banco BPI S.A. ("Group", "Banco BPI" or "Bank"), which comprise the consolidated balance sheet as at December 31, 2019 (which shows total assets of Euros 31.811.552 thousand and total shareholders' equity of Euros 3.436.137 thousand including a net profit of Euros 327.854 thousand), the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly in all material respects, the consolidated financial position of Banco BPI, S.A. as at December 31, 2019, and its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Our responsibilities under those standards are described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section below. In accordance with the law we are independent of the entities that are included in the Group and we have fulfilled our other ethical responsibilities in accordance with the ethics code of the Institute of Statutory Auditors.

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

Emphasis

We draw attention to the information disclosed in note 42 of the accompanying explanatory notes to the financial statements, related to the possible impacts of the pandemic caused by COVID-19 in the economy and, consequently, on the Bank's future activity.

Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	*Summary of the Audit Approach*
Impairment losses on financial assets at amortized cost – Loans and Advances to Customers	
Measurement and disclosures related to impairment losses on loans and advances to customers presented in notes 2.7, 13.2 and 34 attached to the consolidated financial statements of the Bank	
The constitution of this key matter for the purposes of our audit is justified by the significant expression of financial assets at amortized cost and impairment losses. This process requires a set of complex assumptions and judgments from the Bank's management in relation to the identification of clients with a significant increase in credit risk or in default, as well as the determination of impairment losses amount. As at December 31, 2019, the gross amount of loans and advances to customers amounted to Euros 22.347.267 thousand and the corresponding impairment losses recognized at that date amounted to Euros 390.317 thousand. Impairment losses on loans and advances to customers are determined by management on an individual basis, through a case-by-case analysis of a significant component of the total impairment losses of the loans portfolio, and for the remaining portfolio impairment is determined through a collective analysis. For the most significant exposures, evaluated in terms of the total amount of responsibilities to the Bank and the possible existence of signs of default, the Bank performs an individual staging analysis ("ISA"), in order to corroborate the indicative allocation of automatic stage (stages 1, 2 and 3), and an individual impairment measurement analysis ("IIA"). The individual impairment analysis is only performed for exposures classified as stage 3, in which the amount of impairment is determined	The audit procedures developed included the identification, understanding and evaluation of policies and procedures established by the Bank for the impairment losses on the loans and advances to customers portfolio determination process as well as the key controls related to the approval, recording and monitoring of credit risk and to the timely identification, measurement and recording of impairment losses. On a sample basis, we have analysed a group of clients within the Bank's individual analysis perimeter, based on the criteria defined in internal normative, with the objective of: (i) reviewing the conclusions and results obtained by the Bank in the individual staging analysis and in the individual impairment measurement analysis; (ii) obtain our own judgment over the existence of situations of significant increase in credit risk and default; and (iii) assess how the impairment losses were timely identified, measured and recognized by management. In this process, it was also confirmed that the perimeter of individual analysis included all the exposures that met the criteria defined by the Bank in its methodology. For a sample of exposures representative of the credit population subject to individual analysis classified in stage 3 by the Bank as of December 31, 2019, the procedures we have developed consisted of: (i) reviewing the available documentation on credit processes; (ii) verify the adequacy of the cash flows used to determine impairment with those reflected in the contractual support; (iii) analysing the contractual

through a detailed analysis of the economic and financial position of each individual customer, having as reference (i) the estimated cash flows that may be generated in the future for the fulfilment of their responsibilities – “going” approach; or (ii) the evaluation attributed to the collateral received in the scope of the loan granted, whenever the recovery is anticipated through the lieu, foreclosure and/or sale of the collateral, less the costs inherent to its recovery and sale – “gone” approach.

For exposures not covered by the individual analysis, the Bank developed collective analysis models to determine expected impairment losses, in light of the requirements of IFRS 9, which include namely the classification of exposures in different stages according to the evolution of their credit risk since the date of its recognition, and not according to the credit risk at the reporting date (stages 1, 2 or 3). These internal models are based on the internal historical information of defaults and recoveries. In order to be representative of the current economic context and simultaneously to incorporate a perspective of future economic evolution, these models use available forward looking prospective information such as (i) the expected GDP growth rate; (ii) the expected unemployment rate; (iii) the evolution of Euribor; and / or (iv) the prospects for the real estate market. Taking into account these macroeconomic data, potential scenarios are developed that allow estimating the expected loss in each segment based on a probability of occurrence.

In this context, changes in the assumptions or methodologies used by the Bank in the analysis and in the quantification of impairment losses of loans and advances to customers, as well as different recovery strategies, may condition the estimation of recovery flows and timing of their receipt and may have a material impact on the impairment losses amount recognized in each moment.

support and the most relevant collaterals and confirming the registration of them in favour of the Bank; (iv) analysing the available appraisals of collaterals ; (v) to examine the criteria for determining the significant increase in credit risk (stage 2) and classification under impairment (stage 3) on an individual basis; (vi) review the incorporation of forward looking information; (vii) analysing the discounted cash flows underlying the impairment determination; (viii) assessing the evolution of exposures; and (ix) understanding the views of the Bank's responsible regarding the economic and financial situation of the clients, as to the predictability of expected cash flows of the respective businesses, as well as the prospects of collectability of credits.

Whenever we concluded for the need to review some assumption used by management, we recalculated the estimated amount of impairment and compared the results obtained with those calculated by the Bank, in order to assess the existence of possible material significant divergences.

For the portfolio whose impairment is assessed through the collective model, we developed a set of specific procedures with the objective of evaluating how the assumptions considered by management include the risk variables by comparison to the historical performance and recoveries of the Bank's loan portfolio. We have performed namely the following: (i) review of the methodological documentation for the development and validation of the models; (ii) analysis of the documentation regarding the risk parameters backtesting exercise; (iii) review and testing of portfolio segmentation; (iv) analysis of the Bank's definition of default and the criteria applied in the classification of staging, on a sample basis; (v) review and testing of the main risk parameters; (vi) critical analysis of the main assumptions and sources of information used in the future recoveries incorporated in the LGD (Loss Given Default), including the test of historical recoveries incorporated in this calculation, on a sampling basis; and (vii) recalculation of Expected Credit Loss (ECL) for the loan portfolio, with reference to December 31, 2019.

Our audit procedures included the review of the disclosures regarding loans and advances to customers, as well as their respective impairment losses, presented on the Bank’s accompanying notes to the consolidated financial statements, considering the applicable accounting standards.

Recoverability of deferred tax assets

Measurement and disclosures related to deferred tax assets presented in notes 2.13 and 25.3 attached to the consolidated financial statements of the Bank

In the Bank's balance sheet as of December 31, 2019, the deferred tax assets amounted to Euros 262.730 thousand, of which the recoverability of Euros 153.513 thousand depends on the ability to generate future taxable income (deferred tax assets not eligible under the special regime applicable to deferred taxes, approved by Law no. 61/2014 of August, 26), namely: (i) Euros 54.258 thousand related to the impairment losses for loans and guarantees; (ii) Euros 24.324 thousand related to other taxed impairment losses and provisions; (iii) Euros 54.534 thousand related to employee benefits and; (iv) Euros 20.397 thousand related to reportable tax losses related to the individual activity of Banco BPI, mostly originated in 2014 and 2016.

According to ISA 12 – Income Taxes, the recognition of deferred tax assets assumes the existence of future taxable profits to allow its recoverability.

Management performed the analysis of the recoverability of the deferred tax assets based on Bank's business plan for the period from 2020 to 2022. This estimate required the application by management of a set of judgments, namely: (i) estimation of future taxable income, depending on the Bank's future strategy and the markets in which it operates; (ii) long-term growth rates; (iii) investments' rates of return; and (iv) discount rates.

Any changes in the assumptions used in the estimation of future results or in the interpretation of tax legislation may have relevant impacts on the recoverability of deferred tax assets recognized in the Bank's consolidated financial statements as of December 31, 2019. As a result, for the purposes of our audit this was considered as a key matter.

The audit procedures developed included the identification and understanding of key controls established by the Bank. Those controls relate to (i) the analysis of the recoverability of deferred tax assets recognized in the consolidated financial statements and (ii) identification of the main assumptions considered by the management to estimate the generation of future taxable profits that allow the recovery of deferred tax assets recognized in the balance sheet.

We performed an understanding and analysis of the main assumptions considered relevant to the elaboration of the projections, in order to assess the recoverability of the deferred tax assets recognized on the Bank's consolidated financial statements at December 31, 2019.

The reasonableness of the projections used was also analyzed based on pre-tax results presented in previous years, the future taxable income in the Bank's projections for 2020-2022, future prospects presented by the Board of Directors at those dates and other available information on this matter.

Our audit procedures have also included a review of disclosures related to the deferred tax assets in the accompanying notes to the Bank's consolidated financial statements, taking into account applicable and current accounting standards.

Fair value of financial instruments not listed in an active market – level 3 of the fair value hierarchy

Measurement and disclosures related to the fair value of financial instruments not listed in an active market, classified as level 3 of the fair value hierarchy and presented in the notes 40.1 attached to the consolidated financial statements.

Due to its relevance on the Bank's consolidated financial statements context and its degree of judgement, the assessment of the fair value of financial instruments not listed in an active market was considered a key matter in our audit. As of December 31, 2019, the balance sheet's asset value of such financial instruments amounted to Euros 889.451 thousand and the balance sheet's liability value amounted to Euros 218.966 thousand, from which Euros 684.900 thousand and Euros 22.197 thousand, respectively, are valued based on valuation techniques that use variables which are not observable on the market and, therefore, are classified on the level 3 of the fair value hierarchy.

For the financial instruments classified as level 3 of the fair value hierarchy, and when observable market data is not available, the Bank determines the fair value of such instruments trough estimates, namely trough the usage of valuation models based on discounted cashflows techniques, which comprehend a high level of judgement in the definition of assumptions and inputs to be used.

As of December 31, 2019, the financial instruments not listed in an active market and classified as level 3 of the fair value hierarchy are composed by (i) debt securities with either a "hold to collect and sale" or trading business models, (ii) derivatives classified as trading or hedging derivatives, (iii) equity instruments; and (iv) assets and liabilities subject to fair value changes due to the recognition of accounting hedges, namely the customers' loans and deposits portfolio and other responsibilities represented by securities accounted at amortized cost. From the mentioned assets, the investment on Banco de Fomento Angola, S.A. stands out, classified as a "financial assets at fair value through other comprehensive income – equity instruments" and its fair value, determined with the dividend discount methodology, amounted for Euros 413.474 thousand, at December 31, 2019.

Our audit procedures included the identification and comprehension of the key controls underlying the fair value assessment methodologies, implemented by the Bank.

For a sample of financial instruments whose measurement consisted substantially on non-observable data, our procedures included a reasonableness evaluation whether the models developed by the Bank and the data and assumptions used are reasonable in the circumstances, by comparing the observed data with market information collected from external and independent sources, when available.

Our audit procedures also included the review of the disclosures regarding financial instruments not listed in an active market presented on the notes attached to the consolidated financial statements, taking into account the applicable accounting standards.

In this context, any change in the assumptions and measurement techniques used by the management may have material impacts on the assessment of financial instruments' fair value recognized on the consolidated Bank's financial statements.

Employees post-employment benefits

Measurement and disclosures related to employees' post-employment benefits presented in notes 2.11, 22, 23 and 32 attached to the Bank's consolidated financial statements

As of December 31, 2019, the liabilities resulting from past services of the Group in relation to its pensioners, employees and directors amounted to Euros 1.862.164 thousand, mainly covering retirement and survivors' pensions, disability, health care and death benefit , in particular those forseen in the Collective Bargaining Agreement ("Acordo Coletivo de Trabalho") for the banking sector.

These liabilities are estimated based on actuarial valuations performed by an actuary certified by the Insurance and Pension Funds Supervisory Authority ("ASF"). These valuations incorporate a set of financial and actuarial assumptions, such as the discount rate, inflation rate, mortality and disability tables, pension and wages growth rates, among others, defined by management and adjusted to the characteristics of the benefits and to the population of administrators, employees and pensioners, and to the current and future behaviour of these variables.

In the specific case of the discount rate used in the actuarial studies, it is determined based on the market rates for high-quality entities in terms of credit risk, denominated in the currency in which the benefits will be paid (euros) and with a similar maturity to the duration of the payment of the plan's benefits.

In this context, future changes in the assumed financial and actuarial assumptions may give rise to material impacts on the net liabilities as well as on the assets held to meet these liabilities. This subject was considered a key matter for the purposes of our audit.

The audit procedures developed included the identification and understanding of the key controls instituted by the Bank to ensure that the information collected and provided to the independent actuary is correct and complete to calculate the plan's liabilities and funding needs, as well as the adequacy of the fund's assets fair value estimation process.

The audit work included meetings with the management and the independent actuary in order to identify the methodologies and options considered in the definition of the main financial and actuarial assumptions adopted. Given the relevance of the judgments required from management, we proceeded to evaluate the reasonableness of the main assumptions, comparing them with the data that, independently, we were able to obtain.

A compliance review was performed on: (i) the employee historical information used for the purpose of calculating responsibilities; (ii) the accounting recognition of plan cuts or liquidations, of costs related to past services and of other changes in assumptions and estimates that occurred during the year; and (iii) the fair value of the fund's assets, calculating it independently, whenever possible, for a sample of assets.

Finally, we have developed a detailed analysis of the actuarial study prepared with reference to December 31, 2019, based on the results of the procedures mentioned above.

The audit procedures included the review of the disclosures on the post-employment benefits of directors, employees and pensioners in the notes to the consolidated financial statements of the Bank,

	taking into account applicable and current accounting standards.
Contingent Liabilities *Measurement and disclosures related to contingent liabilities presented in notes 2.19 and 21.3 attached to the Bank's consolidated financial statements* From the contingent liabilities disclosed in note 21.3 attached to the Bank's consolidated financial statements as of December 31, 2019, we would like to highlight the following ones: *Resolution Fund* The resolution measures applied in 2014 to Banco Espírito Santo, S.A. – process that originated the creation of Novo Banco S.A. ("Novo Banco") - and in 2015 to Banif – Banco Internacional do Funchal, S.A. ("Banif) created uncertainty regarding the eventual lack of the Resolution Fund's resources to ensure the fulfilment of its responsibilities, particularly the short-term redemption of the loans contracted to meet this purpose. Those uncertainties have highlighted a greater significance underlying the assumed responsibilities and contingent liabilities, namely: (i) of the effects of the application of the principle that any creditor of the financial institution under resolution can assume a loss higher than the one it would assume if such institution went into liquidation; (ii) of the legal proceedings initiated against the Resolution Fund; (iii) of the negative impacts of responsibilities or additional contingencies to Novo Banco and Banif, resulting from the resolution process, that must be neutralised by the Resolution Fund and (iv) of the contingent capitalisation mechanism related to the Novo Banco's sale process to Lone Star, under the terms in which the Resolution Fund, as a Novo Banco's shareholder, may be called to perform capital injections, if certain conditions regarding to the performance of a group of Novo Banco's assets and the evolution of its capitalisation levels are verified. *Competition Authority* In 2012, the Competition Authority initiated an administrative infraction proceeding against a group of banks, including Banco BPI, due to alleged competition restrictive practices. On September 9 2019, the Competition Authority notified the banks of its decision, in which it is decided for their conviction, resulting in a penalty attributed to Banco BPI of Euros 30 million. The Bank considers that it did not commit	The audit procedures developed for this matter included the identification and understanding of the processes and key controls implemented by the Bank, regarding the identification and monitorization of the contingent liabilities. Given the relevance and complexity of the judgements required to management, we performed in our audit, among others, the following procedures regarding the Resolution Fund: (i) monitorization of the most important changes on the Resolution Fund's simplified cash flow projections model presented by the Bank when the renegotiation of the granted loans took place, based on the contractual conditions agreed between the Banks and the Resolution Fund; (ii) appreciation of the relevant public communications regarding the responsibilities and contingent liabilities assumed by the Resolution Fund and/or Portuguese State; (iii) analysis of the evolution of the Bank's exposures with the Resolution Fund; and (iv) understanding of the perception Bank's responsible bodies regarding the Resolution Fund's financial and economic situation and the predictability of the expected cashflows of its regular revenue. We also analyzed the available information regarding the developments on these matters that occurred as from December 31, 2019. Our audit procedures also included the review of the disclosures regarding contingent liabilities, presented on the Bank's attached notes to the consolidated financial statements, taking into account the applicable accounting standards.

this infringement, having appealed against the aforementioned decision to the Competition, Regulation and Supervision Court on October 23, 2019.

The consolidated financial statements as of December 31, 2019 reflect the expectation of management that special contributions or any type of extraordinary contributions to finance the resolution matters applied to BES and Banif or any other liability or contingent liability assumed by the Resolution Fund will not be demanded to Banco BPI, as a participating entity of the Resolution Fund. Additionally, the Board of Directors believes that the probabilities of the process ending without the Bank having to pay a penalty are higher than the alternative scenario.

The contingent liabilities may evolve differently from the originally expected, given that they are subject to a continuous revision in order to assess if the possibility of a cash outflow became probable. In these circumstances, the assessment of these contingent liabilities implies that the Bank's management uses estimates and complex judgements regarding the probability of materialisation and measurement of the responsibilities that may arise from the litigations and contingencies in which the Bank is involved and, therefore, this matter was considered relevant to our audit.

Responsibilities of management and supervisory board for the consolidated financial statements

Management is responsible for:

a) the preparation of the consolidated financial statements, which present fairly the financial position, the financial performance and the cash flows of the Group in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union;

b) the preparation of the Directors' Report, including the Corporate governance Report, in accordance with the applicable law and regulations;

c) the creation and maintenance of an appropriate system of internal control to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

d) the adoption of appropriate accounting policies and criteria; and
e) the assessment of the Group's ability to continue as a going concern, disclosing, as applicable, events or conditions that may cast significant doubt on the Group's ability to continue its activities.

The supervisory board is responsible for overseeing the process of preparation and disclosure of the Group's financial information.

Auditor's responsibilities for the audit of the consolidated financial statements

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

a) identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

e) evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

f) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion;

g) communicate with those charged with governance, including the supervisory board, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;

h) of the matters we have communicated to those charged with governance, including the supervisory board, we determine which one's were the most important in the audit of the consolidated financial statements of the current year, these being the key audit matters. We describe these matters in our report, except when the law or regulation prohibits their public disclosure; and

i) confirm to the supervisory board that we comply with the relevant ethical requirements regarding independence and communicate all relationships and other matters that may be perceived as threats to our independence and, where applicable, the respective safeguards.

Our responsibility also includes verifying that the information included in the Directors' report is consistent with the consolidated financial statements and the verification set forth in paragraphs 4 and 5 of article No. 451 of the Portuguese Company Law, and verifying that the non-financial statement was presented.

Report on other legal and regulatory requirements

Director's report

In compliance with paragraph 3 e) of article No. 451 of the Portuguese Company Law, it is our opinion that the Director's report has been prepared in accordance with applicable requirements of the law and regulation, that the information included in the Directors' report is consistent with the audited consolidated financial statements and, taking into account the knowledge and assessment about the Group, no material misstatements were identified. As set forth in paragraph 7 of article No. 451 of the Portuguese Company Law, this opinion is not applicable to the non-financial statement included in the Director's report.

Non-financial information set forth in article No. 508-G of the Portuguese Company Law

In compliance with paragraph 6 of article No. 451 of the Portuguese Company Law, we hereby inform that the Bank included in its Director's report the non-financial statement set forth in article No. 508-G of the Portuguese Company Law.

Corporate governance report

In compliance with paragraph 4 of article No. 451 of the Portuguese Company Law, it is our understanding that the Corporate governance report includes the information required under article No. 245-A of the Portuguese Securities Market Code, that no material misstatements were identified in the information disclosed in this report and that it complies with paragraphs c), d), f), h), i) and m) of that article.

Additional information required in article No. 10 of the Regulation (EU) 537/2014

In accordance with article No. 10 of Regulation (EU) 537/2014 of the European Parliament and of the Council, of April 16, 2014, and in addition to the key audit matters referred to above, we also provide the following information:

a) We were first appointed auditors of Banco BPI, S.A. in the Shareholders' General Meeting of April 26, 2017 for the period from 2018 to 2021.

b) The management has confirmed to us it has no knowledge of any allegation of fraud or suspicions of fraud with material effect in the financial statements. In the planning and execution of our audit in accordance with ISAs, we have maintained professional scepticism throughout the audit and determined overall responses to address the risk of material misstatement due to fraud in the consolidated financial statements. Based on the work performed, we have not identified any material misstatement in the consolidated financial statements due to fraud.

c) We confirm that our audit opinion is consistent with the additional report that was prepared by us and issued to the Group's supervisory board on this same date.

d) We declare that we did not provide any prohibited non-audit services referred to in paragraph 8 of article No. 77 of the by-laws of the Institute of Statutory Auditors ("Estatutos da Ordem dos Revisores Oficiais de Contas") and that we remain independent of the Group in conducting our audit.

March 23, 2020

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
represented by:

José Manuel Henriques Bernardo, R.O.C.

Supervisory Board

REPORT AND OPINION OF THE SUPERVISORY BOARD

BPI GROUP CONSOLIDATED ACCOUNTS

- 2019 FINANCIAL YEAR -

(THIS REPORT IS A FREE TRANSLATION TO ENGLISH FROM THE ORIGINAL PORTUGUESE VERSION)

The present document relating to the 2019 financial year was prepared by the Supervisory Board of Banco BPI, S.A. (Banco BPI, BPI or the Bank) for compliance with the requirements of Article 420 of the Portuguese Commercial Companies Code (CCC).

1. Report on the activity of the Supervisory Board in the financial year 2019

In 2019 the Supervisory Board held twelve meetings in which all of its members participated.

Besides these meetings, the Supervisory Board members attended the twelve meetings of the Audit and Internal Control Committee (AICC) of Banco BPI held during the year, which enabled them to:

- analyse all the documentation distributed as support for their work;
- hear the explanations given by the heads of each of the departments whose matters were reviewed;
- put questions and ask for clarifications concerning the documents analysed; and
- monitor directly the evolution of BPI's operations, paying special attention to compliance with legal requirements and the Company's articles of association and regulations.

In addition, the Chairman of the Supervisory Board took part in the Board of Directors meeting of 20 March 2019, in which Banco BPI's 2018 Annual Report and Accounts were approved.

The Chairman of the Supervisory Board also participated in a meeting with the European Central Bank (ECB) and Banco de Portugal (BdP) Joint Supervisory Team (JST) held on 7 November 2019 in the ECB's premises in Frankfurt, in which the Chairman of the AICC also took part. At this meeting, the Chairman of the Supervisory Board provided explanations about the activity of this supervision body as well as about its monitoring of compliance with the supervisors' recommendations, and of the internal control over the Bank's various activities.

In compliance with the terms of reference legally entrusted to it and which form part of its Regulations, during 2019 the Supervisory Board monitored and analysed:

- the works carried out by the Statutory Audit Firm (hereinafter referred to as Statutory Auditors), PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda. (PwC);

- the activity developed by the Internal Audit Division (IAD), the Global Risk Management Division (GRMD), the Compliance Division (CD), and other Divisions of both the Bank and of other companies of the BPI Group; and
- the inspections carried out by the supervision authorities.

From the activities developed by the Supervisory Board, those described below should be highlighted:

1.1. Watching over compliance with the legal provisions, in particular the rules issued by the supervision authorities, the Bank's statutory and regulatory provisions, and also the general policies, standards and practices instituted internally

During the year, the Supervisory Board kept abreast of the various issues related to the Group's compliance with obligations and recommendations relating to corporate governance. In this context, after reviewing BPI Group's Corporate Governance Report presented by the Board of Directors, it ascertained that it translated the practices which it had regularly observed, and that, in accordance with the terms of article 420(5) of the CCC, it covered the items referred to in Article 245-A of the Securities Code (SC).

During 2019, the Supervisory Board received information on the inspection actions carried out by the supervision authorities, having analysed the correspondence exchanged in this regard concerning requests for clarification made by these entities. On the other hand, after conclusion of these inspection actions, the Supervisory Board received and reviewed the reports sent by these entities to Banco BPI, also participating in the analysis of the implementation of the corresponding recommendations.

In particular, the Board monitored the progress reports on the on-site inspections (OSI) locally conducted by the JST. These progress reports were systematically sent by the Bank to that entity.

The Board reviewed the reports on the audits conducted by the IAD, paying particular attention to the shortcomings identified and the recommendations made with the objective of overcoming them and meeting the deadlines set for their implementation. The Board also followed up on a regular basis the activity developed by the CD (namely the regular status updates on the monitoring of regulatory gaps in the context of Anti-Money Laundering and Terrorist Financing Prevention (AML&TF), and information about compliance with the provisions of the Code of Business Conduct and Ethics) and by the GRMD, namely the preparation of information on large loans, for compliance with Law no. 15/2019, of 12 February.

The Supervisory Board also kept abreast of the outcomes of the works carried out by the Statutory Auditors on the processes instituted to ensure the safeguarding of Customers' assets, and monitored the process of implementation of the JST recommendations concerning the review of the Implementation by the Bank of Accounting Standard IFRS9.

During 2019, the Supervisory Board took note of several corporate policies regarding Risk Management approved by Banco BPI in alignment with CaixaBank, namely the following:

- Policy on Strategic Risk Processes;
- Interest Rate Risk Management Policy;
- Operational Risk Policy;
- Pricing Policy;
- Internal Control Policy;
- Liquidity Risk Policy;
- Business Continuity Policy; and
- Market Risk Policy.

1.2. Ensuring that the key targets set by the supervision authorities in terms of internal control and risk management, namely through guidelines addressed to credit institutions and financial companies, are pursued by Banco BPI and the entities under its control

The Board paid particular attention to the guidelines issued by BdP, in particular in its Notice 5/2008, concerning internal control and risk control issues, having reviewed the operational procedures of Banco BPI and the remaining Group companies subject to supervision on a consolidated basis. This review was based on the works developed by the IAD as well as on the presentations made and clarifications provided by the relevant Divisions.

Accordingly, in June 2019 the opinions on the adequacy, effectiveness and consistency of the Internal Control Systems of the BPI Group, the Bank, and its subsidiary BPI (Suisse), S.A., relative to 31 May 2019, were drawn up and sent to the ECB and the BdP.

To this effect, the Supervisory Board:

- reviewed the annual internal control reports prepared by the Boards of Directors of the entities referred to above;
- analysed the opinions of the respective Statutory Auditors on the Internal Control Systems underlying the processes of preparation and disclosure of financial information; and
- reviewed the reports prepared by the IAD, the CD and the GRMD in this respect.

The Supervisory Board also monitored the processes of implementation of the recommendations resulting from the supervisors' inspections. In this context, it monitored in particular the regular status updates issued by the IAD on the following issues:

- OSIs conducted by the JST;
- assessment of the quarterly reports and follow-ups on the recommendations implemented within the scope of the OSI-2015-PTBPI-2170 to the Information Technology Risk (IT Risk);
- assessment of the quarterly follow-ups on the Internal Capital Adequacy Assessment Process (ICAAP);
- assessment of the periodic follow-ups on the Thematic Review - IFRS9; and

- monitoring of the OSI on Internal Governance and Risk Management.

The Supervisory Board also reviewed the final reports and conclusions of the self-assessment processes conducted by the GRMD and the IAD, as well as the Bank's new Internal Control Policy, drawn up in accordance with the European Banking Authority's Guidelines on Internal Governance, considering the 3 Lines of Defence (3LoD) Model.

In addition, it also reviewed the Policy and Regulations of the Financial Information Internal Control System, a document prepared by the new Financial Control Internal Unit (FCIU), as well as the results of the certification carried out by this Unit relative to the 2nd quarter of 2019.

1.3. Verifying the adequacy of and monitoring compliance with the accounting policies and practices adopted by the Bank, on a consolidated and individual basis, and ensuring that the documents that supported them are in order.

With a view to ascertaining the adequate compliance with the accounting policies and practices, the Supervisory Board analysed the findings of the audits made by the IAD and the Statutory Auditors, as well as the presentations made by senior officers of the Accounting, Planning and Statistics Division (APSD).

In this context, the Supervisory Board analysed, both on a quarterly basis and for the 2019 year-end results reported by Banco BPI:

- the Financial Statements and Results;
- the findings of the audits carried out by the Statutory Auditors; and
- the information on accounting policies and practices which in due course was provided to it.

It also analysed the 1st half of 2019 interim Report and Accounts and the 2019 Annual Report and Accounts, as well as the Audit Reports issued by PwC on the financial statements of Banco BPI and the BPI Group.

It also examined:

- the report prepared by PwC in its capacity as Statutory Audit of the Bank, on the process of quantification of the impairment losses in Banco BPI's loan portfolio with reference to 31 December 2018, for compliance with BdP Instruction no. 5/2013;
- PwC's report on the process of quantification of individual and collective impairment in Banco BPI's loan portfolio with reference to 30 September 2018, for compliance with the amendment introduced by BdP Instruction no.18/2018 to the aforementioned Instruction no. 5/2013;
- the IAD's report on the review carried out to assess the design, implementation and adaptation of the System of Internal Control over Financial Reporting (SICFR) to CaixaBank Group's internal regulatory framework, with reference to 31 December 2018;
- the IAD's report on the audit to the Process of Determining Individual Impairments; and

- the report prepared by the Legal Department (LD) on the Audit of the 2018 Corporate Income Tax Return ("*Declaração Modelo 22 de IRC*").

1.4. Supervising the process of preparation and disclosure of financial information by the Bank

In this context, the Supervisory Board analysed in detail the financial information provided to it during the year, having contacted whenever necessary the heads of the APSD, as the Division responsible for preparing this information. On the other hand, besides analysing the documents made available to it about the Statutory Certification of the Accounts of Banco BPI and BPI Group, the Supervisory Board maintained regular contacts with the Statutory Auditors' relevant officers, which enabled it to keep informed about the services rendered by them and to better understand the situations which in their opinion Banco BPI should pay greater attention to.

The Board also analysed the opinions of the Statutory Auditors on the Internal Control System underlying the process of preparation and disclosure of financial information, drafted in accordance with the provisions of BdP Notice no. 5/2008.

Also in this context, the Supervisory Board reviewed the new Policy on the Disclosure and Verification of Financial Information, which aimed to endow the Bank with a framework of governance, principles and internal rules allowing to manage the risk of reliability of the financial information produced. Following the approval of this policy, the Supervisory Board took note of the results of the process of certification of the quarterly financial information produced by the Bank, which is the responsibility of the FCIU.

1.5. Issuing opinions and other documents which, under the law, the Company's Articles of Association, the Supervisory Board Regulations or internal standards, are its remit

In addition to this document and the specific opinions referred to therein, the Supervisory Board issued an opinion on the issuance by Banco BPI of an Additional Tier 1 capital instrument, to be fully subscribed by CaixaBank, S.A. (CaixaBank).

1.6. Overseeing the independence of the Statutory Auditors and, within that scope, assessing and deciding on this entity's provision and terms of provision of services to the Group

After obtaining the necessary opinions of the AICC, the Supervisory Board approved the fees for "Audit Services" and "Non-audit services required by Law from the Statutory Auditors", for all the Group entities over which it has direct responsibility.

Under the terms of Article 420(2) (d) of the CCC, the Supervisory Board verified the conditions of independence of Banco BPI's Statutory Auditors, and, after obtaining the favourable opinion of the AICC, and the agreement of CaixaBank's *Comisión de Auditoria y Control* (CAC - Audit and Control Committee), approved the contracting at Group level, from the Statutory Auditors or members of their network, of "Non-audit Services not Required by Law from the Statutory Auditors" (and naturally not prohibited), controlling the relative share of the fees for these services in accordance with the regulations in force.

It should be noted that the Statutory Auditors' fees for "Non-audit Services not Required by Law", approved in 2019 by the Supervisory Board, represented:

- 26.8% of the total fees in 2019; and
- 54.3% of the average fees for Audit Services in the two previous years (bearing in mind that PwC only became Banco BPI's Statutory Auditor in 2018), which is below the maximum legal limit of 70%.

1.7. Monitoring the assessment of the operational procedures intended to ensure an effective and efficient management of the activities through adequate risk management and the availability of complete, reliable and timely accounting and financial information, as well as an adequate monitoring system

The Supervisory Board paid particular attention to the guidelines issued by the BdP, namely through its Notice no. 5/2018, as well as the Guidelines on Internal Governance issued by the European Banking Authority.

The Supervisory Board essentially based its intervention on:

- the conclusions of the audits performed by the supervision authorities and the IAD;
- the reports issued by the units responsible for the Risk Management, Compliance and Internal Audit functions; and
- the reports on the Internal Control Systems, issued by the management bodies of Banco BPI and the Group companies.

This information was complemented by the clarifications provided by the heads of the relevant Divisions of the Bank involved in these processes, in particular during the AICC meetings.

The sections below describe the main aspects of the supervision carried out by the Supervisory Board on risk assessment and operational procedures.

1.7.1. Analysis of operational risks

The assessment of operational risks and the effectiveness of the measures adopted to control and mitigate them were carried out through the systematic review of the conclusions and recommendations issued by Internal Audit and the Statutory Auditors, both jointly made with the heads of the Divisions and Group entities which were the object of these actions.

In this context, the intervention of the Supervisory Board was essentially based on specific operational risk assessment documents, namely:

- Annual reports prepared by the Security Division on Information Security, Physical Security and Business Continuity;
- Report on Operational Risk Management and Operational Losses, prepared by the Operational and Reputational Risk Area of the GRMD;
- Report prepared by the IAD on the evolution of loss incidents at Banco BPI over the last three years, and presentation of the loss incidents in each semester of 2019;
- Semi-annual report on Quality Indicators and Complaints, prepared by the Individuals Business Support Division;

- Report on Outsourcing and Service Provision Contracts, prepared by the Procurement, Budget and Property Division; and
- Two reports prepared by the IAD, one containing the conclusions of the analysis of the Operational Risk Management Process and on the Quality of the Occurrences Database, and the other on the Process of Calculation and Reporting of Regulatory Capital Requirements.

1.7.2. Analysis of credit risks

The Supervisory Board analysed throughout the year the evolution of credit risks based on the information provided by the APSD, the GRMD and the Statutory Auditors, having:

- monitored the evolution of Credit Impairments;
- kept informed of the Statutory Auditors' half-yearly reports with the conclusions of the reviews of the Process of Quantification of Impairment Losses in Banco BPI's Loan Portfolio;
- analysed the information which it regularly received on the Risk Appetite Statement (RAS), the Risk Appetite Framework (RAF), and the ICAAP;
- monitored the implementation of the recommendations issued from the OSI for the ICAAP and the Process of (De)marking Restructured/Forborne Loans, following the ECB's OSI to impairments;
- monitored the conclusions of the audits made by the IAD to the Leveraged Transactions Support Processes, in accordance with the provisions of the Guidance on Leveraged Transactions issued by the ECB, to the internal governance model and to the validation process of Loss Given Default (LGD) and Expected Loss Best Estimate (ELBE);
- assessed the Global Risk Management Division's Report on the Policy on Restructured or Renegotiated Loans due to Financial Difficulties of the Clients (Forborne Loans); and
- reviewed the Global Risk Management Division's Report on Credit Concentration Risk relative to 31 December 2018.

The Supervisory Board did not issue any opinion pursuant to Article 109 (3) of the General Law on Credit Institutions and Financial Companies (Regime Geral das Instituições de Crédito e Sociedades Financeiras - RGICSF) on business dealings with shareholders with qualifying holdings or with entities having any relationship with the latter.

On the other hand, under the terms of Article 85 (8) of the RGICSF, the Supervisory Board issued 21 opinions on the setting or revision of the Exposure Limits (EXL), under normal market conditions, to entities in which the members of Banco BPI's management or supervisory bodies held management positions or qualified holdings.

1.7.3. Analysis of financial risks

The Supervisory Board continued to monitor the financial markets with particular attention so as to be able to assess the strategy and actions pursued by the Group, focusing in particular on exposure to products and markets considered as of higher risk.

In this context the Supervisory Board analysed:

- the Recovery Plan sent to the ECB, namely the recovery measures in stressed situations in the various scenarios considered, their effectiveness and the internal bodies responsible for their implementation, as well as the findings of the audit conducted by the IAD to the process of drawing up this Plan;

- the documents prepared by the Analyses and Special Projects Unit, one of them on the Liquidity Risk Management Policy, and the other on the Internal Liquidity Adequacy Assessment Process (ILAAP) relative to 2017;
- the findings of the regular reviews made by the GRMD in connection to the RAS, the RAF and the ICAAP, as well as the respective reports relative to December 2018;
- the Market Discipline Report relative to December 2018; and
- the documentation prepared by the Global Risk Management Division on the process of implementation of IFRS9 and respective impacts.

1.7.4. Analysis of reputational risks

During 2019 the Supervisory Board analysed the information provided to it on Banco BPI's Service Quality Indicators, which use as benchmark the European Customer Satisfaction Index as well as peer banks' service quality indicators, and also reviewed customer complaints.

The Board also analysed the Compliance Division's quarterly monitoring reports on compliance with BPI Group's Code of Business Conduct and Ethics, as provided for in point 31.4 of this Code.

It also analysed the Legal Division's report on the process of communication with the Tax and Customs Authority in the framework of BPI's compliance with tax obligations.

In addition, it reviewed PwC's report on the safeguarding of customers' assets, in compliance with the provisions of Articles 306 to 306-D of the SC.

The Supervisory Board also reviewed and followed up on all Irregularities Communications relative to Banco BPI, with irregularities being understood as facts that breach or seriously compromise:

- compliance with the legal, regulatory, ethical and professional conduct principles to which the Members of the Corporate Bodies and the Employees of the Companies of BPI Group are bound in the exercise of their professional functions;
- the preservation of the assets of Clients, Shareholders and of BPI itself;
- the preservation of BPI's institutional image and reputation; situations liable of constituting abuse of authority or mismanagement are also considered irregularities.

In this regard, the Supervisory Board received six communications in 2019, of which:

(i) three were actual Communications of Irregularities, as previously defined, but all were closed at no financial cost for the Bank;

(ii) one proved not to concern Banco BPI but one of its subsidiaries; and

(iii) the remaining two were referred to the Bank's complaints management area, since, given their content, they were not considered to be actual Communications of Irregularities.

It should also be noted that the process of revision of the Bank's Service Order concerning the treatment of Communications of Irregularities within the scope of Banco

BPI was carried out during the second half of 2019, the Supervisory Board having closely monitored this process.

1.7.5. Analysis of compliance risks

Throughout the year the Supervisory Board monitored all the developments occurred in the CP, which involved enlarging the team, the implementation of new controls and systems, and the progressive change of operating processes, with a view to ensuring alignment with CaixaBank's governance structure and practice, in particular as regards PML&TF and the Policy on Sanctions and Restraining Measures.

Furthermore, in September 2019 the Supervisory Board closely monitored the process of replacement of the head of this Division.

Besides regularly monitoring the interventions of the Compliance Division, the Supervisory Board reviewed the following documents prepared by this Division:

- 2018 Activity Report and Activity Plan for 2019, having issued a favourable opinion on the latter, prior to its approval;
- quarterly reports on the activity developed in the period;
- quarterly monitoring reports on the compliance with BPI Group's Code of Business Conduct and Ethics, as provided for in point 31.4 of this Code.
- monitoring reports on the implementation of AML&TF recommendations;
- Annual Compliance function report on the Internal Control System of Banco BPI and its subsidiaries, with reference to 31 May 2019, as provided for in Article 17 (1) (f) of BdP Notice no. 5/2008;
- monthly update reports on the implementation of the Remedial Plan in BPI (Suisse) S.A. up to conclusion of this process;
- reports and recommendations issued as a result of actions carried out in Banco BPI and other Group entities by the following entities: BdP, Securities Market Commission (CMVM), BPI's IAD and CaixaBank's Compliance function team; and
- progress reports on the implementation in BPI of applicational processes and software for the mitigation of compliance risks and the harmonisation of procedures with CaixaBank.

During 2019, the Supervisory Board, through its regular interaction with the AICC, became aware of several new corporate policies on matters of compliance, approved by Banco BPI in alignment with CaixaBank, namely the following:

- Anti-corruption Policy;
- Criminal Compliance Policy;
- General Policy on Conflicts of Interest;
- Conflicts of Interest Policy regarding the Securities Market;
- Code of Business Conduct and Ethics; and
- Internal Code of Conduct on the Securities Markets.

1.7.6. Monitoring of audit works

During 2019 the Supervisory Board monitored the activity of the IAD, and in particular participated in the following processes:

- Review of and drafting of opinions on the 2019 Activity Plans and respective revisions;
- Self-assessment carried out by the IAD, culminating with the analysis of the report containing the conclusions of this process;
- Review of the Rules of Procedure of the Internal Audit Function;
- Review of the conclusions of the audits carried out by the IAD, follow-up of the recommendations considered more relevant, analysis of the deadlines defined for their implementation and their degree of compliance; From the audits in question, the following in particular deserve a note:
  - Audit to the monitoring of the PSD2 Project;
  - Measurement of the Banking Book Interest Rate Risk;
  - Technological Incidents;
  - Monitoring of the Compliance Action Plan;
  - Follow-up on the process of remediation of BPI (Suisse) SA;
  - Project of implementation of the General Data Protection Regulation (GDPR);
  - Audits to the ICAAP and ILAAP processes;
  - Audit to the process of determining individual impairments;
  - Revision of Banco BPI's Pension Fund;
  - Information and Data Quality Governance Project;
  - Governance of cybersecurity and response to cyber-incidents;
  - Sponsorships management;
  - Market Discipline (Pillar 3);
  - Pricing tool;
  - Liquidity Management - liquidity metrics and liquidity stress test;
  - Incentives Scheme;
  - Commercialisation of products under the Markets in Financial Instruments Directive (MiFID);
  - Audit to the application of the Remuneration Policy for the Identified Collective;
  - Recovery Plan;
  - Effectiveness tests on the Prevention of Money Laundering;
  - Process of Loan Granting to Individuals;
  - Liquidity Short-Term Exercise (STE) for Banco BPI's consolidated perimeter;
  - Findings of the 3rd, 4th and 5th follow-ups to the OSI on IT;
  - Process of Commercialisation of Personal Loans;
  - Commercial Networks and Small Businesses - 1st half 2019 Report;
  - Transfers made in the commercial bodies;
  - SME rating model;
  - Rating process for specialised finance;

- Mortgage loan requests management application.

The Supervisory Board also took stock of the conclusions issued from the meetings with the ECB and the BdP, as well as the communications exchanged with these supervisors on the recommendations made by the JST.

1.8. Issuing an opinion on the report, accounts and proposals presented by the Board of Directors

Under the terms of the applicable legal provisions, namely Article 420 (1)(g) of the CCC, the Supervisory Board:

- oversaw the preparation throughout 2019 of the financial statements' supporting documents, namely meeting with the heads and technical staff of the APSD on 18 March 2020 in order to obtain detailed information about the preparation and closing of the annual accounts;
- regularly contacted the partners and several officers of the Statutory Auditors, keeping itself informed about the work performed by this entity and, in particular, meeting with them on 18 March 2020 to obtain their view on the annual accounts at closing date and ascertain the status of their audit work;
- analysed the Statutory Auditors' Additional Report to the Supervisory Board, drafted under the terms of article 63 of the Statute of the Portuguese Institute of Statutory Auditors, approved by Law no. 140/2015, of 7 September, and of Article 24 of Law no. 148/2015, of 9 September;
- examined the following documents prepared for financial year 2019, which deserved its agreement:
  - the Management Report;
  - the Group's Financial Statements for 2019 – Balance Sheet at 31 December, Consolidated Income Statement, Consolidated Statement of Changes in Shareholders' Equity and Consolidated Cash Flow Statement – and the respective Notes;
  - BPI Group's Corporate Governance Report; and
  - the Statutory Certification of Accounts and the Auditors Report.

In view of the foregoing, the Supervisory Board is of the opinion that, with respect to the 2019 financial year, the BPI Group's Management Report, the Proposed Appropriation of Earnings contained therein, the Group's Consolidated Annual Accounts, the respective Statutory Certification of Accounts and Audit Report, and the Bank's Corporate Governance Report, are in conformity with applicable legal, statutory and accounting requirements, and therefore it recommends their approval by the Shareholder.

Finally, the statement signed individually by each of the members of the Supervisory Board with the object of complying with the legal requirement expressed therein is transcribed below:

> *«I hereby declare, under the terms and for the purposes of Article 245 (1) (c) of the Securities Code that, to the best of my knowledge, the Management Report, the Annual Consolidated Accounts, the Statutory Certification of Accounts and the Audit Report and the other accounts reporting documents of BPI Group, all relating to the 2019 financial year, were prepared in*

conformity with the applicable accounting standards, giving a true and fair view of the Group’s assets and liabilities, its financial position and financial results, and that the Management Report provides an accurate account of the Group’s business, performance and financial position and contains a description of the principal risks and uncertainties faced by the Group.»

Lisbon, 23 March 2020

The Supervisory Board,

Manuel Sebastião

Elsa Roncon Santos

Ricardo Pinheiro

Rui Campos Guimarães

EXPLANATION ADDED FOR TRANSLATION
(This report is a translation of a report originally issued in Portuguese. In the event of discrepancies, the Portuguese language version prevails.)

Banco BPI, S.A.

Individual financial statements at 31 December 2019

BANCO BPI, S.A.
INDIVIDUAL BALANCE SHEETS AS OF 31 DECEMBER 2019 AND 2018

(Amounts expressed in thousand euros)

	Notes	31-12-2019	31-12-2018
ASSETS			
Cash and cash balances at central banks and other demand deposits	**9**	**1 058 700**	**2 336 030**
Financial assets held for trading	**10**	**234 476**	**226 772**
Financial assets not designated for trading compulsorily measured at fair value through profit or loss	**11**	**206 066**	**437 666**
Equity instruments		143 221	154 527
Debt securities		62 845	283 139
Financial assets at fair value through other comprehensive income	**12**	**1 886 212**	**1 868 893**
Equity instruments		509 168	591 523
Debt securities		1 377 044	1 277 370
Financial assets at amortised cost	**13**	**27 438 765**	**29 705 103**
Debt securities		4 029 750	7 556 295
Loans and advances - Central Banks and other Credit Institutions		1 452 687	790 761
Loans and advances - Customers		21 956 328	21 358 047
Derivatives - Hedge accounting	**14**	**30 709**	**14 320**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**14**	**48 818**	**26 719**
Investments in joint ventures and associates	**15**	**97 175**	**302 379**
Tangible assets	**16**	**169 307**	**66 786**
Intangible assets	**17**	**65 848**	**55 037**
Tax assets	**25**	**272 375**	**350 249**
Other assets	**18**	**141 517**	**363 239**
Non-current assets and disposal groups classified as held for sale	**19**	**14 561**	**33 173**
Total Assets		**31 664 529**	**35 786 366**
LIABILITIES			
Financial liabilities held for trading	**10**	**146 167**	**141 335**
Financial liabilities at amortised cost	**20**	**27 639 918**	**31 901 779**
Deposits - Central Banks		1 374 229	1 352 843
Deposits - Credit Institutions		1 402 879	1 873 248
Deposits - Customers		23 231 413	23 144 139
Debt securities issued		1 358 699	872 864
Memorandum items: subordinated liabilities		304 440	304 514
Other financial liabilities		272 698	4 658 685
Derivatives - Hedge accounting	**14**	**72 799**	**56 010**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**14**	**9 656**	**3 594**
Provisions	**21**	**44 391**	**65 457**
Pending legal issues and tax litigation		25 655	42 245
Commitments and guarantees given		18 736	23 212
Tax liabilities	**25**	**7 937**	**56 376**
Other liabilities	**22**	**460 287**	**513 198**
Total Liabilities		**28 381 155**	**32 737 749**
SHAREHOLDERS' EQUITY			
Capital	**24**	**1 293 063**	**1 293 063**
Equity instruments issued other than capital	**24**	**275 000**	
Other equity	**24**		**322**
Accumulated other comprehensive income	**24**	**(330 809)**	**(229 568)**
Items that will not be reclassified to profit or loss		(335 311)	(231 495)
Tangible assets		703	
Actuarial gains/ (losses) on defined benefit pension plans		(303 951)	(283 499)
Fair value changes of equity instruments measured at fair value through other comprehensive income		(32 063)	52 004
Items that may be reclassified to profit or loss		4 502	1 927
Fair value changes of debt instruments measured at fair value through other comprehensive income		4 502	1 927
Retained earnings	**24**	**1 707 456**	**1 067 959**
Other reserves	**24**	**(3 449)**	**2 530**
Profit/(loss) attributable to owners of the parent		**342 113**	**914 311**
Total Equity		**3 283 374**	**3 048 617**
Total Equity and Total Liabilities		**31 664 529**	**35 786 366**

The accompanying notes are an integral part of these financial statements.

The Registered Accountant **The Board of Directors**

BANCO BPI, S.A.

INDIVIDUAL STATEMENTS OF PROFIT OR LOSS FOR THE YEARS ENDED ON 31 DECEMBER 2019 AND 2018

(Amounts expressed in thousand euros)

	Notes	31-12-2019	31-12-2018 Restated
Interest income	27	532 149	520 140
Interest expenses	27	(92 337)	(88 498)
NET INTEREST INCOME		**439 812**	**431 642**
Dividend income	28	78 185	71 225
Fee and commission income	29	272 845	298 621
Fee and commission expenses	29	(23 107)	(41 948)
Gains/(losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	30	28 476	(2 147)
Gains/(losses) on financial assets and liabilities held for trading, net	30	4 961	39 027
Gains/(losses) on financial assets not designated for trading compulsorily measured at fair value through profit or loss, net	30	(9 355)	59 479
Gains/(losses) from hedge accounting, net	30	3 115	1 398
Exchange differences (gain/loss), net		(5 635)	(25 287)
Other operating income	31	32 829	27 311
Other operating expenses	31	(59 054)	(60 188)
GROSS INCOME		**763 072**	**799 133**
Administrative expenses		**(388 006)**	**(421 052)**
Staff expenses	32	(241 314)	(252 399)
Other administrative expenses	33	(146 692)	(168 653)
Depreciation and amortisation		**(53 732)**	**(23 464)**
Provisions or reversal of provisions	21	**(2 273)**	**(4 486)**
Commitments and guarantees given		4 175	(4 161)
Other provisions		(6 448)	(325)
Impairment/(reversal) of impairment losses on financial assets not measured at fair value through profit or loss	34	**39 061**	**48 967**
Financial assets at amortised cost		39 061	48 967
Impairment/(reversal) of impairment in subsidiaries, joint ventures and associates	15	(481)	(5 742)
Impairment/(reversal) of impairment on non-financial assets	35	1 672	(1 672)
Gains/(losses) on derecognition of non-financial assets, net	36	2 514	605 904
Profit/(loss) from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	37	3 400	(5 222)
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS		**365 227**	**992 366**
Tax expense or income related to profit or loss from continuing operations		(23 114)	(155 713)
PROFIT/(LOSS) AFTER TAX FROM CONTINUING OPERATIONS		**342 113**	**836 653**
Profit/(loss) after tax from discontinued operations			**77 658**
Profit/(loss) before tax from discontinued operations			77 658
PROFIT/(LOSS) FOR THE YEAR		**342 113**	**914 311**
PROFIT OR LOSS (-) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT		**342 113**	**914 311**

Earnings per share (euros)			
Basic	6	0.231	0.628
Diluted	6	0.231	0.628
Earnings per share from continuing operations (euros)			
Basic	6	0.231	0.574
Diluted	6	0.231	0.574
Earnings per share from discontinued operations (euros)			
Basic	6		0.053
Diluted	6		0.053

The accompanying notes are an integral part of these financial statements.

The Registered Accountant **The Board of Directors**

BANCO BPI, S.A.

INDIVIDUAL STATEMENTS OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED ON 31 DECEMBER 2019 AND 2018

(Amounts expressed in thousand euros)

	31-12-2019	31-12-2018
PROFIT/(LOSS) FOR THE YEAR	**342 113**	**914 311**
Other comprehensive income	**(101 921)**	**26 370**
Items that will not be reclassified to profit or loss	**(104 496)**	**25 178**
Tangible assets		
Actuarial gains/ (losses) on defined benefit pension plans	(21 769)	(5 257)
Fair value changes of equity instruments measured at fair value through other comprehensive income	(88 126)	1 131
Income tax relating to items that will not be reclassified	5 399	29 304
Items that may be reclassified to profit or loss	**2 575**	**1 192**
Debt instruments classified as fair value financial assets through other comprehensive income	3 547	1 919
Valuation gains/(losses) taken to equity	4 332	1 838
Transferred to profit or loss	(785)	81
Other reclassifications		
Income tax relating to items that may be reclassified to profit or loss	(972)	(727)
Total comprehensive income for the year	**240 192**	**940 681**
Attributable to owners of the parent	240 192	940 681

The accompanying notes are an integral part of these financial statements.

The Registered Accountant **The Board of Directors**

BANCO BPI, S.A.

INDIVIDUAL STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED ON 31 DECEMBER 2019 AND 2018

(Amounts expressed in thousand euros)

	Capital	Equity instruments issued other than capital	Other equity (Note 24)	Accumulated other comprehensive income (Note 24)	Retained earnings (Note 24)	Other reserves (Note 24)	Treasury shares	Profit/(loss) for the year	Shareholders equity
Opening balances at 31 December 2017	**1 293 063**		**2 276**	**(257 694)**	**862 853**	**2 530**	**(377)**	**232 774**	**2 135 425**
Effect of changes in accounting policies (IFRS 9)				1 756	(27 556)				(25 800)
Opening balances at 1 January 2018	**1 293 063**		**2 276**	**(255 938)**	**835 297**	**2 530**	**(377)**	**232 774**	**2 109 625**
Results application									
Transfer to reserves and retained earnings					232 774			(232 774)	
Variable Remuneration program ("RVA")			(1 954)		(112)		377		(1 689)
Comprehensive income in the year of 2018				26 370				914 311	940 681
Balances at 31 December 2018	**1 293 063**		**322**	**(229 568)**	**1 067 959**	**2 530**		**914 311**	**3 048 617**
Results application									
Transfer to reserves and retained earnings					914 311			(914 311)	
Dividends distributed					(140 000)				(140 000)
Variable Remuneration program ("RVA")			(322)						(322)
Additional Tier 1 issue		275 000							275 000
Additional Tier 1 interest						(5 114)			(5 114)
Extraordinary distribution of reserves					(150 000)				(150 000)
Merger by incorporation of Banco Português de Invetimento and BPI Private Equity				680		(865)			(185)
Comprehensive income in the year of 2019				(101 921)				342 113	240 192
Other changes in equity					15 186				15 186
Balances at 31 de December 2019	**1 293 063**	**275 000**		**(330 809)**	**1 707 456**	**(3 449)**		**342 113**	**3 283 374**

The accompanying notes are an integral part of these financial statements.

The Registered Accountant

The Board of Directors

BANCO BPI, S.A.

INDIVIDUAL STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED ON 31 DECEMBER 2019 AND 2018

(Amounts expressed in thousand euros)

	31-12-2019	31-12-2018
Cash flows from/(used in) operating activities		
Interest, commissions and other income received	860 427	1 369 667
Interest, commissions and other expenses paid	(178 560)	(149 566)
Dividends received	3 348	1 723
Dividends received from Banco de Fomento Angola[1]	45 997	94 806
Gains on business sales		98 842
Recovery of overdue loans and interest and gains/(losses) on the sale of real estate received in settlement of defaulting loans	23 922	39 680
Payments to staff and suppliers	(409 666)	(369 457)
Net cash flow from income and expenses	345 468	1 085 695
Decreases (increases) in:		
Financial assets held for trading, at fair value through profit or loss, at fair value through other comprehensive income	173 378	5 867 964
Financial assets at amortised cost - Central Banks and other Credit Institutions	(781 112)	55 308
Financial assets at amortised cost - Customers	2 897 293	(7 231 684)
Other assets	262 768	14 847
Net cash flow from operating assets	2 552 327	(1 293 565)
Increases (decreases) in:		
Financial liabilities measured at amortised cost - Central Banks and other Credit Institutions	(453 550)	(936 477)
Financial liabilities measured at amortised cost - Customers and other	235 123	2 358 037
Financial liabilities held for trading	(42 475)	18 944
Other liabilities	(11 017)	3 267
Net cash flow from operating liabilities	(271 919)	1 443 771
Contributions to Pension Funds	(10 960)	(13 180)
Income tax paid	(3 197)	(789)
	2 611 719	**1 221 932**
Cash flows from/(used in) investing activities		
Merger / liquidation of subsidiaries and associated companies		
BPI Vida e Pensões - Companhia de Seguros, S.A.		75 000
BPI GIF		8 000
Acquisitions of other tangible and intangible assets	(55 871)	(64 981)
Disposal of other tangible assets	1 562	1 800
Dividends received from joint ventures and associates	23 762	20 221
	(30 547)	**40 040**
Cash flows from /(used in) financing activities		
Liabilities for assets not derecognised	7 264	
Issue of contingent conversion subordinated bonds	(4 432 096)	(195 023)
Issuance of debt securities and subordinated debt (Note 20.3)	500 000	550 452
Redemption of debt securities and subordinated debt (Note 20.3)	(11 638)	(216 956)
Purchase and sale of own debt securities and subordinated debt (Note 20.3)	(111)	(1 082)
Interest on debt instruments and subordinated debt	(20 513)	(16 758)
Additional Tier 1 Issue	275 000	
Additional Tier 1 Interest	(4 479)	
Dividends distribution	(140 000)	
Extraordinary distribution of reserves	(150 000)	
Purchase and sale of treasury shares		377
	(3 976 573)	**121 010**
Net increase / (decrease) in cash and cash equivalents		
Exchange variation occurred in the year	(8 357)	1 109
Net increase / (decrease) in cash and cash equivalents	(1 387 044)	1 381 872
Cash and cash equivalents at beginning of the year	2 663 886	1 280 906
Cash and cash equivalents at the end of the year	**1 268 485**	**2 663 887**
Cash and deposits at Central Banks (Note 9)	951 464	2 229 087
Deposits at other credit institutions (Note 9)	107 654	107 596
Cheques for collection and other cash items (Note 13.2)	41 234	50 938
Very short term applications (Note 13.2)	168 133	276 266
Cash and cash equivalents	**1 268 485**	**2 663 887**
Cash and cash equivalents by currency		
EUR	1 030 760	2 302 293
USD	144 980	251 171
AKZ	19 774	30 293
Other currencies	72 971	80 130
Cash and cash equivalents	**1 268 485**	**2 663 887**

[1] At 31 December 2018, includes 31 060 t.euros related to the foreign currency hedging operations of dividends.

The accompanying notes are an integral part of these financial statements.

The Registered Accountant
Alberto Pitôrra

The Board of Directors

Chairman Fernando Ulrich
Vice-Chairman Pablo Forero
António Lobo Xavier
Members Alexandre Lucena e Vale
António Farinha Morais
António José Cabral
Cristina Rios Amorim
Fátima Barros
Francisco Barbeira
Gonzalo Gortázar Rotaeche
Ignacio Alvarez-Rendueles
Javier Pano
João Pedro Oliveira e Costa
José Pena do Amaral
Luís Vendrell Pi
Natividad Capella
Pedro Barreto
Tomás Jervell

Banco BPI, S.A.

Notes to the individual financial statements at 31 December 2019

(Amounts in thousand euros – t.euros – save where otherwise expressly indicated)

(These notes are a translation of notes originally issued in Portuguese – Note 41)

Notes to the individual financial statements of Banco BPI 31 December 2019

NOTES INDEX **PAGE**

1. FINANCIAL GROUP, BASIS OF PRESENTATION AND OTHER INFORMATION

1.1. Financial Group

Banco BPI S.A., (hereinafter referred to as “Banco BPI”, “BPI ” or “Bank”), with corporate tax identification no. 501 214 534 and registered under the same number in the Commercial registry office of Porto, with registered office at Rua Tenente Valadim, no. 284, in Porto, is an entity focusing its activity on commercial banking in Portugal, and provides financial services and products to Individuals and Corporate and institutional Clients. The Bank serves 1.93 million Clients through a multi-specialist, multi-channel and fully integrated distribution network.

BPI started operating in 1981 with the foundation of SPI – Sociedade Portuguesa de Investimentos, S.A.R.L.. By public deed dated December 1984, SPI – Sociedade Portuguesa de Investimentos, S.A.R.L. changed its corporate name to BPI – Banco Português de Investimento, S.A., which was the first private investment bank created in Portugal after the re-opening, in 1984, of the Portuguese banking sector to private investment. On 30 November 1995 BPI – Banco Português de Investimento, S.A. (BPI Investimentos) was transformed into BPI - SGPS, S.A., which operated exclusively as BPI’s holding company. On 20 December, 2002, BPI SGPS, S.A. incorporated, by merger, the net assets and operations of Banco BPI and changed its corporate name to Banco BPI, S.A.

In the context of its public tender offer for the acquisition of all outstanding shares of Banco BPI, on 8 February 2017 (date of the “Regulated Market Special Session” conducted to announce the result of the public tender offer), CaixaBank acquired shares representative of 39.0% of Banco BPI voting rights. Considering CaixaBank previously owned 45.5%, its overall share ownership reached 84.5% of Banco BPI’s voting rights. As of February 2017, Banco BPI started to be included in the CaixaBank Group, and its financial statements are consolidated in accordance with the full consolidation method. Following the acquisition by CaixaBank of an 8.4% stake held by Allianz in the share capital of the Bank, and other acquisitions on the regulated market, on 29 June 2018 Banco BPI’s General Meeting approved the Bank's loss of status of public company under the terms and for the purposes of Article 27-1-b) of the Securities Code. A request for approval of the loss of status of public company was submitted to the Securities and Exchange Commission (CMVM), and was approved on 14 December 2018. On 18 December 2018, CaixaBank launched a Tender Offer Aimed at Full Control and Compulsory Acquisition of Banco BPI S.A. shares. At the end of 2018, CaixaBank became the holder of 100% of Banco BPI’s share capital.

In April 2018, the holdings in BPI Gestão de Activos and BPI Global Investment Management Company (BPI GIF) were sold to the Caixabank Group. The results generated by these entities in 2018 are presented in a single line of the Income Statement under the heading "Profit/(loss) from discontinued operations".

The winding-up process of Banco BPI Cayman, Ltd and BPI Capital Africa (Proprietary) Limited was concluded in 2018 and these two companies were closed down. These companies were fully held by BPI Madeira.

Following the loss of Banco BPI’s significant influence over Banco de Fomento Angola (BFA), the equity holding in BFA was reclassified in the balance sheet from Investments in joint ventures and associates to Financial assets at fair value through other comprehensive income - equity instruments, and revalued at fair value (Note 15).

In January 2019, the sale of the legal positions related to share brokerage, research and corporate finance activities to Caixabank was realized by Banco Português de Investimento, SA at the book value of the net assets of those activities at the closing date of the transaction (3.9 million euros).

In July 2019, Banco Português de Investimento, S.A. and BPI Private Equity – Sociedade de Capital de Risco were merged by incorporation in Banco BPI. The merger, and consequent extinction of the two companies, became effective on 31 July 2019, with retroactive effects on the accounts as of 1 January 2019.

In November 2019, the liquidation process of BPI Madeira, SGPS, Unipessoal, S.A. was finished.

As of 31 December 2019, the companies that integrated Banco BPI on a consolidated basis were:

	Head office	Shareholders equity [1]	Assets	Profit / (loss) for the year	Holding	Consolidation / Recognition method
Banks						
Banco BPI, S.A.	Portugal	3 283 374	31 664 529	342 113		
Banco Comercial e de Investimentos, S.A.[2]	Mozambique	282 487	2 414 252	58 184	35.67%	Equity method
Asset Management						
BPI (Suisse), S.A.[2]	Switzerland	11 408	13 826	1 414	100.00%	Full consolidation
Venture / development capital						
Inter-Risco – Sociedade de Capital de Risco, S.A.	Portugal	855	1 162	(79)	49.00%	Equity method
Insurance						
Cosec – Companhia de Seguros de Crédito, S.A.	Portugal	49 394	122 014	7 049	50.00%	Equity method
Companhia de Seguros Allianz Portugal, S.A.	Portugal	203 936	1 391 100	40 604	35.00%	Equity method
Other						
BPI, Inc.[2]	USA	758	760	(5)	100.00%	Full consolidation
Unicre - Instituição Financeira de Crédito, S.A.	Portugal	96 688	374 480	16 194	21.01%	Equity method

Note: Unless otherwise indicated, all amounts are as of 31 December 2019 (accounting balances before consolidation adjustments).
[1] Includes net profit (loss) for the year
[2] Amounts converted to euros at the exchange rate of 31 December 2019

As of 31 December 2018, the companies that integrated Banco BPI on a consolidated basis were:

	Head office	Shareholders equity [1]	Assets	Profit / (loss) for the year	Direct holding	Effective holding	Consolidation / Recognition method
Banks							
Banco BPI, S.A.	Portugal	3 048 617	35 786 366	914 311			
Banco Português de Investimento, S.A.	Portugal	24 391	29 688	2 083	100.00%	100.00%	Full consolidation
Banco Comercial e de Investimentos, S.A.[2]	Mozambique	236 020	2 187 067	57 310	35.67%	35.67%	Equity method
Asset Management							
BPI (Suisse), S.A.[2]	Switzerland	9 626	11 398	2 936	100.00%	100.00%	Full consolidation
Venture / development capital							
BPI Private Equity - Sociedade de Capital de Risco, S.A.	Portugal	30 988	34 731	1 066	100.00%	100.00%	Full consolidation
Inter-Risco – Sociedade de Capital de Risco, S.A.	Portugal	934	1 194	(61)		49.00%	Equity method
Insurance							
Cosec – Companhia de Seguros de Crédito, S.A.	Portugal	46 508	115 247	5 504	50.00%	50.00%	Equity method
Companhia de Seguros Allianz Portugal, S.A.	Portugal	147 936	1 283 060	(2 669)	35.00%	35.00%	Equity method
Other							
BPI, Inc.[2]	USA	743	744	(5)	100.00%	100.00%	Full consolidation
BPI Madeira, SGPS, Unipessoal, S.A.	Portugal	170 023	170 484	18 768	100.00%	100.00%	Full consolidation
Unicre - Instituição Financeira de Crédito, S.A.	Portugal	102 391	349 749	15 343	21.01%	21.01%	Equity method

Note: Unless otherwise indicated, all amounts are as of 31 December 2018 (accounting balances before consolidation adjustments).
[1] Includes net profit (loss) for the year
[2] Amounts converted to euros at the exchange rate of 31 December 2018

The financial information provided in the above tables was drawn from the unaudited financial statements of the companies as of 31 December 2019 and 2018. Banco BPI believes that these are properly presented in the individual accounts of the Bank.

The vehicles through which Banco BPI's debt securitisation operations are effected are recorded in the individual financial statements according to BPI's continued involvement in these operations, determined based on the percentage of the equity interest held in the respective vehicles. As of 31 December 2018, BPI held 100% of the equity pieces in those vehicles. Securitisations, all issued through SAGRES - Sociedade de Titularização de Créditos, S.A., were as follows:

- Securitisation of residential mortgage loans - Douro Mortgages No. 1
- Securitisation of residential mortgage loans - Douro Mortgages No. 2
- Securitisation of residential mortgage loans - Douro Mortgages No. 3

- Securitisation of loans to SMEs - Douro SME No. 2

These loan securitization operations were refunded in advance during 2019.

1.2. Basis of presentation

The individual financial statements were prepared based on the accounting records of Banco BPI and its subsidiary and associated companies, in conformity with the International Accounting Standards / International Financial Reporting Standards (IAS/IFRS) as endorsed by the European Union and in force on 1 January 2019, in accordance with Regulation (EC) 1606/2002 of 19 July of the European Parliament and of the Council, transposed into Portuguese legislation through Bank of Portugal Notice no. 5/2015 of 30 December.

The individual financial statements have been prepared on a going concern basis, as provided for in IAS 1 – Presentation of financial statements.

In the preparation of the individual financial statements, BPI follows the historical cost convention, modified when applicable for the measurement at fair value of:

- Financial assets and liabilities held for trading
- Financial assets not designated for trading compulsorily measured at fair value through profit or loss
- Financial assets at fair value through other comprehensive income
- Derivatives

The figures are presented in thousands euros (t.euros) unless the use of another monetary unit is stated. Certain financial information in these notes was rounded off and, consequently, the figures shown herein as totals may differ slightly from the arithmetic sum of the individual figures given before them.

Adoption of standards (new or revised) issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as endorsed by the European Union

On 1 January 2019 the following accounting standards came into force (Note 2 - Accounting policies):

Standards and Interpretations	Name
IFRS 16	Leases
Amendments to IFRS 9	Prepayment features with negative compensation
Amendments to IAS 19	Amendment, curtailment or settlement of defined benefit plans
Amendments to IAS 28	Long-term interests in associates and joint ventures
Improvements to standards 2015-2017	Various clarifications: IAS 23, IAS 12, IFRS 3 and IFRS 11
Interpretation to IFRIC 23	Uncertainty about treatment of income tax

On 1 January 2019, Banco BPI adopted the following accounting standards:

- **IFRS 16** (new), 'Leases'. This new standard replaces IAS 17 – 'Leases' with a significant impact on the accounting by lessees who are now required to recognise a lease liability reflecting future lease payments and a "right-of-use asset" for all lease contracts, except for certain short-term leases and for low-value assets. The definition of a lease contract also changed, being based on the "right to control the use of an identified asset". The application of IFRS 16 may be retrospective or retrospective modified. The impacts from adoption of this standard are described in Note 1.4 – Comparability of the Information.

- **IFRS 9** (amendment), 'Prepayment features with negative compensation'. The amendment introduces the possibility to classify certain financial assets with negative compensation features at amortized cost, provided that specific conditions are fulfilled, instead of being classified at fair value through profit or loss. There has been no material impact on the Bank's financial statements as a result of the adoption of this standard.

- **IAS 19** (amendment), Plan amendment, Curtailment or Settlement'. This amendment requires an entity to: i) use updated assumptions to determine the current service cost and net interest for the remaining period after amendment, reduction or settlement of the plan; and ii) recognize in the income statement as part of the cost of past services, or as a gain or loss in the settlement, any reduction in the excess of coverage, even if the excess of coverage had not been previously recognized, due to the impact of the asset ceiling. The impact on asset ceiling is recognised in Other Comprehensive Income, not being allowed to recycle it through profit for the year. There has been no material impact on the Bank's financial statements as a result of the adoption of this standard.

- **IAS 28** (amendment), 'Long-term interests in Associates and Joint Ventures'. The amendment clarifies that long-term investments in associates and joint ventures (components of an entity's investments in associates and joint ventures), that are not being measured through the equity method, are to be measured in accordance with IFRS 9 – 'Financial instruments'. The long-term investments in associates and joint ventures are subject to the expected credit loss impairment model, prior to being added, for impairment test purposes, to the whole investment in associates and joint ventures, when impairment indicators exist. There has been no material impact on the Bank's financial statements as a result of the adoption of this standard.

- **Annual improvements 2015 – 2017.** The 2015-2017 annual improvements impact: IAS 23, IAS 12, IFRS 3 and IFRS 11. There has been no material impact on the Bank's financial statements as a result of the adoption of these improvements.

- **IFRIC 23** (new), 'Uncertainty over income tax treatment'. This is an interpretation of IAS 12 - 'Income tax' and refers to the measurement and recognition requirements to be applied when there is uncertainty as to the acceptance of an income tax treatment by the tax authorities. In the event of uncertainty as to the position of the tax authority on a specific transaction, the entity shall make its best estimate and record the income tax assets or liabilities under IAS 12, and not under IAS 37 – 'Provisions, contingent liabilities and contingent assets', based on the expected value or the most probable value. The application of IFRIC 23 may be retrospective or retrospective modified. There has been no material impact on the Bank's financial statements as a result of the adoption of this standard.

The standards (new and amendments) endorsed by the EU, which are of mandatory application for annual periods beginning on or after 1 January 2020, are as follows:

Standards and Interpretations issued by the IASB

Standards and Interpretations	**Name**	**Mandatory application for years starting on:**
Approved by the European Union until 31 December 2019		
Amendments to IAS 1 and IAS 8	Definition of material	1 January 2020
Not approved by the European Union until 31 December 2019		
Amendments to IFRS 3	Definition of business	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest rate benchmark reform	1 January 2020
IFRS 17	Insurance contracts	1 January 2021

- **IAS 1 e IAS 8** (amendment), 'Definition of material' (effective for annual periods beginning on or after 1 January 2020). The amendment revises the concept of material. Includes clarifications as to obscured information, its effect being similar to the omission or distortion of information; and also, clarifications as to the term 'primary users of general purpose financial statements', defined as 'existing or potential investors, lenders and other creditors' that rely on general purpose financial statements to obtain a significant part of the information that they need. It is not expected that the future adoption of this amendment will result in a material impact in the Bank's financial statements.

- **IFRS 3** 'Definition of a business (effective for annual periods beginning on or after 1 January 2020). This amendment is still subject to endorsement by the European Union. The amendment revises the definition of a business in order to account for business combinations. The new definition requires that an acquisition include an input, as well as a substantial process that jointly generate outputs. Outputs are now defined as goods and services rendered to customers, that generate investment income and other income, and exclude returns as lower costs and other economic benefits for shareholders. Optional 'concentration tests' for the assessment if one transaction is the acquisition of an asset or a business combination, are allowed. This amendment will apply to transactions occurring after its entry into force.

- **IFRS 9, IAS 39 and IFRS 7** (amendment), 'Interest rate benchmark reform' (effective for annual periods beginning on or after 1 January 2020). These amendments were approved by the European Union in 15 January 2020, being part of the first phase of IASB 'IBOR reform' project and provide certain reliefs in connection with interest rate benchmark reform. The relief relate to hedge accounting, in terms of: i) risk components; ii) 'highly probable' requirement; iii) prospective assessment; iv) retrospective effectiveness test (for IAS 39 adopters); and v) recycling of the cash flow hedging reserve, with the objective that interest rate benchmark reform does not cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Most of the hedging ratios carried out by Banco BPI are based on the EURIBOR index, which was not replaced on 31 December 2019, only its calculation methodology was changed. In this context, Banco BPI considers that there is no uncertainty in the date of preparation of the annual accounts in relation to the disappearance of EURIBOR, and, therefore, the detail of the information provided for in the amendment of this standard is not applicable.

- **IFRS 17** (new), 'Insurance contracts' (effective for annual periods beginning on or after 1 January 2021). This standard is still subject to endorsement by the European Union. This new standard replaces IFRS 4 and applies to all entities issuing insurance contracts, reinsurance contracts and investment contracts with discretionary participation characteristics. IFRS 17 is based on the current measurement of technical liabilities at each reporting date. The current measurement can be based on a complete "building block approach" or "premium allocation approach". The recognition of the technical margin is different depending on whether it is positive or negative. IFRS 17 is of retrospective application. Banco BPI does not have subsidiaries that are active in the insurance business and therefore do not anticipate effects on the Bank's financial statements resulting from the adoption of this standard.

1.3. Responsibility for the information and for the main estimates made

BPI's individual financial statements as of 31 December 2019 were approved by the Board of Directors on 20 March 2020 and are still pending approval by the sole Shareholder. However, it is expected that they will be approved with no changes. The consolidated financial statements for the previous year were approved by the single Shareholder by unanimous resolution taken on 29 April 2019.

The preparation of the individual financial statements required to make certain judgements, estimates and assumptions in order to quantify some of the assets, liabilities, revenues, expenses and obligations recognised in them. These judgements, estimates and assumptions relate primarily to:

- Impairment losses on financial assets and the associated guarantees based on their accounting classification imply the adoption of assumptions relating to: (i) the consideration of "significant increase in credit risk" (SICR), (ii) definition of default; and (iii) the inclusion of forward-looking information (Notes 2.7 and 3.3.2).
- Fair value of some financial assets and liabilities (Note 38). The fair value of unlisted financial assets and derivatives was estimated based on valuation methods and financial theories, the results of which depend on the assumptions used.
- Actuarial assumptions used to measure post-employment liabilities and commitments (Note 23). Retirement and survivor pension liabilities have been estimated based on actuarial tables, assumptions of the increase in pensions and salaries and discount rates. These assumptions are based on Banco BPI's expectations for the period during which the liabilities will be settled.
- Current and deferred taxes have been recognised based on the tax legislation currently applicable to Banco BPI or on legislation already published for future application (Note 25). Different interpretations of tax legislation can influence the amount of income taxes. Deferred tax assets are recognised based on the assumption of future earnings and taxable income.
- As regards the tax impacts of application of IFRS 16, the position of the Tax Authority on the matter is not yet known. The Bank has been considering the accounting records as relevant for tax purposes, as was the case with the previous accounting standards, thus not giving rise to any temporary difference. As this is the best possible judgement of the Bank to date, it is to be expected that the Tax Administration will agree with it when it makes public its position on the matter.
- Assessment of whether there exists control or significant influence over equity holdings in accordance with the criteria defined in IFRS10 and IAS 28 (Note 2.1).
- The measurement of investments in joint ventures and associates and determination of the share of profit/(loss) of these investments (Note 15).
- The measurement of provisions and contingent liabilities and respective probability of occurring (Note 21).
- The useful life of tangible assets, including rights-of-use assets and intangible assets (Notes 16 and 17).

These estimates are based on the best information available at the time of preparation of the annual consolidated financial statements. Subsequent events may require changing the estimates in future periods. In accordance with the applicable legislation and BPI's governance systems, the effects of these changes would be accounted for on a prospective basis in the corresponding income statement, in accordance with IAS 8 - Accounting Policies, change in estimates and errors.

1.4. Comparability of the information

The figures at 31 December 2018 contained in the individual financial statements are presented solely for purposes of comparison.

IFRS 16 – “Leases”

As stated in note 1.2-“Basis of presentation", Banco BPI has applied IFRS 16 – “Leases” from 1 January 2019. In this sense, it has decided not to reassess whether an agreement is a lease or contains a lease component in accordance with the criteria of the standard, applying it solely for agreements that had been identified as leases in accordance with the previous standard.

For leases in which the Bank intervenes as lessee, previously classified as operating leases, BPI applied the new standard retroactively, following the modified retrospective approach, which permits to estimate the value of the right of use by reference to the transaction's financial liability, therefore not requiring any adjustment to reserves as at 1 January 2019. In addition, it was decided to exclude from the scope, in line with the simplifications considered in the new regulatory framework, lease agreements whose term expires within the twelve months following the initial application date.

The main type of agreements identified for which a right-of-use asset and a lease liability had to be estimated at 1 January 2019 were real estate leases in connection with Banco BPI’s operating activity (office buildings used by the commercial network and central services).

The balance sheet items at 31 December 2018 relative to lease agreements were not restated and therefore their detail is not comparable with the information presented for 31 December 2019.

The implementation of this standard at 1 January 2019 implied the recognition of a right of use in the amount of 109 million euros and a transfer of costs with rents paid, recognised under other administrative expenses up to 31 December 2018, to costs with depreciation and amortisation of tangible assets, during the year of 2019 (25 million euros).

The impact of the adoption of IFRS 16 on 1 January 2019, by balance sheet caption, was as follows:

	31-12-2018	IFRS 16 adoption	01-01-2019
Tangible assets	66 786	108 576	175 362
Total assets	**35 786 366**	**108 576**	**35 894 942**
Other financial liabilities	4 658 685	108 576	4 767 261
Total liabilities	**32 737 749**	**108 576**	**32 846 325**

The reconciliation between the amounts that on 31 December 2018 were classified as commitments with operating leases, with the amount recorded on January 1, 2019 as a lease liability, is as follows:

Commitments with operating leases on 31-12-2018	**62 327**
Different lease term treatment	48 652
Other adjustments (includes financial discount on future payments)	(2 403)
Lease liability on 01-01-2019	**108 576**
Type of discount applied (depending on the lease term)	
Portugal	*[0,00%-2,27%]*

Restatement of the income statement on 31-12-2018

Regarding the income statement reported on 31 December 2018, were made the following reclassifications between captions:

	31-12-2018 Restated	31-12-2018	Difference
Interest income	520 140	520 140	
Interest expenses	(88 498)	(88 498)	
NET INTEREST INCOME	**431 642**	**431 642**	
Dividend income	71 225	71 225	
Fee and commission income	298 621	298 621	
Fee and commission expenses	(41 948)	(41 948)	
Gains/(losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	(2 147)	(2 147)	
Gains/(losses) on financial assets and liabilities held for trading, net	39 027	39 027	
Gains/(losses) on financial assets not designated for trading compulsorily measured at fair value through profit or loss, net	59 479	59 479	
Gains/(losses) from hedge accounting, net	1 398	1 398	
Exchange differences (gain/loss), net	(25 287)	(25 287)	
Other operating income	27 311	11 467	15 844
Other operating expenses	(60 188)	(29 088)	(31 100)
GROSS INCOME	**799 133**	**814 389**	**(15 256)**
Administrative expenses	**(421 052)**	**(421 052)**	
Staff expenses	(252 399)	(252 399)	
Other administrative expenses	(168 653)	(168 653)	
Depreciation and amortisation	**(23 464)**	**(23 464)**	
Provisions or reversal of provisions	**(4 486)**	**(4 486)**	
Commitments and guarantees given	(4 161)	(4 161)	
Other provisions	(325)	(325)	
Impairment/(reversal) of impairment losses on financial assets not measured at fair value through profit or loss	**48 967**	**48 967**	
Financial assets at amortised cost	48 967	48 967	
Impairment/(reversal) of impairment in subsidiaries, joint ventures and associates	(5 742)	(5 742)	
Impairment/(reversal) of impairment on non-financial assets	(1 672)	(1 672)	
Gains/(losses) on derecognition of non-financial assets, net	605 904	605 868	36
Profit/(loss) from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	(5 222)	(5 222)	
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**992 366**	**1 007 586**	**(15 220)**
Tax expense or income related to profit or loss from continuing operations	(155 713)	(170 933)	15 220
PROFIT/(LOSS) AFTER TAX FROM CONTINUING OPERATIONS	**836 653**	**836 653**	
Profit/(loss) after tax from discontinued operations	**77 658**	**77 658**	
Profit/(loss) before tax from discontinued operations	77 658	77 658	
Tax expense or income related to profit or loss from discontinued operations			
PROFIT/(LOSS) FOR THE YEAR	**914 311**	**914 311**	
PROFIT OR LOSS (-) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT	**914 311**	**914 311**	

- Gains on financial leases, in the amount of 15 844 t.euros, were reclassified from the caption “Gains/(losses) on derecognition of non-financial assets, net” to the caption "Other operating income".
- Losses on financial leases, in the amount of (15 326) t.euros, and other losses, (554) t.euros, were reclassified from the caption “Gains/(losses) on derecognition of non-financial assets, net” to the caption "Other operating expenses".
- Expenses with the banking sector contribution, in the amount of (15 220) t.euros, were reclassified from the caption “Tax expense or income related to profit or loss from continuing operations” to the caption "Other operating expenses".

During 2019, in order to simplify the group's structure, Banco BPI, S.A. carried out a merger by incorporation of Banco Português de Investimento, S.A. and BPI Private Equity - Sociedade de Capital de Risco, S.A., as well as the liquidation of BPI Madeira, SGPS, Unipessoal, S.A. The effect of these operations on BPI's individual balance sheet as of 1 January 2019 is as follows:

	Banco BPI	Banco Português de Investimento	BPI Private Equity	Reclassification	01-01-2019
ASSETS					
Cash and cash balances at central banks and other demand deposits	2 336 030	15 843	11 064	(26 907)	2 336 030
Financial assets held for trading	226 772				226 772
Financial assets not designated for trading compulsorily measured at fair value through profit or loss	437 666		14 067		451 733
Equity instruments	154 527		14 067		168 594
Debt securities	283 139				283 139
Financial assets at fair value through other comprehensive income	1 868 893	53	6 049		1 874 995
Equity instruments	591 523	3	6 049		597 575
Debt securities	1 277 370	50			1 277 420
Financial assets at amortised cost	29 705 103	6 032	2 895	(2 997)	29 711 033
Debt securities	7 556 295				7 556 295
Loans and advances - Central Banks and other Credit Institutions	790 761		2 895	(2 997)	790 659
Loans and advances - Customers	21 358 047	6 032			21 364 079
Derivatives - Hedge accounting	14 320				14 320
Fair value changes of the hedged items in portfolio hedge of interest rate risk	26 719				26 719
Investments in joint ventures and associates	302 379		429	(54 932)	247 876
Tangible assets	66 786	148			66 934
Intangible assets	55 037	36			55 073
Tax assets	350 249	1 956	74		352 279
Other assets	363 239	605	154		363 998
Non-current assets and disposal groups classified as held for sale	33 173	5 014			38 187
Total Assets	**35 786 366**	**29 687**	**34 732**	**(84 836)**	**35 765 949**
LIABILITIES					
Financial liabilities held for trading	141 335				141 335
Financial liabilities at amortised cost	31 901 779	468	3 734	(29 904)	31 876 077
Deposits - Central Banks	1 352 843				1 352 843
Deposits - Credit Institutions	1 873 248	102		(31 235)	1 842 115
Deposits - Customers	23 144 139			(2 895)	23 141 244
Debt securities issued	872 864				872 864
memorandum items: subordinated liabilities	304 514				304 514
Other financial liabilities	4 658 685	366	3 734		4 662 785
Derivatives - Hedge accounting	56 010				56 010
Fair value changes of the hedged items in portfolio hedge of interest rate risk	3 594				3 594
Provisions	65 457				65 457
Tax liabilities	56 376	86			56 462
Other liabilities	513 198	4 379	10		517 587
Liabilities included in disposal groups classified as held for sale		363			363
Total Liabilities	**32 737 749**	**5 296**	**3 744**	**(29 904)**	**32 716 885**
SHAREHOLDERS' EQUITY					
Capital	1 293 063	17 500	28 895	(46 395)	1 293 063
Share premium account			416	(416)	
Other equity	322	49			371
Accumulated other comprehensive income	(229 568)	(3 910)	4 823	(49)	(228 704)
Items that will not be reclassified to profit or loss	(231 495)	(3 910)	4 823	(49)	(230 631)
Tangible assets		703			703
Actuarial gains/ (losses) on defined benefit pension plans	(283 499)	(4 662)	(87)		(288 248)
Proportion of other income and expenses recognised of investments in subsidiaries, joint ventures and associates			233		233
Fair value changes of equity instruments measured at fair value through other comprehensive income	52 004	49	4 677	(49)	56 681
Items that may be reclassified to profit or loss	1 927				1 927
Foreign currency translation					
Fair value changes of debt instruments measured at fair value through other comprehensive income	1 927				1 927
Retained earnings	1 067 959	11 639	(3 857)	(10 533)	1 065 208
Other reserves	2 530	(2 970)	(356)	2 462	1 666
Profit/(loss) attributable to owners of the parent	914 311	2 083	1 066		917 460
Total Equity	**3 048 617**	**24 391**	**30 988**	**(54 932)**	**3 049 064**
Total Equity and Total Liabilities	**35 786 366**	**29 687**	**34 732**	**(84 836)**	**35 765 949**

2. ACCOUNTING POLICIES

In the preparation of the individual financial statements for the year ended on 31 December 2019, the following accounting principles and policies and valuation criteria were applied:

2.1. Subsidiary and associated companies (IFRS 10, IFRS 11, IAS 27, IAS 28 and IFRS 3)

Banco BPI has direct and indirect holdings in subsidiary and associated companies.

Subsidiaries are entities over which the Bank has control, which is evidenced when the following conditions are cumulatively met:

- the power to conduct the company's relevant activities;
- the ability to use this power over the investee to affect the amount of its variable returns;
- exposure, or right, to variable returns from its involvement with the investee.

As a rule, voting rights give the ability to direct the relevant activities of an investee. To calculate voting rights, all direct and indirect voting rights, as well as potential voting rights (e.g. call options on equity instruments of the investee) are considered. In some circumstances, a company may have power to direct the activities without holding a majority of the voting rights, or vice-versa. In these cases, the investor considers whether it has the practical ability to direct the relevant activities unilaterally (financial and operating decisions, or appointing and remunerating governing bodies, among others).

Associated companies are entities over which Banco BPI has direct or indirect significant influence over their management and financial policies but over which it does not have control. As a general rule, significant influence is understood to exist when the Bank holds 20% or more of the share capital of the investee. If it holds less than 20% of the voting rights, significant influence is evidenced by the circumstances indicated in IAS 28. These include representation on the Board of Directors of the investee, participation in financial and operational policy-making processes, material transactions between the Bank and its investee, interchange of managerial personnel or the provision of essential technical information.

Exceptionally, companies are not considered associates when more than 20% of the voting rights are held, but it can clearly be demonstrated that significant influence does not exist and, therefore, the Bank lacks the power to intervene in the investee's financial and operation policies. Based on these criteria, at the end of the year, the Bank holds equity holdings in which it has more than 20% of the share capital in the portfolio of Financial assets at fair value through other comprehensive income.

Following the loss of significant influence over an associate, and in accordance with IAS 28, the equity holding is reclassified from the Investments in Associates portfolio to the Financial assets at fair value through other comprehensive income portfolio, the respective fair value being determined on the date significant influence is lost. The difference between the fair value of the equity holding and the cost of investment at that date is recognised as profit or loss.

In Banco BPI's individual financial statements, subsidiaries and associated companies are stated at historical cost.

Investments in subsidiaries and associated companies in foreign currency (non-monetary items valued at historical cost) are translated at the historical exchange rate on the date of the transaction, as provided for in IAS 21.

Dividends from subsidiaries and associated companies are recognised in the individual statement of profit or loss of Banco BPI on the date they are attributed or received.

In the event of objective evidence of impairment, the impairment loss is recognised in the income statement.

The exchange rates used for the translation to Euro of the accounts of foreign subsidiaries and associated companies were as follows:

	31-12-2019	**31-12-2018**
Metical - Mozambique	68.89	70.250
Swiss Franc - Switzerland	1.0854	1.127
US Dollar - USA	1.1234	1.145

Banco de Fomento Angola, SA (BFA)

In January 2017 Banco BPI sold 2% of the share capital of Banco de Fomento Angola to Unitel, reducing its holding in BFA to 48.1%, and entering into an agreement with BFA's shareholders under which BPI is entitled to appoint two, from a maximum of fifteen, members of the Board of Directors of BFA, as well as one member of its Supervisory Board, and one member of the Risk Committee and the Remuneration Committee. BPI's stake in BFA's share capital and participation in BFA's governing bodies, although minoritary and not proportional to the share capital held, permitted to presume the existence of significant influence over BFA, in accordance with the IAS 28 provisions. Therefore, following the sale of 2% of BFA, Banco BPI now classifies its holding in BFA as an associate.

As referred in Note 1.3, at each financial statements preparation date, Banco BPI revises the main estimates and uncertainties associated to the application of the accounting policies in the preparation of the financial information. Therefore, given the existence of indications of a possible loss of significant influence, on the date of preparation of the financial statements with reference to 31 December 2018, the classification of Banco de Fomento Angola as an associate was revised as an associated company. From the main issues considered, one of the most important concerned the absence of BPI representatives in the executive body of BFA - the Executive Committee, which is the body responsible for the bank's operational management -, which determined BPI's lack of real power to participate in the financial and operating policy decisions of BFA under the terms set forth in paragraph 6 of IAS 28. BPI's minority position in BFA's Board of Directors, alongside a shareholder that holds control, also prevented BPI from having a real capacity to exercise significant influence in the management of BFA. In this context, the weight of BPI's participation in BFA's financial and operating policy decisions was much curtailed relative to initial expectations, based on the past experience of shareholders' relationship, where BPI played a key role in the management of BFA.

Taking into account that increase in experience, assessment and knowledge about the shareholder relationship of BPI in BFA, it is considered that at the end of 2018 the circumstances on which the existence of real capacity on the part of BPI to exercise significant influence over BFA was based no longer exist. In view of these circumstances, at the end of 2018, BPI considered it appropriate to limit its presence in the committees and management bodies of BFA in which it was represented, maintaining only the minority presence in the aforementioned corporate bodies of BFA.

In accordance with the accounting standards, the loss of significant influence entailed, in Banco BPI's balance sheet, reclassifying the equity holding in BFA from Associate to Financial assets at fair value through other comprehensive income - Equity instruments, and its revaluation at fair value at 31 December 2018.

During the year of 2019, there were no changes in the conditions that led to the reclassification of the equity holding in BFA to Financial assets at fair value through other comprehensive income - Equity instruments, so it remained in that portfolio.

2.2. Financial instruments (IAS 32, IFRS 7, IFRS 9 and IFRS 13)

Classification of financial assets

The following table details the criteria established by the accounting standards for the classification of financial instruments:

Contractual cash flows	Business Model	Classification of Financial Assets
Solely payments of principal and interest (SPPI) on principal at the dates indicated (SPPI test)	With the objective of receiving the contractual cash flows	Financial assets at amortised cost
	With the objective of receiving the contractual cash flows and sale	Financial assets at fair value through other comprehensive income
Others - do not require SPPI test	Derivative instruments designated as accounting hedges	Derivatives - Hedge accounting
	Instruments originated or acquired with the aim of being realised in the short term	Financial assets held for trading
	Included in a group of financial instruments identified and managed together, for which there is evidence of a recent pattern of short-term profit-taking	
	Derivative instruments that do not meet the definition of a financial guarantee contract and have not been designated as hedging instruments.	
	Other	Financial assets not designated for trading compulsorily measured at fair value through profit or loss

Investments in equity instruments are an exception to the aforementioned general classification criteria. In general, at initial recognition the Bank irrevocably exercises the option of including - in the portfolio of financial assets at fair value through other comprehensive income - investments in equity instruments that are not classified as held for trading and that, in the event this option were not exercised, would be classified as financial assets compulsorily measured at fair value through profit or loss.

As for the assessment of the business model, this does not depend on the intentions for an individual instrument, but rather for a set of instruments, taking into account the frequency, amount and schedule of sales in previous years, the reasons for these sales and the expectations for futures sales. Infrequent or insignificant sales, sales near the maturity date of the asset and sales driven by a significant increase in the credit risk of the financial assets or to manage the concentration risk, among others, can be compatible with the model of holding assets to receive contractual cash flows.

If a financial asset is subject to a contractual clause under which the schedule or amount of its contractual cash flows can be modified (e.g. if the asset can be redeemed in advance or if maturity can be extended), the Bank determines whether the contractual cash flows the instrument generates over its life, as a result of the exercise of the aforementioned contractual clause, are solely principal and interest payments on the outstanding principal.

In the case of a financial asset with a periodic adjustment of the interest rate but where the frequency of that adjustment does not match the term of the reference interest rate (e.g., the interest rate is adjusted every three months), at the time of initial recognition the Bank assesses this mismatch in the interest component in order to determine whether the contractual cash flows represent solely principal and interest payments on the outstanding principal.

The contractual conditions contained in financial assets that, at the time of initial recognition, have a minimum effect on the cash flows or depend on exceptional and highly unlikely events taking place (such as liquidation by the issuer) do not prevent the asset from being classified in the amortised cost portfolio or fair value portfolio through other comprehensive income portfolio.

Classification of financial liabilities

Financial liabilities are classified under the following captions: “Financial liabilities held for trading”, “Financial liabilities designated at fair value through profit or loss” and “Financial liabilities at amortised cost”, save for liabilities that must be presented under “Liabilities included in disposal groups classified as held for sale” or relate to “Fair value changes of the hedged items in portfolio hedge of interest rate risk” or “Derivatives – Hedge accounting”, which are presented separately.

The caption "Financial liabilities at amortised cost": includes financial liabilities not classified as financial liabilities held for trading or as other financial liabilities at fair value through profit or loss. The balances recognised in this category, irrespective of how they are used and their maturity, arise from the ordinary funding activities of credit institutions.

Initial recognition and measurement

Upon initial recognition, all financial instruments are recognised at fair value. For the financial instruments that are not subsequently valued at fair value through profit or loss, the fair value amount is adjusted, adding or deducting transaction costs directly attributable to the acquisition or issuance thereof. In the case of financial instruments at fair value through profit or loss, the directly attributable transaction costs are immediately recognised in the income statement.

The transaction costs are defined as expenses directly attributable to the acquisition or sale of a financial asset, or to the issuance or assumption of a financial liability, which would not have been incurred if the Bank had not made the transaction. These include, among others, fees paid to intermediaries (such as promoters) and mortgage arrangement expenses. Under no circumstances are the internal administrative expenses or those deriving from prior research and analysis considered transaction costs.

Subsequent measurement of financial instruments

After its initial recognition, the Bank recognises a financial instrument at amortised cost, at fair value through profit or loss, or at fair value through other comprehensive income.

Receivables for trading operations that do not have a significant financing component and the commercial loans and short-term debt securities that are initially measured by the price of the transaction or its outstanding principal, respectively, continue to be measured by said amount, deducted of impairment losses, as described in section 2.7.

Income and expenses of financial assets and liabilities

The income and expenses of financial instruments at amortised cost are recognised according to the following criteria:

Portfolio		Recognition of revenue and expenses
Financial assets	**At amortised cost**	• **Accrued interest:** On the income statement, with the effective interest rate of the operation on the gross book value of the operation (except for stage 3 assets, where the rate applies to the net book value) • **Other changes in value**: gains or losses when the financial instrument is derecognised from the balance sheet, reclassified, or when there are impairment losses or gains on its subsequent recovery.
	At fair value through profit or loss	• **Changes in fair value:** changes in fair value are recognised directly in the income statement, distinguishing, for non-derivative instruments, between the part attributable to the instrument's return, which will be booked as interest or dividends in accordance with its nature, and the remainder, which will be booked as a gain or loss in financial operations, in the corresponding caption. • **Accrued interest:** in debt securities it is calculated using the effective interest rate method.
	At fair value through other comprehensive income [1]	• Accrued interest or dividends recognised in the income statement. Interest is recognised in assets at amortised cost. • Foreign exchange differences in the income statement, when debt securities, and in other comprehensive income, when equity instruments. • Impairment losses, debt securities or gains for subsequent recovery in the income statement. • The remaining changes in value are recognised in other comprehensive income.
Financial Liabilities	**At amortised cost**	• **Accrued interest:** in the income statement, at the transaction's effective interest rate on the gross amount of the transaction. • **Other changes in value:** gain or loss when the financial instrument is derecognised from the balance sheet or reclassified.
	At fair value through profit or loss	• **Changes in fair value:** changes in the value of a financial liability designated at fair value through profit or loss, when applicable, as follows: a) the change in the fair value of a financial liability attributable to a change in its own credit risk is recognised in other comprehensive income, which would be directly transferred to a reserves caption when the financial liability was derecognised. b) the remainder of the fair value change is recognised as a profit / (loss) for the year. • **Accrued interest:** in debt securities it is calculated using the effective interest rate method.

[1] Thus, when a debt security is recognised at fair value through other comprehensive income, the amounts recognised as profit or loss for the period are the same as those that would be recognised if measured at amortised cost. When a debt security measured at fair value through other comprehensive income is derecognised from the balance sheet, the gain or loss accumulated in other comprehensive income is reclassified as profit or loss for the period. On the other hand, when an equity instrument measured at fair value through other comprehensive income is derecognised from the balance sheet, the gain or loss recognised in other comprehensive income is not reclassified as a profit or loss for the period. For each of the above portfolios, the recognition would change if said instruments form part of a hedging relationship (Note 2.3.).

Reclassifications between financial instrument portfolios

Under the IFRS 9 requirements, reclassifications between financial instruments portfolios can only occur in the event the Bank decides to change its business model for the management of a financial assets portfolio. This reclassification would be carried out prospectively from the date of the reclassification. In accordance with the IFRS 9 approach, in general, changes in the business model occur very infrequently. Financial liabilities cannot be reclassified between portfolios.

2.3. Hedge accounting

Banco BPI uses financial derivatives as a financial risk management tool, mainly to hedge interest rate risk (Note 3 and 14). When these transactions meet certain requirements, they qualify for hedge accounting. The Bank applies the provisions of IFRS 9 relating to hedge accounting.

The Bank maintains the hedging relationship documentation, which includes the identification of the hedging instrument and of the hedged item, the nature of the risk to be hedged and the way in which the Bank assesses whether the hedging relationship meets the requirements of hedging effectiveness. In accordance with IFRS 9, to ensure that the effectiveness requirement is met:

a) there must be an economic relationship between the hedged item and the hedging instrument,

b) the credit risk of the hedged item's counterparty or of the hedging instrument should not have a dominant effect on changes in value resulting from said economic relationship, and

c) the coverage ratio of the hedge accounting relationship, understood as the share of the item hedged by the hedging instrument, must be the same as the coverage ratio used for management purposes.

Fair value hedges

Fair value hedges hedge the exposure to changes in fair value of financial assets and liabilities or unrecognised firm commitments, or an identified portion of such assets, liabilities or firm commitments, that are attributable to a particular risk and could affect the income statement.

In fair value hedges, value changes in the hedging instrument or in the hedged item for the portion attributable to the hedged risk, are recognised in an asymmetrical way according to whether the hedged item is a debt instrument or an equity instrument.

In debt securities, value changes in the hedging instrument or in the hedged item for the portion attributable to the hedged risk are recognised in the income statement, in the "Gains/(losses) from hedge accounting, net" caption. In fair value macro-hedges, value changes in the hedged items are balanced in "Assets – Fair value changes of the hedged items in portfolio hedge of interest rate risk" or "Liabilities – Fair value changes of the hedged items in portfolio hedge of interest rate risk" depending on the substance of the hedged item, rather than in the captions under which the hedged items are recognised.

When hedging derivatives no longer meet the requirements for hedge accounting, they are reclassified as trading derivatives. Fair value changes in debt securities are recognised in profit or loss using the effective interest rate method, as from the date the hedge is interrupted.

Banco BPI does not have hedges for equity instruments.

2.4. Offsetting of financial assets and liabilities

Financial assets and a financial liabilities may be offset and the net amount presented in the balance sheet when, and only when, the Bank has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously, taking the following into consideration:

- The legally enforceable right to set off the recognised amounts should not be contingent on a future event and must be legally enforceable in all circumstances, including cases of default or insolvency of any or all of the counterparties;
- Settlements are considered equivalent to 'net settlement' when they meet the following requirements: they totally eliminate or result in insignificant credit and liquidity risk; and settlement of the asset and liability is made in a single settlement process.

In BPI's financial statements, derivatives and repo security transactions that permit the offsetting of credit risk by counterparty are not offset for accounting purposes - the value of each transaction is recognised in assets or liabilities depending on whether it is positive or negative, respectively.

2.5. Derecognition of financial instruments

A financial asset is totally or partially derecognised when the contractual rights to the cash flows from the financial asset expire or when they are transferred to a third party outside the entity.

The accounting treatment of transfers of financial assets depends on the manner and the extent to which the risks and rewards associated with ownership of the transferred assets are transferred to third parties:

- If substantially all the risks and rewards of ownership of the transferred asset are transferred (such as in the case of, among others: unconditional sales, a sale with an option to repurchase the financial asset at its fair value at the time of repurchase, a sale of a financial asset together with a put or call option that is deeply out of the money, or asset securitisations in which the transferor does not retain any subordinated loans and does not provide any type of credit enhancement to the new owners), it is derecognised, and any rights or obligations retained or arising as a result of the transfer are simultaneously recognised;
- If all the risks and rewards of ownership of the transferred financial asset are retained substantially (such as in the case of among others: sale and repurchase transactions where the repurchase price is a fixed price or the sale price plus a lender's return, a securities lending agreement under which the borrower has the obligation to return the securities or similar) it is not derecognised and continues to be measured by the same criteria used before the transfer and the following are recognised:
    - A financial liability equal to the consideration received, which is subsequently measured at amortised cost, unless it meets the requirements to be classified under other liabilities at fair value through profit or loss.
    - The income generated on the transferred (but not derecognised) financial asset and the expenses of the new financial liability, without offset.

- If substantially all the risks and rewards of ownership of the transferred financial asset are neither transferred nor retained (such as in the case of, among others, a sale of a financial asset together with a put or call option, securitisations in which the transferor assumes a subordinated loan or other type of credit enhancement for part of the transferred asset), the following distinction is made:

    - If the transferor does not retain control over the financial asset transferred, it is derecognised and any right or obligation retained or arising from the transfer is recognised.

    - If the transferor retains control over the financial asset transferred, it continues to recognise the asset for an amount equal to its exposure to changes in value of the asset, recognising a liability associated with the financial asset transferred. The net amount of the transferred asset and the associated liability shall be the amortised cost of the rights and obligations retained, if the asset is measured at amortised cost, or at fair value of the rights and obligations retained, if the transferred asset is measured at fair value.

According to the terms of the transfer agreements in place, the portfolio of loans and receivables securitised by the Group does not meet the criteria for derecognition.

Financial liabilities shall equally be derecognised when the obligation specified in the contract is discharged, cancelled or expires.

2.6. Financial guarantees

Financial guarantees given

Financial guarantees are defined as contracts whereby the issuer thereof undertakes to make specific payments to reimburse the creditor for the loss incurred when a specific debtor fails to meet its payment obligations, irrespective of the legal form of the obligation (guarantee, surety, financial or technical guarantee, insurance contract or other types of contract).

Financial deposits comprise all manner of deposits that directly or indirectly guarantee debt securities such as loans, credit facilities, finance leases and deferred payment arrangements for all types of debt.

All these transactions are recognised as off-balance sheet items.

Financial guarantees are reviewed periodically so as to determine the credit risk to which they are exposed and, if appropriate, estimate any impairment required. The criteria used in this process is similar to those established for quantifying impairment losses on debt securities measured at amortised cost as set out in Note 2.7 - Impairment of financial assets.

Impairment constituted for this type of arrangement are recognised under the "Provisions” balance sheet caption. Additions to and reversals of impairment are recognised in “Provisions or reversal of provisions” in the income statement.

Financial guarantees received

No significant guarantees or collateral were received with regard to which there is authorisation to sell or repledge, without default by the guarantor, except for the collateral inherent to Banco BPI's treasury activity.

2.7. Impairment of financial assets

The Bank determines impairment losses for debt securities that are measured at amortised cost and at fair value through other comprehensive income, as well as for other exposures that involve credit risk, such as granted financial guarantees and other granted commitments.

The aim of the IFRS 9 requirements as regards impairment is to ensure recognition of expected credit losses on operations, assessed collectively or individually, considering all the reasonable, reliable and duly substantiated information available at each reporting date, including forward looking information.

Impairment losses on debt securities in the period are recognised as an expense under the heading "Impairment/(reversal) of impairment losses on financial assets not measured at fair value through profit or loss" in the income statement. Impairment losses on debt securities that are measured at amortised cost are recognised against an accumulated impairment caption on the balance sheet, which reduces the book value of the asset, while impairments of assets measured at fair value through other comprehensive income are recognised against other comprehensive income, in the corresponding equity caption.

Impairment losses in exposures involving credit risk other than debt securities are recorded as a provision under the heading "Provisions – Commitments and guarantees given" on the liabilities side of the balance sheet. Additions to and reversals are recognised under the heading "Provisions or reversal of provisions for commitments and guarantees given" in the income statement.

For the purpose of accounting for impairment losses in debt securities, the following definitions must be taken into account:

- **Credit losses:** these correspond to the difference between all the contractual cash flows owed to the Bank in accordance with the financial asset's contractual conditions and all the cash flows that the Bank is due to receive (i.e. the entire cash flow shortfall), discounted at the original effective interest rate or, for financial assets that were purchased with or that originated with credit impairment, discounted at the effective interest rate adjusted to reflect credit quality, or the interest rate on the date referred to in the financial statements in the case of a variable rate.

  In the case of granted loan commitments, the contractual cash flows that would be owed to the Bank in the event the loan commitment were drawn down are compared to the cash flows that it would expect to receive when the asset is recognised. In the case of granted financial guarantees, the Bank considers the payments that it expects to make less the cash flows it expects to receive from the guarantor holder, with medium hedges being applied, based on the Client's profile, on the estimated amount of payments which the Bank expects to make.

  The Bank estimates the cash flows taking into account the contractual duration established for the operations. In the case of credit cards and overdrafts on current accounts of individual Clients, the Bank considers that the expected life of these operations is 12 months.

  The calculation of cash flows also takes into account those deriving from the sale of collateral, taking into account the cash flows that would be obtained from the sale thereof, minus the costs required to obtain them, maintain them and subsequently sell them, or other guarantees that are an integral part of the contractual conditions, such as financial collaterals.

- **Expected credit losses:** these correspond to the weighted average of the credit losses, using as weighting the respective probability of default events. The following distinction will be taken into account:

  i. Expected credit losses during the lifetime of the operation: these are expected credit losses resulting from possible default events during the expected lifetime of the operation.

  ii. Expected credit losses at 12 months: these are the part of the credit losses expected during the lifetime of the operation corresponding to the expected credit losses resulting from any default events relating to a financial instrument during the twelve months following the reference date.

The amount of the impairment loss is calculated according to whether there has been a significant increase in credit risk since the operation's initial recognition, and whether or not a default event has occurred:

	Improvement	Credit risk since initial recognition	Deterioration
Credit Risk Category	***Stage* 1**	***Stage* 2**	***Stage* 3**
Impairment (Updated at each reporting date)	**Expected credit losses at 12 months**	**Expected credit losses during lifetime**	
Classification Criteria	**No material change in credit quality since initial recognition**	**Material increase in credit risk since initial recognition*** • Tolerance matrix[1] • Mandatory criteria: • Scoring / Rating[2] at reference date • Restructurings • Indications in Central Credit Register, List of high-risk users • > 2 active EWS[3] (PARI) • > 30 days overdue • Combination of tolerance matrix with 1 active EWS • Indicators that, in accordance with market indicators/triggers, may determine a significant deterioration in risk	**Credit classified as in default**
Interest on income calculated based on:	**Effective interest rate on gross amount**		**Effective interest rate on amortised cost**

1) To capture a significant deterioration in the probability of default (PD)
2) Scoring / Rating above a given classification
3) Early Warning Signal

* The criteria indicated are considered in case they apply to the risk segment.

Regardless of its subsequent classification, in the event that an operation is bought or originated with credit impairment, its hedging would be equal to the accumulated amount of the changes in the credit losses after initial recognition and the interest income of these assets would be calculated by applying the effective interest rate adjusted to reflect credit quality, at the amortised cost.

The derecognition of credit operations by write-off occurs after (i) the recognition of impairment for the total outstanding amount, (ii) confirmation by individual analysis that the expectations of recovery are nil or very residual, and (iii) the existing tax criteria for the purpose have been met. It should be noted that, broadly speaking, the tax criteria for the write-off of loans granted are met (i) when defaults exceed 24 months and (ii) there is no mortgage security.

2.8. Refinancing or restructuring operations

BPI has a Regulation on loan operations restructured or renegotiated due to financial difficulties, which establishes the following:

- Objective and subjective criteria for the identification of customers in financial difficulties;
- General management principles for this type of exposures, including with regard to the assessment of payment capacity, the reinforcement of guarantees, debt cancellation, etc.;
- Typologies of measures to be applied depending on the customer's characteristics;
- Governance of the credit analysis and decision-making process.

To this effect, restructured loans are deemed to be those in which changes are made to the agreed terms, and renegotiated loans, those that are replaced by other loans. These are the main criteria for financial difficulties defined in the Policy:

- Clients in default;
- Clients in default for more than 30 days (currently, or in the last 3 months with BPI, or in the last 12 months in the banking system);
- Drawings above 95% of the ceiling of renewable credit operations;
- Deterioration of the internal risk rating;
- Other risk deterioration subjective criteria.

Some restructurings or renegotiations imply the classification of the customer's exposure as in default, namely when there is a relevant economic loss or when an individual analysis permits to conclude that the restructuring does not ensure the repayment of the debt within a reasonable period. Internal regulations establish specific cure periods for this type of situation, which are restarted whenever the client undergoes a new restructuring or renegotiation due to risk deterioration or non-performance for more than 30 days. Restructurings or renegotiations due to risk deterioration, but not considered in default, are classified in stage 2, with pre-established probation periods.

2.9. Foreign currency transactions

The Bank’s functional and presentation currency is the euro. Consequently, all non-euro balances and transactions are foreign currency balances and transactions.

All foreign currency transactions are recorded, on initial recognition, by applying the indicative spot exchange rate between the functional currency and the foreign currency, disclosed by Banco de Portugal.

At the end of each reporting period, foreign currency balances are translated to euros at the indicative official foreign exchange rate disclosed by Banco de Portugal.

Unmatured forward foreign exchange purchase and sale transactions not considered as hedges, are translated to euros at the yearend exchange rates on the forward currency market.

The exchange differences arising on the translation of foreign currency balances to BPI’s reporting currency are generally recognised under “Exchange differences (net)” in the income statement. However, exchange differences arising from changes in the value of equity instruments at fair value through other comprehensive income, are recognised under “Equity – Other comprehensive income – Items that will not be reclassified to profit or loss”

Income and expenses expressed in foreign currencies are translated to Euro at the exchange rates in force on the day in which they are recognised.

2.10. Recognition of income and expenses

The main criteria applied to recognise income and expenses are summarised as follows:

	Characteristics		Recognition
Income and expenses from interest, dividends and similar	**Income and expenses from interest and similar**		Based on accrual period, through application of the effective interest rate method, regardless of the resulting cash or financial flow.
	Dividends received		As income at the time it is declared (official announcement date of dividend payment by the company's competent body).
Fee and Commissions charged/paid[1]	**Credit Commissions** - are an integral part of the effective revenue or expense of a financing operation. Are received upfront.	Commissions received for the creation or acquisition of financing operations that are not measured at fair value through profit or loss (for example: payments for activities such as the evaluation of the borrower's financial situation, evaluation and registration of various guarantees, negotiation of the operation's terms, preparation and processing of the documentation and closing of the transaction).	Deferred and recognised over the life of the operation as an adjustment to the operation's effective income or cost.
		Commissions agreed as compensation for the commitment to grant financing, when said commitment is not measured at fair value with changes in profit or loss and it is likely that the Group will enter a specific loan agreement.	Deferred over the expected life of the financing as an adjustment to the operation's effective income or cost. If the commitment expires without the entity making the loan, the fee is recognised as income on expiry.
		Commissions paid on the issuance of financial liabilities at amortised cost.	Included, together with the respective direct costs, in the value of the financial liability, charged as an adjustment to the effective cost of the operation.
	Non-credit Commissions - Commissions derived from the provision of financial services other than financing operations.	Related to the execution of a service provided over time (such as account maintenance fees).	Recognised over time, by measuring the completion stage against full compliance with the performance obligation.
		Related with the provision of a service executed at a specific moment (such as subscription of securities, foreign exchange, consultancy or loan syndication).	Recognised in the income at the time of collection.
Other non-financial income and expenses	**Other revenue from recurring activities**		• As a general criterion, they are recognised when the goods or services contracted with the clients are delivered or provided. The amount of the consideration which the Bank expects to be entitled to in exchange for such goods or services is recognised as a revenue over the duration of the contract. • If a client receives or is entitled to receive a consideration without the transfer of the goods or services, a liability is recognised and remains in the balance sheet until it is debited to the income statement.

[1] Exceptions: Commissions on financial instruments at fair value through profit or loss and unavailability commission (in operations where the offer of funds is optional for the borrower) are immediately recognised in the income statement.
Commissions deriving from products or services that are typical of the financial business are presented separately from those deriving from products and services that are not typical of this activity, the latter being presented under the caption "Other operating income" in the income statement.

As for the accounting of the costs related to the contracts, the costs of obtaining a contract are those in which the Bank incurs to obtain a contract with a Customer and which it would not have incurred if the Bank had not entered into said contract.

Costs are recognised as an asset if they are directly related to a contract that can be identified specifically and the Bank expects to recover them. In this case, they are amortised systematically and consistently with the transfer to the Customer of the contractually related goods or services. However, if the asset's repayment period is equal to or less than one year, these costs are not recognised as an asset and are recorded as an expense.

2.11. Employee benefits

Employee benefits include all forms of compensation given in exchange for services rendered to the Bank by its Employees or for the termination of the employment contract. They can be classified into four categories:

Short-term employee benefits

These are employee benefits (other than termination benefits) which fall due wholly within 12 months after the end of the annual accounting statements period in which the employees render the related service. They include wages, salary supplements, social security contributions and contributions to the medical and healthcare services for banking sector employees (SAMS), allowances (holidays, Christmas, meals, children, etc.), paid sick leave or other, variable remuneration, bonuses and non-monetary benefits payable to current employees such as health, life, personal accidents, and occupational hazards insurance, accommodation expenses and free or subsidised goods or services related to active employees.

The cost of services rendered is recognised under "Administrative expenses – Staff expenses" of the income statement.

Credit facilities made available to Employees at below market rates are considered to be non-monetary benefits and are calculated as the difference between market rates and the rates agreed with Employees. The difference is recognised under "Administrative expenses – Staff expenses" with a balancing entry under "Interest income" in the income statement.

Post-employment benefits

Post-employment benefits are all those undertaken with employees, to be paid after completion of their employment with the Bank. They include retirement benefits, such as pensions and other post-employment benefits, such as post-employment medical care at the end of the employment relationship.

Defined contribution plans

The post-employment obligations with employees are deemed to be defined contribution obligations when the Bank makes predetermined contributions to a separate entity (fund) and has no legal or constructive obligation to make further contributions if the fund assets are not sufficient to pay the all the employee benefits relating to the service rendered in the current and prior periods. Contributions of this type made in each year are recognised under "Administrative expenses – Staff expenses" in the income statement. Post-employment obligations that do not meet the aforementioned conditions are considered defined benefit obligations.

Defined benefit plans

The present value of defined benefit post-employment obligations (pension liabilities), net of the fair value of the pension funds' assets, is recorded under "Other liabilities - Liabilities for pensions and other defined benefits", in the case of a coverage shortfall in the pension funds, or under "Other assets - Liabilities for pensions and other defined benefits" in the case of a coverage surplus.

Plan assets are defined as those assets that will be used to directly settle plan obligations and that meet the following conditions:

- They are not owned by the Bank, but rather by a legally separate, non-related third party.
- They are solely available to pay or fund post-employment benefits and are not available to the Bank's own creditors, even in bankruptcy. They cannot be returned to the Bank unless the remaining assets of the plan are sufficient to meet all the related post-employment benefit obligations of the plan or of the Bank, or are used to reimburse it for post-employment benefits the Bank has already paid to its Employees.

Post-employment benefits are recognised as follows:

- Service cost is recognised in the income statement, in the caption "Administrative expenses - Staff Expenses", and includes the following components:
    - Current service cost, understood as the increase in the present value of obligations arising from employee service in the current period;
    - Past service cost, resulting from amendments to existing post-employment benefits or the introduction of new benefits, and the cost of curtailments;
    - Any gain or loss arising on settlement of a plan.
- The interest cost/(income) on the net post-employment benefit liability/(asset), understood to be the change during the period in the net pension liability that arises from the passage of time, is recognised in "Administrative expenses – Staff expenses" in the income statement.

- Remeasurements of the net liability/(asset) for defined benefit post-employment benefits are recognised in "Accumulated other comprehensive income" in the balance sheet. It includes:
    - Actuarial gains and losses arising in the period from differences between the previous actuarial assumptions and what has actually occurred and from changes in the actuarial assumptions used.
    - The return on plan assets, excluding the amounts included in the net interest on the liability/(asset) for defined benefit post-employment benefits.
    - Any change in the impact of the asset ceiling, excluding the amounts included in the net interest on the liability/(asset) for defined benefit post-employment benefits.

Other long-term employee benefits

Long-term remuneration, understood as the commitments assumed with pre-retired people (employees who have ceased to provide services, but who, without being legally retired, continue to have economic rights until they acquire the status of legally retired), is treated for accounting purposes, to the extent applicable, as established for defined benefit post-employment plans.

Termination benefits

These benefits are payable as a result of an Entity's decision to terminate an employee's employment, a valid expectation having been raised in the employee or an employee's decision to accept the Bank's irrevocable offer of those benefits in exchange for voluntary redundancy.

A liability and a non-recurring cost for termination benefits are recognised when there is no realistic possibility of withdrawing the offer to pay the termination benefits or when the costs for restructuring which involves the payment of termination benefits are recognised. These amounts are recognised as a liability under "Accrued costs - Staff Expenses" in the balance sheet until they are settled or transferred to Pension Liabilities.

2.12. Employee remuneration based on equity instruments

Within the scope of variable remuneration or participation in long-term incentives plans, Banco BPI's Directors and Employees may be entitled to receive part of the remuneration in financial instruments, preferably CaixaBank shares.

Due to its characteristics, this delivery of CaixaBank shares to Directors and Employees of Banco BPI is accounted for as defined in IFRS 2, i.e., as a cash-settled share-based payment transaction.

Costs with variable remuneration and long-term incentive plans are fully recognised under "Staff Expenses" in the period during which the service is provided, against a liability on the balance sheet. Until its settlement date, this liability is valued as the fair value of the shares to be delivered, with the respective changes being recognised as profit/(loss) for the year.

Banco BPI purchases a portfolio of CaixaBank shares in order to ensure full coverage of this liability. These shares remain booked in the portfolio of "Financial assets not designated for trading compulsorily measured at fair value through profit or loss" until the date when they are delivered. The respective change in fair value is also recognised through profit or loss.

2.13. Income tax

Banco BPI is subject to the tax regime set out in the Portuguese Corporate Income Tax Code and in the Statute of Tax Benefits.

The expense for income tax is recognised in the income statement, except when it results from a transaction recognised directly in equity, in which case the corresponding tax effect is also recognised in equity.

Income tax is calculated as the sum of the current tax for the year resulting from applying the tax rate legally in force to the taxable profit for the year and any changes in deferred tax assets and liabilities recognised in the year in the income statement.

Temporary differences, tax loss carryforwards and unused tax deductions are recognised as deferred tax assets and/or deferred tax liabilities. These amounts are recognised at the tax rates that are expected to apply when the asset is realised or the liability is settled, taking into account the applicable tax legislation.

All tax assets are recognised under "Tax assets" in the balance sheet as current, for amounts to be recovered in the next 12 months, or deferred, for amounts to be recovered in future reporting years. Deferred tax assets are only recognised when it is probable that they will be reversed in the foreseeable future and it is estimated that there will be sufficient taxable profit against which they can be used.

Similarly, tax liabilities are recognised in "Tax liabilities" in the balance sheet, also split into current and deferred. Current tax liabilities are recognised as the amount of tax payable and deferred tax liabilities as the amount expected to be paid in future periods.

Deferred tax liabilities are recognised for all taxable differences that affect future taxable income.

Net income distributed to Banco BPI by subsidiaries and associated companies, is not taxed in Banco BPI as a result of applying the regime established in article 51 of the Corporate Income Tax Code, which provides for the elimination of double taxation of distributed net income.

The Bank does not recognise deferred tax assets or liabilities for deductible or taxable temporary differences relating to investments in associated companies, since the stake held by the BPI Group has exceeded 10% for more than one year, which enables it to be considered in the Participation Exemption regime, except for Banco Comercial e de Investimentos, in which the deferred tax liabilities relating to taxation in Mozambique of all the distributable profits, are recognised.

BPI does not recognise deferred tax assets or liabilities for deductible or taxable temporary differences relating to investments in subsidiaries as it is unlikely that such differences will be reversed in the foreseeable future.

2.14. Tangible assets

Tangible assets include the amount of property, land, furniture, vehicles, IT equipment and other facilities owned or acquired under a finance lease for the Bank's own use.

Tangible assets are generally stated at acquisition cost deducted from accumulated amortisation and any impairment losses determined by comparing the carrying amount of each item to its recoverable amount.

Depreciation is calculated using the straight-line method on the basis of the acquisition cost of the assets. Land is not depreciated since it is considered to have an indefinite life.

The depreciation charge of tangible assets is recognised under the "Depreciation and amortisation" caption of the income statement and is calculated basically using the depreciation rates set out in the table below, which are based on the years of estimated useful life of the various assets:

Useful life of tangible assets

	Years of useful life
Buildings	20 to 50
Works in owned property	10 to 50
Non-recoverable expenditure on leasehold property	3 to 10
Equipment	3 to 12
Other tangible assets	3 to 10

Upkeep and maintenance expenses are recognised under "Other administrative expenses" in the income statement.

2.15. Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance acquired from third parties or developed internally.

The Bank recognises, in this caption, expenses relating to the development stage of projects implemented and to be implemented, as well as the cost of acquiring software, in both cases where the impact extends beyond the financial year in which the cost is incurred.

Intangible assets are amortised on a straight-line monthly basis over the estimated period of useful life of the assets which, in general, corresponds to a period of three years.

Computer software developed internally is recognised as an intangible asset when, among other requirements, it is capable of being used or sold, and it is identifiable and its ability to generate future economic benefits can be demonstrated.

Expenses incurred during the research phase are recognised directly in the income statement for the period in which they are incurred, and cannot subsequently be capitalised.

2.16. Assets received in settlement of defaulting loans and non-current assets held for sale and discontinued operations (IFRS 5)

This heading includes individual assets or disposal groups, or assets that form part of a line of business that will be disposed of (discontinued operation) whose sale is highly probable in their present condition within one year from the reporting date. Assets that will be disposed of within a year but where disposal is delayed by events and circumstances beyond the Group's control may also be classified as held for sale, when there is sufficient evidence that the Company is still committed to selling them.

The carrying amount of these assets will be recovered principally through a sale transaction

Assets received in settlement of defaulting loans and other assets

Non-current assets (property, equipment or other) received as total or partial settlement of debtors' payment obligations in credit operations are recognised under "Non-current assets and disposal groups classified as held for sale" unless it has been decided to make continuing use of the assets.

Such assets are recorded at the legal or tax acquisition amount or the amount stated in the settlement agreement. Assets recovered following the resolution of lease contracts are recorded at the outstanding amount due not invoiced.

These assets are subject to regular valuations. Property valuations are carried out by independent appraisers selected from the pool of entities registered with the Securities Market Commission as "expert appraisers", and seeking to ensure adequate diversification and rotation of appraisers.

The independent external appraisals follow the principles defined in:

- IVSC – International Valuation Standards Council, in the International Valuation Standards publication (7th edition, of 2005);
- Bank of Portugal Notice 5/2006 (Valuation of Mortgaged Properties pledged as collateral for Mortgage Bond Loans);
- Regulation no. 575/2013/EU of the European Parliament and of the Council (prudential requirements);

using 3 appraisal methods described in the contracts entered into with the companies: market method, income method and Cost method:

Market method

This method determines an estimate of the amount by which it is understood that a particular property may be traded, after an appropriate period of marketing, between an interested seller and an interested buyer, in which both parties act in an informed, prudent and non-conditioned manner and subject to no coercion.

The value of the property is determined after analysing transaction and offered prices for comparable properties, obtained through knowledge of the local market and exhaustive collection of real estate market data which permit to determine the supply/demand situation for similar properties and act as a decisive factor in determining the Market Value of the property under evaluation.

Income method

In this method, the market value of a property corresponds to the present value of all future rights and benefits deriving from its ownership.

This method relies on the principle that the management and operation of the property is based on principles of legality, rationality and competence. The purpose of the analysis is to determine the property's capacity to generate revenue flows and respective frequency, also inferring all inherent expenses.

Cost method

In this method, the estimate of the value of a property corresponds to the construction cost of another property serving the same purposes and having the same characteristics of the first, in terms of materials and technology, at current market prices. The value determined includes the value of the land, the construction costs and the developer profit margin, minus depreciation, i.e., the property's loss of value due to physical, functional, economic or environmental obsolescence, or a combination of these factors.

For all appraisals not using the 3 appraisal methods, the expert appraiser must take into account the characteristics of the local market and the specific characteristics of the property being appraised. The appraisal value that will be adopted shall be the lower of those determined, as it is the more prudent in terms of guarantee.

In any case, the appraisal reports must contain an explanation of the methodological options, thus complying with Banco de Portugal's instructions.

On-site appraisal by independent external entities takes place:

- On the date the asset is booked in the Bank's balance sheet;
- Regularly:
  - –Every 3 years in the case of residential property (with quarterly re-appraisal based on an internal statistical model (RIMO);
  - –Annually for all other properties;
  - –Whenever available information points to a possible substantial decrease in value.

After initial recognition, the Bank compares the asset's carrying amount with its estimated fair value. The fair value and the impairment allowances created for foreclosed real estate assets are determined in accordance with the appraisal value and the book value of the properties. The appraisal value is the lower of the following:

- On-site appraisal value
- Statistical revaluation value (RIMO)
- Sale value (if purchase/sale agreement concluded)

minus costs to sell, recognising any additional impairment or recoveries in the income statement (up to an amount equal to that of the previously recognised impairment losses). Impairment may be increased due to the time the property has remained in the Bank's portfolio.

Changes in impairment losses on a non-current asset classified as held for sale are recognised under “Profit/(loss) from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations”. Unrealised capital gains on these assets are not recognised in the balance sheet or in the income statement.

On the date of sale, the capital gains or losses realised on these assets are recognised in the income statement under “Gains/(losses) on derecognition of non-financial assets, net”.

The Bank's tangible assets that are no longer in use (unused property and equipment) and are in the process of being sold, are also booked under this caption. Such assets are transferred from tangible assets at book value (cost less accumulated depreciation and impairment losses) on the date they become available for sale, and are subsequently revalued in the same manner as assets received in settlement of defaulting loans.

Non-current assets held for sale are not depreciated while remaining in this category.

Discontinued operations

A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale, and (i) represents either a separate major line of business or a geographical area of operations, (ii) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or (iii) is a subsidiary held exclusively to sell.

Assets classified in this caption are not depreciated and are valued at the lower of cost and fair value, less costs to be incurred with the sale.

If book value is greater than fair value less costs to sell, an impairment loss is recognised in the caption “Impairment losses and other provisions, net”.

As a result of the agreement established between Banco BPI and CaixaBank for the sale of the equity holdings in BPI Gestão de Activos and BPI GIF, the assets and liabilities of these entities were reclassified to the captions “Non-current assets held for sale and discontinued operations” and “Non-current liabilities held for sale and discontinued operations”, respectively, as provided for in IFRS 5 – Non-current assets held for sale and discontinued operations, at the end of 2017.

2.17. Leases

The Bank adopted IFRS 16 “Leases” on 1 January 2019, opting for applying this standard retrospectively, with the cumulative effect of opening balances being recognised on this date. Therefore, the comparative information was not restated. The comparative information was prepared in accordance with IAS 17, with the Bank acting as lessee and recognising the costs with operational leases on the income statement on a straight-line basis during the life of the agreement.

The following table summarizes how to identify and account for lease operations in which the Bank acts as lessor or lessee:

Determining whether the agreement is or contains a lease [1] (At the onset or when the contractual conditions are changed)	Is the asset identified in the agreement?	**Yes**	Does the party receiving the asset have the right to control its use?	**Yes**	It is a lease agreement
				No	It is not a lease agreement
		No	It is not a lease agreement		

[1] For agreements that have a leasing component, one or more additional leasing components and others that are not leasing components, the agreement payment will be distributed to each leasing component on the basis of the relative price, regardless of the leasing component, based on aggregate price, and based on aggregate price, regardless of the non-leasing components.

Lessor

	Finance leases	Operating leases
	Operations where, substantially, all the risks and rewards inherent to the leased asset are **transferred to the lessee.**	Operations where, substantially, all the risks and rewards inherent to the leased asset, as well as its ownership, are **maintained by the lessor**.
Recognition as lessor (According to the economic purpose of the operation, regardless of its legal form)	- Are recognised as a **loan granted** under the balance sheet caption “Financial assets at amortised cost” as the sum of the present value of all payments receivable by the lessee during the period of the leasing plus any non-guaranteed residual amount pertaining to the lessor. - Include fixed payments (minus payments made to the lessee) as well as variable payments determined in accordance with an index or rate, and also the exercise price of the purchase option, if there is reasonable certainty that it will be exercised by the lessee and penalties for termination by the lessee if the term of the lease reflects the exercise of the termination option.	The acquisition cost of the leased assets is recognised in the **“Tangible assets” caption of the balance sheet.**
	The financial income obtained as a lessor is recognised in the income statement caption **“Interest income”**.	- They are **depreciated** using the same criteria as for the remaining tangible assets for own use. - Income is recognised in the income statement caption **“Other operating income”**.

Lessee

<table>
<tr><td rowspan="5">Recognition as lessee</td><td>Term of the agreement</td><td colspan="4">Open-ended or automatically renewable agreements (annually or half-yearly): for the purposes of applying IFRS 16, a term of 5 years[1] was assumed, starting on 1 January 2019, taking into account that there are significant economic penalties (namely investment and branch installation costs) that the Bank will incur if it terminates these agreements.

Fixed-term agreements (above 1 year): for these agreements it was assumed that the lease term coincides with the end date of the agreement.</td></tr>
<tr><td rowspan="4">Accounting record</td><td rowspan="3">Agreements where the underlying asset is not of low value (set at 6 000 euros)</td><td></td><td>At the start date of the agreement</td><td>Subsequently</td></tr>
<tr><td>Lease liability (“Other financial liabilities”)</td><td>Valued based on the present value of future lease payments not yet made on this date, using as discount rate the interest rate[2] that the lessee would obtain to borrow, with a similar maturity and guarantee, the funds necessary to obtain an asset of similar value to that of the right-of-use asset in a similar economic context.</td><td>Valued at amortised cost using the effective interest rate method and revalued (with the corresponding adjustment to the related right-ofuse asset) when there is a change in future payments due to negotiation, index or rate changes or in the event of a re-evaluation of the agreement's options.</td></tr>
<tr><td>Right-of-use asset (“Tangible assets”)</td><td>Valued at cost and includes the initial value of the lease liability, payments made on or before the commencement date, initial direct costs, costs of dismantling or rehabilitation when there is an obligation to bear them.</td><td>Amortised on a straight-line basis and subject to impairment losses, in accordance with the treatment established for the remaining tangible and intangible assets.</td></tr>
<tr><td colspan="2">Remaining agreements</td><td colspan="2">Accounted for as operating leases</td></tr>
</table>

[1] The 5-year term is in line with Banco BPI's strategic guidelines on the renewal of current lease agreements, taking into account the Bank and industry context, from the standpoint of business risk management and management of the fixed assets associated to the agreements.

[2] The Bank calculated these interest rates taking as a reference the cost of debt instruments, adding to the base market curve (swaps vs 6M Euribor) the covered and senior debt spreads for BPI.

The implementation of IFRS16 involved making estimates on the duration of agreements and decisions on the disaggregation of components related to services that were included in the formalised lease agreements.

2.18. Contingent assets

Contingent assets arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits. Contingent assets are not recognised in financial statements, except where an inflow of economic benefits is practically certain. If there is a probable inflow of economic benefits, it will be referred in the explanatory notes on the corresponding contingent asset.

Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements.

2.19. Provisions and contingent liabilities

Provisions cover present obligations at the date of preparation of the annual financial statements arising from past events which could give rise to a loss considered likely to occur; and is certain as to its nature but uncertain as to its amount and/or timing.

The financial statements include all the material provisions with respect to which it is considered more likely than not that the obligation will have to be settled. Provisions are recognised on the liabilities side of the balance sheet.

Provisions, which are quantified based on the best information available on the consequences of the event giving rise to them and are re-estimated at the end of each reporting period, are used for specific expenditures for which the provision was originally recognised. Provisions are fully or partially reversed when the obligations cease to exist or are reduced.

When an obligation exists but an outflow of resources embodying economic benefits is not likely, the obligation is recognised as a contingent liability. Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes more probable than not that an outflow of future economic benefits will be required, a provision is recognised in the balance sheet.

Provisions are recognised under "Provisions" on the liabilities side of the balance sheet. Contingent liabilities are disclosed in the notes to the financial statements.

2.20. Statement of cash flows

The following terms are used in the presentation of the statement of cash flows:

- Cash flows: cash and cash equivalents include cash, cash and deposits at Central Banks and other Credit Institutions, very short-term applications in Credit Institutions and cheques for collection.
- Operating activities: the indirect method is used to present cash flows from operating activities, which are the principal revenue-producing activities of credit institutions and other activities that are not investing or financing activities.
- Investing activities: the acquisition, sale or other disposal of long-term assets, such as equity investments in subsidiaries and associates, acquisition of tangible and intangible assets and other strategic investments not included in operating activities.
- Financing activities: activities that result in changes in the medium and long-term financing activities of the Bank and which do not form part of operating activities, such as issuance of debt securities and subordinated debt, capital increases and dividend distributions.

2.21. Statement of income and other comprehensive income

This statement presents the revenues and expenses recognised as profit or loss from Banco BPI's activity in the year, distinguishing between the profit or loss recognised in the income statement and the other revenues and expenses recognised directly in equity.

2.22. Statement of changes in equity

This statement presents all changes in the Bank's equity, including those due to accounting policy changes and error corrections. This statement presents a reconciliation between the carrying amount of each component of net assets at the beginning and the end of the period, grouping movements by nature under the following headings:

- Adjustments due to accounting policy changes and error corrections: includes changes in equity as a result of the retrospective restatement of financial statement balances, distinguishing between those resulting from changes in accounting policies from those representing the correction of errors.
- Total income and expenditure recognised: represents the aggregate of all items recognised in the statement of income and other comprehensive income.
- Other changes in equity: includes the remaining items recognised in equity, such as capital increases or decreases, distribution of dividends, treasury share transactions, equity-based payments, transfers between equity items, and any other increase or decrease in equity.

3. RISK MANAGEMENT

3.1. Environment and risk factors

The following risk factors had a significant influence on the BPI's risk management in 2019, due to their impact during the year and their long-term implications for the Bank:

- **Macroeconomic environment**

— **Global economy**

In 2019 the global economy suffered a considerable increase in uncertainty stemming from economic and geopolitical factors which to a large extent were already present in 2018. On the economic front, stood out, in first place, the doubts around the pace of growth and risks inherent to the Chinese economy. Until the end of the year this deceleration was gradual, with the authorities having in place mechanisms to control its intensity. However, concerns persisted about certain imbalances in the Chinese economy, namely the excessive indebtedness of the corporate sector. The slowdown of the main advanced economies was a second factor with an impact on global economic growth. This trend resulted, on the one hand, from the extension of the economic cycle, and, on the other hand, from idiosyncratic factors specific to each country. In the USA, in particular, after the tax stimuli implemented at the end of 2017 and beginning of 2018, the economy decelerated given the absence of any additional stimuli. In the Eurozone, the manufacturing sector, and especially the car industry, also faced a difficult situation, having to adapt to technological and regulatory changes.

On the geopolitical front, we should note the stepping up of protectionist policies in the USA, with the progressive imposition of tariffs on trade with China and increased tensions with the European Union (EU), after the World Trade Organization ruled in favour of the USA in a case of public aid to Airbus by the EU. However, it should also be pointed out that expectations of a trade deal between the USA and China increased in the latter part of the year, even if the negotiation process will likely be long and surrounded by some uncertainty.

These risk factors were reflected in the behaviour of the financial markets, which, after the volatility observed at the end of 2018, registered new episodes of instability and risk aversion during the summer, when the stock exchanges of the main advanced economies slumped in response to the publication of weak economic results and the resurgence of the commercial tug-of-war between the USA and China. In this context, and in view of prospects of a more accommodative monetary policy, with the central banks showing willingness to respond in a decisive manner to possible negative risks to economic activity, interest rates on the sovereign debt market fell sharply (to historical lows as of to date, in the case of Europe).

— **Eurozone**

The Eurozone risks context was impacted by geopolitical factors mainly linked to the difficulties of an agreement being reached regarding the United Kingdom's exit from the EU. These political uncertainties were compounded by the economic slowdown that had already started in 2018 and which intensified in 2019, in part due to the difficulties already mentioned that affected the manufacturing sector and in particular the car industry. Hence, after growing by 1.9% in 2018, the Eurozone advanced by 1.2% in 2019 and it is expected that its pace of expansion will be more subdued in 2020.

— **Monetary policy**

In this context of deterioration of macroeconomic conditions, the main central banks recalibrated their economic policies. In the USA, because inflationary pressures were contained, and in view of the expected slowdown of the economy, the Federal Reserve made three cuts in key rates during 2019. In addition, viewing the elimination of possible liquidity strains in the market, the Fed initiated a new asset purchase programme. The ECB, in turn, implemented a new stimulus package in September 2019, lowering by 10 bps the interest rate on credit institutions' deposits in the central bank (complemented by the implementation of a tiering scheme), new asset purchases (€20 billion monthly), and lower interest rates on TLTROs (long-term funding of the financial sector), and indicated that the stimulus would be maintained until inflation approached the target (2%). Even if these measures lack the magnitude of former measures, they reinforce the perspective that the environment of low interest rates will last for a long period of time.

— **Portugal**

The Portuguese economy grew by 2.2% in 2019, decelerating compared to 2018 (-0.4 p.p.), but remaining at a robust level in view of its historical behaviour. This deceleration translated a certain slackening of domestic demand, although investment registered a good performance, as reflected in the growth of imports. Exports also registered some deceleration compared to 2018, in part reflecting the global economic slowdown, but also an adjustment in certain destination markets (such as Angola and Brazil) or in specific sectors (such as textiles and clothing and footwear). Overall, the behaviour of the Portuguese economy may be seen as positive: the public accounts improved, with the budget deficit approaching a level of equilibrium (although public debt remains high); the labour market maintained a favourable trend, even if decelerating given that the rate of unemployment is close to a level of equilibrium; and consumers remained confident about the evolution of their financial situation, with increases in wages and disposable income supporting household consumption, even if their savings rate remained close to historical lows, 6.2% of disposable income.

Within the context of a very accommodative monetary policy, the good performance of the economy contributed to lower the sovereign debt risk premium, which dropped to around 60-70 basis points at the end of the year. A stable political environment also likely contributed to this good behaviour, given that following the legislative elections in October 2019, economic policy is expected to continue along the path of the previous legislature, thus expectedly giving continuity to the process of improvement of the public accounts.

However, the real estate market has been growing at a fast pace, and may possibly stand as a risk factor in the future given the substantial increase in prices in a short period of time: after a 10.3% increase in 2018, house prices are estimated to have risen by 9.3% in 2019. Although most indicators suggest that the slowdown in this market will be moderate, given the importance of the non-residents and the recovery of new construction, the possibility of a more significant correction cannot be excluded, especially in a context of increased risk aversion, with implications in terms of reducing foreign investment.

- **Regulatory framework**

The prudential rules that support the Bank's business model are crucial for its development as well as for the relationship established with the risk management and methodological processes.

During 2019, BPI kept abreast of the main developments in terms of regulatory rules, of which the following are noted here:

— Publication on 25 April 2019 of Regulation (EU) 2019/630 of the European Parliament and of the Council amending Regulation (EU) No 575/2013 as regards minimum loss coverage for non-performing exposures. This Regulation, which came into force on 26 April 2019, complemented the prudential rules already in place and stipulated a deduction to own funds when non-performing exposures (resulting from loans originated after 26 April 2019) were not sufficiently covered by provisions or other adjustments.

— Publication on 7 June 2019 of Regulation (EU) 2019/876 of the European Parliament and of the Council amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, and reporting and disclosure requirements. This Regulation came into force on 27 June 2019, with December 2020 as the deadline for adaptation of the standards, although most of the changes included will apply from June 2021.

— On 30 June 2019 the EBA guidelines on management of non-performing and forborne exposures (EBA/GL/2018/06), published on 31 October 2018, came into force.

- On 22 August 2019 the ECB revised the supervision expectations for prudential provisioning for new non-performing loans to account for the new EU regulation that came into force on 26 April 2019. The supervisor adapted its expectation for Pillar 2 for certain exposures converted into non-performing exposures as from 1 April 2018, aligning them in terms of calendar with the Pillar 1 requirements incorporated into the CRR with regard to minimum coverage of non-performing exposures (known as ‘prudential backstop’).

- **Strategic Context**

Strategic events are the most relevant adverse events that may result in a threat to Banco BPI in the medium term. Only those events to which the Bank's strategy is exposed due to external causes are considered, although the severity of the impact of these events can be mitigated through management.

- **Uncertainties with regard to the external and internal political environment**

Uncertainty is related to the possible emergence or worsening of political events that may have a direct or indirect impact at macroeconomic level or at the level of the Bank's management and affect the objectives and forecasts of the Strategic Plan, namely demand for credit and credit quality.

Mitigators: an event of this nature could translate into losses in terms of the Catalogue's various risks, mainly credit, Business Profitability, Own Funds/Solvency and Liquidity (depending on the actual trigger). In this context, the Bank believes that the aforementioned risks are sufficiently managed by the Bank's capital and liquidity levels, validated and reported in the annual capital and liquidity self-assessment process (ICAAP and ILAAP, respectively).

- **Persistence of an environment of low interest rates**

Although market expectations point to a very gradual recovery in interest rates over the coming years, the possibility that the ultra-low interest rate environment will continue for longer than expected or even that rates will further decline, cannot be discarded.

Mitigators: an environment of persistently low interest rates may have effects on the materialisation of the structural interest rate risk on the balance sheet and the risk of Business Profitability. Banco BPI manages both risks through the continuous monitoring of budget compliance, the measurement of the impact on the balance sheet economic value and on net interest income, according to CaixaBank Group's internal methodologies, and also through the permanent analysis of the offering of the more adequate new products and services in this environment, from the standpoint of balanced risk/return.

- **New possibly disrupting competitors**

An increase in the efficiency of new competitors, such as Fintechs and Agile Banks, as well as Global Asset Managers and Bigtechs, is expectable, with disruptive potential in terms of skills or services. This type of event can lead to a disaggregation and disintermediation of the value chain, impacting margins and cross sales, in so far as the Bank competes with more agile and flexible institutions, with a very light cost structure.

Mitigators: despite being a threat, the entry of new competitors is also an opportunity, as a source of collaboration, learning and stimulus to meet the objectives of digitization and business transformation established in the Strategic Plan. Thanks to its integration in the CaixaBank Group, BPI benefits from the synergies and expertise thus obtained, from the Group's investment in digitisation, and from a deeper relationship with the Clients, as factors of business transformation and digitisation and as key tools to face with confidence the upcoming changes and challenges in the banking business.

- **Cybercrime and data protection**

In 2019 there was an increase in cybersecurity incidents in terms of both volume and severity. At the same time, regulators and supervisors stressed the priority of these issues in their agendas.

Mitigators: The risk of cyber-attacks and cybercrime is a threat to which the Bank is watchful in the management of its technological risk and in what concerns the integrity and confidentiality of information, the availability of information systems, and business continuity. As regards information security and technological risk, BPI seeks to uphold the levels of excellence of CaixaBank Group, standing at the forefront of information protection and best market practices.

— **Risks associated to climate change**

The risks associated to climate change arise as a result of climate or geological events, or events in the balance of ecosystems, which may be gradual or abrupt. These can cause physical damage to assets (infrastructures, buildings), disruption in production or supply chains and/or changes in the productivity of economic activities (agriculture, energy production). On the other hand, the fight against climate change and for a low-carbon economy involves factors such as changes to regulation and laws, the development of alternative, energy-efficient technologies, changes in market preferences, or reputational factors associated with activities with greater impact.

Mitigators: Banco BPI seeks to minimise these risks by developing its activity in strict compliance with the laws in force and in accordance with strict ethical and professional conduct guidelines, while endeavouring to optimise the relationship between profitability and risk by avoiding, minimising, mitigating and remedying, whenever possible, factors that may represent a significant risk to the environment or to society. Hence Banco BPI factors in social, environmental and good governance criteria in its business decisions, with the aim of mitigating risks and supporting business projects that are consistent with its corporate values.
In 2019 Banco BPI approved an Environmental Risk Management Policy intended to stand as a guide containing the global principles which should steer all actions related to, or having an identified relevant impact on this risk, as well as to establish the governance structure for the authorisation, management, communication and disclosure of these actions. The management of environmental risks, integrated within the Environmental, Social and Governance (ESG) risks, is one of the main action guidelines in the Management of Environmental Risk category defined by CaixaBank Group.

— **Increase of legal and customer protection risk**

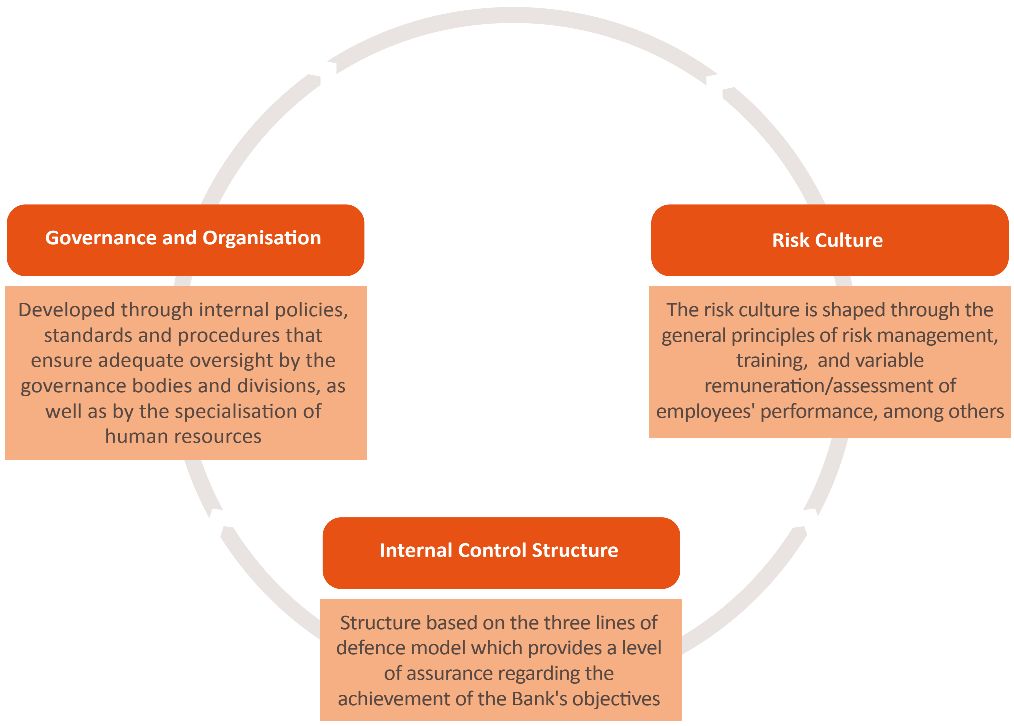
Considering the intense activity of legislators and regulators in the financial sector, new legislative proposals and proposals of changes to current regulations need to be monitored on a continuous basis. There are also increased concerns with the privacy and protection of personal data and compliance with regulations and standards related with activities of employees or other agents that may harm the interests and rights of customers.

Mitigators: Since these risks are part of the Bank's Catalogue of Risks, their management and control are subject to regular monitoring. To this end, the management and governance bodies have been improving the risk appetite monitoring indicators for these risks.

3.2. Risk governance, management and control

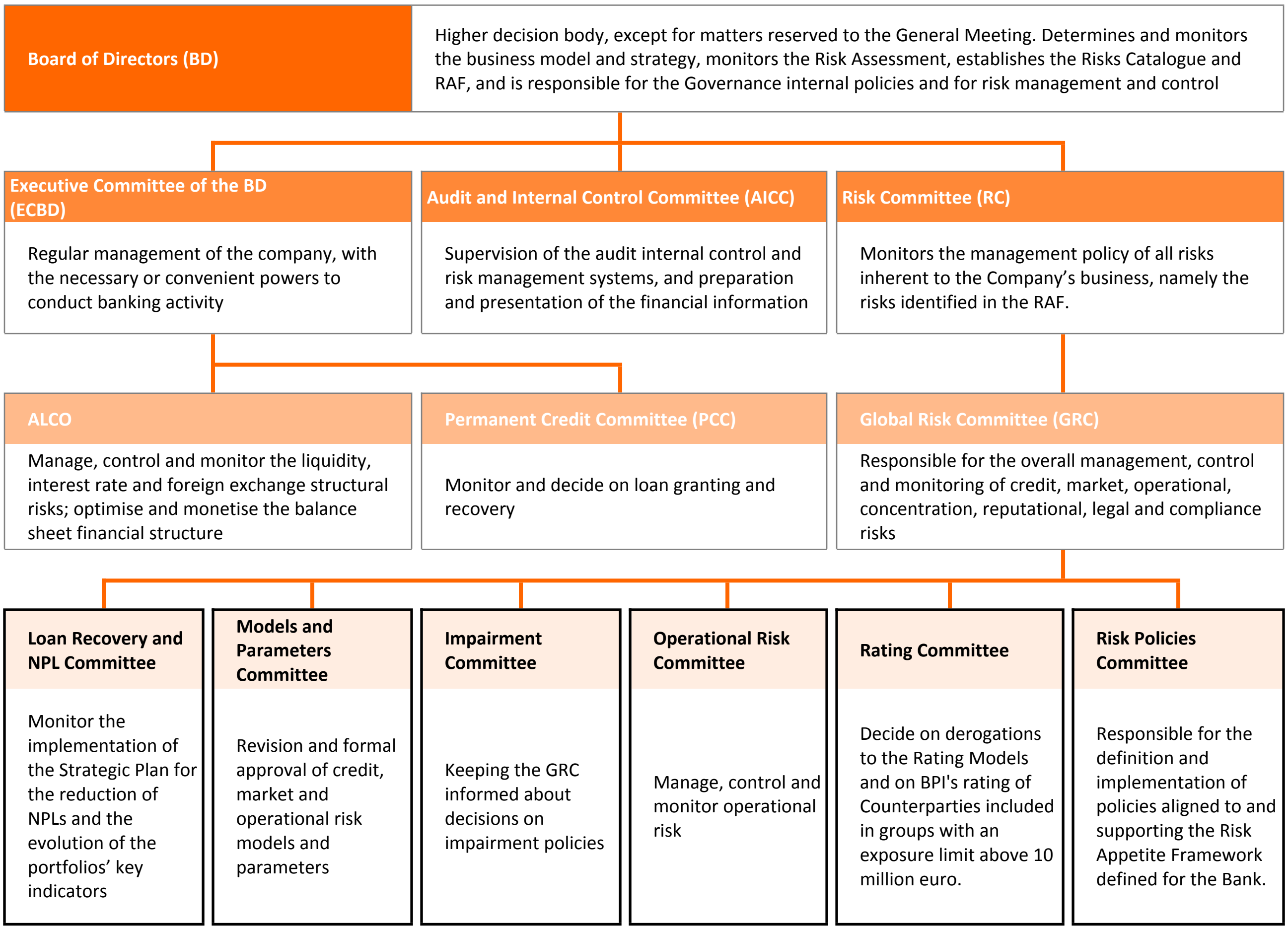
In order to facilitate a complete view of Risk Management and Control, the central elements of the bank's risk management function are as follows :

Strategic risk management processes			
Risk Assessment	**Risk Identification: Risks Catalogue**	**Risk Follow-up: Risk Appetite Framework (RAF)**	**Risks Planning**
Semi-annual risk self-assessment exercise for all risks in the Catalogue and which incorporates a process for identifying emerging risks that may be incorporated into the Catalogue.	List and description of material risks identified in the Risk Assessment process with annual review. It facilitates the internal/external monitoring and reporting of risks.	Comprehensive and prospective tool with which the Board of Directors determines the typology and risk limits that it is willing to accept for communicating the Bank's strategic objectives and for all the risks in the Catalogue.	Institutional processes to assess the evolution of the risk profile (recent, future and hypothetical in stress scenarios).



3.2.1. Governance and organisation

BPI’s risk governance and management is schematised in the following chart:



Within Banco BPI’s risk governance structure, the **Risk Committee** plays an important role as the body responsible for risk management. The main functions of the **Risk Committee** are to advise the Board of Directors on the risk strategy and global risk appetite, inform the Board of Directors on the Risk Appetite Framework (RAF) and propose risk policies.

One level below, three committees exercise the following relevant functions:

Global Risk Committee - Headed by the Central Manager of the Global Risk Management Division, the committee exercises global management, control and monitoring over the risks included in the Risks Catalogue and analyses the implications of risk appetite on solvency and capital consumption.

Permanent Credit Committee - Headed by the CRO, the committee monitors and decides on loan granting and recovery, obligatorily analysing all loan exposures (including operations fully hedged by financial assets qualifying as mitigators) within its powers.

ALCO Committee - Headed by the CFO, the committee manages, controls and monitors all Liquidity, Interest Rate and Exchange Rate structural risks within the scope of Banco BPI. On the other hand, it seeks to streamline and monetise the financial structure of the balance sheet, including the Net interest income and Net income from Financial Operations.

The Risk Management Function, performed by the Global Risk Management Division, is responsible for developing risk management and control and for the second line of defence. It acts independently from the risk-taking areas and has direct access to the Bank's governance bodies, in particular the Risk Committee, to which it regularly reports on the Bank's risk profile situation and expected evolution.

3.2.2. Risk management strategic processes

The Bank uses the following risk management strategic processes to identify, measure, follow-up, control and report risks:

Risk Assessment

The Bank carries out a semi-annual self-assessment process with the objective of identifying, assessing and reporting internally any significant changes in the risks inherently assumed through its business environment and business model. This semi-annual exercise also includes a self-assessment of the risk management, control and governance capabilities, as a tool to help detect best practices as well as any weaknesses in certain risks.

The result of this self-assessment is also reported, at least on an annual basis, to the Risk Committee, for final approval by the Board of Directors.

Risk Catalogue

The Bank has a Risk Catalogue to aid with the monitoring and reporting, internal and external, of the risks:

Risk Catalogue	Risk Definition on the Catalogue
Business Model Risks	
Business Profitability	The risk of BPI posting results below market expectations and the targets set in its business plan and strategy, that prevent it from reaching a sustainable level of profitability above the cost of capital.
Capital/Solvency	The risk of constraints to BPI's capacity to comply with regulatory requirements concerning capital ratios, or of a change in its risk profile due to insufficient own funds.
Liquidity and Funding	Risk of insufficient liquid assets or limitations on access to market funding that prevent the Bank to meet contractual obligations related with liabilities, with regulatory requirements or with BPI's investment needs.
Risks Specific to Financial Activity	
Credit	Risk of financial loss due to the loss of value of the Bank's assets as a result of the clients and deterioration of the counterparties' capacity to honour their commitments.
Losses in other assets	Reduction in the book value of BPI's equity holdings or non-financial assets (tangible, intangible, deferred tax assets, and other). Note: Includes (i) financial holdings, (ii) buildings (adjudicated, own or other), (iii) intangible assets and (iv) by taxes
Market	Risk of a decrease in the value of assets or increase in the value of liabilities included in BPI's trading portfolio due to changes in interest rates, exchange rates, credit spreads, external factors or prices in the markets where these assets and liabilities are traded.
Banking Book Interest Rate	Negative financial impact on the Balance sheet economic value, or on the Net interest income, as a result of changes in the time structure of interest or exchange rate curves that affect asset, liability or off-balance sheet products not booked in the trading portfolio.
Actuarial	Risk of loss or decrease in the value of commitments assumed under insurance or pension agreements entered into with clients or employees, as a result of differences between the assumptions used to estimate the actuarial variables used to calculate the responsibilities and their actual performance.
Operational and Reputational Risks	
Legal and Regulatory	Potential losses or reduction in the Bank's profitability as a result of: legal or regulatory changes, an incorrect implementation of said legislation in BPI's processes, inadequate interpretation for different operations, the incorrect management of judicial or administrative requests or complaints and claims received.
Conduct	Application by BPI of action principles that are contrary to the interests of its clients or other stakeholders, or actions or omissions by the Bank that are out of step with the legal and regulatory framework or the internal policies, standards and internal procedures or codes of conduct, ethical standards and good practices.
Technological	Losses arising from inadequate technological infrastructures, or hardware or software failures, due to cyberattacks or other circumstance liable of compromising the availability, integrity, accessibility and security of infrastructures and data.
Other Operating Risks	Losses or damages caused by errors or failures in processes, external events or accidental or malicious action by third parties independent from the Bank. It includes, among others, risk factors related to outsourcing, use of quantitative models, securities custody or external fraud.
Reliability of the financial information	The risk of deficiencies in the accuracy, integrity and criteria applied in the preparation of the data required to evaluate BPI's financial situation and networth.
Reputational	The risk of loss of competitiveness due to the deterioration of trust in BPI by any of its stakeholders on account of the assessment made of acts or omissions, actual or alleged, by the Bank, carried out or associated with its senior management or government bodies.

The Risks Catalogue is subject to regular review, particularly with regard to risks with a material impact. The Catalogue is reviewed at least annually, and the results are submitted to the Global Risk Committee and the Risk Committee, for final approval by the Board of Directors.

Risk Appetite Framework

The Risk Appetite Framework (RAF) is a management tool used by the Board of Directors to determine the types and thresholds of risk it is willing to assume in achieving the Group's strategic objectives. Based on the RAF, the Board of Directors sets the risk appetite assumed in the development of the Bank's activity.

Risk appetite framework:

Responsible Body			**Board of Directors** (advised by the Risk Committee)	**Global Risk Committee**	**Management areas / Risk and Human Resources controllers**
		Equivalence in Risks Catalogue	Primary statements and metrics **Level 1**	Metrics that complement and develop the Level 1 metrics **Level 2**	Management levers **Level 3**
Priority dimensions	**Protection Against Losses** The objective is to maintain a medium-low risk profile and a comfortable capital adequacy position, strengthening customer confidence through the Bank's financial strength	- Business profitability - Own Funds and Solvency - Credit - Impairment in other assets - Market - Structural interest rates - Actuarial	- Profitability ratios - Regulatory solvency ratios - Model and advanced methodologies based calculations - Cost of risk and nonperforming loan ratios	- Detailed metrics deriving from the factorial decomposition of Level 1 metrics or of other breakdowns. They also include more complex and specialised risk measurement parameters	- Training and Communication - Methodologies for risk measurement and valuation of assets and liabilities (RAF monitoring) - Limits, policies and powers - Incentives and commitments - Tools and processes
	Liquidity and Funding The certainty of being able to meet funding obligations and requirements, including in adverse conditions, through stable and diversified funding	- Liquidity and Funding	- Regulatory and internal liquidity metrics that oversee the maintenance of adequate liquidity levels		
	Business Composition Leadership in retail banking and balanced and diversified generation of income and capital	- Credit	- Indicators that encourage diversification (by sector, etc) and minimize exposure to non-strategic assets		
	Franchise Activity with high standards of ethics and governance, fostering sustainability, social action and operational excellence	- Legal and Regulatory - Conduct - Technological - Other Operational Risks - Reliability of the Financial Information - Reputation	- Quantitative metrics for non-financial risks (reputational, operational) - Operational risk incidence metrics		

Alert System Reports						
Monthly to Global Risk Committee					Quarterly to Risk Committee	Half-yearly to Board of Directors
Level 1	Green	Tolerance - The Global Risk Committee promotes an action plan and establishes a timetable	Breach - Explanation of the reasons why the previous plan's corrective measures did not work and action proposals for approval by the Risk Committee	Recovery Plan - Recovery Plan Governance process to reduce chances of bankruptcy	- Metrics evolution and Level 1 projection - Non-compliance status and action plans	- Metrics evolution and Level 1 projection - Non-compliance status and action plans
Level 2	Based on limits					

Risk planning

In addition to the processes referred, the Bank has processes and mechanisms in place to assess the evolution of the risk profile (current, future and potential under stress scenarios). To this end, the Bank estimates the expected evolution of the boundary values of the future risk profile, and subjects them to permanent review.

Also, in the years subject to regulatory supervision (ICAAP and ILAAP), the Bank makes projections of the evolution of its risk profile under baseline and stress scenarios, which give its governance bodies a vision about the Bank's resilience to internal and/or external events.

3.2.3. Risk culture

General risk management principles

BPI's risk management principles are common to those of CaixaBank Group:

- Risk is inherent to the Bank's business.
- Risk is the ultimate responsibility of the Board of Directors and requires involvement of Senior Management.
- Involvement of the entire organization.
- Management throughout the full cycle of transactions.
- Joint decision-making, with a power delegation system.
- Independence of business and operating units.
- Approval based on the borrower's repayment ability and an appropriate return.
- The use of standard criteria and tools.
- Decentralised decision-making.
- Use of advanced techniques.
- Allocation of adequate resources.
- Continuous training and development of skills.

Training

In 2019 the Training initiatives on Risk covered Employees from several areas, and in particular those who work in the Commercial Networks (Retail and Corporate).

The general purpose of the training contents was to impart knowledge and develop skills permitting to anticipate and act upon critical Risk issues, with a focus on the Code of Business Conduct and Ethics.

Training on Risk was particularly relevant and stressed in the Commercial Networks. Examples of this are the 3 courses on Risk Management, which were attended by a total of 2095 Employees.

Training was essentially provided online and on-the-job

The main training initiatives on the issue of Risk developed in 2019, were the following:

Course	Addressees	No of participants
Code of Business Conduct and Ethics	Commercial Networks and Central Services	4582
Risk Management. New Rules on Consumer Solvency	Commercial Networks and Central Services	737
Risk Management: Risk Strategic Processes (RAF)	Commercial Networks and Central Services	692
Risk Management: NPL (Non-Performing Loans)	Commercial Networks and Central Services	666
Operational Risks - Central Services	Central Services	316
Credit risk division - Small businesses training	Commercial Networks and Central Services	245
Analysis of and Decision on Loans to Individuals	Commercial Networks and Central Services	190
Data Protection Awareness	Commercial Networks and Central Services	136
Leases (IFRS16) - Regulatory Changes Under Way (implications in terms of Credit Risk)	Central Services	78
Operational Risks - Commercial Networks	Commercial Networks and Central Services	72
Training video - business continuity Pivot	Central Services	27
Segmentation of the Customers' Risk	Commercial Networks and Central Services	16
Webinar - Job Induction of New OR Pivots	Commercial Networks and Central Services	16
Operational Risk Management 2019	Central Services	13
Credit Risk Management	Commercial Networks and Central Services	10

Communication

Spreading a corporate risk culture is essential in order to align all Employees around this theme. The internal communication channels, and in particular the Intranet, are an essential vehicle for spreading this culture, with disclosures and training contents being especially relevant. The following initiatives viewing the development of a corporate risk culture were particularly noteworthy in 2019:

- Video interview with António Farinha Morais, the Board Member responsible for the risk area, focusing on this theme and its alignment with the priorities defined in the Strategic Plan;
- Internal communication campaign dedicated to Compliance, to reinforce a culture of commitment in the Employees, under the motto “Compliance: good for you, good for BPI”;
- Publication of several news about training in non-performing loans.

Performance assessment and remuneration

As stated in the Risk Appetite Framework, Banco BPI seeks to ensure that its Employees motivation is consistent with the risk culture, with risk-taking aligned with the level of risk that the Board of Directors is willing to assume.

To this end, the Bank has in place remuneration schemes directly related to the annual evolution of the RAF metrics, which are described in detail in the Governance Report and in the approved remuneration policies.

3.2.4. Internal control function

In 2019, BPI continued to develop a process of implementation of the internal control function, aligned to CaixaBank Group's methodologies as well as with the regulators’ directives and best practices in the sector, which was still ongoing at the end of the year. BPI’s internal control model is designed based on the “three lines of defence model”.

First Line of Defence

The first line of defence is formed by the business areas, risk-takers, and their support functions. Their responsibility is to develop and maintain effective controls over the businesses, as well as to identify, manage and measure, control, mitigate and report the main risks originated in the ongoing exercise of their activity. Among others, they identify, assess and report their exposures, taking into account the Bank’s risk appetite, and its policies, procedures and controls.

The manner in which the business line carries out its responsibilities must reflect the prevailing risk culture in the Bank, promoted by its Board of Directors.

These functions may be integrated within the business and business support units themselves. However, when the level of complexity, intensity or need for greater focus so require, it is desirable to establish specific control units, with greater specialisation, to ensure an adequate level of risk control over the aforementioned activities.

Second Line of Defence

The second line of defence acts independently from the business units and has the following functions:

- The establishment of risk management and control policies in coordination with the first line of defence, subsequently assessing compliance therewith.
- The identification, measurement and monitoring of risks (including emerging risks), contributing to the definition and implementation of risk indicators aligned with the RAF.
- The identification of control weaknesses and the establishment and implementation of action plans.
- The independent validation of internal models.
- The coordination of the Risk Assessment, Risks Catalogue and RAF processes.

The activities of the second line of defence, as well as i) the weaknesses identified, ii) the follow-up of the action plans and iii) the opinion on the adequacy of the risk control structure at the Bank, are periodically reported to the bodies responsible for the control function, according to established hierarchical norms, as well as to supervisory bodies.

The second line of defence is formed by:

- **Global Risk Management (GRM)**

  GRM is responsible for identifying, monitoring, analysing, measuring, managing and reporting risks, gaining an overall vision of all the risks faced by the Bank.

- **Internal Validation of Risk Models**

  The internal validation function at Banco BPI is performed by the Model Validation and Risk (MVR) area, which reports to the GRM, whose mission is to issue an independent technical opinion on the adequacy of the internal models used for internal management and/or of a regulatory nature. Its scope of action includes the review of methodology and management aspects (use of management models and tools, coverage level, controls, governance and implementation of the models in management processes) and aspects related to the technological environment and the quality of data with regard to the models.

  The MVR activities are aligned with regulatory requirements, with the requirements of the various supervision mechanisms, and with the guidelines established by the CaixaBank Group.

  Any review activity by the MVR is concluded with the issuance of a global opinion and, if weaknesses are identified, with the issuance of recommendations. The MVR makes a periodic follow-up of the weaknesses identified, adjusting the level of monitoring and reporting to the relevance of the recommendations issued.

- **Internal Financial Control (IFC)**

  The Internal Financial Control (IFC) unit reports to the Board member responsible for the areas of Finance, Accounting and Economic and Financial Studies; in functional terms it is integrated in the GRM and performs second line of defence functions with regard to the following risks: i) business profitability, (ii) capital and solvency, (iii) deterioration of other assets (equity holdings and deferred tax assets), and (iv) reliability of financial reporting. In the case of the risk of reliability of financial reporting, the second line of defence functions are split and coordinated with the GRD - Non-financial Risks.

- **Compliance**

  Compliance is a CEO-dependent function, reporting directly, within its sphere of activity, to Senior Management, to the Management and Supervision Bodies, and to the supervisors (Banco de Portugal, European Central Bank, Securities Market Commission, and other bodies).

  The Compliance supervision model relies on four management pillars: (i) definition and maintenance of a detailed taxonomy of risks, in each scope of activity; ii) annual Compliance plan establishing the activities to be monitored and the revision of internal procedures, based on their criticality; iii) identification of deficiencies (in regulatory control or non-compliance), either through the first line of defence, or through the activities listed in the Compliance Plan), or through supervisor inspections, Customer complaints, or other, and periodic monitoring of the corresponding action plans for the implementation of improvements; (vi) reporting and escalation of relevant themes, monitoring of Compliance inspections and deficiencies.

  In this manner, the Compliance function performs advisory activities in matters within its competence, carrying out actions for the development and transformation of the Compliance "Culture" through the review of technology-based processes, awareness-raising and communication actions addressed to the entire organisation, as well as training actions, defining a mandatory regulatory training plan.

Compliance also ensures that good practices are followed in terms of integrity and conduct, with an internal consultation channel and a whistleblowing channel being available to all Employees for this purpose.

Third Line of Defence

The Board of Directors of BPI, through the Audit and Internal Control Committee (AICC) ensures the existence of an Internal Audit Function with an effective, permanent and independent nature, endowing it with the adequate material, human and financial resources required for this Function to fully pursue the mission entrusted to it, and promoting the authority and independence of the Function within the Institution and the BPI Group.

The Supervisory Board watches over compliance with the aforementioned requirements, monitors whether the Audit Function exercises its responsibilities in an independent and effective manner, and makes sure that the AICC adopts, or promotes the adoption, of the necessary corrective measures to overcome deficiencies, or to seize the opportunities for improvement detected in internal governance and internal control.

Through its activity, the Internal Audit Department aims to provide reasonable assurance to the governance bodies about:

- The effectiveness and efficiency of the internal control system in the mitigation of the risks inherent to the Bank's activities;
- Compliance with the legislation in force, namely the regulatory requirements and the adequate implementation of the Internal Control Framework and Risk Appetite Framework;
- Compliance with the internal policies and regulations, including corporate guidelines from CaixaBank, and alignment with the sector's risk appetite and best practices; and
- The integrity, reliability and timeliness of financial, accounting and operational information.

Hence the scope of activity of this function includes assessing:

- The adequacy, effectiveness and implementation of Policies, Regulations and Standards;
- The effectiveness of controls;
- The adequate measurement and monitoring of the 1LoD and 2LoD indicators;
- The existence and correct implementation of action plans for control weaknesses;
- The validation, monitoring and assessment of control by the 2LoD.

And its main functions include:

- Drafting of the annual audit plan under a multi-annual perspective, based on the assessment of risk and taking into account the regulators' requirements and the requests of the Audit and Internal Control Committee (AICC);
- Regular delivery to the AICC and the Board members with this area of responsibility of the audit reports containing the conclusions of the works carried out and the deficiencies detected;
- Added value through the issuance of recommendations on how to solve the deficiencies detected, and monitoring of their adequate implementation by the auditees; and
- Regular communication with the supervisor to exchange information on the Bank's areas/processes with identified risk.

3.3. Credit Risk

3.3.1. Overview

Credit risk is the most significant risk on BPI's balance sheet, and arises mainly from the banking business, treasury operations and the purchase of public and corporate debt securities.

At 31 December 2019 and 2018 the maximum exposures to credit risk on the balance sheet, including counterparty risk, was as follows:

	31-12-2019		31-12-2018	
	Maximum exposure to credit risk	Impairment	Maximum exposure to credit risk	Impairment
Cash balances in other Credit Institutions[1]	107 236		107 106	
Financial assets held for trading				
Debt securities	13 934		13 893	
Financial assets not designated for trading compulsorily measured at fair value through profit or loss				
Debt securities	62 845		283 139	
Financial assets at fair value through other comprehensive income				
Debt securities	1 377 044		1 277 370	
Financial assets at amortised cost				
Debt securities	4 036 090	(6 340)	7 560 823	(4 528)
Loans and advances - Central Banks and other Credit Institutions	1 452 753	(66)	791 030	(269)
Loans and advances - Customers	22 346 645	(390 317)	21 891 166	(533 119)
Trading derivatives and hedge accounting	182 268		191 673	
Total active exposure	29 578 815	(396 723)	32 116 200	(537 916)
Total guarantees given and commitments[2]	4 329 685	(18 736)	4 297 226	(23 212)
Total	33 908 500	(415 459)	36 413 426	(561 128)

[1] Does not include cash and cash balances in Central Banks.
[2] CCF – Credit Conversion Factor for guarantees given and credit commitments. At 31 December 2019 and 2018, total guarantees and commitments, considering the respective CCF, were 3 503 Me. and 3 280 Me. respectively

The maximum exposure to credit risk is the gross carrying amount, except in the case of derivatives, where it is the exposure value according to the mark-to-market method, which is calculated as the sum of current and potential exposures:

- Current exposure: the highest value between zero and the market value of an operation or of a portfolio of operations with a counterparty which can be offset in the event of default by the counterparty, assuming that nothing from the value of the operations will be recovered in the event of insolvency or liquidation of the counterparty, except for the collateral received.
- Potential risk: change in the credit exposure as a result of future changes in the valuation of an operation or in the valuation of operations that can be offset with a counterparty during the residual term to maturity.

Concerning BPI's commercial activity, the Bank gears its lending activity towards meeting the financing needs of families (consumer and residential mortgage loans) and businesses, seeking to maintain a medium-low risk profile, as established in the RAF and the 2019- 2021 Strategic Plan.

BPI shares with the CaixaBank Group the principles and policies that support credit risk management, which may be summarised as follows:

- An adequate relationship between income and the commitments assumed by the consumers.
- Documentary proof of the information provided by the borrower concerning its solvency.
- Adequate pre-contractual information about the personal circumstances and characteristics of each Customer and operation.
- Adequate independent assessment of real estate collateral.

Banco BPI receives, among others, the following collateral within the scope of its loan granting business:

- Mortgages on own housing;
- Other real estate mortgages;
- Deposit of assets;
- Pledge of securities;

- Guarantees provided by other credit institutions.

3.3.2. Credit risk cycle

The full credit risk management cycle covers the entire life of the transaction, from feasibility studies to risk-taking in accordance with pre-established criteria. The management of the credit risk cycle is fundamental for the success of the transaction up to reimbursement.

Loan approval and granting

Credit risk management at BPI covers the entire life of the transactions. The process is designed to follow best market practices and is aligned with CaixaBank and the regulators' recommendations.

The credit risk-taking process is based on the collection of information, in order to assess the Customer's reimbursement capacity without resorting to collateral, involving the assessment of aspects such as knowledge about the Customer and the industry sector in which it operates/obtains income, the experience gained in similar operations and the purpose and other characteristics of the operations. To this end, the credit risk-taking processes involves a delegation of powers, including with respect to the relevant information to be assessed. The definition of the level responsible for the approval of operations essentially depends on four elements:

- **Amount** – the contracted and potential exposure of the Customer or risk group*;*
- **Guarantee** – comprises the set of collaterals required to provide for additional situations of risk of default;
- **Specific risk policies** – set of Policies that establish specific risk-taking criteria, such as restructurings, incidents, rejection boundaries, etc.
- **Term –** the operation's intended maturity, depending on the intended purpose.

Credit risk-taking at Banco BPI is independent from the business areas, with the Credit Risk Division (CRD) being essentially responsible for the analysis and granting of loans.

The CRD is organised into specialised teams according to the following areas of activity:

- **Individuals –** exposure to individuals, except for private banking clients;
- **Small Businesses and Private Banking –** exposure to individual entrepreneurs, companies with turnover of up to 2 million euros, loans to individuals for business purposes and loans to private banking clients;
- **Medium-sized Companies –** exposure to companies with turnover between 2 million and 50 million euros;
- **Large Companies, Structured Finance, Institutional Clients, Countries and Financial Institutions,** which includes Risk Centres specialising in exposure to:
  - Companies with turnover or total assets above 50 million euros;
  - Project Finance;
  - Financial entities, insurers (except non-life), sovereign risk and country risk;
  - State business sector, Regional Administration, Municipalities, Catholic Church and Foundations (except Parish Councils).

The CRD Risk Centres are centralised in Lisbon and Porto. For the Small Businesses, Private Banking, Medium-sized Companies and Large Companies segments, the Clients monitored by each Risk Centre are distributed by regions, in line with the organisation of the Bank's commercial structure. However, the Bank has Risk Centres for Medium-sized Companies specialising in specific industries, construction, real estate and hotels.

This organisation ensures independence and at the same time close proximity with the specific dynamics of the regions, industry sectors and Clients, which is achieved through annually scheduled meetings with the commercial areas (which include training on credit risk issues) and with the Clients.

The analysis of the Customer risk and the approval of the loan is based on a system of internal ratings for each counterparty, taking into account the following:

- The probability of default by counterparties and guarantors for the maturities in question;
- The loss in case of default, taking into account any collateral;

- The global value of the exposure in case of default, taking into account all on- and off-balance sheet transactions with the counterparty;
- An historical and forward-looking analysis of the Client to assess its capacity to generate sufficient funds for the timely service of the debt;
- The Clients global indebtedness to Banco BPI and in the financial system.

The most important bodies with delegated credit decision powers are the Credit Board and the Permanent Credit Committee (PCC). The Board of Directors (BD) also delegates powers to the Executive Committee of the Board of Directors (ECBD). This scheme ensures the approval of the largest exposures at the highest level of the organisation.

The delegation of decision powers for lower exposures is parametrised according to the global value of the exposure of the Customer in question, and also depends on the counterparty's rating, the existence of incidents and instances of default, and the individual value of the transactions and respective maturity. These powers are concentrated in the CRD.

Credit management, except for individual clients, is always undertaken from the perspective of Exposure Limits. These reflect a critical analysis of the Client's reimbursement capacity and the maximum credit involvement which, bearing in mind the commercial area's proposed credit relationship, Banco BPI deems acceptable to have with that Client, always based on prudent risk criteria.

The credit workflow is supported, from origination to contracting, by an analysis and decision software application that concentrates, discriminating the origin, all the information about the Client, the proposal, the analysis and the decisions of the competent bodies. The decision level is automatically established in accordance with each specific proposal by means of an algorithm that factors in the approval rules in force.

Exposure Limits are approved or renewed for a maximum period of one year, this period depending on the Client's rating. The Credit Risk Division is thus always called in to assess the exposure to each Client at least once a year, while at the same time the Bank has in place monitoring tools and early warnings of a deterioration in the risk of Customers or transactions, which, among others, may trigger a revision of the Exposure Limit.

This ensures an integrated vision of the relationship with the Client and the centralisation in the credit risk decision of the various factors - counterparty, amount, duration and guarantees for each category (of credit risk products considered homogeneous) and for special operations (which, on account of their specific characteristics, are not included in these categories, namely medium-and long term operations).

Moreover, this permits maximum flexibility and speed by the Commercial Divisions in the implementation of the operations throughout the duration of the Exposure Limit.

The pricing of the transactions is the responsibility of the Commercial Divisions, which for the purpose use tools that measure the Risk Adjusted Return (RAR) for each Client and transaction, bearing in mind market conditions.

Risk mitigation

Lending is always based on the assessment of the Client's capacity to generate sufficient funds for the timely service of the debt, and on a risk-adjusted pricing policy. The requirement of personal or real guarantees, as a risk mitigator, is always considered at the time of granting a loan.

In the decision to require guarantees, several factors are weighted, namely the rating assigned to the Client, and the nature and term of the operations. The term in particular is one of the more sensitive factors due to the uncertainty it entails, which is why medium and long-term transactions usually have associated real guarantees.

The rules on the acceptance of guarantees, control of their formalisation, and monitoring of their value during the transaction's lifetime, through regular evaluations and their release are set out in specific internal regulations.

The guarantees foreseen in the internal regulations are those typified in the law, the most usual being personal guarantees (of individuals or companies) by endorsement or security, and in the case of real guarantees, the mortgage, the pledge of assets and the financial pledge. Financial instruments such as derivatives or repos are covered by standard agreements that establish the daily exchange of collaterals, guaranteeing coverage of the counterparty risk.

All guarantees are recorded in a dedicated software application. The funds are only made available to the Client after or upon verification of the guarantees provided.

The classification by stage of loans to Customers and associated guarantees is as follows:

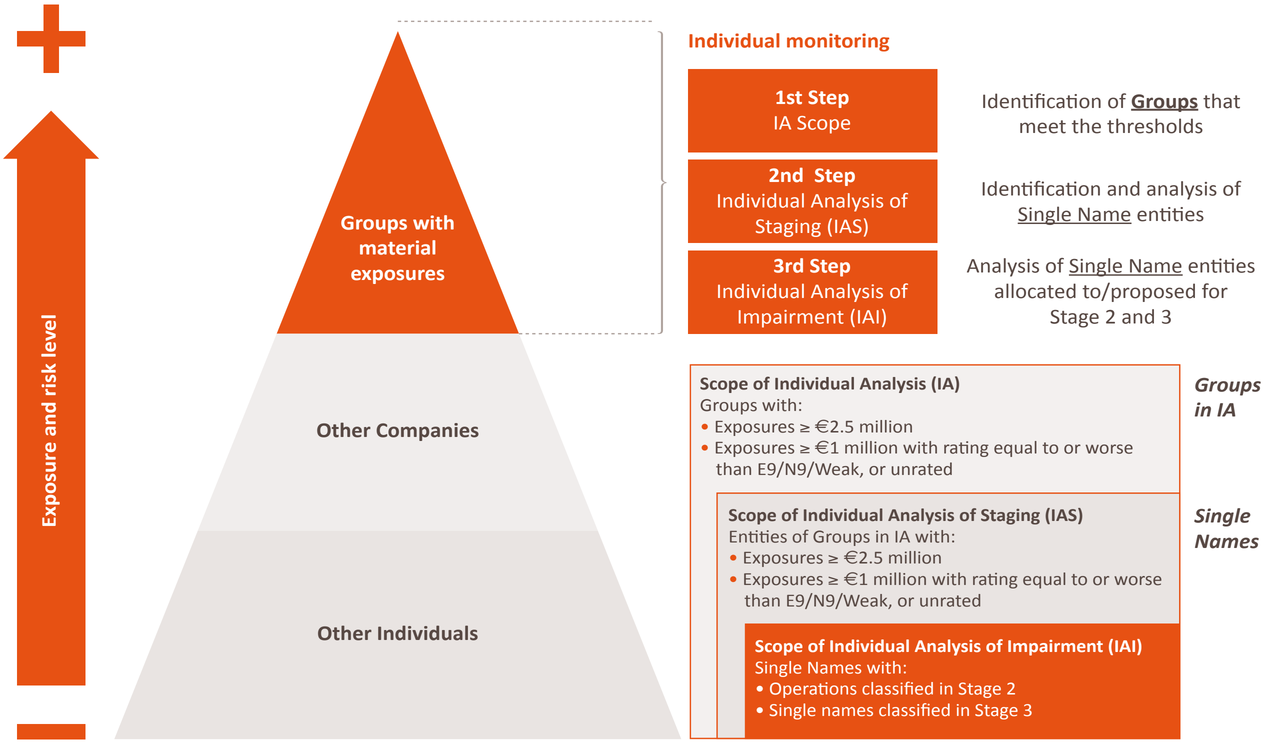
	31-12-2019			31-12-2018		
	Gross amount	Allowance for Impairment loss	Guarantees[1]	Gross amount	Allowance for Impairment loss	Guarantees[1]
Stage 1:	**20 252 802**	**(33 577)**	**11 044 009**	**19 248 554**	**(25 133)**	**10 447 424**
No associated collateral	6 641 633	(17 937)		6 713 089	(13 227)	
With real estate collateral	11 739 579	(9 628)	10 653 821	11 025 423	(6 934)	10 081 688
With other collateral	1 871 590	(6 012)	390 188	1 510 042	(4 972)	365 736
Stage 2:	**1 240 750**	**(47 709)**	**668 541**	**1 472 225**	**(52 875)**	**787 051**
No associated collateral	289 974	(15 091)		355 715	(14 362)	
With real estate collateral	757 828	(23 438)	653 454	833 868	(28 610)	726 602
With other collateral	192 948	(9 180)	15 087	282 642	(9 903)	60 449
Stage 3:	**737 880**	**(306 153)**	**299 722**	**1 017 326**	**(453 659)**	**352 535**
No associated collateral	171 785	(102 220)		205 964	(123 838)	
With real estate collateral	489 083	(154 738)	298 412	678 130	(270 645)	348 951
With other collateral	77 012	(49 195)	1 310	133 232	(59 176)	3 584
	22 231 432	**(387 439)**	**12 012 272**	**21 738 105**	**(531 667)**	**11 587 010**

[1] The value of the guarantee is the lower of the value of the guarantee received and the value of the loan net of impairments.

Monitoring and measurement of credit risk

The purpose of the monitoring process is to assess the quality of the risk taken in lending operations to a borrower and to decide on any actions that need to be taken, including the estimation of impairment. The targets of risk monitoring are borrowers that bear credit risk, with the results being set as a reference for the future lending policy.

The monitoring of exposures is mainly performed according to the exposure and the risk level of the operations/borrowers, being segregated into different areas in accordance with the analysis methodology, as shown below:



1. Customised monitoring process

The customised monitoring procedures are applied in portfolios with material risk exposures and/or which have specific characteristics. These procedures consist of drafting regular reports on the borrowers' economic groups with the aim of assessing the existence of objective evidence of impairment and/or a significant increase in credit risk (SICR) since the initial recognition.

The triggers of a significant increase in credit risk (SICR) and/or default are grouped into the following categories:

- Financial difficulties of the issuer or debtor (rating deterioration, financial status deterioration, defaults registered in the Banco de Portugal's Central Credit Register, lawsuits brought by third parties, etc.);
- Breach of contract clauses, non-payments or delays in the payment of interest or principal on loans contracted with the Bank;
- Restructuring or expected restructuring of the debtor's exposures due to risk deterioration;

- Other indicators identified in specific Clients through the monitoring of their activity.

Whenever Clients with objective evidence of impairment and/or a significant increase in credit risk since the initial recognition are identified, a specific impairment is established (Individual Analysis of Impairment). For Clients classified as in default, individual impairment is determined on a going concern or gone concern basis, depending on the expectations of recovery for each borrower.

2. Quantification and classification of credit risk

Credit risk parameters

Risk measurement is based on the segmentation of risk and on the factors associated with the calculation of the expected loss:

- **Exposure:** Exposure at default (EAD) provides an estimate of the outstanding debt in the event of default. This measurement is significant for financial instruments with a repayment structure that varies according to customer drawdowns (credit accounts, credit cards and, in general, any revolving credit product).

The estimate is based on the observation of historical data for defaulting borrowers, comparing the drawdown levels between the time of default and during the 12 preceding months. This permits to estimate future drawdown levels according to product type, current drawdown levels and credit ceilings.

- **Probability of default:** the Bank uses management tools covering virtually all its loan portfolios and main risk segments to help predict the probability of default (PD) associated with each borrower.

These tools are an integral part of the credit granting and monitoring process, having been developed and calibrated in accordance with the Bank's past experience of defaults.

- Product-oriented tools are used mainly within the scope of authorisation of new loans to individuals and take account the debtor's characteristics, information on the relationship with the Customer, internal and external warnings, and the specific characteristics of the transaction - Admission Scoring.
- The monitoring tools for lending operations to individual Customers are also product-oriented, taking into account relationship variables relating to the Bank and the financial system - Behavioural Scoring.

Rating tools for companies and small businesses vary considerably depending on the risk segment. The assessment process for medium-sized Companies is based on a hybrid model that combines two components: (i) a quantitative algorithm that mainly draws information from the financial statements, and (ii) an expert analysis component that takes into account other quantitative and qualitative aspects, namely management quality, market position, and others.

For large companies, the Bank uses models that seek to replicate the ratings assigned by rating agencies and require the expert criteria of rating analysts. In view of the lack of sufficient statistical frequency of internal default delinquency in this segment, the models were built in line with Moody's methodology.

Individual clients' operations are scored on a monthly basis in order to keep the credit rating up to date. Companies' ratings are updated at least annually, and whenever significant events occur that can alter the borrower's credit quality. In this segment, qualitative information and information about the financial statements is updated on a regular basis so as to achieve the maximum level of coverage and update of the internal rating.

- **Loss given default (LGD):** LGD is the percentage of debt that cannot be recovered in the event of default by the Client.

LGD is calculated based on internal historical information, taking into account the cash flows associated with contracts from the moment of default until the default has been corrected or until there cease to exist any relevant expectations of recovery. This calculation also includes estimates of loan recovery costs.

3. Determination of accounting classification

The accounting classification of operations with credit risk into the different IFRS 9 Stages is established according to whether there has been a significant increase in credit risk since the operation's initial recognition, and/or whether a default event has occurred.

A significant increase in credit risk, and consequent classification of the transaction in Stage 2, is deemed to have occurred, when there are indications of difficulties or weaknesses that could justify an expectation of significantly higher losses than at the time the credit was granted.

In the case of individually significant Clients (Single Names) the classification in Stage 2 (or 3) results from a case-by-case analysis of their financial situation, as part of the credit monitoring process of these Clients or groups of Clients. This process involves the ongoing assessment of evidence or indications of a deterioration in credit risk, namely a significant increase in risk since initial recognition. The monitoring process and corresponding staging of the operations is supported by a set of triggers associated to the Client or the transaction, which may represent indications of a deterioration of the asset. The analysts should value these indications and, on this basis, classify or not the operations in Stage 2 or 3.

Save in duly justified situations, the following operations are classified in Stage 2: i) Credit operations restructured due to financial difficulties, but not classified as in default (Stage 3); (ii) Operations with material arrears of more than 30 days; (iii) Operations with a significant increase in the PD; iv) Operations with Clients with significant arrears communicated through Banco de Portugal's Central Credit Register; v) Operations with Clients in watchlist or showing a series of early warning signals permitting to perceive a significant increase in credit risk.

Operations that no longer meet the conditions for classification in Stage 2 are reclassified to Stage 1.

An event of default is considered to have occurred (leading to the classification of the Client exposure in Stage 3) when there are significant amounts overdue and unsettled for more than 90 days.

In addition to the criterion for reclassification referred above, the following operations are classified in Stage 3: with impairment coverage above 20%, when resulting from individual analysis; ii) of Clients in litigation with the Bank; iii) of Clients that are insolvent or in "Special Revitalisation Process" or subject to lawsuits brought by third parties which signal a deterioration in credit risk; iv) of Clients with material amounts of credit written off from assets; v) that were restructured due to economic difficulties, leading to a significant economic loss; vi) that were restructured due to economic difficulties and classified as non-performing (or in probation period) with overdue and unsettled material amounts for more than 30 days; vii) that were restructured due to economic difficulties and classified as non-performing (or in probation period) and benefit from new restructuring measures due to financial difficulties; ix) in other situations indicating a high probability of defaulting on the conditions contracted.

Except for the Retail segments (residential mortgage loans, personal loans, etc), the classification of default is propagated to all the other operations of the same borrower. In the Retail segments, the other operations of the borrowers are classified in default whenever the portion that meets the above-mentioned criteria exceeds 20% of the total exposure of the operations in which the Client is involved as the holder.

From the moment each of the criteria for classification in Stage 3 cease to apply, the operations shall maintain the classification of default (Stage 3) for a minimum remedial period (of 4 to 12 months).

4. Determination of impairment coverage

In accordance with the IFRS9 requirements for a significant change in credit quality, expected credit losses in operations, assessed collectively or individually, considering all the reasonable and substantiated information available, including forward looking information, must be recognised.

Principles for measuring expected credit losses for the purpose of determining impairment coverage

The coverage or provision calculated is defined as the difference between the gross carrying amount of the operation and the presente value of expected future cash flows, discounted at the effective interest rate of the operation and considering the guarantees received that are deemed effective.

The Bank estimates the expected credit losses of an operation so that these losses reflect:

- an amount weighted for the unbiased probabilities of occurrence of a series of possible future results (probabilities of occurrence in the baseline, optimistic and pessimistic scenarios);
- the time value of money; and
- reasonable and sustainable information that is available at the reference date, at no disproportionate cost or effort, on past events, current conditions and forecasts of future economic conditions.

Under the applicable rules, the coverage calculation method is determined according to whether the borrower is individually significant or not and in accordance with its accounting category (operations staging).

- If, in addition to being individually significant, the customer has operations in default or in Stage 2, the specific impairment allowances for these operations are estimated through a detailed analysis of the Customer's capacity to generate cash flows through its activity (going concern approach) or of the cash flows that may result from the enforcement of the guarantees received from the Client (gone concern approach).

- In all other cases, impairment coverage is estimated collectively using internal methodologies, based on past experience of portfolio defaults and recoveries, including recoveries obtained through the enforcement of guarantees received.

Collective credit impairment is calculated using probability of default (PD) estimation models, loss given default (LGD) estimation models, models to estimate drawdowns on credit ceilings, and adjustments to factor in lifetime and forward-looking effects.

The models used are re-estimated or updated at least once a year and executed monthly so as to factor in at all times the economic context at the time and the credit performance. This makes it possible to reduce the differences between estimated loss and recent observations. The models include a forward-looking perspective to determine the expected loss, taking into account the more relevant macroeconomic factors: i) GDP growth, ii) the unemployment rate, iii) the 6-month EURIBOR, and iv) the evolution of home prices. Following on from this, the Group generates a baseline scenario, as well as a range of potential scenarios that make it possible to adjust the estimated expected loss, by weighting the probability of its occurrence.

The calculation process is structured in two steps:

Determination of the basis subject to impairment: Corresponds to the sum of the gross carrying amount of the operation at the time of calculation plus off-balance sheet amounts (available ceiling and guarantees) that could be expected to be disbursed when the Client is classified as impaired (stage 3).

Determination of the coverage to apply to the basis subject to impairment: This calculation is made based on the probability of the borrower defaulting on the operation obligations, and the expected loss in case of default (loss given default), Loss given default reflects, namely in the case of residential real estate collateral, the expected recoverable amount on the future sale of that collateral minus the costs incurred up to that sale.

For portfolios that are not materially relevant, or when past experience is not significant, the expected loss estimation approach is simplified.

In the specific case of exposures that, due to the nature of the borrower or guarantor, are classified as having low credit risk, the impairment coverage rate may be 0% (on the risk hedged). To this effect, operations considered as of low credit risk are those contracted with:

- Central Banks
- Public Administrations (European Union countries)
- Central Governments (European Union countries, Switzerland, United States, Canada, Japan, Australia and New Zealand)
- Deposit guarantee funds and resolution funds (which, on account of their credit quality, are comparable to funds from European Union countries)
- Credit institutions and credit financial institutions (European Union countries, Switzerland, United States, Canada, Japan, Australia and New Zealand)
- Mutual Guarantee Societies and Public Bodies or Companies having as main activity credit insurance or endorsement (European Union countries, Switzerland, United States, Canada, Japan, Australia and New Zealand)
- Non-financial public companies

The coverages estimated individually or collectively must be consistent in terms of the stages in which the operations may be classified. Thus, the coverage level for an operation must be equal to or higher than the coverage level it would have if it were classified in a lower credit risk category.

Any necessary improvements detected during the model revision exercises, namely through backtesting and benchmarking exercises, are introduced in the model. The models developed are documented so they can be replicated by a third party. The documentation contains key definitions, information regarding the process of data collection and processing, the methodological criteria adopted and the results obtained.

Banco BPI has a total of 56 models, in order to obtain the necessary parameters to calculate coverages based on a collective analysis.For each of the risk parameters, different models can be used according to each type of exposure.

The existing models are detailed below:

- 12 Scoring and Rating parameter models
- 12 PD parameter models
- 1 CCF parameter model
- 8 LGD parameter model
- 8 LGD in default parameter models
- 1 Haircut parameter model
- 14 forward looking PD and LGD macroeconomic models

Segments that do not have their own models are, broadly speaking, the State Business Sector (SBS), Specialized credit (SC), Financial companies (F), Insurers (I), Start-UPs (SU), among others.It should be noted, however, that PD and LGD is estimated for these segments.

Incorporation of forward-looking information into the expected loss models

The variables considered for the Portuguese economy are as follows:

Forward looking macroeconomic indicators

	2020	2021	2022
GDP growth			
Baseline scenario	1.72%	1.62%	1.42%
Upside range	2.84%	2.37%	1.86%
Downside range	0.05%	0.16%	0.27%
Unemployment rate			
Baseline scenario	6.14%	5.96%	5.83%
Upside range	5.35%	4.61%	4.49%
Downside range	7.93%	8.31%	8.28%
6M Euribor			
Baseline scenario	-0.34%	-0.05%	0.35%
Upside range	-0.24%	0.15%	0.65%
Downside range	-0.34%	-0.34%	-0.05%
Home prices evolution			
Baseline scenario	6.05%	3.76%	2.74%
Upside range	8.51%	6.08%	3.17%
Downside range	1.25%	0.25%	1.25%

Probability of occurrence of the forecast scenarios

	Baseline Scenario	Upside Scenario	Downside Scenario
Portugal	40%	30%	30%

A sensitivity analysis of the expected loss was performed based on changes in the key hypotheses applied separately to calculate the expected loss. The estimated sensitivity to a change in GDP projected growth in the next 12 months is shown below:

Exposure sensitivity analysis

	Change in Expected Loss
GDP growth	
+0,5%	(2 400)
-0,5%	2 400

5. Determination of impairment of financial assets

A description of impairment of financial assets is given in Note 2.7. Impairment of financial assets.

NPL management

The identification, as soon as possible, of indicators of financial difficulties of clients to which BPI has credit exposure has been a priority for the Bank. In a first phase, it is the commercial network that takes action when a Client shows indications of financial difficulties, as, due to its capillarity and specialisation, it in a better position to know the client, detect the first indications of deterioration and promptly propose adequate measures.

Once these Clients have been identified, there are specific mechanisms for regularly reporting, by Client or portfolio, to specific Committees of Banco BPI. The purpose is to ensure that the Bank acts as soon as possible in order to maximise the amount of recovery.

When necessary, responsibility for monitoring the Client and the recovery process is transferred to a specialised unit (Credit Recovery Division), which uses an integrated model covering all the phases of recovery, including the management of the foreclosed assets.

In the case of loans to Companies or Small Businesses, as a rule the Bank seeks non-judicial restructuring of the debt which, when credible, may involve extending the maturity and possibly even a moratorium on principal with the payment of interest in arrears and reinforced security. Also as a rule, the Bank does not increase its exposure, accept payment in kind or convert debt into capital.

In the case of recovery of loans to Individuals, restructuring or renegotiation agreements are also a preferred path for recovery providing that there is the minimum prospect of their being complied with. The choice is largely dependent on the length of default and on the loan product, and it could involve extending the maturity and implementing a payment plan of outstanding and unpaid instalments, amongst other solutions.

Once a restructuring operation has been completed, the process is duly monitored. Non-compliance with the agreed plan sets into motion the judicial recovery of the debt. Where the debt restructuring is not feasible, the loan is subjected to judicial execution.

The information on the status of the recovery process and likelihood of its success is factored into the determination of individual impairment, considered the worst prospect for recovery.

The table below shows the book value and impairment of property foreclosed for the payment of debt:

	31-12-2019			**31-12-2018**		
	Gross Value	**Impairment**	**Net value**	**Gross Value**	**Impairment**	**Net value**
Homes	11 835	2 033	9 802	22 591	3 093	19 498
Other	13 032	8 308	4 724	28 721	15 610	13 111
Total	**24 867**	**10 341**	**14 526**	**51 312**	**18 703**	**32 609**

Restructuring policies

A description of the restructuring policies is given in Note 2.8. Refinancing and restructuring operations.

Restructured loans:

The breakdown of refinancing by industry sector is as follows:

31-12-2019

Total

	Without collateral		With collateral				
					Maximum amount of the collateral that can be considered		
	Number of transactions	Exposure	Number of transactions	Exposure	Real estate mortgage	Other collateral	Impairment
Public administrations	2	350	1	6 600		6 601	
Other financial corporations and individual entrepreneurs (financial business)	8	180					(75)
Non-financial corporations and individual entrepreneurs (non-financial business)	1 428	101 327	250	211 066	98 882	54 472	(123 271)
Individuals	3 671	26 795	5 950	200 852	197 266	444	(57 797)
Total	**5 109**	**128 652**	**6 201**	**418 518**	**296 148**	**61 517**	**(181 143)**

Note: Includes securitised loans, Customer loans and guarantees

Of which: Stage 3

	Without collateral		With collateral				
					Maximum amount of the collateral that can be considered		
	Number of transactions	Exposure	Number of transactions	Exposure	Real estate mortgage	Other collateral	Impairment
Other financial corporations and individual entrepreneurs (financial business)	5	163					(75)
Non-financial corporations and individual entrepreneurs (non-financial business)	952	57 267	143	118 015	71 752	20 972	(113 805)
Individuals	2 045	16 579	4 691	154 725	151 596	179	(55 905)
Total	**3 002**	**74 009**	**4 834**	**272 741**	**223 348**	**21 152**	**(169 785)**

Note: Includes securitised loans, customer loans and guarantees at stage 3

31-12-2018

	Total						
	Without collateral		With collateral				Impairment
					Maximum amount of the collateral that can be considered		
	Number of transactions	Exposure	Number of transactions	Exposure	Real estate mortgage	Other collateral	
Public administrations	24	6 340	4	11 819		11 818	
Other financial corporations and individual entrepreneurs (financial business)	7	181	1	19	19		(70)
Non-financial corporations and individual entrepreneurs (non-financial business)	1 969	164 813	427	370 640	152 738	75 958	(199 514)
Individuals	4 638	33 505	6 767	234 214	228 596	583	(76 543)
Total	**6 638**	**204 839**	**7 199**	**616 692**	**381 353**	**88 359**	**(276 127)**

Note: Includes securitised loans, Customer loans and guarantees

	Of which: Stage 3						
	Without collateral		With collateral				Impairment
					Maximum amount of the collateral that can be considered		
	Number of transactions	Exposure	Number of transactions	Exposure	Real estate mortgage	Other collateral	
Other financial corporations and individual entrepreneurs (financial business)	4	106	1	19	19		(66)
Non-financial corporations and individual entrepreneurs (non-financial business)	1 389	86 480	310	249 915	127 707	61 883	(194 038)
Individuals	2 448	21 423	5 398	182 642	177 721	230	(74 320)
Total	**3 841**	**108 009**	**5 709**	**432 576**	**305 447**	**62 113**	**(268 424)**

Note: Includes securitised loans, customer loans and guarantees at stage 3

3.3.3. Concentration risk

In Banco BPI's Risk Catalogue concentration risk is conceptually included within credit risk, and is calculated according to CaixaBank Group's best practices.

Banco BPI's Risk Appetite Framework (RAF) uses metrics to systematically identify overall exposure to a particular Customer or geographic location, as well as appetite limits to concentration risk.

Concentration in customers or in "large exposures"

As part of the risk-taking process, the Bank monitors compliance with the regulatory limits (25% of own funds) as well as with limits to concentration risk appetite. At the end of 2019, there was no breach of the defined limits.

Concentration by geographic location

The breakdown of risk of financial assets and guarantees and sureties provided, by geographical location, is as follows:

31-12-2019

	Total	Portugal	Other EU countries	Other world countries
Central Banks and credit institutions	2 666 366	1 013 443	1 008 548	644 375
Public sector	4 780 922	2 591 940	2 007 302	181 680
Central government	3 625 051	1 436 069	2 007 302	181 680
Other public administrations	1 155 871	1 155 871		
Other financial corporations and individual entrepreneurs (financial business)	708 835	361 765	274 434	72 636
Non-financial corporations and individual entrepreneurs (non-financial business)	10 896 828	10 405 611	465 118	26 099
Real estate construction and development	544 522	540 267	3 540	715
Civil construction	275 167	264 152	11 015	
Other	10 077 139	9 601 192	450 563	25 384
Large companies	6 137 815	5 700 756	421 082	15 977
Small and medium-sized companies	3 939 324	3 900 436	29 481	9 407
Individuals	12 783 443	12 717 616	16 703	49 124
Homes	11 251 313	11 240 839	1 883	8 591
Consumer spending	1 128 752	1 088 355	12 583	27 814
Other	403 378	388 422	2 237	12 719
Total	**31 836 394**	**27 090 375**	**3 772 105**	**973 914**

Note: Includes deposits at central banks and credit institutions, financial assets not designated for trading compulsorily measured at fair value through profit or loss, financial assets at fair value through other comprehensive income, financial assets at amortised cost, investments in joint ventures and associates, and guarantees and sureties. Amounts net of impairments.

31-12-2018

	Total	Portugal	Other EU countries	Other world countries
Central Banks and credit institutions	3 470 420	2 346 777	458 660	664 983
Public sector	4 661 726	2 729 823	1 710 069	221 834
Central government	3 583 219	1 651 316	1 710 069	221 834
Other public administrations	1 078 507	1 078 507		
Other financial corporations and individual entrepreneurs (financial business)	5 228 922	4 787 889	378 139	62 894
Non-financial corporations and individual entrepreneurs (non-financial business)	10 165 312	9 616 588	511 842	36 882
Real estate construction and development	511 879	506 757	4 248	874
Civil construction	259 907	249 962	9 945	
Other	9 393 526	8 859 869	497 649	36 008
Large companies	5 522 189	5 043 050	454 824	24 315
Small and medium-sized companies	3 871 337	3 816 819	42 825	11 693
Individuals	12 353 408	12 280 822	17 067	55 519
Homes	11 001 828	10 987 944	2 804	11 080
Consumer spending	958 897	913 961	11 703	33 233
Other	392 683	378 917	2 560	11 206
Total	**35 879 788**	**31 761 899**	**3 075 777**	**1 042 112**

Note: Includes deposits at central banks and credit institutions, financial assets not designated for trading compulsorily measured at fair value through profit or loss, financial assets at fair value through other comprehensive income, financial assets at amortised cost, investments in joint ventures and associates, and guarantees and sureties. Amounts net of impairments.

Concentration by industry sector

Risk concentration by economic sector is subject to BPI's RAF limits (level 1), differentiating between private sector economic activities and public sector financing.

At 31 December 2019 and 31 December 2018, the breakdown of credit by industry sector, type of collateral and loan to value (LTV) was as follows:

31-12-2019

	Balance net of impairments	Of which: real estate mortgage secured	Of which: other collateral	Collateralised loans Carrying amount based on latest available appraisal (LTV)				
				≤ 40 %	> 40 % ≤ 60 %	> 60 % ≤ 80 %	> 80 % ≤ 100 %	> 100%
Central Banks and credit institutions	1 400 685							
Public sector	1 186 297	3 536	295 332	70 017	61 744	91 625	63 451	12 031
Central government	336 656		8 053					8 053
Other public administrations	849 641	3 536	287 279	70 017	61 744	91 625	63 451	3 978
Other financial corporations and individual entrepreneurs (financial business)	248 996	16 235	987	5 250	939	11 013		20
Non-financial corporations and individual entrepreneurs (non-financial business)	7 645 004	1 548 912	1 504 298	829 919	438 840	362 578	299 151	1 122 722
Real estate construction and development	383 952	192 984	31 775	155 858	21 451	19 681	7 802	19 967
Civil construction	127 942	3 843	41 909	3 336	1 338	915	1 396	38 767
Other	7 133 110	1 352 085	1 430 614	670 725	416 051	341 982	289 953	1 063 988
Large companies	3 459 945	536 371	1 106 155	414 124	112 881	128 997	134 223	852 301
Small and medium-sized companies	3 673 165	815 714	324 459	256 601	303 170	212 985	155 730	211 687
Individuals	12 763 695	11 230 002	276 544	2 635 577	3 722 297	4 210 436	841 705	96 531
Homes	11 251 313	11 179 470	53 292	2 603 194	3 688 072	4 137 268	747 496	56 732
Consumer spending	1 128 752	100	167 213	7 422	17 246	44 049	74 160	24 436
Other	383 630	50 432	56 039	24 961	16 979	29 119	20 049	15 363
Total	**23 244 677**	**12 798 685**	**2 077 161**	**3 540 763**	**4 223 820**	**4 675 652**	**1 204 307**	**1 231 304**

Note: Includes Loans to central banks, credit institutions and Customers (does not include debt securities and other Customer applications) Map built based on commercial segmentation.

31-12-2018

	Balance net of impairments	Of which: real estate mortgage secured	Of which: other collateral	Collateralised loans Carrying amount based on latest available appraisal (LTV)				
				≤ 40 %	> 40 % ≤ 60 %	> 60 % ≤ 80 %	> 80 % ≤ 100 %	> 100%
Central Banks and credit institutions	727 363							
Public sector	1 219 795	3 878	327 232	61 320	82 842	91 762	65 992	29 194
Central government	367 500		13 026					13 026
Other public administrations	852 295	3 878	314 206	61 320	82 842	91 762	65 992	16 168
Other financial corporations and individual entrepreneurs (financial business)	247 210	7 293	32	4 335	40	2 099	16	835
Non-financial corporations and individual entrepreneurs (non-financial business)	7 409 465	1 253 511	1 228 045	517 877	378 942	347 361	239 429	997 947
Real estate construction and development	376 074	120 390	84 030	91 694	13 589	18 260	5 811	75 066
Civil construction	111 454	6 361	31 820	1 507	4 832	57	761	31 024
Other	6 921 937	1 126 760	1 112 195	424 676	360 521	329 044	232 857	891 857
Large companies	3 327 200	361 485	825 970	192 804	111 135	109 732	91 045	682 739
Small and medium-sized companies	3 594 737	765 275	286 225	231 872	249 386	219 312	141 812	209 118
Individuals	12 329 968	10 966 551	296 555	2 267 439	3 050 262	4 441 386	1 363 255	140 764
Homes	11 001 828	10 912 508	60 040	2 238 635	3 018 819	4 371 757	1 253 880	89 457
Consumer spending	958 897	51	187 947	6 355	14 241	42 950	87 114	37 338
Other	369 243	53 992	48 568	22 449	17 202	26 679	22 261	13 969
Total	**21 933 801**	**12 231 233**	**1 851 864**	**2 850 971**	**3 512 086**	**4 882 608**	**1 668 692**	**1 168 740**

Note: Includes Loans to central banks, credit institutions and Customers (does not include debt securities and other Customer applications) Map built based on commercial segmentation.

Concentration by interest rate type and arrears status

The tables below show the detail of loans and advances to Customers and respective impairment by stage.

The breakdown of loans and advances to Customers (net of impairments) is as follows:

	31-12-2019			31-12-2018		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
By industry sector	**20 329 415**	**1 193 936**	**432 977**	**19 372 444**	**1 420 360**	**565 243**
Public sector	1 161 392	33 936		1 189 532	36 089	1 289
Other financial corporations and individual entrepreneurs (financial business)	298 048	171	122	376 988	2 769	181
Non-financial corporations and individual entrepreneurs (non-financial business)						
Real estate construction and development	362 771	6 975	14 219	327 856	32 605	15 627
Civil construction	118 330	9 273	340	94 729	15 035	1 696
Other						
Large companies	3 220 465	256 026	36 434	2 891 715	328 146	108 762
Small and medium-sized companies	3 488 873	133 614	50 906	3 350 770	192 094	61 008
Individuals						
Home loans	10 288 841	657 938	304 534	9 920 402	724 930	356 496
Consumer spending	1 025 349	80 192	23 212	867 491	75 211	16 195
Other	365 346	15 811	3 210	352 961	13 481	3 989
By interest rate type	**20 329 415**	**1 193 936**	**432 977**	**19 372 444**	**1 420 360**	**565 243**
Fixed rate	3 613 751	149 727	45 699	2 713 395	184 009	45 083
Variable rate	16 715 664	1 044 209	387 278	16 659 049	1 236 351	520 160
By number of days in arrears	**20 329 415**	**1 193 936**	**432 977**	**19 372 444**	**1 420 360**	**565 243**
Up to 30 days[1]	20 317 334	1 161 806	148 338	19 365 795	1 395 586	231 560
30 to 60 days	10 683	24 186	25 495	5 187	15 376	24 839
61 to 90 days	691	5 461	18 684	177	5 822	15 724
91 days to 6 months	381	1 925	39 771	181	3 070	41 795
6 to 12 months	87	49	27 654	90	249	48 423
More than 1 year	239	509	173 035	1 014	257	202 902

[1] Includes regular credit (with no days of arrears).

The breakdown of Customer loan impairments by calculation method is as follows:

	31-12-2019			31-12-2018		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Impairments determined individually / collectively						
Specific identified individually		(15 096)	(118 904)		(16 500)	(183 111)
Collective	(33 999)	(32 622)	(189 696)	(25 186)	(36 378)	(271 944)

Concentration by credit quality

The tables below show the concentration of credit risk by rating of exposures in debt securities and loans and advances held by the Bank:

Credit risk quality (rating)

The breakdown of debt securities by rating class at 31 December 2019 and 31 December 2018 is as follows:

31-12-2019

	Financial assets held for trading	Financial assets not designated for trading compulsorily measured at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	TOTAL
A+/A/A-				42 166	42 166
BBB+/BBB/BBB-	2 009	1 027	1 377 044	1 747 835	3 127 916
"Investment grade"	**2 009**	**1 027**	**1 377 044**	**1 790 001**	**3 170 082**
	14%	2%	100%	44%	58%
BB+/BB/BB-		56 414		299 684	356 097
No rating	11 925	5 404		1 940 065	1 957 394
"Non-investment grade"	**11 925**	**61 818**		**2 239 748**	**2 313 491**
	86%	98%		56%	42%
	13 934	**62 845**	**1 377 044**	**4 029 750**	**5 483 573**

31-12-2018

	Financial assets held for trading	Financial assets not designated for trading compulsorily measured at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	TOTAL
AAA/AA+/AA/AA-				1 819 400	1 819 400
A+/A/A-				898 112	898 112
BBB+/BBB/BBB-	4 532	1 079	1 277 370	1 801 666	3 084 647
"Investment grade"	**4 532**	**1 079**	**1 277 370**	**4 519 178**	**5 802 159**
	33%	0%	100%	60%	64%
BB+/BB/BB-		53 868		302 034	355 902
B+/B/B-				18 208	18 208
No rating	9 361	228 192		2 716 875	2 954 428
"Non-investment grade"	**9 361**	**282 060**		**3 037 117**	**3 328 538**
	67%	100%		40%	36%
	13 893	**283 139**	**1 277 370**	**7 556 295**	**9 130 697**

The breakdown of loans and advances to central banks and other credit institutions by rating class is as follows:

			31-12-2019		**31-12-2018**	
Exposures			**1 452 687**		**790 761**	
	External Rating	AAA to AA-	147 025	10%	89 924	11%
		A+ to A-	736 096	51%	212 214	27%
		BBB+ to BBB-	533 680	37%	479 121	61%
		BB+ to BB-	35 848	2%	9 502	1%
		B+ to B-	38	0%		
			1 452 687	**100%**	**790 761**	**100%**

Note: Exposure net of impairments (the amounts shown include accrued interest)

The breakdown of loans and advances to Customers by rating class is as follows:

			31-12-2019		31-12-2018	
Exposures *Non-Default*			**21 520 908**	**98%**	**20 792 798**	**97%**
	External Rating	AAA to AA-	96 019	0%	111 511	1%
		A+ to A-	1 167	0%	2 124	0%
		BBB+ to BBB-	919 367	4%	870 114	4%
		BB+ to BB-	35 560	0%	40 694	0%
		B+ to B-	45 561	0%	51 749	0%
		< B-	222	0%	34	0%
	Rating Project Finance	Strong	58 472	0%	73 565	0%
		Good	628 354	3%	826 533	4%
		Satisfactory	431 549	2%	244 784	1%
		Weak	31 559	0%	17 891	0%
	Rating Companies	E01 to E03	403 145	2%	875 301	4%
		E04 to E06	2 607 941	12%	1 973 240	9%
		E07 to E10	1 000 987	5%	972 417	5%
		ED1 to ED2	1 720	0%	907	0%
	Rating Small businesses	N01 to N03	199 425	1%	76 262	0%
		N04 to N06	887 128	4%	735 409	3%
		N07 to N10	587 513	3%	800 144	4%
		ND1 to ND2	4 108	0%	3 162	0%
	Scoring	01 to 03	4 535 259	21%	4 010 775	19%
		04 to 06	4 972 619	23%	5 083 357	24%
		07 to 10	2 711 809	12%	2 646 132	12%
		D01 to D02	15 141	0%	17 031	0%
	No rating		1 346 282	6%	1 359 662	6%
Exposures *Default*			**435 420**	**2%**	**565 249**	**3%**
			21 956 328	**100%**	**21 358 047**	**100%**

Note: Exposure net of impairments (the amounts shown include accrued interest)

CRR default criterion (Regulation (EU) 575/2013)

Concentration by sovereign risk

Banco BPI's exposure to entities with sovereign risk is subject to the general risk-taking policy, which ensures that all positions taken are aligned with the target risk profile. Therefore, metrics and limits of exposure to the Portuguese public sector and to the public sector of all other countries were established in the Risk Appetite Framework. The Bank's exposure to entities with sovereign risk is for the most part concentrated in Portugal, Spain and Italy.

Exposure to entities with sovereign risk

The table below shows the breakdown of BPI's exposure to sovereign debt:

31-12-2019

Country	Residual maturity	Financial assets held for trading	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost[1]
Portugal	Less than 3 months		225 243	4 676
	3 months to 1 year		200 355	53 426
	1 to 2 years	1 196		528 827
	2 to 3 years	367	134 501	77 590
	3 to 5 years			94 227
	5 to 10 years		29 189	529 404
	More than 10 years			562 306
		1 563	**589 288**	**1 850 456**
Spain	1 to 2 years		306 527	707 578
	2 to 3 years		306 795	
			613 322	**707 578**
Italy	3 months to 1 year			400 465
	1 to 2 years			100 408
	5 to 10 years		174 434	
			174 434	**500 873**
Other	1 to 2 years			24 717
	2 to 3 years			7 230
	5 to 10 years			70 522
	More than 10 years			78 199
				180 668
		1 563	**1 377 044**	**3 239 575**

[1] Does not include interest receivable.

31-12-2018

Country	Residual maturity	Financial assets held for trading	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost[1]
Portugal	Less than 3 months		50 044	10 319
	3 months to 1 year		740 568	18 589
	1 to 2 years			53 415
	2 to 3 years	4 167		550 382
	3 to 5 years	365		143 777
	5 to 10 years			475 306
	More than 10 years			533 141
		4 532	**790 612**	**1 784 929**
Spain	2 to 3 years		307 939	712 423
			307 939	**712 423**
Italy	Less than 3 months		178 819	
	1 to 2 years			401 054
	2 to 3 years			100 698
			178 819	**501 752**
Other	2 to 3 years			49 486
	3 to 5 years			9 698
	5 to 10 years			83 434
	More than 10 years			78 283
				220 901
		4 532	**1 277 370**	**3 220 005**

[1] Does not include interest receivable.

3.3.4. Relevant information regarding financing for property construction and development, home purchasing, and foreclosed assets

Relevant information regarding financing for property development, home purchasing, and foreclosed assets is provided in the following section.

Financing for real estate construction and development

The tables below show the level of financing provided to real estate construction and development (does not include advances).

31-12-2019

	Gross amount	Impairment	Value net of impairments	Excess over the maximum recoverable value of collateral
Real estate construction and development	423 691	(39 738)	383 952	165 711
Of which: Stage 3	51 761	(37 542)	14 219	1 923

31-12-2018

	Gross amount	Impairment	Value net of impairments	Excess over the maximum recoverable value of collateral
Real estate construction and development	430 347	(54 273)	376 074	229 498
Of which: Stage 3	64 959	(49 331)	15 628	2 672

The following table presents the value of financial guarantees given for real estate construction and development, which indicates the maximum level of exposure to credit risk, corresponding to the amount the Bank would have to pay if the guarantees were called on.

	31-12-2019		31-12-2018	
	Gross amount	Impairments and provisions	Gross amount	Impairments and provisions
Guarantees provided				
Real estate construction and development	149 288	6 221	135 490	5 972

The table below provides information on guarantees received for real estate development loans, broken down by classification of customer insolvency risk:

	31-12-2019		31-12-2018	
	Real estate mortgage	Other collateral	Real estate mortgage	Other collateral
Real estate construction and development	**592 200**	**70 590**	**468 950**	**46 194**
of which: Non-performing	70 348	468	80 116	63

Home loans

The table below shows the evolution of home loans:

	31-12-2019 [2]		31-12-2018 [2]	
Not real estate mortgage secured	71 843	1%	89 320	1%
Of which: Default [1]	877		12 155	
Real estate mortgage secured	11 179 470	99%	10 912 508	99%
Of which: Default [1]	303 656		344 341	
Total home loans	**11 251 313**	**100%**	**11 001 828**	**100%**

[1] CRR default criterion (Regulation (EU) 575/2013)

[2] Exposure net of impairments (the amounts shown include accrued interest)

The table below shows the amount of residential mortgage loans, by LTV brackets:

	31-12-2019[1]		31-12-2018[1]	
	Total	Of which: Default [2]	Total	Of which: Default [2]
LTV ≤ 40%	2 602 262	47 981	2 237 156	41 331
40% < LTV ≤ 60%	3 682 663	73 879	3 014 636	66 139
60% < LTV ≤ 80%	4 124 678	107 520	4 357 477	113 699
80% < LTV ≤ 100%	716 034	42 272	1 216 816	70 860
LTV > 100%	53 833	32 004	86 423	52 312
Total home loans	**11 179 470**	**303 656**	**10 912 508**	**344 341**

[1] Exposure net of impairments (the amounts include accrued interest).

[2] CRR default criterion (Regulation (EU) 575/2013).

3.3.5. Derivatives and repos credit risk

Control of exposures in derivatives and repos at Banco BPI is an integral part of control of exposure to credit risk. In the case of derivatives, where exposure changes according to the change in the market price of the underlying asset, the characteristics of the operation are adapted to the system, by considering the maximum potential exposure (calculated with a statistical confidence level of 99%) and considering the derivative, for limits control purposes, as equivalent to a credit with the same value, maturity, counterparty and other characteristics. An additional control is made to determine whether the effective exposure remains within the limits through the lifetime of the operation.

The value of the maximum potential exposure in derivatives is reviewed periodically (for the main counterparties), or at request, in order to update the limits. In normal circumstances this revision will release limits in so far as, save in case of very strong market fluctuations, the potential exposure decreases with time.

Sales with repurchase agreement (reverse repos) are treated as applications and deposits for which there are associated guarantees, with limits being allocated at net value, taking into account the applicable haircuts.

For both derivatives and repos, it is legally possible to offset the value of the operations, providing there is an agreement to this effect between the two parties. In accordance with Banco BPI's policy, the derivative and repo agreements entered into by the Bank provide for this offsetting, i.e., even in case of bankruptcy, the amounts payable by the Bank to the counterparty correspond to the algebraic sum of the amounts payable or receivable for the set of transactions included in the agreement (therefore the normal obligation of paying immediately the amount of the operations for which the Bank is the debtor and entering the list of creditors in order to receive the amount of the operations for which it is the creditor does not exist).

In the case of repos and derivatives with other banks, the Bank enters collateral exchange agreements that allow the exposure to be maintained at a preset level. Receivable and payable collaterals for derivatives and repos are controlled on a daily basis, which permits to maintain a strict control of the exposure in those products and counterparties (the most important in terms of the Bank's exposure).

Finally, compliance with the European Market Infrastructure Regulation also plays a role in the mitigation of the counterparty credit risk in the derivatives portfolio, as it imposes that a significant part of over-the-counter (OTC) operations be made with central counterparties (CCP) and establishes strict control rules for OTC derivatives traded with all other counterparties.

The policies on the control and mitigation of credit risk arising from OTC derivative and repo trading with other banks or professional counterparties are based on the use of solid contractual instruments, such as:

- ISDA contracts: Standard contract that regulates trading in the OTC derivatives market, usually used between two professional parties (such as two banks or possible one bank and a large company). ISDA contracts provide for the possibility referred above of offsetting the flows of outstanding collections and payments between the parties.
- Credit support annex (CSA) to ISDA contract: Annex to the ISDA contract whereby each of the parties undertakes to provide collateral (usually a cash deposit) to the other as security for the net counterparty risk position arising from the set of derivatives traded between them under the CSA, on the basis of a prior close-out netting agreement included in the clauses of the ISDA contracts.
- GMRA/ CME/ GMSLA contracts: standard contracts that regulate sale and repurchase agreements and reverse repurchase agreements (repos). These contracts also include exposure offsetting clauses as well as clauses on the exchange of collaterals to hedge the net remaining exposure.
- Central Counterparties (CCP) The use of CCPs in derivatives and repo transactions permits a substantial reduction in the associated counterparty risk, as these entities act as intermediaries between the two parties to the transaction, with the Bank absorbing the CCP risk and not the risk of a less creditworthy entity. The EMIR regulations set forth, among others, an obligation, for certain OTC derivatives, to transfer the counterparty credit risk to a CCP.

For other counterparties (with which there is no interprofessional relationship), the Bank uses derivatives Framework Contracts, which were developed internally and are subject to Portuguese law. In certain situations an ISDA agreement may be entered into. As referred, the policy on derivatives trading is similar to the lending policy in terms of the control of exposure, for which it is the Bank's practice to require guarantees or collateral, which in this case hedge not only the credit exposure but also the derivatives exposure.

3.3.6. Risk associated with investee portfolio

The risk of the investee portfolio is the risk associated with the possibility of incurring losses in the book value of equity holdings in portfolio within a medium to long term horizon as a result of fluctuations in macroeconomic conditions or in the specific financial situation of each investee.

In the case of investees with which there is a credit relationship and therefore credit risk, the Bank makes an analysis of the risk of financial loss due to the loss of value of the Bank's assets as a result of the deterioration of the counterparties' capacity to honour their commitments.

Control and financial analysis of the main investees are also performed through specialists exclusively responsible for monitoring changes in economic and financial data, based on documents provided by the companies in question. Regulatory changes and competition in the geographical areas and industry sectors where the investees operate are also analysed. This analysis is made in cooperation with other departments of the Bank, namely the Economic and Financial Studies Unit ("UEEF"), and in close collaboration with the areas in CaixaBank responsible for monitoring investees. As far as possible, the analysis is also supported by third-party documentation (from research houses, rating agencies or consultancy firms) in order to obtain an overall perspective of the possible risks to the value of the investees.

Banco BPI's equity holdings are registered in three major investee groups: Non-trading financial assets mandatorily accounted for at fair value through profit or loss, Financial assets at fair value through other comprehensive income, and Investments in subsidiaries, joint ventures and associates. For the more relevant investees, DCF and/or market multiples periodic valuations are made, in accordance with the nature of each investee, and also impairment tests to be recorded in the Bank's accounts.

3.4. Market risk

3.4.1. Overview

The market risk perimeter covers Banco BPI's trading portfolio as defined for risk purposes.

3.4.2. Market risk cycle

Monitoring and measurement of market risk

On a daily basis, the responsible departments realise and monitor the transactions in portfolio, calculate how changes in the market will affect the positions held (daily marked-to-market results), quantify the market risk taken and monitor compliance with the established limits. The results of these activities are compiled into daily position reports, which include the quantification of risks and the utilisation of risk limits, and these are distributed to the various levels in the hierarchy.

As a general rule, there are two types of measurements which constitute a common denominator and market standard for the measurement of market risk:

Sensitivity

Sensitivity represents risk as the impact a slight change in risk factors has on the value of positions, without providing any assumptions about the probability of such a change (e.g. one of the most common methods used to measure interest rate sensitivity is to project a change of one basis point in the interest rates curve).

Value-at-risk (VaR)

The benchmark market risk measurement is VaR, with a confidence level of 99% and a two-week (10 business days) time horizon based on a parametric model where the return on the risk factors considered follow a zero average normal distribution and the standard deviation is obtained from an historical series of values observed over one year. The diversification effect is considered based on correlations between the returns of the various factors considered (interest rates, exchange rates, equity prices). Total VaR results from the aggregation of VaR arising from fluctuations in interest rates, exchange rates and equity prices, taking into account the diversification effect.

The table below shows the values of average VaR at 99% with a time horizon of two weeks (10 business days) in accordance with BPI's different risk factors. As can be seen, the value of the risk is immaterial, given the limited expression of open positions in the trading book.

	Total	Interest Rate	Exchange Rate	Share prices
Average VAR 2019	194	165	56	41
Average VAR 2018	264	58	48	245

In 2019 the average and the maximum value of the VaR at 99% with a time horizon of one day (adjusted for root of 10) in BPI's trading activities was 0.194 and 0.507 million euros, respectively.

Capital requirements for market risk are determined based on the standardised approach. The values calculated are insignificant, given the low representativeness of the portfolio. It should be noted that BPI's foreign-exchange risk mainly derives from its equity holdings in financial institutions outside the Eurozone.

3.4.3. Mitigation of market risk

As part of the required monitoring and control of the market risks taken, there is a structure of overall VaR limits complemented by the definition of sublimits, stop losses and sensitivity analyses for the various management units that could assume market risk.

The risk factors are managed using economic hedges on the basis of the return/risk ratio determined by market conditions and expectations, always within the assigned limits. Many of these hedges are back-to-back.

Beyond the trading portfolio, fair-value hedge accounting is used, which eliminates potential accounting mismatches in the balance sheet and the income statement caused by the different treatment of hedged instruments and those used to hedge in the market. Limits are established and monitored for each hedge, normally expressed as the ratio between the sensitivity of the hedging items and the sensitivity of the hedged items.

3.5. Operational risk

3.5.1. Overview

BPI has adopted the definition of operational risk provided in the regulation in force (Regulation (EU) no. 575/2013 of the European Parliament and of the Council, of 26 June 2013): "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk." This definition excludes strategy and reputational risks. In BPI’s catalogue of risks, as indicated in the Internal Control Policy, operational risk is broken down into several subcategories, which, on account of their specific nature, justify the establishment of specialised areas responsible for their management: legal & regulatory, conduct and compliance, technological, operational processes and external events, and reliability of the financial information.

The operational risk management model has as main purpose to ensure:

- alignment with the Risk Appetite Statement established by the Board of Directors, which translates, among others, into a consistent reduction in BPI’s operational losses, contributing to long-term sustainability and continuity;
- compliance with the regulatory requirements and the supervisors' expectations.

The accomplishment of these purposes is ensured through the setting of specific objectives for operational risk management:

- to identify and pre-empt the existing operational risks arising from internal and external factors, so as to increase control over BPI's results (reducing volatility), by adopting measures to sustainably mitigate and reduce operational losses;
- to ensure BPI's long-term continuity, namely through business continuity and technological contingency plans, managing the factors that may pose a risk to its survival;
- to promote the establishment of continuous improvement systems for operational processes and in the control structure in place at BPI, so as to facilitate decision-taking on risk;
- to take advantage of synergies in the management of operational risk at BPI's level;
- to promote a culture of management of operational risk based on risk awareness, responsibility, commitment and service quality;
- to comply with the regulatory framework and the requirements for application of the chosen management and calculation models, including the capital consumption requirements.

3.5.2. Operational risk management cycle

Operational risk management at BPI is based on risk-sensitive policies, processes, tools and methodologies, in accordance with best market practices.

- **Identification and assessment of operational risk**

Each Division under the aegis of the Executive Committee is responsible for identifying the operational risk inherent in the activities carried out by the respective areas (OR self-assessment). This assessment should be made annually, although adjustments may be made more frequently, if necessary.

The operational risk management central unit, as the second line of defence, is responsible for assisting the Divisions in the assessment of operational risk, monitoring the corresponding processes and collecting inputs on specific OR categories, jointly promoting the enrichment of the operational risk evaluation process carried out by the Divisions.

OR self-assessment is made using forms obtained through an operational risk management software application, which stores all the operational risks identified, classified, evaluated and monitored at BPI.

Additionally, measurement via Operational Risk indicators (KRIs) is a quantitative/qualitative methodology that: i) permits to anticipate the development of operational risks, taking a forward-looking approach to their management and ii) provides information on the evolution of the operational risk profile and the underlying causes.

The Global Risk Committee is responsible for ascertaining whether BPI's operational risk profile remains aligned to the Risk Appetite Statement and BPI's global risk profile.

- **Operational risk events**

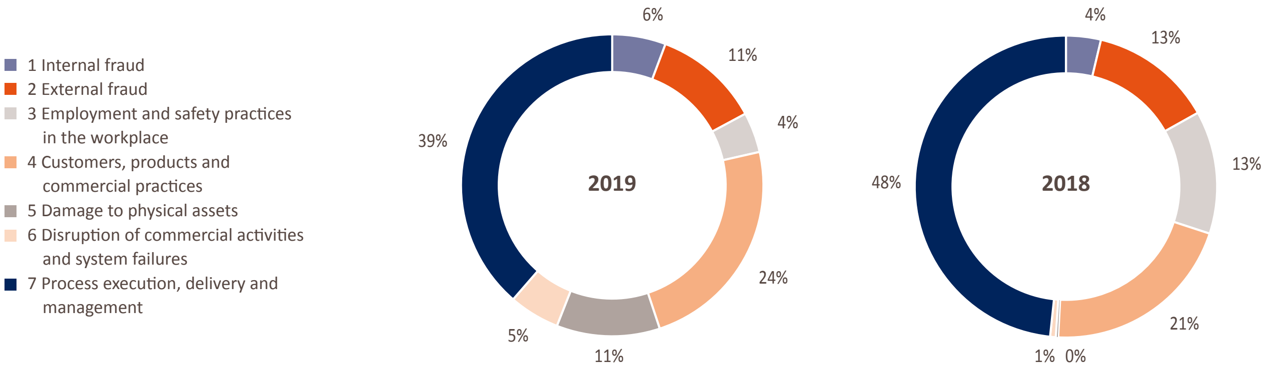
The materialisation of operational risks (operational risk events) should be taken into account for the purpose of new identification of risks or reassessment of risks already identified and considered under a critical perspective for purposes of identification of mitigation measures.

Therefore, within the scope of the identification and monitoring of operational risk events, all the Bank's Divisions and Units, as the first line of defence, have as main responsibilities to i) promptly record these events in the internal database, and ii) incorporate the knowledge obtained through the critical analysis of these occurrences into the risk management cycle.

The second line of defence has as main functions to:

- appraise the consistency of the records of events made by the Divisions;
- harmonise the records of events that involved several Divisions;
- compile and make a critical analysis of the information, such as fosters the quality of the analysis of the pattern of events with a view to improving risk management.

Gross losses breakdown by type of risk



- **Mitigation of operational risk**

BPI's operational risk management model establishes that it is the responsibility of Divisions to detect any situations that trigger the need to assess whether it is pertinent, opportune and feasible to devise risk Mitigation Measures and to propose such measures.

These measures are planned and implemented to reduce or eliminate the probability of a future occurrence of a certain risk and/or the severity of its impacts.

3.6. Legal and regulatory risk

Legal and regulatory risk is defined as the possibility of potential losses or reduction in the Bank's profitability as a result of legal or regulatory changes (of any nature, including tax), changes in their interpretation or application by the competent authorities, or compliance with court rulings or administrative or tax proceedings.

In the realm of legal and regulatory risks mitigation, the following deserve particular attention: the analysis of the legal framework and the identification of any misalignments with the regulations; the analysis of the likelihood of changes in the legal/regulatory framework and their consequences; the clarification of the nature of contractual relationships and their interpretation by the counterparties; the analysis of products and their legal status; and the identification and proposal of measures capable of reducing possible litigation risks.

In this regard, it is worth noting the main legal and regulatory changes with an impact on the Group:

- Approval of the Legal Framework on Payment Services and Electronic Money through Decree-Law no. 91/2018, of 12 November, which transposes into Portuguese law the Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market.

- Approval of Law no. 35/2018, of 20 July, which changes the rules on the marketing of financial products and on the organisation of financial intermediaries, transposing, among others, the Directive 2014/65/EU of the European Parliament and of the Council of 15 May (MiFID 2).

- Approval of Law no. 58/2019, of 8 August, on the approval of the General Data Protection Regulation [Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016];

On the other hand, with regard to ongoing administrative proceedings, it is worth noting, due to its materiality, the infringement proceedings initiated by the Competition Authority (CA) in 2012, related to the alleged exchange of sensitive information (volumes and spreads) between banks on home loans and other forms of credit, where the Competition Authority considers that such exchange of information constitutes a concerted practice between companies contrary to the law, under which the Bank was sentenced, in September 2019, to a single fine of €30 million. It should be noted that this fine was challenged in the third quarter of 2019, Banco BPI having lodged an appeal with the Competition, Regulation and Supervision Court, and maintaining the belief that it will be cleared of the aforementioned conviction.

The Group has in place policies, rules, analysis and monitoring procedures, as well as specific periodic controls to identify and update the provisions required to cover present obligations arising from past events from which may result material loss, when it is considered that such loss is likely to occur as a result of unfavourable, judicial or extrajudicial, decisions, in the context of civil, criminal, tax or administrative litigation.

3.7. Conduct risk

The risk of conduct and compliance is defined as the risk arising from the application by BPI of action principles that are contrary to the interests of its Clients or other stakeholders, or actions or omissions by the Bank that are not compliant with the legal and regulatory framework or the internal policies, standards and procedures. The objective of BPI is to minimise the probability of this risk occurring and, if it does, to promptly detect, report and address the weaknesses.

The management of compliance and conduct risk is undertaken across the entire institution, which, through its employees, must ensure compliance with the regulations in force and applying appropriate procedures to the activity they perform.

In order to manage compliance and conduct risk, the values and principles set out in the Code of Ethics and Conduct of BPI are actively promoted both to its Employees and to the Members of the Governing Bodies, who must assume compliance therewith as a guiding principle of their day-to-day activities.

3.8. Technological risk

Technological risk refers to risk of losses due to hardware or software inadequacies or failures in technical infrastructure, due to cyberattacks or other circumstances, which could compromise the availability, integrity, accessibility and security of the infrastructures and data. This risk is divided into 5 categories: 1) Availability and continuity of Information and Communication Technologies; 2) Security of Information and Communication Technologies; 3) Changes to Information and Communication Technologies; 4) Integrity of IT Data; 5) Externalisation of Information and Communication Systems.

To prevent impacts caused by failures in IT infrastructures, BPI has implemented recovery mechanisms based on high availability solutions for both hardware and software applications and data. These solutions' speed and efficacy of response is systematically gauged through an annual testing plan.

Specifically, business continuity refers to the capability of an organisation to continue delivery of products or services at acceptable predefined levels following a disruptive incident. Therefore, Business Continuity management at BPI consists in identifying potential threats to the organisation and its activity, providing a framework for building organisational resilience and the capability for an effective response that safeguards the interests of its key stakeholders, its reputation, brand, and value - creating activities.

Accordingly, BPI has decided to align its Business Continuity Management System (BCMS) to the international standard ISO 22301:2012.

Banco BPI maintains emergency plans, internal regulations and controls covering the various aspects of Information Security, in key areas such as: 1) cybersecurity; 2) the fight against Customer fraud and internal fraud; 3) data protection; 4) internal awareness raising about security; and 5) Supplier security.

3.9. Other operational risk

Within the context of Operational Risk, this is defined as the risk of losses or damage caused by operational errors in processes related to BPI's activity, due to external events beyond its control, or provoked by third parties, either accidentally or fraudulently. It includes, among others, errors in the management of suppliers, in the model, and in the custody of securities.

Operational risk that arise from operating processes and external events is managed across all areas of BPI. This implies identifying, assessing, managing, controlling and reporting the operational risks of their activity and cooperating with the Bank's operational risk management area in the implementation of the management model.

3.10. Risk of reliability of financial reporting

The Risk of reliability of financial information is defined as the risk that there will be deficiencies in the accuracy, integrity and criteria of the processes used in the preparation of the data required to evaluate the Bank's financial situation and networth.

The control activities performed by the 1st line of defence include: (i) defining the accounting circuits that encode the contribution of BPI's different applications for the automatic integration in the accounting application, (ii) reviewing the reasonableness of judgements and estimates as well as the evolution of accounting magnitudes, (iii) liaising with CaixaBank's *Departamento de Políticas Contables* for application of the accounting policies, (iv) controlling the accounting originating in the different applications and manual processes, and (v) analysing the reasonableness of consolidated results and equity.

To manage and monitor the risk of reliability of financial reporting, Banco BPI has a Financial Information Internal Control System ("SCIIF"), which is defined as the set of processes undertaken to provide reasonable assurance about the individual and consolidated financial information, understood as the content of the annual or interim accounts, which include the balance sheet, the income statement, the statement of changes in equity, the statement of cash flows, and the accounting data provided in the management reports and disclosures to the market.

The management of this risk includes assessing whether the information produced complies with the following principles:

- The transactions and other events reflected in the financial information in fact exist and were recorded at the right time (existence and occurrence);
- The information includes the totality of transactions and other events in which Banco BPI is the affected party (completeness);
- The transactions and other events are recorded and valued in accordance with applicable standards (valuation);
- The transactions and other events are classified, presented and disclosed in the financial information in accordance with applicable standards (presentation, detail and comparability);
- The financial information shows, at reporting date, the entity's rights and obligations through the corresponding assets and liabilities, in accordance with applicable standards (rights and obligations).

It should also be noted that the Bank has in place a "Policy on the Disclosure and Verification of Financial Information", approved by the Board of Directors, having the following main objectives:

- To define the scope of the information to be disclosed, as well as the general policy and the criteria related to the control and verification of Financial Information;
- To provide the Bank with a regulatory framework applying to the information to be disclosed and to the verification of this information.

3.11. Banking book interest rate

3.11.1. Structural interest rate risk

The management of this market risk by Banco BPI seeks to i) optimise the net interest income and ii) preserve the economic value of the balance sheet, while at all times taking into account the metrics and thresholds of the risk appetite framework in terms of the volatility of the net interest income and the sensitivity of economic value. These objectives are defined in accordance with the policies established at CaixaBank Group level.

This risk is analysed considering a broad set of market interest rate scenarios, analysing the impact of the inherent shocks on possible sources of structural interest rate risk, i.e. repricing risk, curve risk, base risk and optionality risk. Optionality risk considers automatic optionality related to the behaviour of interest rates and the optionality of customer behaviour, which is not only dependent on interest rates.

Banco BPI applies best market practices and the recommendations of regulators in measuring the interest rate risk of the banking book, using various measurement techniques that make it possible to analyse its positioning and risk situation. These notably include:

- Static gap: it shows the contractual distribution of maturities and interest rate repricings for applicable balance sheet and/or off-balance sheet aggregates at a particular date. GAP analysis is based on comparison of the values of assets and liabilities that are repriced or mature in the same particular period.

- Sensitivity of net interest income: Sensitivity is measured by comparing the net interest income at 12 and 24 months, calculated for a baseline scenario, and for extreme scenarios of interest rate changes (instantaneous and progressive parallel shock with different intensities, and changes in slope of interest rate curves). The most likely scenario, which is obtained using the implicit market rates, including the business trend and hedge management forecasts, is compared with other scenarios of rising or falling interest rates with parallel and non-parallel movements in the slope of the curve. The difference between these stressed net interest income figures compared to the baseline scenario give us a measure of the sensitivity, or volatility, of net interest income.

- Balance sheet economic value: it is calculated as the sum of i) the fair value of net interest-rate sensitive assets and liabilities on the balance sheet; ii) the fair value of off-balance sheet products (derivatives); and iii) the net carrying amounts of non interest-rate sensitive asset and liability items.

- Economic value sensitivity: The economic value of interest-rate sensitive on- and off-balance sheet items is calculated at the current market rates (baseline scenario) and under different stressed interest-rate scenarios. The difference between the values obtained in the baseline scenario and those obtained in the stressed scenarios permit to assess the sensitivity of economic value to interest rate changes.

To mitigate the banking book interest rate risk, the Bank actively manages this risk through hedging operations contracted in the financial markets which permit to correct situations where hedging is not provided naturally through operations carried out with the Clients or other counterparties.

The table below shows, using a static gap, the distribution of contractual maturities and interest rate repricings of interest-rate sensitive amounts in the banking book, at 31 December 2019:

	1 year	2 years	3 years	4 years	5 years	> 5 years	TOTAL
ASSETS							
Interbank and Central Banks	1 976 868						1 976 868
Loans and advances to Customers	20 116 376	829 275	411 020	283 617	224 454	1 125 718	22 990 460
Fixed income portfolio	1 719 741	1 607 126	459 894	18 461	34 682	496 094	4 335 998
Total Assets	**23 812 985**	**2 436 401**	**870 914**	**302 078**	**259 136**	**1 621 812**	**29 303 326**
LIABILITIES							
Interbank and Central Banks	2 451 463	500 000					2 951 463
Customer deposits	11 405 767	2 573 543	2 467 002	1 379 508	1 379 345	3 841 330	23 046 495
Own issues	856 382	162			775 000		1 631 544
Total Liabilities	**14 713 612**	**3 073 705**	**2 467 002**	**1 379 508**	**2 154 345**	**3 841 330**	**27 629 502**
Assets minus Liabilities	**9 099 373**	**(637 304)**	**(1 596 088)**	**(1 077 430)**	**(1 895 209)**	**(2 219 518)**	**1 673 824**
Hedges	**(1 614 917)**	**747 802**	**1 406 853**	**(230 468)**	**392 255**	**(699 768)**	**1 757**
Total difference	**7 484 456**	**110 498**	**(189 235)**	**(1 307 898)**	**(1 502 954)**	**(2 919 286)**	**1 675 581**

The table below shows, using a static gap, the distribution of contractual maturities and interest rate repricings of interest-rate sensitive amounts in the banking book, at 31 December 2018:

	1 year	2 years	3 years	4 years	5 years	> 5 years	TOTAL
ASSETS							
Interbank and Central Banks	2 723 964						2 723 964
Loans and advances to Customers	19 681 053	550 090	298 871	204 604	129 933	656 642	21 521 194
Fixed income portfolio	1 844 872	404 046	1 605 562	22 313	4 631	181 690	4 063 115
Total Assets	**24 249 890**	**954 136**	**1 904 433**	**226 918**	**134 564**	**838 333**	**28 308 273**
LIABILITIES							
Interbank and Central Banks	2 750 284	410 000	953 830				4 114 114
Customer deposits	14 873 541	1 045 851	1 600 965	1 106 239	1 105 301	2 209 721	21 941 619
Own issues	1 107 169	6 493	162				1 113 824
Total Liabilities	**18 730 994**	**1 462 344**	**2 554 957**	**1 106 239**	**1 105 301**	**2 209 721**	**27 169 557**
Assets minus Liabilities	**5 518 896**	**(508 208)**	**(650 524)**	**(879 322)**	**(970 737)**	**(1 371 389)**	**1 138 717**
Hedges	**(726 058)**	**985 279**	**491 306**	**(122 429)**	**(178 037)**	**(442 917)**	**7 144**
Total difference	**4 792 838**	**477 070**	**(159 217)**	**(1 001 751)**	**(1 148 774)**	**(1 814 305)**	**1 145 861**

The sensitivity of net interest income and economic value are complementary measures that provide an overview of structural interest rate risk, which is more focused on the short and medium term in the first case and on the medium and long term in the second.

The table below shows the sensitivity of the net interest income and the economic value of interest rate-sensitive assets and liabilities to a 200 basis points interest rate instantaneous increase and decrease in 31 December 2019:

Amounts as % of baseline scenario	**+200 bp**	**-200 bp[3]**
Net interest income [1]	25.8%	-13.7%
Asset value (banking book)[2]	7.4%	1.9%

[1] Net interest income sensitivity at 1 year

[2] Economic value baseline sensitivity

[3] In the case of falling-rate scenarios the applied internal methodology accepts negative interest rates. Given the current level of interest rates, the methodology accepts an interest-rate decline shock of up to approximately -1%. For example, considering a EONIA curve interest rate of -0.40%, the interest rate subject to a shock of -1% in this curve could be as low as -1.40%.

3.11.2. Structural exchange rate risk

Banco BPI has foreign currency assets and liabilities in its balance sheet, mainly as a result of its commercial activity, including foreigncurrency assets and liabilities deriving from the transactions carried out to mitigate exchange rate risk in that activity. The Bank also has some foreign currency structural positions related to equity holdings in financial Institutions outside the Eurozone.

At 31 December 2019, the equivalent euro value of all foreign currency assets and liabilities was as follows:

	USD	AKZ	Other
Cash and cash balances at central banks and other demand deposits	20 246	19 774	34 916
Financial assets held for trading	9 780		484
Financial assets not designated for trading compulsorily measured at fair value through profit or loss	61 771		
Financial assets at fair value through other comprehensive income	10 039	413 747	102
Financial assets at amortised cost	1 082 887		80 460
Derivatives - Hedge accounting	6 144		138
Fair value changes of the hedged items in portfolio hedge of interest rate risk	3 861		
Investments in subsidiaries, joint ventures and associates	721		
Other assets	233		4 867
Foreign exchange operations pending settlement and forward position operations	729 766		66 533
Total Assets	**1 925 448**	**433 521**	**187 500**
Financial liabilities held for trading	2 428		459
Financial liabilities at amortised cost	1 907 575		182 275
Derivatives - Hedge accounting	3 818		6
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1 695		(36)
Other liabilities	1 549		163
Total Liabilities	**1 917 065**		**182 867**

The exchange rate risk in the Bank's regular activity may be hedged through on-balance sheet operations (deposits or foreign currency investments) or through financial derivatives that mitigate the risk of positions in foreign currency. It should be noted that the nominal value of derivatives is not reflected directly in the balance sheet but in off-balance sheet accounts. The approach to foreign-exchange risk management at Banco BPI is to seek to minimise the positions assumed, which explains the Bank's low exposure to this risk.

The relevant foreign exchange positions held by Banco BPI result from the equity holdings in financial institutions of countries outside the Eurozone, notably in Banco de Fomento de Angola (position in Angolan Kwanzas) and Banco Comercial e de Investimentos S.A. (Positions in Mozambique Metical). BFA's fair value estimate factors in a projection of the foreign exchange devaluation of the Kwanza, and in the case of the equity holdings (sensitivity analysis presented in Note 38), the impact of foreign exchange changes also depends on the composition of the balance sheet of each of those companies.

Excluding the foreign currency positions in Kwanza and Metical resulting from the equity holdings in BFA and BCI, BPI's exposure and sensitivity to exchange rate risk is not significant, taking into account the existing hedges.

At 31 December 2018, the equivalent euro value of all foreign currency assets and liabilities was as follows:

	USD	AKZ	Other
Cash and cash balances at central banks and other demand deposits	16 187	30 293	43 772
Financial assets held for trading	10 623		629
Financial assets not designated for trading compulsorily measured at fair value through profit or loss	64 931		
Financial assets at fair value through other comprehensive income	6 888	521 935	
Financial assets at amortised cost	453 358		95 749
Derivatives - Hedge accounting	3 564		140
Fair value changes of the hedged items in portfolio hedge of interest rate risk	792		
Investments in subsidiaries, joint ventures and associates	707		
Other assets	69		25
Foreign exchange operations pending settlement and forward position operations	1 329 495		62 247
Total Assets	**1 886 614**	**552 228**	**202 562**
Financial liabilities held for trading	1 977		574
Financial liabilities at amortised cost	1 895 167		196 907
Derivatives - Hedge accounting	1 503		32
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(679)		(33)
Other liabilities	(6 334)		(1 724)
Total Liabilities	**1 891 634**		**195 756**

3.12. Liquidity risk

3.12.1. Overview

Banco BPI manages liquidly risk with the objective of maintaining a level of liquidity allowing it at all times to meet all its payment obligations, without investment activities being affected by lack of funds, while maintaining a balanced balance sheet structure in the long term. Liquidity risk is managed in its various aspects: i) the ability to keep up with assets growth and to meet cash requirements without incurring exceptional losses; ii) the maintenance in the portfolio of tradable assets that constitute a sufficient liquidity buffer; (iii) compliance with the various regulatory requirements in the context of liquidity risk.

The strategic principles followed to reach this objective are:

- Autonomous management of liquidity within Banco BPI's prudential consolidation scope, subject to governance practices aligned to those implemented by CaixaBank as well as to the recommendations and best practices set forth by the supervision authorities.
- Active liquidity management, namely through the ongoing monitoring of liquid assets and the balance sheet structure.
- Maintaining a sufficient level of liquid funds to meet obligations assumed, fund business plans and comply with regulatory requirements.
- Sustainability and stability of the funding sources, based on i) funding structure mainly supported by Customer deposits ii) limited recourse to the ECB medium- and long-term facilities and reduced dependence on the capital and money markets.

The liquidity risk strategy and appetite for liquidity and financing risk involves:

- Identification of significant liquidity risks for Banco BPI;
- Formulation of the strategic objectives for each of these risks and definition of the management requirements to reach these objectives;
- Definition of the relevant metrics for each of these risks;
- Setting of limits and objectives for each of these metrics within the context of the Risk Appetite Framework;
- Establishment of management, monitoring and control procedures for each of the risks, including mechanisms of regular internal and external reporting;
- Definition of a stress testing framework and a Liquidity Contingency Plan to ensure the management of liquidity risk in situations of moderate and serious crisis;
- Recovery Plan setting out scenarios and measures for extreme stress situations.

In particular, Banco BPI has specific strategies with regard to: i) management of intra-day liquidity; ii) management of short-term liquidity; iii) management of funding sources; iv) management of concentration risk; v) management of liquid assets; and vi) management of collateralised assets. In addition, Banco BPI has in place procedures to minimise liquidity risks in stress conditions through i) early detection; ii) proactive management to overcome potential situations of crisis; and iii) minimisation of negative impacts.

3.12.2. Mitigation of liquidity risk

On the basis of the principles referred in the previous section, a Contingency Plan has been drawn up which establishes action plans for each crisis scenario and sets out the measures to be taken at commercial, institutional and internal/external communication level to deal with each situation. In a stress situation, the main priority of the net liquid assets portfolio management is to minimise liquidity risk.

The usual liquidity management measures include:

- Resorting to funding from the ECB, for which a series of guarantees have been provided that permit to obtain immediate liquidity.

Available balance in the ECB facility

	31-12-2019	31-12-2018
Value of guarantees delivered as collateral	5 454 460	6 953 749
Drawn down		
Targeted longer-term refinancing operations ("TLTROs") (Note 20)	1 380 000	1 363 830
Total available balance in the ECB facility	**4 074 460**	**5 589 919**

- Maintenance of debt issuance programmes with the objective of expediting formalisation of securities issuances in the market or to keep these securities in the Bank's own portfolio, as eligible assets for obtaining funding from the ECB.

Debt issuance capacity

	Maximum amount of Programme	Nominal used at 31-12-2019
Euro Medium Term Note (EMTN) Programme [1]	7 000 000	582 751
Mortgage Covered Bonds Programme [2]	9 000 000	7 300 000 [3]
Public Sector Covered Bonds Programme [4]	2 000 000	600 000 [5]

[1] Registered on Luxembourg's "Commission de surveillance du secteur financier" ("CSSF") on 28 June 2019.

[2] Registered on the "Comissão do Mercado de Valores Mobiliários" ("CMVM") on 19 February 2019.

[3] Of which 6 250 million euros concern securities retained by Banco BPI and included in the portfolio of eligible assets for funding from the ECB.

[4] Registered on the "Comissão do Mercado de Valores Mobiliários" ("CMVM") on 19 March 2019.

[5] The securities have been retained by Banco BPI and included in the portfolio of eligible assets for funding from the ECB.

- Covered bonds issuance capacity (mortgage and public sector covered bonds):

Capacity to issue collateralised and securitised debt

	31-12-2019	31-12-2018
Mortgage Bonds		
use of retained issues [1]	6 250 000	5 950 000
issues with additional credit portfolio [2]	312 000	87 000
Public Sector Bonds		
use of retained issues [1]	600 000	600 000
Securitisation of mortgage loans (senior tranche)	424 000	220 000
Securitisation of loans to SMEs (senior tranche)	3 232 000	1 190 000

[1] The Bank may use the issues retained to place them with third parties, or cancel them and replace them by new issues to be subscribed by third parties.

[2] Issuance capacity based on eligible credit portfolio, not included in the cover pool of the Mortgage Bonds.

- Access to the short-term funding market:
  - Interbank facilities with various national and international counterparties
  - Access to the repos market with several types of assets
  - Access to the Clearing House (LCH) for repo business

- The Contingency Plan and the Recovery Plan contain a series of measures that allow for liquidity to be generated in diverse crisis situations. The adequacy of each measure is assessed for each of the scenarios, and descriptions are provided of the steps necessary for their execution and expected period of execution.

3.12.3. Liquidity position

The table below shows the breakdown of BPI's liquid assets, in accordance with criteria established to determine the high-quality liquid assets used for the calculation of the LCR.

The breakdown of BPI's total liquid assets is as follows:

Total liquid assets

	31-12-2019		31-12-2018	
	Market value	**Eligible value**	**Market value**	**Eligible value**
Level 1 Assets	4 015 608	4 015 608	3 853 576	3 853 576
Level 2A Assets	41887	35604	50 695	43 091
Level 2B Assets	87 344	43 672		
Total HQLA [1]	**4 144 839**	**4 094 884**	**3 904 271**	**3 896 667**
Other non-HQLA		**4 080 054**		**5 600 891**
Total liquid assets (HQLA + other non-HQLA)		**8 174 938**		**9 497 558**

[1] HQLA in accordance with the liquidity coverage ratio (LCR) calculation criteria. Corresponds to high quality assets available to meet liquidity needs in a 30-day stress period.

The table below shows the liquidity ratios of BPI

Liquidity ratios

(Average in last 12 months)	31-12-2019	31-12-2018
High quality liquid assets (numerator)	4 366 936	3 930 123
Total net outflows (denominator)	2 560 888	2 629 318
Cash outflows	3 585 809	3 491 672
Cash inflows	1 024 921	862 353
Liquidity coverage ratio (LCR) [1]	**171%**	**149%**
Net stable funding ratio (NSFR) [2]	**130%**	**122%**

[1] The table presents the simple arithmetic mean in the last 12 months of the LCR ratio and respective calculation components. According to Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions. The established regulatory limit for the LCR ratio is 100% from 1 January 2018.
[2] NSFR will enter into force in June 2021.

At 31 December 2019 the main ratings assigned by international rating agencies to Banco BPI were the following:

	Long-term debt	Short-term debt	Outlook	Date of last review	Mortgage covered bonds rating
DBRS Rating Limited	-	-	-	-	AA (Low)
Fitch Ratings	BBB [1]	F2	Stable	10-12-2019	-
Moody's Investors Service	Ba1 [2]	NP	Stable	26-07-2019	Aa3
Standard & Poor's Global Ratings	BBB [3]	A-2	Stable	17-09-2019	-

[1] Long-term issuer default rating
[2] Long-term Debt Rating / Issuer rating
[3] Long-term Issuer Credit Rating

In the event of a downgrade of the current credit rating, additional collateral must be delivered to certain counterparties, or there are early redemption clauses. The breakdown of the impact on liquidity deriving from 1, 2 and 3-notch downgrading (not cumulative) is shown below:

Liquidity sensitivity to credit rating changes at 31 December 2019

	Downgrade 1 notch	Downgrade 2 notches	Downgrade 3 notches
Trading in derivatives (CSA agreements)	-	1 780	3 561

Liquidity sensitivity to credit rating changes at 31 December 2018

	Downgrade 1 notch	Downgrade 2 notches	Downgrade 3 notches
Trading in derivatives (CSA agreements)	8 686	8 686	10 607

3.12.4. Asset encumbrance

This note includes information about encumbered and unencumbered assets, as defined by Banco de Portugal in Instruction 28/2014, of 23 December. The amounts disclosed are median values for the last four quarters, as set forth in Title II of the EBA Guidelines (EBA/GL/2014/03). The information below concerns the prudential supervision perimeter, as defined in Regulation (EU) no. 575/2013, CRD IV / CRR.

An encumbered asset is considered as an asset explicitly or implicitly pledged as security, or subject to an agreement to secure, collaterise, or improve the credit quality in any operation from which it cannot be freely withdrawn.
At 31 December 2019, the breakdown of assets by encumbered and unencumbered was as follows:

Encumbered assets	Book value	Fair value
Portuguese sovereign debt securities		
Debt securities sold with repurchase agreement	650 553	650 553
Commitments to the Deposit Guarantee Fund and Investors Compensation Scheme	49 895	49 895
Total Portuguese sovereign debt	**700 448**	**700 448**
Credit operations		
Funding from the European Investment Bank (EIB) collateralised by mortgage bonds	692 694	
Funding from the European Central Bank (ECB) collateralised by covered bonds	1 689 550	
Bonds collateralised by mortgage loans	1 227 043	
Securitisation operations	61 969	
Total credit operations	**3 671 256**	
Other assets		
Derivatives	203 109	
Other collateral	64 143	
Total other assets	**267 252**	
Total amount of encumbered assets	**4 638 956**	

Unencumbered assets	Book value	Fair value
Equity instruments	798 189	798 189
Debt instruments	8 093 068	4 687 438
Credit	20 167 511	
Other assets	1 522 910	
Total amount of unencumbered assets	**30 581 678**	

At 31 December 2018, the breakdown of assets by encumbered and unencumbered was as follows:

Encumbered assets	Book value	Fair value
Portuguese sovereign debt securities		
Debt securities sold with repurchase agreement	1 233 821	1 233 821
Commitments to the Deposit Guarantee Fund and Investors Compensation Scheme	49 347	49 347
Total Portuguese sovereign debt	**1 283 168**	**1 283 168**
Credit operations		
Funding from the European Investment Bank (EIB) collateralised by mortgage bonds	1 382 990	
Funding from the European Central Bank (ECB) collateralised by Public Sector bonds	1 938 685	
Bonds collateralised by mortgage loans	145 515	
Bonds collateralised by loans to the Public Sector	290	
Securitisation operations	251 326	
Total credit operations	**3 718 806**	
Other assets		
Derivatives	197 870	
Other collateral	80 949	
Total other assets	**278 819**	
Total amount of encumbered assets	**5 280 793**	

Unencumbered assets	Book value	Fair value
Equity instruments	419 098	419 098
Debt instruments	8 349 917	4 196 291
Credit	19 595 109	
Other assets	1 614 467	
Total amount of unencumbered assets	**29 978 591**	

The encumbered assets included in this table correspond to operations that were given as a guarantee or collateral, without being derecognised from the Bank's assets, such as securities sold with repurchase agreements and autonomous pool of collateralised bonds.

As defined in Commission Implementing Regulation (EU) 2015/79 of 18 December 2014, assets included in the liquidity pool deposited in the European Central Bank and not used, or credit operations associated with mortgage bonds and Public Sector bonds and securitisations not placed on the market are not considered encumbered assets.

At 31 December 2019, the fair value of the encumbered collateral received was as follows:

	Fair value of collateral received	
	Encumbered	**Free**
Debt securities		
Sovereign debt		321 706
Total debt securities		321 706
Other assets (derivatives)	10 294	

This table includes the amount of collateral received that does not meet the conditions for recognition in the balance sheet, such as securities received as collateral for repo operations. These assets may or may not be reusable and provided as collateral in other operations.

At 31 December 2019, the liabilities associated with encumbered assets and collaterals received were as follows:

	Associated and contingent liabilities	Assets and collateral received
Financial Liabilities		
Derivatives	229 812	265 219
Deposits		
Funding from the European Central Bank	1 350 789	1 689 550
Funding from the European Investment Bank (EIB)	468 536	707 962
Debt securities sold with repurchase agreement	644 699	650 553
Other deposits	11 224	
Securities issued		
Bonds collateralised by mortgage loans	1 047 547	1 227 043
Securitisation operations	59 120	61 969
	3 811 727	**4 602 296**
Other encumbrance sources		
Commitment to the Deposit Guarantee Fund	47 427	44 668
Commitment to the Investor Compensation Scheme	10 365	5 546
European Central Bank liquidity facility		17
	57 792	**50 231**
Total amount of encumbrance sources	**3 869 519**	**4 652 527**

Relevance of asset encumbrance in BPI's financing policy

Assets may be encumbered for several reasons, namely:

- the existence of legal requirements, such as in the case of assets pledged as collateral for the Deposit Guarantee Fund and the Investor Compensation Scheme;
- the existence of an initial or trading margin underlying financial derivative transactions;
- the financing and liquidity needs of banking activity;

At Banco BPI, the main reason for asset encumbrance are liquidity and funding operations, namely with:

- the European Central Bank
- the European Investment Bank
- using mortgage bonds and Public Sector bonds and credit securitisations placed on the market, and
- through repo operations on securities of the Group's own portfolio.

3.12.5. Residual maturity of operations

The tables below show the breakdown of certain balance sheet items by contractual term to maturity, under normal market conditions:

Term to maturity of operations at 31 December 2019

	On demand	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
Cash and cash balances at central banks and other demand deposits	1 058 700						1 058 700
Derivatives							
Financial assets held for trading		1 299	4 970	5 560	17 051	104 318	133 198
Hedge accounting		988	1 266	5 405	17 965	5 085	30 709
Debt securities							
Financial assets held for trading				5 010	8 924		13 934
Financial assets not designated for trading compulsorily measured at fair value through profit or loss				1 027		61 818	62 845
Financial assets at fair value through other comprehensive income			225 243	200 356	747 822	203 623	1 377 044
Financial assets at amortised cost	438	455 574	305 778	712 989	1 888 925	666 046	4 029 750
Loans and advances	550 573	1 375 480	1 147 145	2 533 389	6 538 076	11 264 352	23 409 015
Total Assets	1 609 711	1 833 341	1 684 402	3 463 736	9 218 763	12 305 242	30 115 195
Derivatives							
Financial liabilities held for trading		1 182	4 932	6 409	20 629	113 015	146 167
Hedge accounting		50	30	6 696	15 738	50 285	72 799
Financial liabilities at amortised cost							
Deposits							
Central Banks					1 374 229		1 374 229
Credit Institutions	175 805	665 895	84 637	1 398	10 007	465 150	1 402 892
Customers	14 621 995	1 244 458	1 109 261	3 478 112	2 775 947	1 818	23 231 591
Debt securities issued							
Mortgage bonds					800 000	250 000	1 050 000
Fixed rate bonds					4 259		4 259
Other subordinated bonds						304 440	304 440
Other financial liabilities	65 011	1 864	24 969	2 301	101 315	77 238	272 698
Total Liabilities	14 862 811	1 913 449	1 223 829	3 494 916	5 102 124	1 261 946	27 859 075
Of which wholesale funding:					800 000	554 440	1 354 440
Assets minus Liabilities	**(13 253 100)**	**(80 108)**	**460 573**	**(31 180)**	**4 116 639**	**11 043 296**	**2 256 120**

Note: Does not include future interest cash flows, except accrued interest.

Term to maturity of operations at 31 December 2018

	On demand	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
Cash and cash balances at central banks and other demand deposits	2 336 030						2 336 030
Derivatives							
Financial assets held for trading	4 990	8 579	7 556	2 734	19 728	88 121	131 708
Hedge accounting		683	2 399	3 195	7 732	311	14 320
Debt securities							
Financial assets held for trading					13 893		13 893
Financial assets not designated for trading compulsorily measured at fair value through profit or loss				1 079		282 060	283 139
Financial assets at fair value through other comprehensive income			228 863	740 568	307 939		1 277 370
Financial assets at amortised cost		270 214	243 012	177 370	2 134 034	4 731 665	7 556 295
Loans and advances	584 019	194 908	569 370	978 059	3 423 803	16 398 649	22 148 808
Total Assets	**2 925 039**	**474 384**	**1 051 200**	**1 903 005**	**5 907 129**	**21 500 806**	**33 761 563**
Derivatives							
Financial liabilities held for trading		8 781	7 686	2 435	21 514	100 919	141 335
Hedge accounting		84	4 009	12 219	15 861	23 837	56 010
Financial liabilities at amortised cost							
Deposits							
Central Banks					1 352 843		1 352 843
Credit Institutions	259 251	869 451	238 890	35 353	2	470 295	1 873 242
Customers	14 029 566	989 459	1 799 865	4 360 063	1 962 797	2 389	23 144 139
Debt securities issued							
Mortgage bonds					300 000	250 000	550 000
Fixed rate bonds		528	5 425	5 732	6 671		18 356
Other subordinated bonds						304 514	304 514
Other financial liabilities	163 691	364 806	20 908	563 620	14 191	3 531 469	4 658 685
Total Liabilities	**14 452 508**	**2 233 109**	**2 076 783**	**4 979 422**	**3 673 879**	**4 683 423**	**32 099 124**
Of which wholesale funding:					300 000	554 514	854 514
Assets minus Liabilities	**(11 527 469)**	**(1 758 725)**	**(1 025 583)**	**(3 076 417)**	**2 233 250**	**16 817 383**	**1 662 439**

Note: Does not include future interest cash flows, except accrued interest.

3.13. Reputational risk

Reputational risk is the risk of loss of competitive capacity due to the deterioration of trust on the part of clients, the financial community (financial analysts or investors), employees, the media, regulators, suppliers, trade unions or the public opinion in general as a result of their perception of actions or omissions attributed to BPI or its Management or Governance Bodies.

The risk is monitored using internal and external selected reputational indicators from various sources of stakeholder expectations and perception analysis. The indicators are weighted according to their strategic importance and are grouped in a balanced reputation scorecard that enables a Global Reputation Index (GRI) to be obtained. This metric permits to monitor the perception of the different stakeholders concerning the institution on an annual basis, to make comparisons with the competition, and to define the tolerance ranges in accordance with the Bank's risk appetite, thus enabling a more effective management of reputation.

Control and mitigation of reputational risk involve the development of policies that engage different areas of BPI.

3.14. Actuarial risk

The risk in the Pension Fund of Banco BPI, managed by BPI Vida e Pensões, is followed and monitored at level 1 and level 2 of the risk appetite framework (RAF), with tolerance objectives and ranges being defined.

The Pension Fund risks are analysed and monitored on an ongoing basis by the risk team of BPI Vida e Pensões, and these risks are monitored and annually quantified by the Bank in the ICAAP exercise, whereupon the Bank assesses whether or not economic capital must be allocated to the Pension Fund. The ICAAP analyses the Pension Fund's asset and liability risks separately.

In so far as the Fund's asset portfolio basically comprises shares, bonds, public debt, mutual fund participation units, and real estate, the risks inherent in the Fund's assets are those specifically inherent in the various types of investment (market risk, liquidity risk, etc.). The Fund's liabilities, which are liabilities for the payment of pensions, are subject to various risks that may have a negative impact on their value: inflation rate, growth of salaries and pensions, increase in the average life expectancy, discount rate.

3.15. Risk to business profitability

The risk to business profitability concerns the possibility of obtaining lower earnings than those expected by shareholders, or targeted by BPI, which ultimately may lead to not achieving sustainable profitability (above the cost of capital).

BPI's profitability objectives, backed by a process of financial planning, are defined in the strategic plan and in the budget.

3.16. Risk of impairment of other assets

The risk of impairment of other assets relates to the reduction in the book value of the Bank's equity holdings and non-financial assets. This type of risk is managed separately according to the nature of the risk: equity holdings and deferred tax assets (DTA).

The risk of the investee portfolio corresponds to the risk associated with the possibility of incurring losses in the book value of equity positions in portfolio within a medium to long time horizon as a result of fluctuations in macroeconomic conditions or in the specific financial situation of each investee. Equity positions may result from explicit management decisions of investment, from the integration of other entities or from the restructuring or enforcement of guarantees in the context of credit operations.

These equity holdings are managed and monitored in the framework of Banco BPI's strategic objectives. This monitoring focuses on the evolution of the investees' economic and financial data, based on documents provided by the investee companies. Regulatory changes and competition in the geographical areas and industry sectors where the investees operate are also analysed. For the more relevant investees, DCF and/or market multiples periodic valuations are made, in accordance with the nature of each investee, and also impairment tests for purposes of recognition in the Bank's accounts.

Deferred tax assets (DTA) correspond to assets generated as a result of temporary differences mainly arising from i) the application of rules for the calculation of the accounting result that are different from those used to calculate the tax result, and from ii) tax losses generated either within the Group or as a result of integration/merger processes.

3.17. Capital adequacy and solvency risk

BPI has set the objective of maintaining a medium-low risk profile and a solid capital position. The adequate level of capital to cover unexpected losses is measured under two different approaches: regulatory capital and economic capital.

The regulatory capital of financial entities is determined under Regulation (EU) 575/2013 (CRR) and Directive 2013/36/EU of the European Parliament and of the Council, which provide the global supervision framework and prudential rules with regard to Solvency, known as Basel III (BIS III), and it corresponds to the metric i) required by the regulators and ii) used by analysts and investors for purposes of comparative analysis of financial entities. Subsequently, the Basel Committee and other relevant bodies published additional rules and documents, containing new specifications for the calculation of own funds. In view of the permanent evolution of the regulatory framework, the Bank continually adapts its processes and systems in order to ensure that the calculation of minimum capital requirements is permanently aligned to the new requirements.

As a complement to the assessment of capital adequacy relative to the risk-weighted assets on a regulatory basis, BPI measures the adequacy of its available own funds relative to its economic needs, this being the metric used to:

- the self-assessment of capital, which is subject to presentation to and review by the Bank's relevant bodies;
- update the economic capital ratio, as a control and monitoring tool
- calculating the Risk Adjusted Return (RAR) and pricing adjusted return.

In contrast with regulatory capital, economic capital always requires an internal estimate, which the Entity adjusts according to its level of tolerance to risk, volume, and type of business activity. Hence, economic capital complements the regulatory vision of solvency to provide a closer view of the real profile of risk taken by the Bank, and to capture risks not considered, or only partially considered, in the regulatory requirements. In addition to the risks already contemplated under Pillar I (credit, market, and operational risks), others are also included in the catalogue of risks (namely structural interest rate risk, liquidity risk, business risk, actuarial risk, etc.). To manage these risks, the Group uses the same confidence level as that used for calculations under Pillar I - a 99.9% confidence level, in accordance with the Basel III definition.

4. SOLVENCY MANAGEMENT

4.1. Regulatory framework

The global regulatory framework for supervision and prudential rules on solvency, known as Basel III, came into force in the European Union through Directive 2013/36 (CRD IV) and Regulation 575/2013 (CRR).

Furthermore, the Supervisory Review and Evaluation Process (SREP), which configures Pillar II of the Basel regulatory framework, consists of an ongoing supervision process to evaluate the adequacy of capital, liquidity, corporate governance, and risk management and control, harmonised at European level by the EBA. The SREP process may require additional capital or liquidity, or other qualitative measures in response to any risks and weaknesses specifically detected. The SREP seeks to assess the individual viability of entities, considering cross-cutting analyses and comparisons against their peers. Any potential additional capital requirements are complemented by combined capital buffer requirements.

Pilar 2 minimum requirements apply to Banco BPI on a consolidated basis.

4.2. Capital management

At 31 December 2019, Banco BPI had a Common Equity Tier 1 (CET1) ratio of 13.4%, a Tier 1 of 15.0% and a total ratio of 16.6%.

The following table shows the composition of Banco BPI own funds:

	31-12-2019		31-12-2018[1]	
	Amount	**%**	**Amount**	**%**
CET1 instruments	**2 886 249**		**2 903 280**	
Accounting shareholders' equity (without AT1)	3 008 375		3 048 617	
Dividends payable	(116 549)		(140 000)	
AVA adjustments and gains/(losses)	(5 577)		(5 337)	
CET1 Deductions	**(481 076)**		**(626 483)**	
Intangible assets	(65 848)		(55 037)	
Deferred taxes assets and financial investments	(348 028)		(526 017)	
Other deductions	(67 201)		(45 429)	
CET1	**2 405 173**	**13.4%**	**2 276 797**	**13.3%**
AT1 Instruments	275 000			
TIER 1	**2 680 173**	**15.0%**	**2 276 797**	**13.3%**
TIER2 Instruments	300 000		300 000	
TIER2	**300 000**	**1.7%**	**300 000**	**1.8%**
TOTAL CAPITAL	**2 980 173**	**16.6%**	**2 576 797**	**15.1%**
RWA	**17 921 965**		**17 064 081**	

Note: unaudited amounts

[1] Considering the distribution in dividends of 140 million euros.

The following table shows the breakdown of the leverage ratio:

Leverage ratio

	31-12-2019		31-12-2018[1]	
	Amount	**%**	**Amount**	**%**
Exposure	32 092 953		36 281 730	
Leverage ratio		**8.4%**		**6.3%**

Note: unaudited amounts

[1] Considering the distribution in dividends of 140 million euros.

The changes in own funds are as follows:

Change in own funds

	31-12-2019		31-12-2018[1]	
	Amount	**%**	**Amount**	**%**
CET1 at beginning the year	**2 276 795**	**13.3%**	**2 070 722**	**12.4%**
Changes in CET1 instruments	(17 030)		785 052	
Profit/(loss)	342 113		914 311	
Dividends payable	(116 549)		(140 000)	
Reserves	(242 355)		(1 118)	
Value adjustments and other	(240)		11 859	
Changes in CET1 deductions	145 407		(578 979)	
Intangible assets	(10 811)		(21 346)	
Financial investments	143 672		(453 657)	
Deferred tax assets	34 318		(42 947)	
Other CET1 deductions	(21 772)		(70 547)	
AT1 deductions covered by CET1			9 519	
CET1 at end of the year	**2 405 172**	**13.4%**	**2 276 795**	**13.3%**
Additional Level 1 own funds at beginning of the year				
AT1 instruments movement	275 000			
Changes in CET1 deductions				
AT1 deductions			9 519	
Deductions to be covered with CET1			(9 519)	
Additional Level 1 own funds at end of the year	**275 000**			
Level 2 own funds at beginning of the year	**300 000**	**1.7%**	**294 194**	**1.7%**
Changes in TIER2 instruments			**(611)**	
Redemption of subordinated issuances			(611)	
Changes in TIER2 deductions			**6 418**	
TIER2 at end of the year	**300 000**	**1.7%**	**300 000**	**1.8%**

Note: unaudited amounts

[1] Considering the distribution in dividends of 140 million euros.

The main factors that influenced the evolution of the (fully loaded) CET1 ratio in 2019 are set out below:

[1] Considers the income from the banking and insurance businesses in Portugal and the change in credit risk weighted assets.

In 2019, the performance of the CET1 ratio was essentially determined by the distribution of free reserves, which accounted for a -97 bps impact on this ratio, by the organic generation of capital (+108 bps), minus dividends to be distributed (-68 bps), and by the contribution of BFA, which was underpinned by the reversal of deferred tax assets in connection to an unrealised capital gain, upon the signature of an agreement between Portugal and Angola for the Avoidance of Double Taxation, and by the dividends distributed (+43 bps).

The breakdown of risk weighted assets by type of risk and by calculation method is given below:

Breakdown of risk weighted assets by type of risk and by method

	31-12-2019		31-12-2018[1]	
	Risk-weighted assets	**%**	**Risk-weighted assets**	**%**
Credit risk				
Standardised Approach	15 534 315	87%	14 850 594	87%
Equity holdings risk				
Simple method	833 460	5%	718 303	4%
Market risk				
Standardised Approach	271 400	2%	247 020	1%
Operational risk				
Standardised Approach	1 282 790	7%	1 248 164	7%
	17 921 965	**100%**	**17 064 081**	**100%**

[1] Considering the distribution in dividends of 140 million euros.

5. DIVIDEND DISTRIBUTION

Dividend policy

In line with the amendment to the articles of association of Banco BPI approved at the General Shareholders' Meeting of 20 April 2006, these articles now include the following rule (Article 26- 3): "The General Shareholders' Meeting shall decide on the long-term dividend policy proposed by the Board of Directors, which shall justify any deviations from that policy."

For compliance with this statutory rule, Banco BPI's long-term dividend policy was approved on 31 January 2019, as follows:

1. **General Principle**
   Subject to a proposal to be submitted by the Board of Directors to the General Meeting, distribution of an annual dividend tendentially between 30% and 50% of the net income reported in the individual accounts for the year to which it relates, with the exact amount to be proposed being defined in accordance with a prudent judgement that balances the situation of the Bank at the time with the need to maintain at all times adequate levels of liquidity and solvency.

2. **Conditioning factors**
   The provisions of point 1 above represent a mere principle, which, as such, is not binding upon the General Meeting, which can at any time, not only change it, but also resolve on a percentage of distribution below the minimum 30% threshold or above the maximum 50% threshold therein referred, or on no distribution at all.

   The provisions of item 1 are therefore only intended to:

   i) give the shareholders and third parties a medium/long term perspective of the company's objectives in terms of dividend distribution;
   ii) impose on the Board of Directors, when it intends to propose a dividend distribution outside the thresholds therein established, the duty of substantiating this option.

   In addition, the distribution principle set out in the previous paragraph shall be subject to:

   a) Compliance with the capital ratios at any time applicable to the Bank, whether under Pillar 1 or Pillar 2, as well as with other applicable legal provisions, namely those governing what is considered the "maximum distributable amount ";

   b) When the net income determined in the individual accounts includes dividends from companies that have not yet been paid to the Bank, the Board of Directors shall exclude the amount of these dividends from the base used for the definition of the dividends to be distributed, whenever a prudent judgement so advises;

   c) Respect for the findings and guidelines of the Bank's ICAAP and RAF at any time in force;

   d) the absence of exceptional circumstances that justify, in the Board of Directors reasoned opinion, submitting to the Shareholders' deliberation the distribution of a dividend below the 30% threshold or above the 50% threshold.

The proposed appropriation of profit for the year of 2019 is as follows:

	2019
Net income reported in the individual accounts of Banco BPI	342 113
Reversal of deferred tax liabilities associated with gains in BFA's revaluation	(50 742)
Net profit for dividend distribution purposes	**291 371**
Proposed appropriation of profit	
To dividends	116 549
To legal reserve	34 211
To other reserves	191 353
Individual profit of Banco BPI in 2019	**342 113**
Payout ratio for dividend distribution purposes	**40.0%**

6. EARNINGS PER SHARE

Basic and diluted earnings per share, as per the individual profit of Banco BPI attributable to its shareholders, are calculated as follows:

	31-12-2019	31-12-2018 Restated
Numerator (in thousand euros)		
Profit/(loss) after tax from continuing operations	342 113	836 653
Interest cost of perpetual subordinated bonds (Additional Tier 1) [1]	(5 114)	
Adjusted profit/(loss) from continuing operations	336 999	836 653
Profit/(loss) after tax from discontinued operations		77 658
Adjusted profit/(loss)	**336 999**	**914 311**
Denominator (in thousand shares)		
Average number of outstanding shares	1 456 924	1 456 924
Average number of treasury shares		149
Adjusted number of shares (basic earnings per share) [2]	**1 456 924**	**1 456 775**
Basic earnings per share (in euros)		
Profit/(loss) per share from continuing operations	0.231	0.574
Profit/(loss) per share from discontinued operations		0.053
Basic earnings per share	**0.231**	**0.628**
Diluted earnings per share (in euros)[3]		
Diluted earnings per share from continuing operations	0.231	0.574
Diluted earnings per share from discontinued operations		0.053
Diluted earnings per share	**0.231**	**0.628**

[1] Recorded directly in equity.

[2] Average number of shares outstanding, excluding the average number of treasury shares held during the period.

[3] There were no dilutive effects on earnings per share in 2019 and 2018. Perpetual subordinated bonds (Additional Tier 1) have an automatic mechanism for absorbing losses ("temporary write-down") if there is a deterioration of the consolidated or individual CET1 ratio for a value less than 5.125% ("trigger").

7. SEGMENTS

The objective of business segment reporting is to allow internal supervision and management of BPI's activity and income. The information is broken down into the various lines of business according to the Bank's organisational structure. To define and segregate segments, the inherent risks and management characteristics of each segment are considered. The information reporting used by management is essentially prepared on an accounting basis supported by the IFRS. Their preparation relies on i) the same presentation principles used for the Bank's management information, and ii) the same accounting principles and policies used to prepare the annual financial statements:

At 31 December 2019, BPI's segment reporting considers the following segments:

- Domestic operations: includes the commercial banking business in Portugal and the equity holdings activity.
- International operations: corresponds to the activity developed in Mozambique by Banco Comercial e de Investimentos, S.A.R.L. and the results associated to the equity holding in Banco de Fomento Angola, classified in the portfolio of equity instruments at fair value through other comprehensive income.

Commercial Banking

Banco BPI's operations are focused mainly on commercial banking. Commercial banking includes:

- Retail Banking - Commercial operations with individual clients, individual entrepreneurs and companies with turnover of up to 5 million euros, developed through a multi-channel distribution network comprising traditional branches and investment centers. It also includes the Private Banking area, which is responsible for implementing strategies and submitting investment proposals to the Customers, and for the management of their financial assets.
- Corporate Banking, Project Finance and Institutional Banking - Commercial operations with companies with turnover above 2 million euros, operating alongside Retail banking in the segment of up to 5 million euros. Also includes project finance services and the relationship with Public Sector entities, state-owned and municipal Companies, the State Business Sector, Foundations and Associations. This segment operates through a network of corporate centers and institutional centers that cater to the area's business needs.

This segment also includes the Bank's residual activity, comprising segments that represent individually less than 10% of the Bank's total income, net profit and assets.

Equity holdings

This segment essentially comprises the dividends distributed by associated companies and joint ventures in Portugal (Cosec, Allianz, Unicre and Inter-Risco) as well as the income associated to participation units in credit recovery and private equity funds, and to investments in shares.

At 31 December 2019, the income statement by business segment of BPI was as follows: [1]

	Domestic Activity				International Activity			Banco BPI
	Commercial Banking	Equity holdings	Inter-segment transactions	**Total**	Angola	Mozambique	**Total**	
1.Interest income	531 449	700		**532 149**				**532 149**
2.Interest expense	(92 337)			**(92 337)**				**(92 337)**
3.Net interest income [1+2]	**439 112**	**700**		**439 812**				**439 812**
4.Dividend income	16 141	10 969		**27 110**	45 997	5 078	**51 075**	**78 185**
5.Equity accounted income								
6.Fee and commission income	272 845			**272 845**				**272 845**
7.Fee and commission expenses	(23 107)			**(23 107)**				**(23 107)**
8.Net fee and commission income [6+7]	**249 738**			**249 738**				**249 738**
9.Gains/(losses) on financial assets and liabilities and other	50 935	(11 148)		**39 787**	(18 225)		**(18 225)**	**21 562**
10.Other operating income and expenses	(21 117)			**(21 117)**	(4 600)	(508)	**(5 108)**	**(26 225)**
11.Gross income [3+4+5+8+9+10]	**734 809**	**521**		**735 330**	**23 172**	**4 570**	**27 742**	**763 072**
12.Staff expenses	(241 314)			**(241 314)**				**(241 314)**
13.Other administrative expenses	(146 691)	(1)		**(146 692)**				**(146 692)**
14.Depreciation and amortisation	(53 732)			**(53 732)**				**(53 732)**
15.Operating expenses [12+13+14]	**(441 737)**	**(1)**		**(441 738)**				**(441 738)**
16.Net operating income [11+15]	**293 072**	**520**		**293 592**	**23 172**	**4 570**	**27 742**	**321 334**
17.Impairment losses on financial assets	43 236			**43 236**				**43 236**
18.Other impairments and provisions	(6 448)			**(6 448)**				**(6 448)**
19.Gains and losses in other assets	7 105			**7 105**				**7 105**
20.Net income before income tax [16+17+18+19]	**336 965**	**520**		**337 485**	**23 172**	**4 570**	**27 742**	**365 227**
21.Income tax	(30 774)	2 666		(28 108)	4 994		4 994	(23 114)
22.Net income from continuing operations [20+21]	**306 191**	**3 186**		**309 377**	**28 166**	**4 570**	**32 736**	**342 113**
23.Net income from discontinued operations								
24.Net income attributable to minority interests								
25.Net income [22+23+24]	**306 191**	**3 186**		**309 377**	**28 166**	**4 570**	**32 736**	**342 113**

[1] Income statement structure presented in accordance with Banco BPI management information.

At 31 December 2018, the income statement by business segment of BPI is as follows: [1]

	Domestic Activity					International Activity		
	Portugal		Rest of Europe	Inter-segment operations	**Total**	Angola	**Total**	**Banco BPI**
	Commercial banking	Investment banking						
1.Interest income	517 417	783	6 323	(4 383)	**520 140**			**520 140**
2.Interest expense	(89 852)		(2 008)	3 362	**(88 498)**			**(88 498)**
3.Net interest income [1+2]	**427 565**	**783**	**4 315**	**(1 021)**	**431 642**			**431 642**
4.Dividend income	8 953	14 438			**23 391**	47 834	**47 834**	**71 225**
5.Equity accounted income								
6.Fee and commission income	296 983		1 751	(113)	**298 621**			**298 621**
7.Fee and commission expenses	(41 495)		(566)	113	**(41 948)**			**(41 948)**
8.Net fee and commission income [6+7]	**255 488**		**1 185**		**256 673**			**256 673**
9.Gains/(losses) on financial assets and liabilities and other	45 324	62 392	(30 431)	2 949	**80 234**	(7 764)	**(7 764)**	**72 470**
10.Other operating income and expenses	(27 259)		(835)		**(28 094)**	(4 783)	**(4 783)**	**(32 877)**
11.Gross income [3+4+5+8+9+10]	**725 327**	**77 613**	**(25 766)**	**1 928**	**779 102**	**35 287**	**35 287**	**799 133**
12.Staff expenses	(246 895)	(29)	(5 475)		**(252 399)**			**(252 399)**
13.Other administrative expenses	(165 984)	(3)	(2 666)		**(168 653)**			**(168 653)**
14.Depreciation and amortisation	(23 421)		(43)		**(23 464)**			**(23 464)**
15.Operating expenses [12+13+14]	**(436 301)**	**(31)**	**(8 184)**		**(444 516)**			**(444 516)**
16.Net operating income [11+15]	**289 026**	**77 582**	**(33 950)**	**1 928**	**334 586**	**35 287**	**35 287**	**354 617**
17.Impairment losses on financial assets	20 638		24 151	17	**44 806**			**44 806**
18.Other impairments and provisions	(345)		20		**(325)**			**(325)**
19.Gains and losses in other assets	593 539		(271)		**593 268**			**593 268**
20.Net income before income tax [16+17+18+19]	**902 822**	**77 582**	**(10 050)**	**1 945**	**972 299**	**35 287**	**35 287**	**992 366**
21.Income tax	(156 545)	(1 595)	(8 426)	8 726	**(157 840)**	2 127	**2 127**	**(155 713)**
22.Net income from continuing operations [20+21]	**731 057**	**75 987**	**(18 476)**	**10 671**	**799 239**	**37 414**	**37 414**	**836 653**
23.Net income from discontinued operations	77 658				**77 658**			**77 658**
25.Net income [22+23+24]	**808 715**	**75 987**	**(18 476)**	**10 671**	**876 897**	**37 414**	**37 414**	**914 311**

[1] Income statement structure presented in accordance with Banco BPI management information.

The caption Gains/(losses) on financial operations, in the segment of equity investments, includes 59 581 t.euros relating to the capital gain on the sale of the equity holding in Viacer.

8. DISCLOSURE OF THE REMUNERATION OF THE CORPORATE BODIES

CaixaBank in 29 April 2019, as the sole shareholder of BPI, approved the "Remuneration Policy of Banco BPI applicable to the members of the Board of Directors and of the Supervisory Board" (hereinafter the "Remuneration Policy).

In accordance with Banco BPI's Articles of Association, the members of the corporate bodies shall have a fixed remuneration and the members of the Executive Committee may receive, in addition to a fixed remuneration, a variable remuneration determined in accordance with the criteria defined in the remuneration policy for the members of the supervision and management bodies.

The remuneration of the elected members of the corporate bodies shall be fixed, after consultation with the Nominations, Evaluation and Remuneration Committee with respect to the remuneration of the members of the Executive Committee, by a Remuneration Committee.

The Remuneration Policy defines the limits for the total annual remuneration attributable to the members of the management and supervision bodies. The Remuneration Policy approved by the General Meeting of 20 April 2018 establishes the following limits:

a) Non-executive Directors (not including, for this purpose, attendance fees): 1 600 000 euros;

b) Executive Directors:

   - fixed component: 5 500 000 euros
   - variable component: (variable remuneration in the form of a bonus):1 550 000 euros

c) Members of the Supervisory Board: Chairman 80 000 euros; members (each) 70 000 euros.

The remuneration of the Executive Directors is made up of a fixed component and a variable component, the latter in the form of a bonus. The variable component in the form of a bonus is in turn composed of a part in cash and another part in financial instruments, preferably CaixaBank shares, attributed in the framework and under the terms of the Remuneration Policy.

One part of the variable remuneration is paid immediately after its award, i.e., the cash and instruments that compose this nondeferred portion of the variable remuneration are transferred to the Executive Director.

The other part of the variable remuneration (the deferred part) is subject to a deferral period, phased in under the following terms:

a) On the date of payment of the variable remuneration, its non-deferred portion must be paid (hereinafter "Initial Payment Date"), i.e., the cash and instruments included in that non-deferred portion of the variable remuneration must be transferred to the Executive Director. Half of this non-deferred portion of the variable remuneration is paid in cash and the remaining half is paid in instruments.

b) Provided that the reduction assumptions set forth in Section 5.2. of the Remuneration Policy do not materialise, the deferred portion of the risk-adjusted variable remuneration shall be paid in five tranches, the amounts and dates of which are as follows:

   - 1/5 12 months after the Initial Payment Date
   - 1/5 24 months after the Initial Payment Date
   - 1/5 36 months after the Initial Payment Date
   - 1/5 48 months after the Initial Payment Date
   - 1/5 60 months after the Initial Payment Date

The cash and instruments whose award is subject to the deferral period shall only be transmitted to the Executive Director after the end of the respective phase of the deferral period.

The percentage of deferral that applies to the variable remuneration of the Executive Directors is 60 percent. This percentage of deferral may be changed if the competent authorities set absolute or relative limits for the calculation of "particularly high variable remuneration amounts", pursuant to the provisions of the EBA Guidelines.

Fixed remuneration earned in 2019

In 2019, the overall fixed remuneration of the members of the Board of Directors totalled 6 118 018 euros.

Over and above this amount there were attendance fees of 357 300 euros for their participation in the meetings of the advisory and support committees of the Board of Directors foreseen in the Articles of Association.

Board of Directors	Fixed Remuneration	Attendance Fees
Fernando Ulrich	750 000	
Pablo Forero	1 028 396	
António José Cabral	60 000	66 600
António Lobo Xavier	81 000	53 900
Alexandre Lucena e Vale	468 990	
António Farinha Morais	542 232	
Cristina Rios Amorim	60 000	37 000
Fátima Barros	60 000	40 700
Francisco Manuel Barbeira	402 117	
Gonzalo Gortázar Rotaeche	60 000	
Ignacio Alvarez-Rendueles	824 961	
Javier Pano Riera	60 000	40 700
João Pedro Oliveira Costa	499 045	
José Pena do Amaral	542 232	
Lluís Vendrell	60 000	66 600
Natividad Capella Pifarre	60 000	25 900
Pedro Barreto	499 045	
Tomas Jervell	60 000	25 900

Variable remuneration

General Features

As referred, the members of the Board of Directors who are members of the Executive Committee may be entitled to receive a variable remuneration. This variable remuneration is dependent upon the performance of the members of the Executive Committee during a given year, and its attribution is usually decided and made during the first half of the following year.

Under the terms of the applicable Remuneration Policy, this variable remuneration is subject to deferral, i.e., one part thereof is paid in the year in which it is attributed and another over subsequent years.

Variable remuneration relative to the performance of the members of the Executive Committee in 2019

The existence and amount of this variable remuneration shall be subject to a decision to be taken in the first half of 2020, under the terms referred to hereinabove. However, and in accordance with the applicable accounting rules, it was considered in Banco BPI's 2019 financial statements that the variable remuneration to be attributed to the members of the Executive Committee in the first half of 2020, with reference to financial year 2019, would match the limit approved in the Remuneration Policy (total amount of 1.55 million euros).

Variable remuneration relative to the performance of the members of the Executive Committee in financial years before 2019

Portions of variable remuneration attributed to the members of the Executive Committee for their performance in years prior to 2019, the payment of which was subject to deferral under the terms referred to hereinabove, were paid in 2019.

This remuneration does not therefore concern the year 2019 in so far as it rewards performance of previous years, but it was paid in 2019 due to the rules on deferral set forth in the Remuneration Policy.

Hence, with regard to performance in 2015, 2017 and 2018, the members of the Executive Committee then in office received the following amounts of variable remuneration in 2019:

In equity instruments (CaixaBank shares)

(Amounts in euros)	2017	2018
Pablo Forero	12 000	44 000
Alexandre Lucena e Vale	6 628	26 492
António Farinha Morais	7 980	30 000
Francisco Manuel Barbeira	6 383	37 800
Ignacio Alvarez-Rendueles	10 661	40 800
João Pedro Oliveira Costa	12 329	48 970
José Pena do Amaral	6 780	26 600
Pedro Barreto	12 329	45 846

In cash

(Amounts in euros)	2015	2017
Fernando Ulrich	319 302	
Pablo Forero		12 000
Alexandre Lucena e Vale	76 970	6 628
António Farinha Morais		7 980
Francisco Manuel Barbeira		6 383
Ignacio Alvarez-Rendueles		10 661
João Pedro Oliveira Costa	225 447	12 329
José Pena do Amaral	225 447	6 780
Manuel Ferreira da Silva	225 447	
Maria Celeste Hagatong	225 447	
Pedro Barreto	225 447	12 329

Finally, and with regard to performance in 2018, the General Meeting of Shareholders of 16 April 2019, upon a proposal of the Remuneration Committee and under the transitory provision set out in Article 28 (5) of the Articles of Association, approved the attribution of the following variable remuneration:

Variable remuneration relative to 2018

(Amounts in euros)	Amount attributed	Amount paid in 2019	Deferred amount to be paid from 2020 to 2024 (one fifth in each year)
Pablo Forero	220 000	88 000	132 000
Alexandre Lucena e Vale	132 460	52 984	79 476
António Farinha Morais	150 000	60 000	90 000
Francisco Manuel Barbeira	189 000	75 600	113 400
Ignácio Alvarez-Rendueles	204 000	81 600	122 400
João Oliveira e Costa	244 849	97 940	146 909
José Pena do Amaral	133 000	53 200	79 800
Pedro Bissaia Barreto	229 231	91 692	137 539

The amounts referred in the above table, i.e., both those paid in 2019 and those whose payment was deferred and are scheduled for phased payment over each of the five years of the 2020-2024 period, shall be paid half in cash and half in kind (the latter, in CaixaBank shares, valued at 2.8805 euros per share). The amounts paid in kind shall be subject to an unavailability period of one year starting on the date when the respective payment takes place.

Long-term incentives

General Features

Banco BPI, in alignment with CaixaBank, has implemented a conditional variable remuneration scheme (Long-term Incentives Plan) linked to the 2019-2021 Strategic Plan for the Executive Board Members and a restricted group of Key Employees. The Plan's recipients are called the Beneficiaries.

Objective

- To drive the new Strategic Plan, by motivating the Beneficiaries to reach its Objectives. To retain the Beneficiaries.
- To be competitive and adapt to the trends followed by comparable credit institutions, maintaining a remuneration system pegged to a multi-annual objective, as provided for in the legislation applying to credit institutions.

- To make the remuneration of the Beneficiaries of the Plan coincide with the interest of the shareholders, in the long term.
- To reinforce the link between variable remuneration and risk appetite.
- To comply with the recommendations on corporate governance issued by the European Union, the National Securities Market Commission, proxy advisors and institutional investors, to the effect of having a Multi-Year Variable Remuneration System.

The Plan

The Plan consists in a Variable Remuneration Scheme that combines short- and long-term metrics based on the Strategic Plan. It provides for the allocation of a certain number of Units to each beneficiary, free of charge and multi-annually (2019, 2020 and 2021), which will subsequently serve as a basis to determine the number of Shares to be delivered, providing the requirements set forth in the Regulation are met.

The allocation of Units does not by itself give the Beneficiaries the status of shareholders of the Company, as it does not imply the attribution of economic, political or other rights resulting from the status of shareholder. Under the current Plan the status of shareholder results from the holding of Shares.

Beneficiaries

The beneficiaries are members of the Executive Committee of the Board of Directors who are invited to participate by the Remuneration Committee. The beneficiaries also include certain Key Employees of Banco BPI, who are invited to participate in the Plan by the Board of Directors, upon the opinion of the Appointments, Assessment and Remuneration Committee, and accept to participate, in accordance with the established procedure.

The maximum number of Beneficiaries of the Plan and of Shares to be allocated for each cycle will be that approved by the Remuneration Committee, for the Executive Board Members, and by the Board of Directors, for the Employees. These numbers already include any possible new inclusions of Beneficiaries in the Plan during its period of validity. In no case may the number of proposed Beneficiaries exceed the maximum number authorised by each of the said bodies.

The target incentive defined for the 2019 plan was the following:

- Chairman of the Executive Committee of the Board of Directors – 100 000 euros
- Other members of the Executive Committee of the Board of Directors – 50 000 euros, per member

Remuneration of the members of the Supervisory Board in 2019

The overall remuneration of the members of the Supervisory Board in 2019 totalled 264 000 euros. The individual amounts were as follows:

(Amounts in euros)	**Fixed Remuneration**
Manuel Ramos Sebastião	73 200
Rui Campos Guimarães	63 600
Ricardo Filipe Pinheiro	63 600
Elsa Roncon Santos	63 600

Remuneration of the Chairman of the General Meeting in 2019

In 2019, the overall amount of the remuneration awarded to the Chairman of the General Meeting was 14 400 euros, paid in 12 instalments.

The members of the General Meeting do not benefit, under this circumstance, from any retirement rights.

Supplementary pensions or early retirement schemes

The members of the management body who are or have been Executive Directors (or, under the previous governance model, members of the Management body) benefit from the pension plan applicable to Banco BPI's Employees in general under the same circumstances, to the extent that they were Banco BPI Employees before holding those positions and their employment suspended was suspended, under the terms of the law.

The members of the management body who were Executive Directors in the 2014/2016 term of office or who were members of this body (or, under the previous governance model, members of the Management body) in earlier terms of office, also enjoy a defined benefit scheme, a supplementary retirement benefit, as approved at the Bank's General Council meeting of 25 July 1995, which provides them with a retirement supplement the monthly amount of which depends on their monthly income as Executive Directors and on the number of years served in said positions.

The rules which govern the aforesaid benefit are set out in the Retirement Entitlement Regulations for the Members of the Management Board, approved at the above-mentioned General Council meeting.

There is a provision that the pensions paid under the Social Security which fall within any one of the following three categories shall be deducted from the pensions paid under the Executive Directors' plan:

- those relating to functions performed at BPI;
- those relating to functions performed at third party entities at BPI's indication and which BPI has recognised for that purpose;
- the pensions paid under other BPI pension plans.

Executive Directors are also entitled to a defined contribution supplementary pension benefit.

The members of the management and supervision bodies who are not nor have ever been Executive Directors (or, under the previous governance model, members of the Management body) are not entitled to any retirement benefit attributed by the Bank.

A sum of 11 894 t.euros, corresponding to the present value of past service liabilities, was allocated to the Executive members of the Board of Directors who at 31 December 2019 are beneficiaries of a defined contribution pension plan:

(Amounts in thousand euros)	**Amount**
José Pena do Amaral	3 965
Pedro Barreto	1 782
João Oliveira e Costa	1 626
António Farinha Morais	4 521

For Executive Directors Alexandre Lucena e Vale and Francisco Manuel Barbeira, who benefit from a pension scheme under the Collective Wage Agreement and/or the Social Security, the sum allocated, corresponding to the present value of past service liabilities, was 1 026 t.euros:

(Amounts in thousand euros)	**Amount**
Alexandre Lucena e Vale	689
Francisco Manuel Barbeira	337

In 2019, the annual cost of retirement and survivor's pensions calculated based on the actuarial evaluation of 31 December 2018 was 446 t.euros, broken down as follows:

(Amounts in thousand euros)	**Normal cost**
José Pena do Amaral	202
Pedro Barreto	98
João Oliveira e Costa	110
António Farinha Morais	26
Alexandre Lucena e Vale	7
Francisco Manuel Barbeira	3

9. CASH AND CASH BALANCES AT CENTRAL BANKS AND OTHER DEMAND DEPOSITS

The detail of this heading is as follows:

	31-12-2019	31-12-2018
Cash	324 934	278 878
Demand deposits at Bank of Portugal	626 530	1 950 209
Other demand deposits	107 236	107 106
Interest on demand deposits at Bank of Portugal		(163)
	1 058 700	**2 336 030**

The caption 'demand deposits at Bank of Portugal' includes deposits made to comply with the Minimum Cash Reserve requirements of the Eurosystem The component of these deposits made to comply with the Minimum Cash Reserve requirements is currently remunerated at 0% and the surplus funds up to 6 times the minimum reserve also have a 0% remuneration rate. For surplus funds above this amount the remuneration rate is -0,5%. The minimum cash reserve corresponds to 1% of the amount of deposits and debt securities issued maturing in up to 2 years, excluding liabilities to other institutions subject to and not exempt from the same minimum cash reserve system and the liabilities to the European Central Bank and national central banks that participate in the euro.

10. FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

Financial assets held for trading

The detail of this heading is as follows:

	31-12-2019	31-12-2018
Trading derivatives	133 198	131 708
Equity instruments	87 344	81 171
Debt securities	13 934	13 893
	234 476	**226 772**

Financial liabilities held for trading

The detail of this heading is as follows:

	31-12-2019	31-12-2018
Trading derivatives	146 167	141 335
	146 167	**141 335**

10.1. Trading derivatives (assets and liabilities)

The detail of this heading is as follows:

	31-12-2019			31-12-2018		
	Notional value	Book value		Notional value	Book value	
		Assets	Liabilities		Assets	Liabilities
Foreign currency purchase / sale						
Foreign currency purchases against euros	144 490	662	3	1 033 212	2 503	7
Foreign currency purchases against foreign currencies	891	4	4	558		
Sale of foreign currencies against euros	99 558	6	627	77 625	11	427
Financial futures on shares and interest rates						
Bought	2 512	9		9 045		83
Share options						
Issued	1 250	12		1 218 823	5 702	
Interest rate options						
Bought	472 848	3 544		205 039	1 267	
Issued	488 317	197	3 582	205 673	231	1 328
Collar	53 409	181	123	183 230	723	761
Currency options						
Bought	147 655	1 115		102 290	1 032	
Issued	133 742		1 108	102 288		1 033
Collar	662 751	972	1 031	164 897	244	238
Other share and interest rate transactions						
Share swaps	566 216	5 551	5 310	606 766	13 733	10 843
Interest rate swaps	2 605 779	120 945	134 379	3 765 145	106 262	126 615
	5 379 418	**133 198**	**146 167**	**7 674 591**	**131 708**	**141 335**
Of which: contracted in organised markets	3 762	20		27 420	712	83
Of which: contracted in non-organised markets	5 375 656	133 178	146 167	7 647 171	130 996	141 252

The Bank usually hedges the market risk associated with derivatives contracted with customers by contracting symmetric derivatives on the market and records both in the trading portfolio. Thus, the market risk of these operations can be considered to be insignificant.

At December 2019 and 2018, the trading derivatives balance sheet captions include 13 496 t.euros and 15 641 t. euros of Credit Valuation Adjustments (CVAs) and 510 t.euros and 133 t.euros of Debit Valuation Adjustments (DVAs), respectively.

10.2. Equity instruments

The detail of this heading is as follows:

	31-12-2019	31-12-2018
Equity instruments		
Shares in Portuguese issuers	87 344	81 171
	87 344	**81 171**

At 31 December 2019 and 2018, this heading includes 87 344 t.euros and 81 171 t.euros, respectively, in shares of Portuguese issuers to hedge equity swaps operations contracted with Clients.

10.3. Debt securities

The detail of this heading is as follows:

	31-12-2019	31-12-2018
Debt securities[1]		
Bonds issued by Portuguese government entities[2]	1 562	4 532
Bonds issued by other foreign entities	12 372	9 361
	13 934	**13 893**

[1] Ratings classification in Note 3.3.3, section 'Concentration according to credit quality'.

[2] Classification by residual time to maturity in Note 3.3.3, section 'Concentration according to sovereign risk'.

11. FINANCIAL ASSETS NOT DESIGNATED FOR TRADING COMPULSORILY MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

The detail of this heading is as follows:

	31-12-2019	31-12-2018
Equity instruments		
Shares in portuguese issuers	4 786	7 859
Shares in foreign issuers	1 102	
Participation units of portuguese issuers	119 942	133 112
Participation units of foreign issuers	17 391	13 556
	143 221	**154 527**
Debt securities		
Bonds issued by other Portuguese entities	48	223 195
Bonds issued by other foreign entities	62 797	59 944
	62 845	**283 139**
	206 066	**437 666**

In June 2018 Banco BPI and the Banco BPI Pension Fund sold their stake in Viacer – Sociedade Gestora de Participações Sociais, Lda, which in turn holds 56% of Super Bock Group, SGPS, SA. Banco BPI and the Banco BPI Pension Fund held 14% and 11%, in Viacer, having sold their equity holdings for 130 and 103 million euros, respectively. This transaction generated a 59 581 t.euros capital gain in the income statement caption 'profit/(loss) in financial assets not designated for trading compulsorily measured at fair value through profit or loss' (Note 30).

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

This caption is made up as follows:

	31-12-2019	31-12-2018
Equity instruments		
Shares in Portuguese issuers	82 866	60 480
Shares in foreign issuers	426 302	531 043
	509 168	**591 523**
Debt securities		
Bonds issued by Portuguese government entities	589 289	790 611
Bonds issued by foreign government entities	787 755	486 759
	1 377 044	**1 277 370**
	1 886 212	**1 868 893**

In 2019 the movement in the caption 'equity instruments at fair value through other comprehensive income' was as follows:

	31-12-2018	Purchases	Sales	Gains/(losses) recognised under other comprehensive income (Note 24)	Potential gains/(losses) recognised under other comprehensive income and exchange variation (Note 24)	Impact of Banco Português de Investimento and BPI Private Equity merger, and BPI Madeira liquidation (Note 24)	31-12-2019
Banco de Fomento Angola, S.A.	521 935				(108 253)	65	413 747
SIBS	50 000				12 500		62 500
Other	19 588	3 881	(4 319)	625	7 003	6 143	32 921
	591 523	3 881	(4 319)	625	(88 750)	6 208	509 168

In 2018 the movement in the caption 'equity instruments at fair value through other comprehensive income' was as follows:

	Impact of transition to IFRS9	01-01-2018	Reclassification of BFA	Purchases	Sales	Gains/(losses) recognised under other comprehensive income (Note 24)	Potential gains/(losses) recognised under other comprehensive income and exchange variation (Note 24)	31-12-2018
Banco de Fomento Angola, S.A.			521 935					521 935
SIBS	50 000	50 000						50 000
Other	24 667	24 667		1 858	(7 698)	2 795	(2 034)	19 588
		74 667	521 935	1 858	(7 698)	2 795	(2 034)	591 523

Following Banco BPI's loss of significant influence in BFA, this equity holding was reclassified from 'Investments in joint ventures and associates' 'to 'Financial assets at fair value through other comprehensive income - equity instruments' (Notes 2.1 and 15).

The estimated valuation values for BFA and SIBS were obtained based on a methodology of discounted future cash flows, combined with comparable multiples methodologies.

The financial information on the most relevant equity holdings classified as 'Financial assets at fair value through other comprehensive income - equity instruments' is as follows:

	Registered Office	BPI ownership (%)	Voting rights (%)	Book value at 31-12-2019	Investee financial data (100%)	
					Equity	**Net profit / (loss)**
Banco de Fomento Angola, S.A.[1]	Angola	48.1%	48.1%	413 747	851 666	309 316
SIBS[2]	Portugal	15.0%	15.9%	62 500	134 308	24 782

[1] Equity values (unaudited accounts) converted to euros at the exchange rate of 31 December 2019 and net income converted monthly at the end of month exchange rate.

[2] Equity and net profit/(loss) values for 31 December 2018.

In 31 December 2019 the movement in the caption ''Financial assets at fair value through other comprehensive income - Debt securities'' was as follows:

	Quantity (unit value)	Acquisition value	Book value	Net gain/(loss)	Hedge accounting effect
Debt securities					
Bonds issued by Portuguese government entities					
Treasury Bills	425 000 000	426 446	425 599	153	
Treasury Bonds	150 000 000	164 315	163 690	1 475	
Bonds issued by foreign government entities	750 000 000	784 752	787 755	4 574	
		1 375 513	**1 377 044**	**6 202**	

In 31 December 2018 the movement in the caption ''Financial assets at fair value through other comprehensive income - Debt securities'' was as follows:

	Quantity (unit value)	Acquisition value	Book value	Net gain/(loss)	Hedge accounting effect
Debt securities					
Bonds issued by Portuguese government entities					
Treasury Bills	475 000 000	476 077	475 825	183	
Treasury Bonds	300 000 000	318 513	314 786	5 979	(5 185)
Bonds issued by foreign government entities	475 000 000	491 737	486 759	2 910	(1 233)
		1 286 327	**1 277 370**	**9 072**	**(6 418)**

The portfolio of ''Financial assets at fair value through other comprehensive income - Debt securities'' in 31 December 2018, includes securities designated as interest rate hedged assets in the amount of 493 606 t.euros, whose fair value change of the hedged risk amounted to 6418 t.euros (Note 14).

In 2019 the movement in the caption ''Financial assets at fair value through other comprehensive income - Debt securities'' was as follows:

	Total[1]
Balance at 31-12-2018	**1 277 370**
Purchases	1 069 235
Gains/(losses) recognised under other comprehensive income	4 332
Sales and redemptions	(986 639)
Gains/(loses) recognised as profit/(loss)	(785)
Accrued interest	13 531
Balance at 31-12-2019	**1 377 044**

[1] The totality of the assets that make up this heading are in Stage 1.

In 2018 the movement in the caption ''Financial assets at fair value through other comprehensive income - Debt securities'' was as follows:

	Total[1]
Balance at 31-12-2017	
Impact of transition to IFRS 9	3 498 554
Balance at 01-01-2018	**3 498 554**
Purchases	782 359
Gains/(losses) recognised under other comprehensive income	1 562
Gains/(losses) from hedge accounting	(19 010)
Sales and redemptions	(2 985 114)
Gains/(loses) recognised as profit/(loss)	81
Accrued interest	(1 062)
Balance at 31-12-2018	**1 277 370**

[1] The totality of the assets that make up this heading are in Stage 1.

13. FINANCIAL ASSETS AT AMORTISED COST

The detail of financial assets at amortised cost at 31 December 2019 and 2018 is as follows:

31-12-2019

	Nominal value	Accrued interest	Discount premium	Impairment	Book value
Debt securities	4 057 538	22 187	(43 635)	(6 340)	4 029 750
Loans and advances					
Central Banks and credit institutions	1 452 464	289		(66)	1 452 687
Customers	22 323 764	22 881		(390 317)	21 956 328
	27 833 766	**45 357**	**(43 635)**	**(396 723)**	**27 438 765**

31-12-2018

	Nominal value	Accrued interest	Discount premium	Impairment	Book value
Debt securities	7 554 956	21 480	(15 613)	(4 528)	7 556 295
Loans and advances					
Central Banks and credit institutions	790 814	216		(269)	790 761
Customers	21 858 902	32 264		(533 119)	21 358 047
	30 204 672	**53 960**	**(15 613)**	**(537 916)**	**29 705 103**

13.1. Debt securities

The detail of this heading is as follows:

	31-12-2019	31-12-2018
Sovereign debt		
Portuguese sovereign debt	536 970	555 844
Foreign sovereign debt	1 210 865	1 216 596
	1 747 835	**1 772 440**
Customer debt		
Other Portuguese public issuers	331 122	252 570
Other Portuguese issuers	1 926 201	5 495 451
Other foreign issuers	30 932	40 362
	2 288 255	**5 788 383**
Impairment	**(6 340)**	**(4 528)**
	4 029 750	**7 556 295**

The detail of debt securities at amortised cost at 31 December 2019 is as follows:

	Quantity	Acquisition value	Book value
Sovereign debt			
Portuguese sovereign debt	500 000 000	558 433	536 970
Foreign sovereign debt	1 200 000 000	1 218 863	1 210 865
	1 700 000 000	**1 777 296**	**1 747 835**
Customer debt			
Other Portuguese public issuers	329 155 000	329 155	331 122
Other Portuguese issuers	1 927 447 249	1 920 319	1 926 201
Other foreign issuers	29 016 261	30 770	30 932
	2 285 618 510	**2 280 244**	**2 288 255**
			4 036 090
Impairment			**(6 340)**
	3 985 618 510	**4 057 540**	**4 029 750**

In 2018 Banco BPI bought a portfolio of medium-long term public debt in the amount of 1 800 million euros. At 31 December 2019 the average residual maturity of this portfolio is approximately 1 year. The foreign sovereign debt portfolio is made up of Spanish and Italian public debt securities.

Customer debt securities at amortised cost include essentially issues of commercial paper and bonds of Corporate Banking, Project Finance and Institutional Banking Customers associated to Banco BPI's commercial loans portfolio.

The portfolio of Customer debt securities at amortised cost includes securities designated as interest rate hedged assets, the fair value change of which at 31 December 2019 and 2018 amounted to 12 975 t.euros and 2 621 t.euros, respectively.

At 31 December 2019 and 2018, Customer debt securities included operations allocated to the Cover Pool given as collateral for Covered Bonds issued by Banco BPI (Note 20), namely 40 734 t.euros and 49 879 t.euros, respectively, allocated as collateral for public sector bonds.

In 2019 the movement in the caption Debt securities at amortised cost was as follows:

		Of which:		
	Debt securities	**Stage 1:**	**Stage 2:**	**Stage 3:**
Balance at 31-12-2018	**7 560 823**	**7 531 924**	**16 334**	**12 565**
Exposure increases / reductions	(3 524 733)	(3 515 525)	(9 408)	200
Transfers:				
From stage 2			(972)	972
Balance at 31-12-2019	**4 036 090**	**4 016 399**	**5 954**	**13 737**

In 2018 the movement in the caption Debt securities at amortised cost was as follows:

		Of which:		
	Debt securities	**Stage 1:**	**Stage 2:**	**Stage 3:**
Balance at 31-12-2017	**1 291 155**			
IFRS 9 Adoption	3 974 321			
Balance at 01-01-2018	**5 265 476**	**5 243 484**	**8 914**	**13 078**
Exposure increases / reductions	2 295 347	2 289 364	6 496	(513)
Transfers:				
From stage 1		(1 010)	1 010	
From stage 2		86	(86)	
Balance at 31-12-2018	**7 560 823**	**7 531 924**	**16 334**	**12 565**

In 2019 the movement in impairments due to expected loss on Debt securities at amortised cost was as follows:

		Of which:		
	Debt securities	Stage 1:	Stage 2:	Stage 3:
Balance at 31-12-2018	**(4 528)**	**(452)**	**(306)**	**(3 770)**
Increase / (reversal) of impairments	(1 812)	(972)	1 216	(2 056)
Transfers:				
From stage 2			(972)	972
Balance at 31-12-2019	**(6 340)**	**(1 424)**	**(62)**	**(4 854)**

In 2018 the movement in impairments due to expected loss on Debt securities at amortised cost was as follows:

		Of which:		
	Debt securities	Stage 1:	Stage 2:	Stage 3:
Balance at 31-12-2017	**(9 722)**			
IFRS 9 Adoption	5 332			
Balance at 01-01-2018	**(4 390)**	**(477)**	**(226)**	**(3 687)**
Increase / (reversal) of impairments	(138)	25	(80)	(83)
Balance at 31-12-2018	**(4 528)**	**(452)**	**(306)**	**(3 770)**

13.2. Loans and advances

Loans and advances - Central Banks and other Credit Institutions

The detail of this heading is as follows:

	31-12-2019	31-12-2018
Loans and advances to the Bank of Portugal	5 900	5 000
Loans and advances to Credit Institutions in Portugal		
Very short term applications	35 606	9 502
Deposits		102
Cheques for collection	40 054	49 906
Loans	268 225	204 639
Reverse repurchase agreements		6 661
Other	417	490
Other loans and advances	7 873	
Interest receivable and commissions relating to amortised cost	178	153
	352 353	271 453
Loans and advances to other Credit Institutions abroad		
Very short term applications	126 627	261 764
Deposits	409 471	72 367
Cheques for collection	1 180	1 032
Reverse repurchase agreements	397 916	
Other loans and advances	148 777	167 380
Interest receivable and commissions relating to amortised cost	111	63
Debtors for futures operations	10 418	11 971
	1 094 500	514 577
Impairment	(66)	(269)
	1 452 687	**790 761**

Loans and advances - Customers

This caption is made up as follows:

	31-12-2019	31-12-2018
Loans to Customers		
Companies		
Loans	6 405 302	6 307 771
Loans on current account	560 806	781 578
Demand deposits - overdrafts	330 871	204 444
Invoices received – factoring	905 461	868 612
Finance leases	364 776	356 639
Real estate leasing	420 153	414 978
Car finance	274 260	227 296
Other loans	38 583	35 092
Individuals	12 933 896	12 545 495
Other loans and advances	112 537	149 261
Impairment	(390 317)	(533 119)
	21 956 328	**21 358 047**

The caption ''Other loans and advances'' essentially refers to margin accounts.

The portfolio of Loans to Customers includes Loans designated as interest rate hedged assets, the fair value change of which at 31 December 2019 and 2018 amounted to 35 843 t.euros and 24 097 t.euros, respectively (Note 14).

Loans and advances - Customers

The breakdown of loans and advances to Customers by activity at 31 December 2019 is as follows:

	31-12-2019	
	Gross amount	**Impairment**
Public sector	1 195 567	(237)
Other financial corporations and individual entrepreneurs (financial business)	298 678	(336)
Non-financial corporations and individual entrepreneurs (non-financial business)	7 918 504	(220 280)
Real estate construction and development	423 708	(39 743)
Civil construction	130 944	(3 002)
Other	7 363 852	(177 535)
Large companies	3 609 638	(96 713)
Small and medium-sized companies	3 754 214	(80 822)
Individuals	12 933 896	(169 464)
Homes	11 377 323	(126 010)
Consumer spending	1 165 862	(37 109)
Other	390 711	(6 345)
	22 346 645	**(390 317)**

The breakdown of loans and advances to Customers by activity at 31 December 2018 is as follows:

	31-12-2018	
	Gross amount	**Impairment**
Public sector	1 227 118	(208)
Other financial corporations and individual entrepreneurs (financial business)	380 341	(403)
Non-financial corporations and individual entrepreneurs (non-financial business)	7 738 212	(318 168)
Real estate construction and development	430 388	(54 299)
Civil construction	119 214	(7 755)
Other	7 188 610	(256 114)
Large companies	3 462 108	(133 485)
Small and medium-sized companies	3 726 502	(122 629)
Individuals	12 545 495	(214 340)
Homes	11 176 948	(175 120)
Consumer spending	990 214	(31 317)
Other	378 333	(7 903)
	21 891 166	**(533 119)**

Loans and advances to Customers include the following non-derecognised securitised assets:

	31-12-2018
Non-derecognised securitised assets [1]	
Loans	
Home loans	1 150 034
Loans to SMEs	3 214 901
Interest receivable	10 003
	4 374 938

[1] Excludes overdue loans and interest.

Credit securitization bonds were repaid in advance during 2019. Consequently:

- The loans subject to securitisation operations carried out by Banco BPI that had not been derecognised from the Bank's balance sheet and were recorded under the caption 'Loans not represented by securities', were fully desecuritised during 2019.
- The amounts received by Banco BPI from these operations recorded under the caption "Financial liabilities at amortised cost - debt securities issued" were reimbursed to these operations' management entity. (Note 20).

At 31 December 2019 and 2018 the caption 'Loans and advances to Customers' included operations allocated to the Cover Pool given as collateral for Covered Bonds issued by Banco BPI (Note 20), namely:

- 8 522 977 t.euros and 7 576 415 t.euros, respectively, allocated as collateral to mortgage bonds;
- 736 508 t.euros and 694 340 t.euros, respectively, allocated as collateral to public sector bonds.

The movement in the caption Loans and advances to Customers in 2019 was as follows:

	Loans and advances	Of which:		
		Stage 1	Stage 2	Stage 3
Balance at 31-12-2018	**21 891 166**	**19 397 630**	**1 473 238**	**1 020 298**
Exposure increases / reductions	514 467	969 175	(235 398)	(219 310)
Transfers				
From stage 1:		(550 538)	497 486	53 052
From stage 2:		532 287	(599 584)	67 297
From stage 3:		14 866	105 914	(120 780)
Write-offs	(58 988)	(4)	(2)	(58 982)
Balance at 31-12-2019	**22 346 645**	**20 363 415**	**1 241 654**	**741 575**

The movement in the caption Loans and advances to Customers in 2018 was as follows:

	Loans and advances	Of which:		
		Stage 1	Stage 2	Stage 3
Balance at 31-12-2017	**20 956 239**			
IFRS 9 Adoption	3 577			
Balance at 01-01-2018	**20 959 816**	**18 193 344**	**1 474 765**	**1 291 707**
Exposure increases / reductions	988 953	1 374 708	(228 357)	(157 398)
Transfers				
From stage 1:		(572 204)	529 035	43 169
From stage 2:		370 672	(446 069)	75 397
From stage 3:		31 110	143 863	(174 973)
Write-offs	(57 604)			(57 604)
Balance at 31-12-2018	**21 891 166**	**19 397 630**	**1 473 238**	**1 020 298**

In 2019 the movement in impairments due to expected loss on Loans and advances to Customers was as follows:

	Impairments for loans and advances	Of which: Stage 1:	Stage 2:	Stage 3:
Balance at 31-12-2018	**(533 119)**	**(25 186)**	**(52 878)**	**(455 055)**
Impairment / reversal of impairment due to changes in credit risk	(6 614)	(978)	2 044	(7 680)
Impairment for new financial assets[1]	(46 222)	(13 702)	(1 624)	(30 896)
Reversal of impairments due to reimbursements and recoveries	157 848	5 922	4 788	147 138
Write-offs	58 988	4	2	58 982
Transfers and other	(21 198)	(59)	(50)	(21 089)
Balance at 31-12-2019	**(390 317)**	**(33 999)**	**(47 718)**	**(308 600)**

[1] Includes automatically renewed operations.

In 2018 the movement in impairments due to expected loss on Loans and advances to Customers was as follows:

	Impairments for loans and advances	Of which: Stage 1:	Stage 2:	Stage 3:
Balance at 31-12-2017	**(575 276)**			
IFRS 9 Adoption	(43 518)			
Balance at 01-01-2018	**(618 605)**	**(23 811)**	**(64 226)**	**(530 568)**
Impairment / reversal of impairment due to changes in credit risk	2 725	7 832	4 578	(9 685)
Impairment for new financial assets[1]	(25 347)	(16 360)	(2 674)	(6 313)
Reversal of impairments due to reimbursements and recoveries	70 186	7 317	9 888	52 981
Write-offs	57 604			57 604
Transfers and other	(19 682)	(164)	(444)	(19 074)
Balance at 31-12-2018	**(533 119)**	**(25 186)**	**(52 878)**	**(455 055)**

[1] Includes automatically renewed operations.

13.3. Written-off loans

Written-off loans

The movement in loans written off from assets in 2019 and in 2018 is as follows:

	31-12-2019	31-12-2018
Balance at the beginning of the year	**1 114 459**	**1 262 523**
Increases:		
Value correction due to depreciation of assets	58 988	57 604
Other	201	
Decreases:		
Recovery of written-off principal and interest	(13 941)	(14 802)
Amount recovered on sale of written-off loans	(8 627)	(22 090)
Remission of written-off credits due to disposals	(113 933)	(162 855)
Other	(4 739)	(5 921)
Balance at the end of the year	**1 032 408**	**1 114 459**

Written-off loans because their recovery was deemed to be remote are recognised under the off-balance sheet caption "Written-off loans".

In the 4th quarter of 2018 Banco BPI sold a portfolio of non-performing loans for a global amount of 186 million euros, of which 171 million euros Written-off loans (recognised in off-balance sheet items) and 3 million euros in loans net of impairments (recognised in the balance sheet) (Note 34).

In the 4th quarter of 2019 Banco BPI sold a portfolio of non-performing loans for a global amount of 138 million euros, of which 123 million euros Written-off loans (recognised in off-balance sheet items) and 15 million euros in loans net of impairments (recognised in the balance sheet) (Note 34).

14. DERIVATIVES – HEDGE ACCOUNTING

The detail of hedging derivatives is as follows:

	31-12-2019			31-12-2018		
	Notional Amount	**Assets**	**Liabilities**	**Notional Amount**	**Assets**	**Liabilities**
Interest rates	8 187 218	30 709	72 799	7 703 360	14 320	56 010
By type of counterparty:						
Of which: OTC - credit institutions	921 014	9 802	27 443	2 374 616	7 707	43 501
Of which: OTC - other financial companies	7 266 204	20 907	45 356	5 328 744	6 613	12 509

The residual time to maturity of hedging items at 31 December 2019, was as follows:

	Notional Amount					
	< 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**> 5 years**	**Total**
Fair value hedges	**287 311**	**419 875**	**2 059 384**	**4 608 737**	**811 911**	**8 187 218**
Credit	5 000	11 200	79 171	1 077 179	809 911	1 982 462
Term Deposits	282 311	403 675	1 977 213	3 031 558	2 000	5 696 756
Debt issues		5 000	3 000	500 000		508 000

The residual time to maturity of hedging items at 31 December 2018 was as follows:

	Notional Amount					
	< 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**> 5 years**	**Total**
Fair value hedges	**304 668**	**1 366 070**	**2 570 873**	**2 867 168**	**594 581**	**7 703 360**
Credit	11 000	10 000	57 500	887 108	585 581	1 551 189
Fixed rate securities in portfolio		175 000	285 000			460 000
Term Deposits	293 668	1 171 070	2 228 373	1 972 060	9 000	5 674 171
Debt issues		10 000		8 000		18 000

Hedging items - Fair value hedges

				31-12-2019			2019		31-12-2018			2018	
				Hedging instrument value					Hedging instrument value				
	Hedged risk	Hedging instrument used	Hedged item	Nominal	Assets	Liabilities	Fair value change in hedging instruments in the period	Gains/(losses) from hedge accounting, net	Nominal	Assets	Liabilities	Fair value change in hedging instruments in the period	Gains/(losses) from hedge accounting, net
Macro-hedges	Transformation from fixed to floating flows	Interest rate swaps	Credit (loans and securities)	1 982 462	6 754	67 754	(21 483)	618	1 551 189	1 448	39 953	(5 431)	714
			Fixed rate securities in portfolio				6 384	(34)	460 000		14 824	18 641	3
			Term deposits	5 696 756	19 154	5 045	2 124	2 558	5 674 171	12 827	1 233	3 183	693
			Debt issues	508 000	4 801		5 573	(27)	18 000	45		(37)	(13)
				8 187 218	**30 709**	**72 799**	**(7 402)**	**3 115**	**7 703 360**	**14 320**	**56 010**	**16 356**	**1 397**

Hedged items - Fair value hedges

				31-12-2019				2019	31-12-2018				2018
	Hedged risk	Hedging instrument used	Hedged item	Hedged instrument		Accumulated fair value adjustments in the hedged item		Fair value change in hedged items in the period	Hedged instrument		Accumulated fair value adjustments in the hedged item		Fair value change in hedged items in the period
				Assets	Liabilities	Assets	Liabilities		Assets	Liabilities	Assets	Liabilities	
Macro-hedges	Transformation from fixed to floating flows	Interest rate swaps	Credit (loans and securities)	1 923 721		48 818		22 100	1 421 569		26 719		6 145
			Fixed rate securities in portfolio					(6 418)	493 606		6 418		(18 637)
			Term Deposits		5 205 567		4 022	434		5 084 484		3 560	(2 490)
			Debt issues		510 866		5 634	(5 600)		18 325		34	24
				1 923 721	**5 716 433**	**48 818**	**9 656**	**10 516**	**1 915 175**	**5 102 809**	**33 137**	**3 594**	**(14 958)**

In 2019 and 2018, the changes in fair value of the Hedged items in the caption "Term Deposits" include 2 575 t.euros and 738 t.euros respectively related to gains on the early settlement of term deposits.

15. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

The detail of investments in joint ventures and associates is as follows:

	Effective holding (%)		Book value	
	31-12-2019	31-12-2018	31-12-2019	31-12-2018
Investments in joint ventures				
Banco Português de Investimento[1]		100.0%		26 622
BPI Incorporated	100.0%	100.0%	4	4
BPI Madeira SGPS[2]		100.0%		150 000
BPI Suisse, S.A.	100.0%	100.0%	2 022	2 022
BPI Private Equity - Sociedade Capital de Risco		100.0%		34 534
Impairments				
Banco Português de Investimento				(2 231)
BPI Private Equity - Sociedade Capital de Risco[1]				(3 511)
Investments in associates				
Banco Comercial e de Investimentos, S.A.	35.7%	35.7%	39 651	39 651
Companhia de Seguros Allianz Portugal, S.A.	35.0%	35.0%	41 680	41 680
Cosec – Companhia de Seguros de Crédito, S.A.	50.0%	50.0%	7 051	7 051
Unicre - Instituição Financeira de Crédito, S.A.	21.0%	21.0%	5 850	5 850
Inter-Risco – Sociedade de Capital de Risco, S.A.[3]	49.0%		196	
			96 454	**301 672**
BPI INC - Cauções			721	707
			97 175	**302 379**

[1] In 2019, the merger by incorporation of these holdings in Banco BPI was carried out.

[2] BPI Madeira was liquidated in 2019.

[3] Equity holding resulting from the merger by incorporation of BPI Private Equity in Banco BPI.

The movement that ocurred in investments in joint ventures and associates during 2019 was as follows :

	Asset value	Impairment	Total
Balance at 31-12-2018	**308 121**	**(5 742)**	**302 379**
Merger by incorporation of Banco Português de Investimento and BPI Private Equity			
Investments held by Banco Português de Investimento and BPI Private Equity	196		196
Annulment of the equity holding held by Banco BPI in Banco Português de Investimento and BPI Private Equity	(61 156)	5 742	(55 414)
Liquidation of BPI Madeira	(150 000)		(150 000)
Other changes	14		14
Balance at 31-12-2019	**97 175**		**97 175**

Banco de Fomento Angola (BFA)

Following the sale of 2% of the share capital of Banco de Fomento Angola to Unitel, in January 2017 BPI's holding in BFA's share capital became 48.1% and a contract between BFA's shareholders was signed, according to which BPI has the right to appoint two members of the Board of Directors of BFA, from a maximum of fifteen, as well as one member of its Supervisory Board and one member of the Risk Committee and the Remuneration Committee. BPI's stake in BFA's share capital and its presence in BFA's governing bodies, albeit a minority stake and not proportional to the share capital held, allowed to presume the existence of significant influence over BFA, according to the IAS 28. Therefore, following the sale of 2% of BFA, Banco BPI started to classify its holding in BFA as an associated company.

In 2018, an assessment of the conditions on which the assumption of significant influence of Banco BPI over BFA in accordance with IAS 28 was based permitted to conclude that no real significant influence existed. This implied reclassifying the equity holding in BFA to the portfolio of Financial assets at fair value through other comprehensive income – equity instruments. The analysis and justification for the non-existence of significant influence are provided in Note 2.1.

During 2019 there were no changes in the conditions that led to the reclassification of the equity holding in BFA in the portfolio of Financial assets at fair value through other comprehensive income - equity instruments, and therefore this holding was maintained in said portfolio.

Impairment test on the book value of associated companies

To assess the recoverable amount of its portfolio of associated companies under IAS 36, BPI periodically monitors indicators of possible deterioration in the value of its associated companies. Particularly, the following items are considered, among others: i) business performance; and ii) peer performance, since the associates in question are not listed companies.

To conduct impairment tests on its equity holdings, BPI uses generally accepted valuation methods, such as the dividend discount model (DDM) and market and transaction multiples analysis, also using linear regression curves. It was not considered any potential control premiums or discounts existing in a considered market transaction.

When the assessment method used is the dividend discount model (DDM), the balance sheet and income statement projections are made for a time horizon of 5 years, using assumptions that are based on the macroeconomic data for the countries and industry sectors in which the investees operate, as well as these entities' financial information. The results obtained are compared with those that would be obtained through the application of market and transactions multiples.

When the assessment method used is the market and transactions multiples analysis, the benchmark values are the Price Book Value (PBV) and Price Earnings Ratio (PER) multiples implicit in the market value obtained through sampling of comparable listed companies, using several statistical methods for sample analysis, namely linear regression.

16. TANGIBLE ASSETS

The movement in tangible assets in 2019 and 2018 was as follows:

	2019					2018			
	Buildings	**Equipment and other**	**Tangible assets in progress**	**IFRS 16 rights of use**	**Total**	**Buildings**	**Equipment and other**	**Tangible assets in progress**	**Total**
Gross amount									
Balance at beginning of the year	73 561	313 383	32 991		419 935	75 671	334 616	6 313	416 600
Merger of BPI Investimentos and BPI Private Equity	70	1 142			1 212				
Acquisitions		5 372	16 253	3 967	25 592	5	3 558	33 772	37 335
Disposals and write-offs	(2 084)	(4 721)		(1 210)	(8 015)	(2 115)	(29 589)	(1)	(31 705)
Transfers and other	606	19 348	(17 222)	108 576 [1]	111 308		4 798	(7 093)	(2 295)
Balance at the end of the year	72 153	334 524	32 022	111 333	550 032	73 561	313 383	32 991	419 935
Depreciation									
Balance at the beginning of the year	62 436	290 067			352 503	64 075	307 795		371 870
Merger of BPI Investimentos and BPI Private Equity	70	995			1 065				
Depreciation in the year	397	8 465		24 951	33 813	403	9 911		10 314
Disposals and write-offs	(2 079)	(4 146)		(431)	(6 656)	(2 042)	(27 639)		(29 681)
Balance at the end of the year	60 824	295 381		24 520	380 725	62 436	290 067		352 503
Impairments									
Balance at beginning of the year		646			646				
Allowances/(Reversals)		(646)			(646)		646		646
Balance at the end of the year							646		646
Net value at the end of the year	**11 329**	**39 143**	**32 022**	**86 813**	**169 307**	**11 125**	**22 670**	**32 991**	**66 786**

[1] Corresponds to the initial adjustment resulting from the application of IFRS 16 (Note 1.4)

The coming into force of IFRS 16 on 1 January 2019 implied the recognition of a right of use in the amount of 108 576 t.euros and a transfer of costs for rents paid, recognised under other administrative expenses up to 31 December 2018, to costs with depreciation and amortisation of tangible assets, in the amount of 24 951 t.euros, in 2019.

In 2019, Banco BPI revised the estimated useful life of "equipment - hardware and means of payment", changing the amortisation periods to between 3 and 10 years, taking into account the changes in the Bank's investment policies in the last two years. This change was applied prospectively starting in 2019, having no significant impact on depreciation and amortisation expenses.

17. INTANGIBLE ASSETS

The movement in intangible assets in 2019 and 2018 was as follows:

	2019				2018			
	Automatic data treatment software	Intangible assets in progress	Other intangible assets	Total	Automatic data treatment software	Intangible assets in progress	Other intangible assets	Total
Gross amount								
Balance at the beginning of year	132 657	15 992	16 646	165 295	101 886	21 946	16 796	140 628
Merger of BPI Investimentos and BPI Private Equity	2 628	52		2 680				
Acquisitions	4 559	29 687		34 246	1 810	25 837		27 647
Disposals and write-offs			(1 979)	(1 979)	(2 459)		(150)	(2 609)
Transfers and other	29 930	(32 774)		(2 844)	31 420	(31 791)		(371)
Balance at the end of year	169 774	12 957	14 667	197 398	132 657	15 992	16 646	165 295
Amortisation								
Balance at the beginning of year	94 375		14 857	109 232	83 669		14 845	98 514
Merger of BPI Investimentos and BPI Private Equity	2 591			2 591				
Amortisation in the year	19 917		1	19 918	13 139		12	13 151
Disposals and write-offs			(191)	(191)	(2 433)			(2 433)
Balance at the end of year	116 883		14 667	131 550	94 375		14 857	109 232
Impairments								
Balance at the beginning of year			1 026	1 026				
Allowances/(Reversals)			(1 026)	(1 026)			1 026	1 026
Balance at the end of year							1 026	1 026
Net value at the end of year	**52 891**	**12 957**		**65 848**	**38 282**	**15 992**	**763**	**55 037**

18. OTHER ASSETS

The detail of this heading is as follows:

	31-12-2019	31-12-2018
Accrued income		
Fees from Allianz's profit sharing	23 178	24 436
Other accrued income	25 617	26 412
	48 795	**50 848**
Deferred expenses		
Rents	1 349	1 462
Other deferred expenses	5 243	7 742
	6 592	**9 204**
Other assets	4 040	2 907
Foreign exchange transactions pending settlement	1 959	3 624
Securities transactions pending settlement - stock exchange transactions		303
Credit operations pending settlement	80 131	296 353
	86 130	**303 187**
	141 517	**363 239**

The value of the caption 'Credit operations pending settlement' includes:

- At 31 December 2018, 224 613 t.euros relating to securitisation operations carried out by Banco BPI (Notes 13 and 20.3), resulting from temporary differences between settlement of the securitised loans and settlement of the liability for assets not derecognised; These loan securitisation operations were reimbursed in advance in 2019;
- At 31 December 2019 and 2018, 3 757 t.euros and 26 627 t.euros, respectively, relating to taxes paid but which were challenged by Banco BPI. At the date of the financial statements there was no expected date for a decision in this regard. The main ongoing tax processes concern processes paid under Decree-Law no. 248-A/02, of 14 November, in the amount of 2 172 t.euros. The remaining 1 585 t.euros concerns other processes prior to the merger carried out in 2002, relating to tax processes of various types; In addition, the balance at 31 December 2018 also includes 22 871 t.euros relating to VAT processes and other taxes of Banco BPI, which was paid under Decree-Law 151-A/13 of 31 October, and was simultaneously fully provisioned for due to the uncertainty about whether this amount would be recovered. Consequently, the amount of the asset and liability arising from these processes was derecognised in 2019;
- At 31 December 2019 and 2018, 30 675 t.euros and 3 157 t.euros, respectively, concerning transactions pending settlement in respect of services provided to other CaixaBank Group companies.
- At 31 December 2019 and 2018, 3 324 t.euros e 2 683 t.euros, respectively, relating to home loans pending settlement.

19. NON-CURRENT ASSETS AND LIABILITIES AND DISPOSAL GROUPS CLASSIFIED AS AVAILABLE FOR SALE

The detail of this heading is as follows:

	31-12-2019	31-12-2018
Assets received in settlement of defaulting loans and other tangible assets		
Buildings	24 867	51 874
Equipment	179	226
Other	1	61
Impairment	(10 486)	(18 988)
	14 561	**33 173**

The amounts recognised in this caption are valued in accordance with the accounting policy described in Notes 2.15 and 38.2.

The changes in assets received in settlement of defaulting loans and other tangible assets in 2019 were as follows:

	Balance at 31-12-2018			Acquisitions and transfers	Sales and write-offs		Increase / reversals of impairment[1]	Balance at 31-12-2019		
	Gross amount	Impairment	Net value		Gross amount	Impairment		Gross amount	Impairment	Net value
Assets received in settlement of defaulting loans										
Buildings	51 312	(18 706)	32 606	6 728	(33 173)	7 195	1 171	24 867	(10 340)	14 527
Of which: Banco Português de Investimento merger by incorporation				293			(176)			
Equipment	226	(148)	78	271	(318)	28	(25)	179	(145)	34
Other	61	(61)			(60)	55	5	1	(1)	
Other tangible assets										
Buildings	562	(73)	489	712	(1 274)	176	(103)			
Of which: Banco Português de Investimento merger by incorporation				712			(105)			
	52 161	**(18 988)**	**33 173**	**7 711**	**(34 825)**	**7 454**	**1 048**	**25 047**	**(10 486)**	**14 561**

[1] Includes transfers resulting from the merger by incorporation of Banco Português de Investimento.

In November 2019, Banco BPI sold a 119 buildings portfolio, integrated into the sale of a non-performing loan portfolio, whose gross book value amounted to 14.1 million euros and with impairments amounted to 6.4 million euros. This operation generated a net gain of 1.7 million euros (Note 37).

The changes in assets received in settlement of defaulting loans and other tangible assets in 2018 were as follows:

	Balance at 31-12-2017			Acquisitions and transfers	Sales and write-offs		Increase / reversals of impairment	Balance at 31-12-2018		
	Gross amount	Impairment	Net value		Gross amount	Impairment		Gross amount	Impairment	Net value
Assets received in settlement of defaulting loans										
Buildings	80 016	(15 601)	64 415	12 622	(41 326)	5 235	(8 340)	51 312	(18 706)	32 606
Equipment	570	(296)	274	98	(442)	161	(13)	226	(148)	78
Other	61	(51)	10				(10)	61	(61)	
Other tangible assets										
Buildings	706	(38)	668		(144)	4	(39)	562	(73)	489
	81 353	**(15 986)**	**65 367**	**12 720**	**(41 912)**	**5 400**	**(8 402)**	**52 161**	**(18 988)**	**33 173**

At 31 December 2019, the detail of real estate received in settlement of defaulting loans is as follows:

		Buildings[1]			Land		
		Housing	Commercial	Other[1]	Urban	Rural	Total
No. of properties		166	28	29	18	2	**243**
Fair value		15 550	1 555	5 499	1 218	8	**23 830**
Book value		**9 731**	**827**	**3 506**	**463**		**14 527**
No. of years in portfolio	< 1 year	2 828	251	1 776	43		**4 898**
	>= 1 year and < 2.5 years	2 225	410	363			**2 998**
	>= 2.5 years and < 5 years	3 268	23	40			**3 331**
	>= 5 years	1 410	143	1 327	420		**3 300**

[1] This category includes all buildings that are not exclusively commercial or housing buildings.

At 31 December 2018, the detail of real estate received in settlement of defaulting loans is as follows:"

		Buildings[1]			Land		
		Housing	Commercial	Other[1]	Urban	Rural	Total
No. of properties		330	164	75	25	19	**613**
Fair value		28 926	9 630	10 086	3 212	343	**52 197**
Book value		**19 560**	**5 837**	**5 863**	**1 205**	**144**	**32 609**
No. of years in portfolio	< 1 year	5 527	559	366			**6 452**
	>= 1 year and < 2.5 years	5 009	443	456	13	5	**5 926**
	>= 2.5 years and < 5 years	6 882	1 599	706	1 175	8	**10 370**
	>= 5 years	2 142	3 236	4 335	17	131	**9 861**

[1] This category includes all buildings that are not exclusively commercial or housing buildings.

20. FINANCIAL LIABILITIES AT AMORTISED COST

The detail of financial liabilities at amortised cost at 31 December 2019 and 2018, is as follows:

31-12-2019

	Nominal value	Accrued interest	Premium discount	Book value
Deposits				
Central Banks	1 380 000	(5 771)		1 374 229
Credit Institutions	1 402 664	215		1 402 879
Customers	23 215 363	16 050		23 231 413
Debt securities issued	1 356 544	5 361	(3 206)	1 358 699
Other financial liabilities	272 684	14		272 698
	27 627 255	**15 869**	**(3 206)**	**27 639 918**

31-12-2018

	Nominal value	Accrued interest	Premium discount	Book value
Deposits				
Central Banks	1 363 830	(10 987)		1 352 843
Credit Institutions	1 872 384	864		1 873 248
Customers	23 127 656	16 483		23 144 139
Debt securities issued	868 293	4 571		872 864
Other financial liabilities	4 658 851	487	(653)	4 658 685
	31 891 014	**11 418**	**(653)**	**31 901 779**

20.1. Deposits – Central Banks and Credit Institutions

The detail of this heading is as follows:

	31-12-2019	31-12-2018
Deposits - Central Banks		
Deposits	1 380 000	1 363 830
Interest payable	(5 771)	(10 987)
	1 374 229	**1 352 843**
Deposits - Credit Institutions		
Funds of credit institutions in Portugal		
Very short-term funds		26 201
Deposits	44 672	112 334
Other funds		820
Interest payable	1	112
	44 673	**139 467**
Funds of credit institutions abroad		
International financial organisations	466 833	471 052
Very short-term funds	38 458	3 204
Deposits	485 861	564 859
Repurchase agreements	306 839	663 117
Other funds	60 001	30 797
Interest payable	186	677
Commissions relating to amortised cost	28	75
	1 358 206	**1 733 781**
	1 402 879	**1 873 248**
	2 777 108	**3 226 091**

20.2. Deposits – Customers

The detail of this heading is as follows:

	31-12-2019	31-12-2018
By type		
Demand deposits	14 568 006	13 414 843
Term deposits	8 350 338	8 636 325
Saving accounts	47 853	50 199
Compulsory deposits	14 500	100 146
Repurchase agreements	222 783	926 142
Other Customer resources	11 882	
Interest payable	16 042	16 424
Commissions relating to amortised cost, net	9	60
	23 231 413	**23 144 139**
By sector		
Public sector	538 431	359 113
Private sector	22 692 982	22 785 026
	23 231 413	**23 144 139**

The portfolio of Customer deposits at amortised cost includes deposits designated as interest rate hedged liabilities, the fair value change of which at 31 December 2019 and 2018 amounted to (4 022) t.euros and (3 560) t.euros, respectively (Note 14).

20.3. Debt securities issued

The detail of this heading is as follows:

	31-12-2019				31-12-2018			
	Issues	Repurchased	Balance	Average interest rate	Issues	Repurchased	Balance	Average interest rate
Covered bonds	7 900 000	(6 850 000)	1 050 000	0.2%	7 100 000	(6 550 000)	550 000	0.3%
Fixed-rate bonds	7 751	(1 207)	6 544	0.3%	21 578	(3 285)	18 293	0.3%
Interest payable			921				57	
Commissions relating to amortised cost, net			(3 206)					
			1 054 259				**568 350**	
Other subordinated bonds	300 000		300 000	5.4%	300 000		300 000	5.5%
Interest payable			4 440				4 514	
			304 440				**304 514**	
			1 358 699				**872 864**	

In 2019 the securitisation operations of mortgage loans and loans to SMEs were reimbursed in advance.

The portfolio of debt issued at amortised cost includes securities designated as interest rate hedged liabilities, the fair value change of which at 31 December 2019 and 2018 amounted to (5 634) t.euros and (34) t.euros, respectively (Note 14).

The movement in debt securities issued by BPI in 2019 was as follows:

	Covered bonds	Fixed rate bonds	Other subordinated bonds	Total
Balance at 31 December 2018	**550 000**	**18 293**	**300 000**	**868 293**
Debt issues in the period	1 900 000			1 900 000
Issues retained	(1 400 000)			(1 400 000)
Issues redeemed		(11 638)		(11 638)
Repurchases (net of resales)		(111)		(111)
Balance at 31 December 2019	**1 050 000**	**6 544**	**300 000**	**1 356 544**

In 2019 the result of bond repurchases was 1 t.euros.

The movement in debt securities issued by BPI in 2018 was as follows:

	Covered bonds	Fixed rate bonds	Other subordinated bonds	Participation securities	Total
Balance at 31 December 2017	**200 000**	**35 268**	**300 000**	**611**	**535 879**
Debt issues in the period	850 000	452			850 452
Issues retained	(300 000)				(300 000)
Issues redeemed	(200 000)	(16 345)		(611)	(216 956)
Repurchases (net of resales)		(1 082)			(1 082)
Balance at 31 December 2018	**550 000**	**18 293**	**300 000**		**868 293**

In 2018 the result of bond repurchases was 8 t.euros.

The detail of subordinated debt issuance is as follows:

Issue date	Maturity date	Nominal value	Interest rate	Amount pending redemption 31-12-2019	Amount pending redemption 31-12-2018
24-03-2017	24-03-2027	300 000 [1]	6 month Euribor + 5.74%	300 000	300 000

[1] This issue was fully subscribed by CaixaBank.

Covered Bonds

BPI has two covered bond programmes under the terms of Decree-Law 59 / 2006. Under these programmes, BPI has issued mortgage bonds and public sector bonds, as described below.

In accordance with this law, the holders of covered bonds benefit from a special creditor privilege over the cover pool, which acts as a guarantee for the debt to which the bondholders will have access in the event of the issuer's insolvency.

Mortgage bonds

The mortgage bonds programme was set up for up to a maximum of 9 000 000 t.euros.

The mortgage bonds are secured by a portfolio of mortgage loans and other assets that together constitute a cover pool.

Assets allocated to the cover pool may include mortgage loans for housing or commercial purposes located in a European Union Member State and other eligible assets, such as deposits at the Bank of Portugal, deposits at financial institutions with ratings equal to or greater than "A-" and other low risk and highly liquid assets. The total value of the other assets cannot exceed 20% of the cover pool. The amount of the allocated mortgage loans cannot exceed 80% of the value of the mortgaged property in the case of residential property, or 60% of the value of the mortgaged property, in the case of commercial property.

The legislation applicable to mortgage bonds imposes prudential limits, which must be met during the period of the bonds:

- The total nominal amount of the outstanding mortgage bonds cannot exceed 95% of the total amount of mortgage loans and other assets allocated to the bonds;
- The average maturity of the outstanding mortgage bonds cannot exceed, at any time, the average maturity of the mortgage loans and other assets allocated to the bonds;
- The total amount of interest payable on the mortgage bonds cannot exceed, at any time, the amount of interest receivable on the mortgage loans and other assets allocated to the mortgage bonds;
- The present value of the liabilities arising from the outstanding mortgage bonds cannot exceed, at any time, the net present value of the cover pool given as collateral of these bonds, after consideration of any financial derivative instruments. This ratio must be maintained when considering a 200 basis points parallel up or down shift of the yield curve.
- The credit institutions' risk exposure, except for positions with residual maturity of less than or equal to 100 days, cannot exceed 15% of the total nominal amount of the outstanding mortgage bonds.

At 31 December 2019, the amount of mortgage bonds issued by BPI was 7 300 000 t.euros, split into 10 issues, as follows:

Issue	Issue date	Maturity date	Nominal amount	Coupon	Interest payment frequency	Reimbursement	Rating	Repurchases
OH-Serie 9	21-05-2010	21-05-2025	350 000	Euribor 3 m + 0.65%	Quarterly	Full on expiration date	Aaa/-/-/-	350 000
OH-Serie 14	30-03-2015	27-03-2025	1 250 000	Euribor 3 m + 0.50%	Quarterly	Full on expiration date	Baa2/-/-/-	1 250 000
OH-Serie 16	30-05-2016	30-05-2023	500 000	Euribor 3 m + 0.80%	Quarterly	Full on expiration date	A3/-/-/A(High)	500 000
OH-Serie 17	22-02-2017	22-02-2024	700 000	Euribor 3 m + 1.00%	Quarterly	Full on expiration date	A2/-/-/A(High)	700 000
OH-Serie 18	25-07-2017	25-07-2022	1 750 000	Euribor 3 m + 0.60%	Quarterly	Full on expiration date	A2/-/-/A(High)	1 750 000
OH-Serie 19	02-03-2018	02-03-2023	300 000	Euribor 3 m + 0.40%	Quarterly	Full on expiration date	A1/-/-/A(High)	300 000
OH-Serie 20	26-09-2018	26-09-2025	250 000	Euribor 6 m + 0.30%	Quarterly	Full on expiration date	A1/-/-/AA(Low)	
OH-Serie 21	13-12-2018	13-12-2022	300 000	Euribor 6 m + 0.30%	Quarterly	Full on expiration date	Aa3/-/-/AA(Low)	
OH-Serie 22	22-03-2019	22-03-2024	500 000	Fixed rate 0.25%	Annual	Full on expiration date	Aa3/-/-/AA(Low)	
OH-Serie 23	20-12-2019	20-12-2024	1 400 000	Euribor 3 m + 0.30%	Quarterly	Full on expiration date	Aa3/-/-/AA(Low)	1 400 000

At 31 December 2019 and 2018, the cover pool allocated to the mortgage bonds amounted to 8 556 268 t.euros and 7 598 026 t.euros, respectively, of which 8 522 977 t.euros and 7 576 415 t.euros corresponded to credit and accrued interest (Note 13.2).

Public sector bonds

The public sector bonds programme was set up for up to a maximum of 2 000 000 t.euros.

The public sector bonds are secured by a portfolio of loans to public sector entities and other assets that together constitute a cover pool.

Loans granted to central public administrations, regional or local authorities of any EU Member State as well as loans with a specific guarantee from these entities may be allocated to the cover pool.

The prudential limits applicable to the public sector bonds are similar to those applicable to the mortgage bonds, except for the limit on the maximum nominal amount of outstanding bonds in relation to the loans and other assets allocated to the cover pool, which in the case of public sector bonds is 100%.

At 31 December 2019, the amount of public sector bonds issued by BPI was 600 000 t.euros, split into 3 issues, as follows:

Issue	Issue date	Maturity date	Nominal amount	Coupon	Interest payment frequency	Reimbursement	Rating	Repurchases
OSP-Serie 3	07-10-2015	07-10-2022	100 000	Euribor 3 m + 0.65%	Quarterly	Full on expiration date	Baa1/-/-	100 000
OSP-Serie 4	15-06-2016	15-06-2023	150 000	Euribor 3 m + 0.80%	Quarterly	Full on expiration date	Baa1/-/-	150 000
OSP-Serie 5	20-10-2017	20-10-2022	350 000	Euribor 3 m + 0.50%	Quarterly	Full on expiration date	A3/-/-	350 000

At 31 December 2019 and 2018, the cover pool allocated to the public sector bonds amounted to 783 862 t.euros and 773 910 t.euros, respectively, of which 777 241 t.euros and 744 219 t.euros corresponded to credit and accrued interest (Note 13.2).

The coverage level of the mortgage bonds and public sector bonds is detailed as follows:

	31-12-2019	31-12-2018
Covered bonds issued **(A)**	**1 050 000**	**550 000**
Portfolio of loans and mortgage loans pending reimbursement	9 300 226	8 320 644
Covered bonds repurchased	(6 850 000)	(6 550 000)
Portfolio of loans and mortgage loans used as collateral for bond issuance **(B)**	**2 450 226**	**1 770 644**
Collateralisation **(B)/(A)**	**233%**	**322%**
Overcollateralisation **[(B)/(A)-1]**	**133%**	**222%**

20.4 Other Financial Liabilities

This caption is made up as follows:

	31-12-2019	31-12-2018
Liabilities for non-derecognised assets in securitization operations		
Non securitised loans		
Loans to SMEs		3 257 330
Mortgage loans		1 174 766
Commissions relating to amortised cost, net		(653)
Interest payable		418
		4 431 861
Other Customer funds		
Cheques and orders payable	44 085	43 473
Guaranteed rate deposits	1 625	4 821
Interest payable	14	69
Creditors and other resources		
Creditors for futures operations	12 171	13 026
Consigned resources	30 814	35 555
Captive account resources	3 599	4 747
Guarantee account resources	2 501	11 540
Administrative public sector		
VAT payable	4	
Tax withheld at source	13 843	14 226
Contributions to the Social Security	3 201	3 789
Other	2 740	2 740
Contributions to other healthcare systems	1 349	1 329
Creditors for factoring agreements	21 139	43 854
Creditors for the supply of goods	6 238	7 980
Subscribed but not paid-up capital in venture capital funds		
Fundo de Recuperação, FCR	8 273	8 639
Fundo InterRisco II CI	4 672	5 377
Fundo InterRisco II - Fundo de Capital de Risco	1 331	1 492
Fundo de Reestruturação Empresarial, FCR	308	661
Fundo Pathena SCA Sicar	3 173	
Other funds	635	7
Sundry creditors	23 792	23 499
Lease liabilities (IFRS 16)	87 191	
	272 698	**4 658 685**

At 1 January 2019 IFRS 16 - "Leases" entered into force, which implied a recognition of a lease liability of 109 million euros (Note 2.B - Comparability).

In 2019, securitization operations related to SMEs and mortgage loans were repaid in advance, which generated the early amortisation of the bonds in the portfolio issued by Sagres, with an impact on results (Note 30).

The caption "Other financial liabilities - lease liabilities (IFRS 16)" shows the present values of future payments to be made by the Bank during the period of the operational leasing agreements. The movement in this heading during the year is as follows:

	01-01-2019	Increases/ (Reductions)	Updates	Payments	31-12-2019
Lease liabilities (IFRS 16)	108 576	2 343	852	(24 580)	87 191

21. PROVISIONS AND CONTINGENT LIABILITIES

The detail of this heading is as follows:

	31-12-2019	31-12-2018
Pending legal issues and tax litigation		
VAT Recovery processes	3 962	29 711
Tax contingencies and other	21 693	12 534
Impairment and provisions for guarantees and commitments	18 736	23 212
	44 391	**65 457**

The movement in provisions in 2019 was as follows:

	Balance at 31-12-2018	Increases	Restitutions / Reversals	Amounts used	Balance at 31-12-2019
Pending legal issues and tax litigation	42 245	244	(111)	(19 928)	22 450
Commitments and guarantees given	23 212	704	(3 227)		20 689
	65 457	**948**	**(3 338)**	**(19 928)**	**43 139**

The movement in provisions in 2018 was as follows:

	Balance at 31-12-2017	IFRS 9 impact	Increases	Restitutions/ Reversals	Amounts used	Exchange differences and others	Balance at 31-12-2018
Pending legal issues and tax litigation	42 367		592	(267)	(447)		42 245
Commitments and guarantees given	18 441	785	5 228	(1 067)	(175)		23 212
Other provisions	3 430			(3 414)	(19)	3	
	64 238	**785**	**5 820**	**(4 748)**	**(641)**	**3**	**65 457**

21.1. Provisions for pending legal issues and tax litigation

Banco BPI is party to several legal and administrative proceedings arising from the normal course of its business, including claims in connection with lending activities, relationships with employees and other commercial or tax matters.

Based on available information, Banco BPI considers that it had reliably estimated the obligations arising from each case under litigation and that it has recognised, where appropriate, sufficient provisions to reasonably cover the liabilities that may arise as a result of these tax and legal situations. It also considers that any responsibility arising from the said proceedings will not, as a whole, have a material adverse effect on the Bank's businesses, financial position or results of operations.

21.2. Provisions for commitments and guarantees given

This heading includes the provisions for credit risk of the guarantees and contingent commitments given (Note 26).

21.3. Contingent liabilities

Competition Authority

In 2012, the Portuguese Competition Authority (CA), under the powers legally attributed to it, opened administrative infraction proceedings against 15 banks operating in the Portuguese market, including BPI, due to alleged competition restrictive practices. On 1 June 2015 Banco BPI was served the corresponding notice of illicit act. On 27 September 2017 the Bank presented its defence. Furthermore, during the process, and whenever appropriate, Banco BPI appealed against several interlocutory rulings issued by the Competition Authority, which the Bank considered as susceptible of violating its rights.

On 9 September 2019, the CA notified BPI and the other banks of its ruling whereby they had been found guilty. The penalty imposed on BPI was 30 million euros.

In its ruling, the CA:

a) Accuses BPI, as well as the other banks, of having engaged in exchanges of information during the period from May 2002 to March 2013 concerning (i) mortgage loan and consumer loan production volumes, and (ii) the commercial conditions for these types of loans and for loans to small businesses and SME, including spread tables;

b) Considers that such an exchange constitutes an infringement by object, i.e., an infringement which is deemed to have been committed irrespective of whether or not the conduct in question had negative effects on the competition, and therefore it is not necessary to prove such effects; in other words, for the infringement to be deemed as committed, it is sufficient to prove that the conduct is, in the abstract, capable of having adverse effects on competition.

Banco BPI argues that it did not commit the infringement of which it was accused by the CA, and on 23 October 2019 appealed against the aforementioned decision to the Competition, Regulation and Supervision Court, from where the appeal will be filed with the Lisbon Court of Appeal. The appeal lodged by the Bank includes a request for the attribution of suspensive effect to the same. If this request is granted, the duty to pay the fine is suspended.

In addition to disputing that the exchange of information took place in the manner alleged in the decision imposing the sanction, BPI considers that the information allegedly exchanged, either on account of its form and the time at which such exchange occurred, or on account of its content, was not capable of producing negative effects on the competition, there being no grounds for the assumptions on which the existence of an infringement by object, and therefore the decision imposing the sanction, were based. It is also the understanding of BPI that the alleged exchange of information did not have any negative effects on the market or on consumers, but on the contrary, at least in part, that it had pro-competitive effects.

Based on this framework of non-existent grounds for the decision and sentencing to be maintained by a final court ruling, and supported by the substantiated opinion of external legal consultants, the Executive Committee of the Bank's Board of Directors believes that the probabilities of the process ending without the Bank having to pay a fine are higher than the reverse occurring, and therefore no provision for this process has been recognised in the Bank's financial statements as at 31 December 2019.

National Resolution Funds

Resolution measure of Banco Espírito Santo, S.A.

On 3 August 2014, Banco de Portugal applied a resolution measure to Banco Espírito Santo, S.A. (BES) pursuant to paragraph b) of number 1 of article 145 C of the General Regulation of Credit Institutions and Financial Companies (RGICSF), in the form of a partial transfer of assets, liabilities, off-balance sheet items and assets under management into a transition bank, Novo Banco, S.A. (Novo Banco), incorporated by a decision of Banco de Portugal on the same date. As part of this process, the Resolution Fund made a capital contribution to Novo Banco in the amount of 4 900 000 t.euros, becoming the sole shareholder.

In this context, the Resolution Fund contracted loans amounting to 4 600 000 t.euros, of which 3 900 000 t.euros granted by the Portuguese State and 700 000 t.euros, to which BPI contributed with 116 200 t.euros, by a banking syndicate.

On 29 December 2015, Banco de Portugal issued a public announcement informing that it had " (…) made a final adjustment to the perimeter of the assets, liabilities, off-balance-sheet items and assets under management transferred to Novo Banco, namely including:

a. Clarification that no liabilities have been transferred to Novo Banco that were contingent or unknown on the date the resolution measure was applied to Banco Espírito Santo, S.A.;

b. Retransfer to Banco Espírito Santo, S.A. of the shareholding in BES Finance, which is necessary to ensure full compliance with and application of the resolution measure as regards the non-transfer to Novo Banco of subordinated debt instruments issued by Banco Espírito Santo, S.A.;

c. Clarification that it is the Resolution Fund's responsibility to make neutral for Novo Banco – through compensatory measure – potential negative effects of future decisions, resulting from the resolution process and giving rise to liabilities or contingencies."

On 7 July 2016, the Resolution Fund stated that it would analyse and evaluate the necessary steps to be taken following the disclosure of the results of the independent valuation exercise, performed to estimate the level of credit recovery by each creditor class in the hypothetical scenario of a normal insolvency proceeding of BES.

Pursuant to applicable law, if at the completion of BES's winding-up, it is concluded that creditors, whose credits have not been transferred to Novo Banco, suffered a loss higher than the loss they would have hypothetically suffered if BES had initiated its windingup process immediately before the resolution measure was adopted, such creditors will have the right to receive the difference from the Resolution Fund.

Finally, it has surfaced in the media that judicial proceedings against the Resolution Fund have been initiated.

Resolution measure of Banif – Banco Internacional do Funchal, S.A.

On 19 December 2015, the Board of Directors of Banco de Portugal declared that Banif was failing or likely to fail and decided to start the institution's urgent resolution process through the total or partial sale of its business, which led to Banif's business being sold to Banco Santander Totta, S.A. (BST), on 20 December 2015, for 150 000 t.euros.

Most of the assets that were not sold were transferred to an asset management vehicle, called Oitante, S.A. (Oitante), created specifically for this purpose, the sole shareholder of which is the Resolution Fund. As a way of financing this transfer, Oitante issued debt securities for an initial amount of 746 000 t.euros, to which the Resolution Fund provided a guarantee and the Portuguese State a counter-guarantee.

The operation involved additional support of around 2 255 000 t.euros to cover future contingencies, of which 489 000 t.euros were provided by the Resolution Fund and 1 766 000 t.euros directly by the Portuguese State. The referred state support is net of the amount due by BST for the acquisition of the set of assets, liabilities and business of the former Banif. The 489 000 t.euros provided by the Resolution Fund was funded under a loan agreement with the Portuguese State.

General matters

In order to reimburse the loans obtained by the Resolution Fund and any other responsibilities that the Resolution Fund may have to take on with respect to the above-mentioned resolution measures, the Resolution Fund is entitled essentially to the contributions of the participating credit institutions (including the Bank) and to the banking sector contribution ("contribuição sobre o setor bancário").

By a public statement on 28 September 2016, the Resolution Fund announced that it had agreed with the Portuguese Ministry of Finance to revise the terms of the 3 900 000 t.euros loan originally granted by the Portuguese State to the Resolution Fund in 2014 to finance the resolution measure applied to BES. According to the Resolution Fund, the extension of the maturity of the loan was intended to ensure the capacity of the Resolution Fund to meet its obligations through its regular revenues, regardless of the contingencies to which the Resolution Fund is exposed. On the same day, the Office of the Portuguese Minister of Finance also announced that increases in liabilities arising from the materialisation of future contingencies would determine maturity adjustment to the Portuguese State and bank loans to the Resolution Fund in order to maintain the current levels of the required effort regarding the contributions from the banking sector.

In addition, according to the communication of the Resolution Fund on 21 March 2017:

- "The terms of the loans obtained by the Fund to finance the resolution measures applied to Banco Espirito Santo, S.A. and Banif – Banco Internacional do Funchal, S.A. were changed." These loans amount to 4 953 million euros, of which 4 253 million euros granted by the Portuguese State and 700 million euros granted by a banking syndicate, of these, 116 million euros were granted by the Bank.
- "Those loans now mature in December 2046, without prejudice to the possibility of early redemption based on the use of proceeds from the Resolution Fund. The maturity will be adjusted in such terms as guarantee the capacity of the Resolution Fund to fully meet its obligations based on regular revenues and without the need for special contributions or any other extraordinary contributions." The liabilities arising from contracts entered into by the Resolution Fund with the Portuguese State and a syndicate of banks in accordance with the resolution measures of BES and Banif rank *pari passu* with each other.
- "The revision of the terms of the loans aimed to ensure the sustainability and financial balance of the Resolution Fund, on the basis of a stable, predictable and sustainable burden for the banking sector".
- "The new conditions allow for the full payment of the Resolution Fund's liabilities and respective remuneration, without the need for special contributions or any other extraordinary contributions from the banking sector."

On 31 March 2017, the Bank of Portugal made a communication in which it referred, among others, the following:

- "The Bank of Portugal has today selected LONE STAR to complete the sale of Novo Banco and the Resolution Fund has signed the operation's contract documents."
- "Through the capital injection to be realised, LONE STAR will hold 75% of the share capital of Novo Banco and the Resolution Fund will maintain 25% of the share capital."
- The terms agreed also include a contingent capital mechanism, under which the Resolution Fund, as a shareholder, undertakes to make capital injections in case certain cumulative conditions are met related to: i) the performance of a specific portfolio of assets of Novo Banco and ii) the capitalisation levels of the bank going forward.
- "The agreed conditions also provide for mechanisms to safeguard the interests of the Resolution Fund and to align incentives, as well as supervision mechanisms, notwithstanding the limitations arising from the application of State aid rules."
- "The completion of the sale is conditional on the customary regulatory approvals (including by the European Central Bank and the European Commission), and on a liability management exercise, subject to acceptance of the bondholders, which will cover the non-subordinated bonds of Novo Banco, and, through the issuance of new bonds, generate at least 500 million euros of eligible own funds for the calculation of the CET1 ratio."

On 2 October 2017, the Council of Ministers approved a resolution by which it authorised the conclusion by the Portuguese State, in its role of ultimate guarantor of financial stability, of a framework agreement with the Resolution Fund, for the provision of financial resources to the Resolution Fund, if and when considered necessary for the fulfilment of its contractual obligations under the sale of the 75% stake in Novo Banco, S.A.

The abovementioned framework agreement was signed on the same date and determines that additional funds are to be made available when necessary to ensure compliance with the responsibilities assumed within the scope of the sale process of Novo Banco, while also establishing that the refund of any such funds will be scheduled taking into consideration that one of the objectives of this framework agreement is to ensure the stability of the contributive burden that falls on the banking sector, i.e., to ensure that no special contributions or any other extraordinary contributions are required from the participants of the Resolution Fund.

On 18 October 2017 Banco de Portugal and the Resolution Fund announced the conclusion of the sale of Novo Banco to Lone Star.

On 1 March 2019, after Novo Banco's capital call relative to 2018 had been made public, the Minister for Finance issued a communication where it confirmed *"(...) its commitment to the targets assumed and to promoting the stability of the banking sector to allow reaching these targets."*

Currently it is not possible to predict the possible effects for the Resolution Fund arising from: (i) the sale of the holding in Novo Banco; (ii) the application of the principle that no creditor of the credit institution under resolution may incur in a loss greater than that it would incur if the institution had entered into liquidation; (iii) the guarantee provided to the bonds issued by Oitante; and (iv) other liabilities which the Resolution Fund may have to assume.

Notwithstanding the possibility of collection of special contributions provided for in the applicable legislation, considering the renegotiation of the terms of the loans granted to the Resolution Fund by the Portuguese State and by a syndicate of banks, where the Bank is included, and the public announcements made by the Resolution Fund and the Office of the Portuguese Minister of Finance, which indicate that this possibility will not be used, the financial statements as of 31 December 2019 reflect the Board of Directors' expectation that the Bank will not be required to make any special or extraordinary contribution to finance the resolution measures applied to BES and Banif or any other liability or contingent liability assumed by the Resolution Fund.

Possible changes regarding these issues may have relevant implications on the Bank's financial statements.

22. OTHER LIABILITIES

This caption is made up as follows:

	31-12-2019	31-12-2018
Liabilities for pensions and other benefits		
Pension fund assets (Note 23)	(1 824 131)	(1 646 111)
Past service liabilities (Note 23)	1 862 164	1 678 366
	38 033	**32 255**
Expenses payable		
Staff expenses	73 730	78 903
Other administrative expenses	50 205	62 659
Banking sector contribution		15 181
Interest payable on Additional Tier 1 issue	635	
Other	974	1 336
	125 544	**158 079**
Deferred income		
From guarantees given and other contingent liabilities	1 640	1 940
Other	53	118
	1 693	**2 058**
Other adjustment accounts		
Securities transactions pending settlement-stock exchange transactions	13	
Liabilities pending settlement	124 516	110 311
Other transactions pending settlement	170 488	210 495
	295 017	**320 806**
	460 287	**513 198**

The main actuarial assumptions used to calculate liabilities for end-of-career bonuses and for medical services (SAMS) of former Employees of the Bank are the same as those used to calculate employee pension liabilities (Note 23). In 2019 and 2018, (2 998) t.euros and (276) t.euros, respectively, were recognised for actuarial deviations arising from the change in the financial and demographic assumptions used to calculate these liabilities.

The caption 'Stock exchange transactions pending settlement' relates to the acquisition of securities for which settlement only occurred in the following month.

The caption 'Liabilities pending settlement' includes:

- At 31 December 2018, 66 641 t.euros relating to transactions with loan securitisation funds;
- At 31 December 2019 and 2018, 72 452 t.euros and 24 501 t.euros, respectively, relating to ATM transactions pending settlement;
- At 31 December 2019 and 2018, 36 267 t.euros and 14 955 t.euros, respectively, relating to transactions with SIBS pending settlement;

At 31 December 2019 and 2018, the caption 'Other transactions pending settlement' includes 128 596 t.euros and 189 072 t.euros, respectively, relating to transfers under SEPA (Single Euro Payment Area).

23. LIABILITIES FOR PENSIONS AND OTHER BENEFITS

Past service liabilities for Pensioners, Employees and Directors that are, or have been, at the service of BPI, are calculated in accordance with IAS 19.

Benefits established by BPI are defined benefits based on the last salary earned and length of service, providing for the payment of benefits in the event of retirement due to old age or disability, death and end-of-career bonuses. The rules used to calculate these benefits are mainly drawn from the provisions of the Collective Labour Agreement for the Portuguese Banking Sector. There is also a restricted group of management staff that is covered by a supplementary defined benefit pension plan, based on the last salary earned and length of service.

With the publication of Decree-Law no. 1-A / 2011 of 3 January, from 1 January 2011 all banking sector employees who were beneficiaries of "CAFEB – Caixa de Abono de Família dos Empregados Bancários" were integrated into the General Social Security Scheme, being henceforth covered by this scheme for old-age pensions as well as for maternity, paternity and adoption allowances, which the Bank ceased to support. Given the complementary nature of the scheme under the rules of the Collective Labour Agreement for the Portuguese Banking Sector ("ACT"), the Bank continues to cover the difference relative to the amount of the benefits paid under the General Social Security Regime for the eventualities covered and the benefits established in the ACT.

Following the instructions of the National Council of Financial Supervisors (Conselho Nacional dos Supervisores Financeiros), the amount of past service liabilities remained unchanged at 31 December 2010. Current service cost decreased as from 2011 and the Bank became subject to the Single Social Tax (Taxa Social Única - TSU) at the rate of 23.6%.

Disability and survivor pensions and sick leave for these Employees continue to be the Bank's responsibility.

Decree-Law 127 2011 of 31 December established the transfer to the Social Security of liabilities for retirement and survivor pensions of retired personnel and pensioners that were in that situation at 31 December 2011 and were covered by the substitute social security regime included in the collective labour regulations instrument in force for the banking sector (Pillar 1), as well as the transfer to the Portuguese State of the corresponding pension fund assets covering these liabilities. Since the transfer to the Social Security corresponded to a settlement, extinguishing the corresponding liability of Banco BPI, the negative difference (99 507 t.euros) between the amount of the pension fund assets transferred to the Portuguese State and the amount of the liability transferred based on actuarial assumptions used by Banco BPI was fully recognised as a cost in 2011/12. For tax purposes, this cost is recognised over a period of 18 years.

Through its pension fund, Banco BPI retains the liability for payment of (i) the amount of updates to the pensions mentioned above, according to the criteria set out in the ACT; (ii) the complementary benefits to the retirement and survivor pensions assumed by the ACT; (iii) the fixed contribution to the Social and Medical Support Services (SAMS); (iv) death allowance; (v) survivor pensions to children and surviving spouse related to the same Employee and (vi) survivor pension due to the family member of a retired Employee, in which the conditions for being granted occurred as from 1 January 2012.

BPI Vida e Pensões is the entity responsible for the actuarial calculations used to determine the amounts of the retirement and survivor pension liabilities, as well as for managing the respective Pension Funds.

The "Projected Unit Credit" method was used to calculate the normal cost and past service liabilities due to old age, and the "Single Successive Premiums" method was used to calculate the cost of the disability and survivor benefits.

The commitments assumed in the regulations of Banco BPI Pension Plans are funded by Pension Funds and therefore Banco BPI is exposed to risks resulting from the valuation of the liabilities and the value of the related pension funds. Banco BPI's Pension Funds of Banco BPI are disclosed in Note 39.

The funding scheme of the Pension Fund is defined in Bank of Portugal Notice no. 4/2005, which establishes the requirement to fully fund (100%) the liabilities with pensions under payment and a minimum of 95% of the past service liabilities for current personnel.

The main actuarial assumptions used to calculate the pension liabilities of the employees are as follows:

	31-12-2019	31-12-2018
Demographic assumptions:		
Mortality Table	TV 88/90-H TV 88/90-M - 3 years [1]	TV 88/90-H TV 88/90-M - 3 years [1]
Disability table	EKV 80	EKV 80
Staff turnover	0%	0%
Decreases	by mortality	by mortality
Financial assumptions		
Discount rate		
Start of the year	2.0%	2.0%
Year-end	1.3%	2.0%
Pensionable salaries growth rate [2]	0.9%	1.0%
Pensions growth rate	0.4%	0.5%

[1] Life expectancy considered for women was 3 years longer than considered in the mortality table used.

[2] The mandatory promotions under the current ACT and the projected seniority payments are considered separately, i.e., directly in the estimate of salaries evolution, corresponding to an increase of approximately 0.5%.

The actual results obtained in relation to the main financial assumptions were:

	31-12-2019	31-12-2018
Pensionable salaries growth rate [1]	2.43%	2.40%
Pensions growth rate [2]	0.80%	1.00%
Pension fund assets' return rate	12.60%	5.50%

[1] Calculated based on average pensionable salary changes for current Employees present at the beginning and at the end of the year (includes changes in remuneration levels, the effect of mandatory promotions due to time of service and seniority payments and does not consider new admissions and leavers).

[2] Corresponds to the ACT table update rate.

At 31 December 2019 and 2018, the number of pensioners and Employees covered by the pension plans funded by the pension funds was as follows:

	31-12-2019	31-12-2018
Retired pensioners		
Retired pensioners	7 375	7 381
Survivor pensioners	1 626	1 551
Current Employees	5 030	4 930
Former Employees (clause 98 of the ACT)	3 357	3 081
	17 388	**16 943**

The past service liabilities for Pensioners and Employees of BPI and respective coverage by the Pension Fund show the following evolution over the last five years:

	31-12-2019	31-12-2018	31-12-2017	31-12-2016	31-12-2015
Total past service liabilities	(1 803 833)	(1 629 103)	(1 590 694)	(1 449 559)	(1 267 369)
Net assets of the Pension Fund	1 766 672	1 602 146	1 553 812	1 342 774	1 379 017
Contributions to be transferred to the Pension Fund	3 810	5 400	9 010	74 655	959
Coverage surplus/(shortfall)	(33 351)	(21 557)	(27 872)	(32 130)	112 607
Coverage ratio of liabilities	98%	99%	98%	98%	109%

In accordance with Decree-Law 12/2006 of 20 January, only in very special conditions is it possible to return excess funding, so it is assumed that any excess will be used to reduce future contributions.

The return of the pension fund in 2019 was 12.6%. The return of the pension fund in the period benefited from the appreciation of the fixed rate bond portfolio.

In 2019 the movement in the present value of past service liabilities and in the Employee's pension fund was as follows:

	Total past service liabilities	Net assets of the pension fund	Net (Assets)/Liabilities for responsibilities with pensions and other benefits
Amount at 31 December 2018	**(1 629 103)**	**1 602 146**	**(26 957)**
Recognised as profit/(loss) (Note 32)	**(22 792)**	**26 280**	**3 488**
Current service cost	6 668		6 668
Liabilities' interest cost	(27 187)		(27 187)
Income on plan assets computed based on the discount rate		26 280	26 280
Early retirements	(2 997)		(2 997)
Voluntary terminations	724		724
Recognised in shareholders' equity (Note 24)	**(193 839)**	**174 683**	**(19 156)**
Deviation in pension funds return		176 174	176 174
Update increase in ACTV table above expected increase	(9 169)		(9 169)
Change in financial and demographic assumptions			
Change in discount rate	(196 497)		(196 497)
Change in salary and pension growth rates	43 878		43 878
Impact on ACT table from the national minimum wage increase	(18 575)		(18 575)
Deviation in pensions paid		(1 491)	(1 491)
Other deviations	(13 476)		(13 476)
Other	**41 901**	**(36 437)**	**5 464**
Employee contributions	(3 568)	3 568	
BPI contributions		5 547	5 547
Pensions payable (estimate)	55 034	(55 034)	
Transfer of Banco BPI Employees to BPI Gestão de Activos	725	(725)	
Merger of Banco Português de Investimento and BPI Private Equity	(10 290)	10 207	(83)
Amount at 31 December 2019	**(1 803 833)**	**1 766 672**	**(37 161)**

In 2018 the movement in the present value of past service liabilities and in the Employee's pension fund was as follows:

	Total past service liabilities	Net assets of the pension fund	Net (Assets)/Liabilities for responsibilities with pensions and other benefits
Amount at 31 December 2017	**(1 590 694)**	**1 553 812**	**(36 882)**
Recognised as profit/(loss) (Note 32)	**(32 334)**	**32 581**	**247**
Current service cost	5 890		5 890
Liabilities' interest cost	(31 670)		(31 670)
Income on plan assets computed based on the discount rate		32 581	32 581
Early retirements	(7 936)		(7 936)
Voluntary terminations	1 382		1 382
Recognised in shareholders' equity (Note 24)	**(52 492)**	**51 760**	**(732)**
Deviation in pension funds return		53 408	53 408
Update increase in ACTV table above expected increase	(17 111)		(17 111)
Change in financial and demographic assumptions			
Change in discount rate	(8 110)		(8 110)
Impact on ACT table from the national minimum wage increase	(5 608)		(5 608)
Deviation in pensions paid		(1 648)	(1 648)
Other deviations [1]	(21 663)		(21 663)
Other	**46 417**	**(36 007)**	**10 410**
Employee contributions	(3 490)	3 490	
BPI contributions		10 410	10 410
Pensions payable (estimate)	49 384	(49 384)	
Transfer of Banco BPI Employees to BPI Gestão de Activos	523	(523)	
Amount at 31 December 2018	**(1 629 103)**	**1 602 146**	**(26 957)**

[1] Includes (8 431) t.euros relative to mortality deviations and (7 200) t.euros relative to deviations in the amount of early pensions.

The movement in deviations in 2019 was as follows:

Amount at 31 December 2018	**(207 663)**
Merger of Banco Português de Investimento and BPI Private Equity	(4 865)
Deviation in pension funds return	176 174
Update increase in ACTV table above expected increase	(9 169)
Change in discount rate	(196 497)
Change in salary and pension growth rates	43 878
Impact from the national minimum wage increase on ACT table	(18 575)
Deviation in pensions paid	(1 491)
Other deviations	(13 476)
Amount at 31 December 2019	**(231 684)**

At 31 December 2019 and 2018, Banco BPI's Employees' Pension Funds comprised the following assets:

	31-12-2019		**31-12-2018**	
	Value	**%**	**Value**	**%**
Liquidity	28 410	1.6%	58 891	3.7%
Fixed-rate bonds				
Listed	1 022 581	57.9%	896 559	56.0%
Variable-rate bonds				
Listed	85 343	4.8%	82 564	5.2%
Not Listed			1	
Shares				
Listed	199 648	11.3%	171 886	10.7%
Not Listed				
Real Estate	389 131	22.0%	318 169	19.9%
Other				
Listed	41 559	2.4%	74 076	4.5%
	1 766 672	**100.0%**	**1 602 146**	**100.0%**

The sensitivity analysis to a change in the main financial assumptions for the entire period covered by the actuarial valuation (and not just a change in a given year) would result in the following impact on the present value of past service liabilities [1]:

	(decrease)/increase	
	%	**Amount**
Change in discount rate		
0.25% increase	-4.3%	(77 412)
0.25% decrease	4.6%	82 725
Change in salaries growth rate [2]		
0.25% increase	1.2%	22 124
Change in pensions growth rate [3]		
0.25% increase	4.9%	89 008
Mortality Table		
+1 year	3.7%	65 964

[1] The calculation method and assumptions were the same as used for the calculation of the liabilities, except for the assumption under analysis.
[2] The change in the increase in salaries applies only to the pensionable salaries component of the pension plan foreseen in ACT, there being no change in the growth rate of the pensionable salaries for Social Security pension purposes, since what is considered is the maximum risk in the wage evolution component.
[3] The change in the pension increase applies to pensions and supplements provided by the Bank, as well as to pensions transferred to the Social Security, for whose future revisions the Bank remain responsible.

The average duration of the pension liability for Banco BPI Employees is 18 years, including both current and retired Employees.

The estimated Employee contributions to the pension plan in 2020 amount to 3 552 t.euros.

The Members of the Executive Committee of the Board of Directors of Banco BPI, S.A. and the former Board Members of Banco Português de Investimento benefit from a supplementary retirement and survivor pension plan, the funding coverage of which is ensured through a pension fund.

The main actuarial assumptions used to calculate the pension liabilities of Board members are as follows:

	31-12-2019	31-12-2018
Demographic assumptions:		
Mortality Table	TV 88/90-H TV 88/90-M - 3 years [1]	TV 88/90-H TV 88/90-M - 3 years [1]
Disability table	EKV 80	EKV 80
Staff turnover	0%	0%
Decreases	by mortality	by mortality
Financial assumptions:		
Discount rate		
Start of the year	2.0%	2.0%
Year-end	1.3%	2.0%
Pensionable salaries growth rate	0.4%	0.5%
Pensions growth rate [2]	0.4%	0.5%

[1] Life expectancy considered for women was 3 years longer than considered in the mortality table used.

[2] Rate of increase corresponds to Consumer Price Index rate of change, as per the pension plan rules.

The liabilities for past services of Board members and respective coverage by the Pension Fund show the following evolution in the last five years:

	31-12-2019	31-12-2018	31-12-2017	31-12-2016	31-12-2015
Present value of past service liabilities	(58 331)	(49 263)	(49 158)	(46 706)	(38 842)
Net assets of the Pension Fund	57 459	43 965	45 882	36 953	37 850
Contributions to be transferred to the Pension Fund	89	4 739	2 770	8 380	40
Coverage surplus/(shortfall)	(783)	(559)	(506)	(1 373)	(952)
Coverage ratio of liabilities	99%	99%	99%	97%	98%

The return of the pension fund in 2019 was 9%.

In 2019 the movement in the present value of past service liabilities for Directors and in the pension fund was as follows:

	Total past service liabilities	Net assets of the pension fund	Net (Assets)/Liabilities for responsibilities with pensions and other benefits
Amount at 31 December 2018	**(49 263)**	**43 965**	**(5 298)**
Recognised as profit/(loss) (Note 32)	**(1 445)**	**884**	**(561)**
Current service cost	(534)		(534)
Liabilities' interest cost	(911)		(911)
Income on plan assets computed based on the discount rate		884	884
Recognised in shareholders' equity (Note 24)	**(3 608)**	**3 982**	**374**
Deviation in pension funds return		3 631	3 631
Change in financial and demographic assumptions			
Change in discount rate	(4 434)		(4 434)
Change in salary and pension growth rates	703		703
Deviation in pensions paid		351	351
Other deviations	123		123
Other	**(4 015)**	**8 628**	**4 613**
BPI contributions		5 413	5 413
Pensions payable (estimate)	2 825	(2 825)	
Merger of Banco Português de Investimento and BPI Private Equity	(6 840)	6 040	(800)
Amount at 31 December 2019	**(58 331)**	**57 459**	**(872)**

In 2018 the movement in the present value of past service liabilities for Directors and in the pension fund was as follows:

	Total past service liabilities	Net assets of the pension fund	Net (Assets)/Liabilities for responsibilities with pensions and other benefits
Amount at 31 December 2017	**(49 158)**	**45 882**	**(3 276)**
Recognised as profit/(loss) (Note 32)	**(1 502)**	**958**	**(544)**
Current service cost	(525)		(525)
Liabilities' interest cost	(977)		(977)
Income on plan assets computed based on the discount rate		958	958
Recognised in shareholders' equity (Note 24)	**(1 228)**	**(3 020)**	**(4 248)**
Deviation in pension funds return		(3 491)	(3 491)
Change in financial and demographic assumptions			
Change in discount rate	(159)		(159)
Deviation in pensions paid		471	471
Other deviations	(1 069)		(1 069)
Other	**2 625**	**145**	**2 770**
BPI contributions		2 770	2 770
Pensions payable (estimate)	2 625	(2 625)	
Amount at 31 December 2018	**(49 263)**	**43 965**	**(5 298)**

The movement in deviations in 2019 was as follows:

Amount at 31 December 2018	**(15 877)**
Merger of Banco Português de Investimento and BPI Private Equity	**(1 370)**
Deviation in pension funds return	3 631
Change in financial and demographic assumptions	
Change in discount rate	(4 434)
Change in salary and pension growth rates	703
Deviation in pensions paid	351
Other deviations	123
Amount at 31 December 2019	**(16 873)**

At 31 December 2019 and 2018, the Pension Funds of BPI's Directors comprised the following assets:

	31-12-2019		31-12-2018	
	Value	**%**	**Value**	**%**
Liquidity	2 713	4.7%	1 273	2.9%
Fixed-rate bonds				
Listed	33 125	57.6%	25 931	59.0%
Variable-rate bonds				
Listed	2 878	5.0%	2 459	5.6%
Not Listed			2	
Shares				
Listed	15 316	26.7%	10 912	24.8%
Real Estate	564	1.0%	500	1.1%
Other				
Listed	2 863	5.0%	2 888	6.6%
	57 459	**100.0%**	**43 965**	**100.0%**

The sensitivity analysis to a change in the main financial assumptions for the entire period covered by the actuarial valuation (and not just a change in a given year) would result in the following impact on the present value of past service liabilities [1] :

	(decrease)/increase	
	%	Value
Change in discount rate		
0.25% increase	-2.8%	(1 662)
0.25% decrease	3.0%	1 743
Change in salaries growth rate [2]		
0.25% increase	0.1%	58
Change in pensions growth rate [3]		
0.25% increase	3.1%	1 781
Mortality Table		
+1 year	3.7%	2 173

[1] The calculation method and assumptions were the same as used for the calculation of the liabilities, except for the assumption under analysis.
[2] The change in the increase in salaries applies only to the pensionable salaries component of the pension plan foreseen in ACT, there being no change in the growth rate of the pensionable salaries for Social Security pension purposes, since what is considered is the maximum risk in the wage evolution component.
[3] The change in the pension increase applies to pensions and supplements provided by the Bank, as well as to pensions transferred to the Social Security, for whose future revisions the Bank remains responsible.

The average duration of the pension liability for Banco BPI Directors is 12 years, including both current and retired Directors.

24. SHAREHOLDER' EQUITY

Capital

At 31 December 2019 and 2018, Banco BPI's share capital was 1 293 063 t.euros, represented by 1 456 924 237 ordinary dematerialised registered shares with no nominal value.

Equity instruments issued other than capital

In 2019, Banco BPI issued 275 000 t.euros in Additional Tier 1 Undated Deeply Subordinated Notes - Series 1132 under the EMTN Programme, which qualify as Additional Tier I Capital for the Tier 1 ratio, under the terms of Directive 2013/36/EU (CRD IV – Capital Requirements Directive). The interest on these notes is recognised under "Other reserves". The notes were fully purchased by CaixaBank.

Other equity instruments

This caption has the following composition:

	31-12-2019	31-12-2018
Cost of shares to be made available to Group Employees		322
		322

Until 2018, the caption 'Other equity' includes the accrued costs of the share-based variable remuneration programme (RVA) relating to shares to be made available.

From 2018 onwards, and with reference to the 2017 variable remuneration programme, in accordance with the Remuneration Policies approved for the members of the Board of Directors and members of the Identified Collective, any payments in equity instruments will be made, preferably, in CaixaBank shares.

Accumulated other comprehensive income

The main movements in Accumulated other comprehensive income are shown in detail in the tables of the consolidated statements of profit and loss and other comprehensive income.

In 2019 and 2018 the amount of other comprehensive income not included in the income for the year was -101921 t.euros and 26370 t.euros, respectively.

Changes in accumulated other comprehensive income - 2019

	31-12-2018	Valuation gains / (losses)	Merger of Banco Português de Investimento and BPI Private Equity	Amounts transferred to the income statement (before taxes)	Realized gains/losses in equity instruments	Taxes	31-12-2019
Items that will not be reclassified to profit or loss	**(231 495)**	**(110 520)**	**680**		**625**	**5 399**	**(335 311)**
Actuarial gains/ (losses) on defined benefit pension plans	(283 499)	(21 770)	(4 749)			6 067	(303 951)
Equity instruments measured at fair value through other comprehensive income	52 004	(88 750)	4 726		625	(668)	(32 063)
Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates							
Tangible assets			703				703
Items that may be reclassified to profit or loss	**1 927**	**4 332**		**(785)**		**(972)**	**4 502**
Debt instruments at fair value through other comprehensive income	1 927	4 332		(785)		(972)	4 502
	(229 568)	**(106 188)**	**680**	**(785)**	**625**	**4 427**	**(330 809)**

Changes in accumulated other comprehensive income - 2018

	31-12-2017	1st time adoption IFRS 9	01-01-2018	Valuation gains / (losses)	Amounts transferred to the income statement (before taxes)	Realized gains / (losses) in equity instruments	Taxes	31-12-2018
Items that will not be reclassified to profit or loss	**(308 513)**	**51 840**	**(256 673)**	**(6 921)**		**2 795**	**29 304**	**(231 495)**
Actuarial gains/ (losses) on defined benefit pension plans	(308 513)		(308 513)	(5 257)			30 271	(283 499)
Equity instruments measured at fair value through other comprehensive income		51 840	51 840	(1 664)		2 795	(967)	52 004
Items that may be reclassified to profit or loss	**50 819**	**(50 084)**	**735**	**1 838**	**81**		**(727)**	**1 927**
Available-for-sale financial assets	50 819	(50 819)						
Debt instruments at fair value through other comprehensive income		735	735	1 838	81		(727)	1 927
Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates								
	(257 694)	**1 756**	**(255 938)**	**(5 083)**	**81**	**2 795**	**28 577**	**(229 568)**

Retained earnings and other reserves

This caption is made up as follows:

	31-12-2019	31-12-2018
Retained earnings		
Legal reserve	244 789	153 358
Other reserves and retained earnings	1 447 480	942 157
Profit/(loss) generated on change of accounting policies	15 187	(27 556)
	1 707 456	**1 067 959**
Other reserves		
Merger reserve	1 665	2 530
Additional Tier 1 issue interest	(5 114)	
	(3 449)	**2 530**

In accordance with Article 97 of the General Law on Credit Institutions and Financial Companies, approved by Decree-Law no. 298/92 of 31 December and amended by Decree-Law no. 201/2002 of 26 September, Banco BPI must appropriate at least 10% of its net income each year to a legal reserve until the amount of the reserve equals the greater of the amount of share capital or the sum of the free reserves plus retained earnings.

25. TAX POSITION

25.1. Tax assets and liabilities

The breakdown of tax assets and liabilities is as follows:

Tax assets

	31-12-2019	31-12-2018
Current tax assets	4 061	3 237
Recoverable VAT	5 638	20 049
Deferred tax assets	262 676	326 963
	272 375	**350 249**

Tax liabilities

	31-12-2019	31-12-2018
Current tax liabilities	2 108	2 211
Deferred tax liabilities	5 829	54 165
	7 937	**56 376**

25.2. Income taxes

At 31 December 2019 and 2018, the cost of income tax recognised in the income statement, as well as the tax burden, measured as the ratio of the tax charge to the profit/(loss) of continuing operations, were as follows:

	31-12-2019	31-12-2018 Restated
Current taxes on profits		
Of the year	960	1 063
Correction of previous years	(49)	161
Total (A)	**911**	**1 224**
Deferred taxes		
Recognition and reversal of temporary differences	72 977	154 489
Tax loss carry forwards	(32)	
Reversal of deferred tax liabilities BFA	(50 742)	
Total (B)	**22 203**	**154 489**
Taxes recorded in the income statement	23 114	155 713
Income before taxes (C)	365 227	1 070 024
Tax burden (A)+(B)/(C)	**6.3%**	**14.6%**

[1] In 2018, Income before taxes was adjusted to incorporate the amount of the banking sector contribution.

As from 2019 the contribution over the banking sector is recognised directly under “Other Operating expenses”. The amount of the contribution over the banking sector recognised in 2018 was reclassified from the “Income tax” caption of the income statement to the caption “Other Operating expenses” (Note 1.4 Comparability of the information).

In 2019 and 2018 the Bank recorded directly in other comprehensive income, income tax of 5 418 t.euros and 18 892 t.euros, respectively, resulting from actuarial deviations in pensions and end-of-career bonus and from fair value changes in equity instruments and debt securities. It should also be noted that 991 t.euros refer to balances from Banco Português de Investimento, S.A. and BPI Private Equity - Sociedade de Capital de Risco, S.A., merged in Banco BPI in 2019.

In 2019, Banco BPI adopted the new tax regime for impairment losses for credit risk provided for in Law no. 98/2019, of 4 September, which amended the Income tax code for corporations. Therefore, impairment losses for credit risk recognised in the accounts as from 1 January 2019 are now relevant for tax purposes in the year of their accounting record. Impairment losses recognised in the accounts up to 31 December 2018 are, overall, treated in accordance with the tax regime previously in force.

The reconciliation between the nominal income tax rate and the average tax rate, in accordance with IAS 12, at 31 December 2019 and 2018, as well as the reconciliation between the tax cost/gain and the product of multiplying the accounting profit by the average tax rate, are as follows:

	2019		2018	
	Tax rate	**Value**	**Tax rate**	**Value**
Net income before income tax		**365 227**		**1 070 023**
Income tax computed based on the nominal tax rate	27.4%	100 072	27.4%	293 186
Capital gains and impairments in equity holdings, net	-2.8%	(10 369)	-16.3%	(174 143)
Capital losses in tangible assets, net			-0.1%	(1 324)
Non taxable dividends	-5.7%	(20 688)	-1.8%	(19 489)
Tax benefits	-0.2%	(790)		(302)
Impairment and provisions for loans	0.5%	1 842		
Dividend tax (BCI)	-0.4%	(1 391)	0.1%	1 323
Correction of previous years	0.1%	473		469
Non-deductible uncollectible credits				28
Autonomous taxation	0.3%	960	0.1%	1 063
Banking sector contribution	1.1%	4 189	0.4%	4 170
Remuneration of AT1 instruments issue	-0.4%	(1 401)		
Tax on gains on BFA (10%)			4.7%	50 742
Implementation of the Portugal Angola double taxation agreement to BFA participation	-13.9%	(50 742)		
Other non taxable income and expenses	0.3%	959		(10)
	6.3%	**23 114**	**14.6%**	**155 713**

25.3. Deferred tax assets and liabilities

Deferred tax assets and liabilities correspond to the amount of tax recoverable and payable in future periods resulting from temporary differences between the amount of assets and liabilities on the balance sheet and their tax base. Deferred tax losses carried forward and tax credits are also recognised as deferred tax assets.

In accordance with IAS 12, deferred tax assets and liabilities are recognised to the extent that it is probable that taxable profits will be available in the future against which they can be utilised. Accordingly, Banco BPI prepared future taxable income projections to support the deferred tax assets accounted for, namely regarding the consumption of reportable tax losses.

Deferred tax assets and liabilities were measured at the tax rates that are expected to apply to the period when the asset is expected to be realised or the liability settled.

The movement in deferred tax assets in 2019 was as follows:

	31-12-2018	Movement in the year		31-12-2019
		Increases	Decreases	
Tax losses	19 609	789		20 398
Application of Art. 4 of the regime set forth in Law 61/2014	5 170	18 697		23 867
Taxed provisions and impairments	179 742		(71 598)	108 144
Tax deferral of the impact of the partial transfer of pension liabilities to the Social Security	16 628		(1 453)	15 175
Pension liabilities	32 982		(7 068)	25 914
Actuarial deviations	66 837		(8 774)	58 063
Voluntary terminations programme	4 426		(682)	3 744
End-of-career bonus	1 826	496		2 322
Dividends		1 391		1 391
Financial instruments at fair value	456	359		815
Other	(713)	3 556		2 843
	326 963	**25 288**	**(89 575)**	**262 676**

At 31 December 2019, BPI's individual balance sheet included deferred tax assets in the amount of 262 676 t.euros, of which:

(i) 109 217 t.euros are eligible to benefit from the Special Regime applicable to Deferred Tax Assets approved by Law no.61/2014, of 26 August;

(ii) 153 459 t.euros depend on the existence of future taxable profits (not eligible for the Special Regime), including:

- 54 258 t.euros related to impairments for loans and guarantees;
- 24 324 t.euros relating to other taxed impairments and provisions;
- 54 480 t.euros related to Employee benefits (actuarial deviations, transfer to Social Security, early retirements, end-of-career premium and compensations and other benefits payable under the voluntary termination programme);
- 20 397 t.euros corresponding to tax losses carried forward (2014: 11 981 t.euros and 2016: 7 628 t.euros), including tax losses transmitted due to merger operations of Banco Português de Investimento, S.A. and BPI Private Equity – Sociedade de Capital de Risco, S.A. in BPI (788 t.euros). According to Law no. 2/2014, of 16 January, the use of tax losses carried forward in future taxation periods cannot exceed 70% of taxable income in each of those periods, and tax losses carried forward are subject to a preestablished period during which they can be used. Based on the projections made by the Bank, the existing taxable profits up to the end of the reporting period should permit to fully recover the deferred tax assets originated by those tax losses.

The movement in deferred tax liabilities in 2019 was as follows:

	31-12-2018	Movement in the year		31-12-2019
		Increases	Decreases	
Financial instruments at fair value	53 904		(49 941)	3 963
Other	261	1 605		1 866
	54 165	**1 605**	**(49 941)**	**5 829**

As a result of the coming into force on 22 August 2019 of the Convention between the Republic of Portugal and the Republic of Angola for the Avoidance of Double Taxation with respect to Taxes on Income, as from 1 January 2020 the taxation in Angola of capital gains on the disposal of financial instruments was eliminated. Therefore, and pursuant to the provisions of the accounting standards, the 50 748 t.euros deferred tax liability associated to the unrealised capital gain in BFA was derecognised.

Profits distributed to Banco BPI by subsidiaries and associated companies are not taxed in Banco BPI as a result of application of the regime established in article 51 of the Corporation Income Tax Code, which provides for the elimination of double taxation of profits distributed.

In this context, Banco BPI does not recognise deferred tax assets or liabilities for deductible or taxable temporary differences relating to investments in associated companies, since the stake held by BPI has exceeded 10% and been held for more than one year, which enables it to be considered in the Participation Exemption regime, except for Banco Comercial e de Investimentos, in which the deferred tax liabilities relating to taxation in Mozambique, of all the distributable profits, are recognised.

BPI does not recognise deferred tax assets or liabilities for deductible or taxable temporary differences relating to investments in subsidiaries as it is unlikely that such differences will be reversed in the foreseeable future.

26. OFF-BALANCE SHEET ITEMS

This caption is made up as follows:

	31-12-2019	31-12-2018
Loan commitments given		
Irrevocable credit lines	317	161
Securities subscribed	318 883	475 233
Revocable commitments	2 465 001	2 125 406
	2 784 201	**2 600 800**
Financial guarantees given		
Financial guarantees and sureties	168 624	241 367
Financial standby letters of credit	2 475	7 281
Documentary credits	114 184	192 339
	285 283	**440 987**
Other commitments given		
Non-financial guarantees and sureties	1 193 453	1 172 164
Non-financial standby letters of credit	8 581	25 475
Term liabilities for annual contributions to the Deposit Guarantee Fund	38 714	38 714
Term liabilities for annual contributions to the Resolution Fund	8 713	6 715
Potential liability to the Investor Compensation Scheme	9 804	11 639
Other irrevocable commitments	937	732
	1 260 202	**1 255 439**
	4 329 686	**4 297 226**
Assets pledged as collateral		
European System of Central Banks	6 369 270	7 939 263
Deposit Guarantee Fund	44 467	43 341
Investors Compensation Scheme	5 204	5 926
European Investment Bank	597 944	619 956
Repos	529 563	1 604 613
Other collateral		53
	7 546 448	**10 213 152**
Securities deposit and custody responsibilities	**28 899 991**	**27 403 225**

The breakdown by stage of the exposure and impairment in guarantees and commitments at 31 December 2019 is as follows:

	Exposure				Impairments			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loan commitments given	2 753 258	25 051	5 892	2 784 201	121	1	5	127
Financial guarantees given	281 185	3 430	668	285 283	703	210	430	1 343
Other commitments given	1 142 494	33 210	84 498	1 260 202	755	221	16 291	17 267
	4 176 937	61 691	91 058	4 329 686	1 579	432	16 726	18 737

The breakdown by stage of the exposure and impairment in guarantees and commitments at 31 December 2018 is as follows:

	Exposure				Impairments			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loan commitments given	2 561 996	34 174	4 630	2 600 800	57	1	7	65
Financial guarantees given	436 868	3 240	879	440 987	402	36	549	987
Other commitments given	1 106 664	53 153	95 622	1 255 439	296	457	21 407	22 160
	4 105 528	90 567	101 131	4 297 226	755	494	21 963	23 212

BPI is only obliged to pay the sum of guarantees and contingent liabilities if the counterparty guaranteed fails to comply with its obligations, at the moment of default. The Bank believes that most of these commitments will reach maturity without materialising.

With respect to contingent commitments given for loans, BPI has undertaken to facilitate funds to Customers through drawdowns on credit lines and other commitments, whenever it is requested to do so and subject to compliance with certain conditions. The Bank believes that a large portion of them will expire prior to drawdown, either because they will not be requested by Customers or because the necessary conditions will not be met by the Customers.

The detail of “Loan commitments given” is as follows:

	31-12-2019		31-12-2018	
	Available	Limits	Available	Limits
Drawable by third parties				
Credit institutions	34 737	72 875	62 927	87 825
Public sector	110 297	162 378	67 319	106 787
Other sectors	2 639 167	6 522 496	2 470 554	6 117 838
	2 784 201	**6 757 749**	**2 600 800**	**6 312 449**

The table below details the contractual maturities of the loan commitments given at 31 December 2019 :

	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years
Drawable by third parties	1 185 853	313 285	502 434	341 156	441 473

The table below details the contractual maturities of the loan commitments given at 31 December 2018 :

	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years
Drawable by third parties	1 114 601	358 766	507 446	368 694	251 293

27. NET INTEREST INCOME

This Caption is made up as follows:

	31-12-2019	31-12-2018
Interest income		
Financial assets held for trading	41 664	45 923
Financial assets not designated for trading compulsorily measured at fair value through profit or loss	4 558	4 864
Financial assets at fair value through other comprehensive income	5 046	14 403
Financial assets at amortised cost		
Debt securities	32 580	33 236
Loans and advances - central banks and other credit institutions	15 139	9 153
Loans and advances - Customers	391 589	380 032
Derivatives - Hedge accounting, interest rate risk	10 018	3 637
Other assets	1 448	6 020
Interest income on liabilities	5 510	2 301
Commissions received relating to amortised cost	24 597	20 571
	532 149	**520 140**
Interest expense		
Financial liabilities held for trading	(25 907)	(21 519)
Financial liabilities at amortised cost		
Deposits - Credit Institutions	(6 823)	(4 560)
Deposits - Customers	(23 282)	(21 055)
Debt securities issued	(24 341)	(22 820)
IFRS 16 rights of use	(852)	
Derivatives - Hedge accounting, interest rate risk	(2 589)	(14 952)
Interest on deposits at Banco de Portugal	(4 382)	
Other liabilities	(3 082)	(3 285)
Commissions paid relating to amortised cost	(1 079)	(307)
	(92 337)	**(88 498)**
Net interest income	**439 812**	**431 642**

The detail of the average return on assets and liabilities is as follows:

	31-12-2019
Average return on assets	
Financial assets at fair value through other comprehensive income - debt securities	0.32%
Financial assets at amortised cost	1.48%
Loans and advances - Central Banks	-0.43%
Loans and advances - Credit Institutions	1.45%
Loans and advances - Customers[1]	1.48%
Average return on liabilities	
Financial liabilities at amortised cost	0.16%
Deposits - Central Banks	-0.40%
Deposits - Credit Institutions	0.40%
Deposits - Customers	0.11%
Debt securities issued [2]	0.16%
Subordinated liabilities	5.54%

[1] Includes debt securities.

[2] Does not include subordinated liabilities.

28. DIVIDEND INCOME

The detail of this heading is as follows:

	31-12-2019	31-12-2018
Financial assets at fair value through other comprehensive income		
Banco de Fomento Angola, S.A.	45 997	
Digitmarket - Sist. Inf. - N	44	234
SIBS - Sociedade Interbancária de Serviços	1 573	1 116
Vialitoral	1 447	
Conduril	92	
Other	192	96
Investments in joint ventures and associates		
Banco de Fomento Angola, S.A.		47 834
BPI (Suisse)		8 699
BPI Madeira	16 010	
Banco Comercial e de Investimentos, S.A.	5 078	
Companhia de Seguros Allianz Portugal, S.A.		5 952
Cosec - Companhia de Seguros de Crédito, S.A.	2 752	3 974
Unicre - Instituição Financeira de Crédito, S.A.	5 000	3 320
	78 185	**71 225**

29. FEE AND COMMISSION INCOME AND EXPENSES

The detail of this heading is as follows:

	31-12-2019	31-12-2018
Fee and commission income		
On guarantees provided	13 449	14 130
On commitments to third parties	2 454	3 131
On insurance brokerage services	67 302	66 672
On other banking services provided	116 759	156 987
On operations performed on behalf of third parties	10 700	11 398
Other	32 848	7 341
Refund of expenses	20 127	30 087
Income from provision of sundry services	9 206	8 875
	272 845	**298 621**
Fee and commission expenses		
For guarantees received	(41)	(25)
On financial instruments transactions	(336)	(265)
On banking services provided by third parties	(11 590)	(31 117)
On operations performed by third parties	(3 119)	(3 497)
Commission-equivalent expenses	(6 212)	(6 658)
Other	(1 809)	(386)
	(23 107)	**(41 948)**

At 31 December 2019 and 2018, income from insurance or reinsurance brokerage services provided is broken down as follows:

	31-12-2019	31-12-2018
Life		
Savings	14 540	14 696
Housing	19 747	21 544
Consumer	3 171	2 669
Other	9 175	9 202
	46 633	**48 111**
Non life		
Housing	6 218	6 029
Consumer	6 106	3 464
Other	8 345	9 068
	20 669	**18 561**
	67 302	**66 672**

At 31 December 2019 and 2018, remunerations for insurance brokerage services were fully received in cash, and more than 99% of the fee and commission income relates to insurance brokerage services for Allianz and BPI Vida e Pensões.

30. GAINS / (LOSSES) ON FINANCIAL ASSETS AND LIABILITIES

The detail of this heading is as follows:

	31-12-2019	31-12-2018
Gains/(losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	**28 476**	**(2 147)**
Financial assets at fair value through other comprehensive income		
Debt securities	34	589
Financial assets at amortised cost		
Debt securities	28 429	(2 766)
Financial liabilities at amortised cost	12	28
Other	1	2
Gains/(losses) on financial assets and liabilities held for trading, net	**4 961**	**39 027**
Financial assets held for trading		
Trading derivatives	(11 167)	66 820
Debt securities	1 722	187
Equity instruments	14 395	(27 970)
Financial liabilities held for trading	11	(10)
Gains/(losses) on financial assets not designated for trading compulsorily measured at fair value through profit or loss, net	**(9 355)**	**59 479**
Debt securities	1 465	(2 969)
Equity instruments	(10 820)	62 448
Gains/(losses) from hedge accounting (net)	**3 115**	**1 398**
Hedging derivatives (Note 14)	(7 402)	16 356
Hedged items (Note 14)	10 517	(14 958)
Exchange differences (gain/loss), net	**(5 635)**	**(25 287)**
	21 562	**72 470**

At 31 December 2019 and 2018, the caption “Gains / (losses) on financial assets and liabilities held for trading – Hedging derivatives includes (14 382) t.euros and 27 533 t.euros, respectively, concerning equity swaps contracted with Clients, which are hedged through a portfolio of equity instruments, in the caption “Gains / (losses) on financial assets and liabilities held for trading - Equity instruments”.

At 31 December 2018 gains/(losses) on equity instruments not designated for trading compulsorily measured at fair value through profit or loss, included 59 581 t.euros relating to the sale of the equity holding in Viacer - Sociedade Gestora de Participações Sociais, Lda. (Note 11).

At 31 December 2019, the caption “Gains/(losses) on derecognition of financial assets at amortised cost”, includes 28 265 t.euros gains related to the early amortization of the bond portfolio issued by Sagres.

31. OTHER OPERATING INCOME AND EXPENSES

The detail of this heading is as follows:

	31-12-2019	31-12-2018 Restated
Other operating income		
Service provision agreements with CaixaBank Group companies	14 397	6 286
Realised gains on finance leases	14 222	15 844
Other operating income	4 210	5 181
	32 829	**27 311**
Other operating expenses		
Subscriptions and donations	(2 544)	(2 817)
Contributions to the Deposit Guarantee Fund	(35)	(34)
Contribution to the Resolution Fund	(6 970)	(5 450)
Contributions to the Single Resolution Fund	(11 321)	(11 760)
Contribution to the Investor Compensation Scheme	(7)	(5)
Losses on finance leases	(13 431)	(15 327)
Other operating expenses	(2 314)	(2 246)
Banking sector contribution	(15 289)	(15 220)
Direct taxes	(5 203)	(5 096)
Indirect taxes	(1 940)	(2 233)
	(59 054)	**(60 188)**

As from 2019 the banking sector contribution is recognised under “Other Operating expenses”. The amount of the banking sector contribution recognised in 2018 was reclassified from the “Income tax” caption of the income statement to the caption “Other Operating expenses” (Note 1.4 Comparability of the information).

At 31 December 2019 the caption “direct taxes” includes 4 600 t.euros relating to the tax on dividends received from BFA, withheld in Angola.

32. STAFF EXPENSES

The detail of this heading is as follows:

	31-12-2019	31-12-2018
Staff expenses		
Remuneration	(186 612)	(183 099)
Other mandatory social costs	(50 425)	(50 578)
Pension costs		
Current service cost	6 133	5 376
Interest cost relating to the liabilities	(28 098)	(32 647)
Income on plan assets computed based on the discount rate	27 164	33 539
Other	(347)	(340)
Other staff costs	(7 628)	(4 013)
	(239 813)	**(231 762)**
Costs with early retirements and terminations		
Early retirements	(1 288)	(16 112)
Voluntary terminations	(213)	(4 525)
	(1 501)	**(20 637)**
	(241 314)	**(252 399)**

In 2019 and 2018, the average headcount was broken down as follows:

	2019		Of which:	**2018**		Of which:
	Men	**Women**	With disability above 33%	**Men**	**Women**	With disability above 33%
Directors[1]	8			8		
Senior management	248	134	9	267	142	8
Other management staff	1771	2445	91	1712	2309	77
Other employees	88	127	13	151	223	19
	2115	**2706**	**113**	**2138**	**2674**	**104**

[1]Executive Directors of Banco BPI.

In 31 December 2019 and 2018, the headcount was broken down as follows:

	2019		Of which:	2018		Of which:
	Men	Women	With disability above 33%	Men	Women	With disability above 33%
Directors[1]	8			8		
Senior management	244	135	8	265	140	8
Other management staff	1772	2451	88	1776	2427	80
Other employees	87	124	13	88	134	13
	2111	**2710**	**109**	**2137**	**2701**	**101**

[1] Executive Directors of Banco BPI.

33. OTHER ADMINISTRATIVE EXPENSES

The detail of this heading is as follows:

	31-12-2019	31-12-2018
General administrative expenses		
Supplies		
Water, energy and fuel	(6 819)	(7 266)
Consumables	(2 442)	(1 776)
Other	(440)	(316)
Services		
Rents and leases	(10 321)	(38 298)
Communications and IT	(43 215)	(39 093)
Travel, lodging and representation	(4 311)	(4 347)
Advertising and publishing	(9 460)	(13 590)
Maintenance and repairs	(11 071)	(10 960)
Insurance	(1 325)	(1 730)
Fees	(2 444)	(3 245)
Legal expenses	(2 868)	(3 435)
Security and cleaning	(4 700)	(3 803)
Information services	(2 735)	(2 559)
Temporary labour	(583)	(1 739)
Studies, consultancy and auditing	(15 478)	(10 763)
SIBS	(3 311)	(3 233)
Other	(25 169)	(22 500)
	(146 692)	**(168 653)**

The detail of remunerations paid to auditors and respective network[1], according to the nature of the services provided and the company providing them, in 2019, is as follows:

31 December 2019	Banco BPI
PwC - SROC fees	
Audit	540
Other services	
Other non-audit services required by law	180
Other non-audit services	271
	991
Fees of other companies of the PwC network	
Audit	
Other services	
Other non-audit services required by law	
Other non-audit services	96
	96
CMVM fees and reimbursement of PwC expenses	**72**
	1 159

[1] In accordance with the definition of network given by the European Commission in its Recommendation no. C(2002) 1873, of 16 May 2002.

The breakdown of payments to suppliers in 2019 and 2018 is as follows:

	31-12-2019	31-12-2018
Amounts outstanding	2 572	3 038
Amount of payments made	288 117	376 145
	290 689	**379 183**
Average supplier payment period in days	30	30

34. IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

The detail of this heading is as follows:

	31-12-2019	31-12-2018
Financial assets at amortised cost		
Loans and advances		
Net allowances		
Credit Institutions	269	(269)
Customers	18 037	12 482
Recovery of written-off loans	22 568	36 892
Debt securities		
Net allowances	(1 813)	(138)
	39 061	**48 967**

In the 4th quarter of 2019 Banco BPI sold a portfolio of non-performing loans for a global amount of 138 million euros, of which 123 million euros in written-off loans (recognised in off-balance sheet items) and 15 million euros in loans net of impairments (recognised in the balance sheet). The income statement caption “Impairments of financial assets not measured at fair value through profit or loss” includes a 13 920 t.euros decrease in impairments, and a 8 627 t.euros gain originated from the recovery of written-off loans (Note 13.3).

35. IMPAIRMENT / (REVERSAL) OF IMPAIRMENT ON NON-FINANCIAL ASSETS

The movement in this caption in 2019 and 2018 was as follows:

	31-12-2019	31-12-2018
Tangible and intangible assets		
Tangible assets - Equipment and other		
Net allowances	646	(646)
Intangible assets - other		
Net allowances	1 026	(1 026)
Balance at end of period	**1 672**	**(1 672)**

36. GAINS / (LOSSES) ON DERECOGNITION OF NON-FINANCIAL ASSETS

The detail of these captions is as follows:

	31-12-2019	31-12-2018 Restated
Gains in non-financial assets		
Gains in investments in joint ventures and associates	3 955	507 418
Gains on the sale of businesses		98 842
Gains in other tangible assets	42	43
	3 997	**606 303**
Losses in non-financial assets		
Losses in other tangible assets	(1 483)	(399)
	(1 483)	**(399)**
	2 514	**605 904**

In 31 December 2018, the gains on the sale of businesses refer to the gains on the sale of the legal positions in the merchant acquiring business to Comercia Global Payments, Entidad de Pago, S.L., in August 2018 (57 788 t.euros) and on the sale of the cards business to Caixabank Payments E.F.C. E.P., S.A., in November 2018 (41 054 t.euros).

37. PROFIT / (LOSS) FROM NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE NOT QUALIFYING AS DISCONTINUED OPERATIONS

This caption is made up as follows:

	31-12-2019	31-12-2018
Profit/(loss) on assets received in settlement of defaulting loans		
Real Estate	1 652	2 740
Equipment	(64)	(46)
Impairments on assets received in settlement of defaulting loans		
Real Estate	1 347	(8 340)
Equipment and others	(20)	(23)
Impairments on other tangible assets		
Real Estate	1	(39)
Other profit/(loss)	484	486
	3 400	**(5 222)**

38. INFORMATION ON FAIR VALUE

The fair value of financial instruments is estimated, whenever possible, on the basis of prices in an active market. A market is considered active, and therefore liquid, when it is accessed by equally knowledgeable counterparties and where transactions are carried out on a regular basis. For financial instruments for which there is no active market, due to lack of liquidity or regular transactions, valuation methods and techniques are used to estimate fair value.

38.1. Fair value of financial instruments

Financial instruments on the balance sheet at fair value are classified into levels using the hierarchy defined in IFRS 13.

Debt securities and equity instruments

- **Level 1:** This category includes, in addition to financial instruments listed on regulated markets, bonds and participating units in harmonised funds, valued based on prices / quotations in active markets, published in trading platforms, taking into account also the liquidity and quality of the prices.

  The classification of fair value in level 1 is made automatically by SIVA ("Asset Valuation Integrated System") whenever the financial instruments are traded in an active market, considering, for this purpose, that this is the case when:

  (i) financial instruments are priced daily by at least 6 contributors, at least three of them with firm offers, or there is a multi-contributed price (price formed by several firm offers from contributors available in the market) (active market), or;

  (ii) such financial instruments have been classified as level 1, in accordance with the rule referred to in the preceding paragraph, in at least 50% of the last 30 calendar days.

  For financial instruments that do not have a history in the 30 days calendar available in the system, allocation of fair value level will be carried out taking into account the history available in SIVA.

- **Level 2:** Financial instruments that have not been traded on an active market or that are valued by reference to valuation techniques based on market data for financial instruments having the same or similar characteristics in accordance with the rules referred to below are considered as level 2. Level 2 fair value classification is determined automatically by SIVA in accordance with the following rules:

  a) Financial instruments are classified daily in Level 2 if they are:

  (i) Quoted by less than 6 contributors, regardless of the type of price, or;

  (ii) valued based on models using inputs which are mainly observable in the market (such as interest rate curves or exchange rates), or;

  (iii) valued based on third party indicative purchase prices, based on observable market data, and

  (iv) have been classified as level 1 and level 2, in accordance with the rules mentioned above, in at least 50% of the last 30 calendar days.

  b) For financial instruments that do not have a history in the 30 days calendar available in the system, allocation of fair value level will be carried out taking into account the history available in SIVA.

- **Level 3:** Financial instruments are classified as Level 3 when they do not meet the criteria to be classified as Level 1 or Level 2, or if their value is the result of inputs not based on observable market data, namely:

  a) financial instruments not admitted to trading on a regulated market, which are valued based on valuation models for which there is no generally accepted market consensus as to the inputs to be used, namely:

  (i) valuation based on Net Asset Value of non-harmonized funds, updated and disclosed by their managing companies;
  (ii) valuation based on indicative prices disclosed by the entities involved in the issue of certain financial instruments, without an active market; or
  (iii) valuation based on impairment tests, using indicators of the performance of the underlying operations (degree of protection by subordination of notes held, delinquency rates of the underlying assets, evolution of ratings, among others).

  b) financial instruments valued at indicative purchase prices based on theoretical models, disclosed by specialized third parties.

Automatic classification proposed by SIVA relating to the level of fair value is made on the day of measurement, being supervised by a specialized team, in order to ensure that the classification of the fair value level is considered the most appropriate, according to the principles set forth herein.

Derivative financial instruments

Financial derivative transactions in the form of foreign exchange contracts, interest rate contracts, contracts on shares or share indices, inflation contracts or a combination of these, are carried out in over-the-counter (OTC) markets and in organized markets (mainly stock exchanges). For the over-the counter derivatives (swaps and options) the valuation is based on generally accepted methods, always giving priority to values from the market.

- **Level 1:** This category includes futures and options and other derivative financial instruments traded on regulated markets.

- **Level 2:** Level 2 includes derivatives, traded on over-the-counter markets, without an optional component.

  Valuation of these derivatives is made by discounting the cash flows of the operations, using interest rate market curves deemed appropriate for the currency concerned, prevailing at the time of calculation. The interest rates are obtained from reliable sources of information (e.g. Bloomberg or Reuters). The same interest rate curves are used in the projection of non-deterministic cash flows such as interest calculated from indices. The rates for required specific periods are determined by appropriate interpolation methods.

- **Level 3:** Level 3 includes options and derivatives traded in the over-the-counter market, with embedded optional elements.

  The valuation of options is carried out using statistical models that consider the market value of the underlying assets and their volatilities (considering that the latter are not directly observable in the market). The theoretical models used to value derivatives classified in Level 3 are of two types:

  (i) For simpler options the Black-Scholes model and their derivatives is used (commonly used models by the market in the valuation of this type of operation). The unobservable market inputs (implied volatility of the underlying assets) are collected from Bloomberg.
  (ii) For exotic options or complex derivatives incorporating optional elements for which there are no valuation models available, the Bank contracts specialized entities that perform the valuation of these operations based on specific models that they develop using criteria and methodologies generally accepted by the sector for these types of instruments. On 31 December 2018, there were no outstanding operations of this type, therefore the Bank did not use valuations prepared by these entities.

In accordance with the policy defined by the Banco BPI as regards the management of exposures in options, significant open positions are not maintained, the risk being managed mainly through “back-to back” hedges and portfolio hedges. Thus, the impact of possible changes in the inputs used in the valuation of the options, in terms of the Bank's income statement, tends to be negligible.

Valuations thus obtained are, in the case of interbank transactions, valued against those used by the counterparties and whenever there are significant differences, the models or assumptions are reviewed.

The valuation of the non-optional components, not adjusted for credit risk (cash flows from operations), is made based on discounted cash flows, using a methodology similar to that used for derivatives without an optional component. Nevertheless, the derivative instrument is classified (as a whole) in level 3.

Financial instruments recorded in the balance sheet at amortized cost

The fair value of financial instruments recorded in the balance sheet at amortized cost is determined by Banco BPI through valuation techniques.

The valuation techniques used are based on market conditions applicable to similar operations as of the date of the financial statements, such as the value of their discounted cash flows based on interest rates considered as most appropriate, namely:

- the cash flows relating to Financial assets at amortised cost - Loans and advances to Central Banks and Credit Institutions, and Financial liabilities at amortised cost - deposits from Central Banks and Credit institutions, were discounted based on interest rate curves for interbank operations on the date of the financial statements, except for medium and long term resources, the cashflows of which were discounted based on the interest rate curve used by the Bank for senior issuances;
- in operations with Customers (Financial assets at amortised cost - loans and advances to Customers and Financial liabilities at amortised cost - Customer deposits), the weighted average of the reference rates used by the Bank in the previous month to contract similar operations is considered;
- for bonds issued (Financial liabilities at amortised cost - debt securities issued), the Bank considered the reference interest rates and spreads available in the market, considering the residual maturity and degree of subordination of the issuances. For subordinated debt, the Bank used issuance proposals submitted to the Bank by other credit institutions, as the basis for the construction of subordination spread curves, also considering the senior debt curve, the Portuguese public debt curve and the evolution of the spread between the Portuguese and German public debts.

For on demand operations (namely Cash and cash balances at central banks and other demand deposits, deposits included in Financial liabilities at amortised cost) and on the balance sheet's captions Other assets and Other liabilities, fair value corresponds to the respective balance-sheet value

Note that the fair value presented for these financial instruments may not correspond to their realizable value in a sale or liquidation scenario, as it was not determined for that purpose.

The fair value of the financial assets on the balance sheet, broken down by levels, is as follows:

	31-12-2019					31-12-2018				
	Book value	Fair value				Book value	Fair value			
		Total	Level 1	Level 2	Level 3		**Total**	Level 1	Level 2	Level 3
Financial assets held for trading	**234 476**	**234 476**	**88 565**	**107 389**	**38 523**	**226 772**	**226 772**	**83 415**	**122 162**	**21 195**
Derivatives	133 198	133 198	20	107 027	26 151	131 708	131 708	712	119 162	11 834
Equity instruments	87 344	87 344	87 344			81 171	81 171	81 171		
Debt securities	13 934	13 934	1 201	362	12 372	13 893	13 893	1 532	3 000	9 361
Financial assets not designated for trading compulsorily measured at fair value through profit or loss	**206 066**	**206 066**	**1 102**	**56 414**	**148 550**	**437 667**	**437 666**			**437 666**
Equity instruments	143 221	143 221	1 102		142 119	154 528	154 527			154 527
Debt securities	62 845	62 845		56 414	6 431	283 139	283 139			283 139
Financial assets at fair value through other comprehensive income	**1 886 212**	**1 886 212**	**1 378 346**	**10 039**	**497 827**	**1 868 893**	**1 868 893**	**1 278 746**	**6 888**	**583 259**
Equity instruments	509 168	509 168	1 302	10 039	497 827	591 523	591 523	1 376	6 888	583 259
Debt securities	1 377 044	1 377 044	1 377 044			1 277 370	1 277 370	1 277 370		
Financial assets at amortised cost	**27 438 765**	**29 081 702**		**1 449 370**	**27 632 332**	**29 705 103**	**31 455 886**		**49 906**	**31 405 980**
Debt securities	4 029 750	4 142 666			4 142 666	7 556 295	7 593 133			7 593 133
Loans and advances	23 409 015	24 939 036		1 449 370	23 489 666	22 148 808	23 862 753		49 906	23 812 847
Central Banks and Credit Institutions	1 452 687	1 449 370		1 449 370		790 761	771 312		49 906	721 406
Customers	21 956 328	23 489 666			23 489 666	21 358 047	23 091 441			23 091 441
Derivatives - Hedge accounting	**30 709**	**30 709**		**30 709**		**14 320**	**14 320**		**14 320**	
Total	**29 796 228**	**31 439 165**	**1 468 012**	**1 653 921**	**28 317 232**	**32 252 755**	**34 003 537**	**1 362 161**	**193 276**	**32 448 100**

The fair value of financial liabilities on the balance sheet, broken down by levels, is as follows:

	31-12-2019					31-12-2018				
		Fair value					Fair value			
	Book value	**Total**	Level 1	Level 2	Level 3	**Book value**	**Total**	Level 1	Level 2	Level 3
Financial liabilities held for trading	**146 167**	**146 167**	**0**	**123 970**	**22 197**	**141 335**	**141 335**	**83**	**136 531**	**4 721**
Derivatives	146 167	146 167	0	123 970	22 197	141 335	141 335	83	136 531	4 721
Financial liabilities at amortised cost	**27 639 918**	**27 716 889**		**1 374 229**	**26 342 660**	**31 901 779**	**31 931 121**		**1 352 721**	**30 578 400**
Deposits	26 008 521	26 022 679		1 374 229	24 648 450	26 370 230	26 379 733		1 352 721	25 027 012
Central Banks	1 374 229	1 374 229		1 374 229		1 352 843	1 352 721		1 352 721	
Credit Institutions	1 402 879	1 404 630			1 404 630	1 873 248	1 862 383			1 862 383
Customers	23 231 413	23 243 820			23 243 820	23 144 139	23 164 629			23 164 629
Debt securities issued	1 358 699	1 421 512			1 421 512	872 864	895 247			895 247
Other financial liabilities	272 698	272 698			272 698	4 658 685	4 656 141			4 656 141
Derivatives - Hedge accounting	**72 799**	**72 799**		**72 799**		**56 010**	**56 010**		**56 010**	
Total	**27 858 884**	**27 935 855**	**0**	**1 570 998**	**26 364 857**	**32 099 124**	**32 128 467**	**83**	**1 545 262**	**30 583 121**

In order to determine whether there were significant changes in the estimated fair value of financial instruments classified in level 3 as a result of changes in one or more base parameters of the valuation model, Banco BPI made a sensitivity analysis on the estimated fair value of BFA using the Dividend Discount Method (DDM), as shown below:

Sensitivity analysis to the valuation of BFA (DDM)

	Baseline scenario	**Sensitivity scenario (Cost of capital)**		**Sensitivity scenario (Objective capital ratio)**		**Sensitivity scenario (Change in AKZ/USD exchange rate between 01-01-2020 and 31-12-2023)**	
(in million euros)		**+1p.p.**	**-1p.p.**	**+1p.p.**	**-1p.p.**	**-20%**	**+20%**
Estimated value for 48.1% of BFA	**414**	400	429	401	426	360	467
Change versus baseline scenario		-14	15	-12	12	-54	54

The valuation of BFA as at 31 December 2019 was not affected by the events and news subsequent to this date.

The main valuation techniques, assumptions and inputs used in fair value estimation for levels 2 and 3 by type of financial instruments are as follows:

Valuation methodologies and inputs

		Instrument type	**Valuation method**	**Main assumptions**
Financial assets and liabilities held for trading	Derivatives [1]	Swaps	Discounted cash flow method [2]	Interest rate curves
		Exchange rate options	Black-Scholes model	Implicit volatilities
		Interest rate options	Normal method	Probability of default for calculation of CVA and DVA
	Debt securities		Discounted cash flow method [2]	Interest rate curves Risk premiums Comparable assets[3] Prices observed on the market
Financial assets not designated for trading compulsorily measured at fair value through profit or loss	Equity instruments Debt securities		Discounted cash flow method [2]	Interest rate curves Risk premiums Comparable assets[3] Prices observed on the market
Financial assets at fair value through other comprehensive income	Equity instruments Debt securities		Discounted cash flow method [2]	Interest rate curves Risk premiums Comparable assets[3] Net asset value (NAV) Nominal Amount
Financial assets at amortised cost	Debt securities Loans and receivables		Discounted cash flow method [2]	Interest rate curves Spreads
Derivatives - Hedge accounting	Swaps[1]		Discounted cash flow method [2]	Interest rate curves Implicit volatilities Probability of default for calculation of CVA and DVA
Financial liabilities at amortised cost	Term deposits Debt securities issued		Discounted cash flow method [2]	Interest rate curves Spreads

[1] The valuation of derivatives is adjusted to consider the counterparty credit risk when the exposure lies with the Bank, and the Bank's credit risk when the exposure lies with the counterparty (CVA - Credit Valuation Adjustment and DVA - Debit Valuation Adjustment).
[2] Discounted cash flow method (net present value): this model uses the cash flows of each instrument, which are established in the different contracts, and discounts them to calculate the present value.
[3] Comparable assets (similar asset prices): comparable financial instrument prices, or market benchmark indices are employed to calculate return from purchase price to current valuation, making subsequent adjustments to take into account the differences between the measured asset and the one taken as reference. It can also be assumed that the price of an instrument is equivalent to the price of another instrument.

Credit Risk Valuation Adjustments

Credit Valuation Adjustments (CVA) and Debit Valuation Adjustment (DVA) are incorporated in the valuation of over-the-counter (OTC) derivatives due to the risk associated to the counterparty's and own credit risk exposure, respectively.

The CVA is calculated bearing in mind the expected exposure with each counterparty in each future maturity. The CVA for an individual counterparty is equal to the sum of the CVA for all maturities. Adjustments are calculated by estimating the counterparty's exposure at default (EAD), probability of default (PD) and loss given default (LGD) for all derivatives traded under the same contract with Banco BPI with close-out netting (under the same netting set). Similarly, DVA is calculated by multiplying the expected negative exposure by the probability of default and by the LGD of Banco BPI.

To calculate PD and LGD, counterparty credit market data are used (Credit Default Swaps), when such information is available. Where such information is not available, PD and LGD are calibrated through market data, using for the purpose the counterparty's rating and sector, or historical PD data.

Changes in the value of the CVA/FVA and DVA/FVA adjustments are recognised in “Gains/(losses) on financial assets and liabilities held for trading” in the income statement. The table below shows the changes to these adjustments:

CVA/FVA and DVA/FVA changes

	2019		2018	
	CVA/FVA	**DVA/FVA**	**CVA/FVA**	**DVA/FVA**
Opening balance	**15 640**	**133**	**22 825**	**1**
Additions/changes in derivatives	(1 524)	378	(5 576)	133
Cancellation or maturity of derivatives	(170)	(1)	(1 609)	(1)
Closing balance	**13 946**	**510**	**15 640**	**133**

The values of CVA and DVA are reflected on the balance sheet (Note 10).

The movement in level 3 financial assets at fair value and financial liabilities held for trading, in 2019 and 2018, was as follows:

	31-12-2019					31-12-2018				
	Financial assets and liabilities held for trading		Financial assets not designated for trading compulsorily measured at fair value through profit or loss		Financial assets at fair value through other comprehensive income	Financial assets and liabilities held for trading		Financial assets not designated for trading compulsorily measured at fair value through profit or loss		Financial assets at fair value through other comprehensive income
	Debt securities	Trading derivatives[1]	Equity instruments	Debt securities	Equity instruments	Debt securities	Trading derivatives[1]	Equity instruments	Debt securities	Equity instruments
Balance at beginning of the period	**9 361**	**7 113**	**154 527**	**283 139**	**583 259**	**12 184**	**4 734**	**229 243**	**322 986**	**65 441**
Total profit or loss	402	(1 961)	(12 253)	25	(92 504)	(137)		116 880	(2 229)	506 694
Losses or gains	402	(3 159)	(12 253)	25		(3)	34 136	115 586	(867)	508 252
Adjustments to equity		1 198			(92 504)	(134)		1 294	(1 362)	(1 558)
Purchases	2 608		3 134	101	1 705	2 870		21 577	6 982	16 841
Reclassifications to/ from Level 3				(53 628)						
Liquidations and other		(1 198)	(17 356)	(223 205)	(850)	(5 556)	(31 757)	(213 173)	(44 600)	(5 717)
Impact of the merger of Banco Português de Investimento and BPI Private Equity and the liquidation of BPI Madeira			14 067		6 217					
Balance at end of the period	**12 372**	**3 954**	**142 119**	**6 431**	**497 827**	**9 361**	**7 113**	**154 527**	**283 139**	**583 259**

[1] Net value

38.2. Fair value of assets received in settlement of defaulting loans

The detail of this heading is as follows:

	31-12-2019	31-12-2018
Gross value	24 866	51 312
Impairments	10 339	18 706
Book value	14 527	32 606
Fair value	23 830	52 197

External Evaluation Companies

In 2019 the companies that appraised the properties allocated were the following:

Company	% of total assets allocated that were appraised
CPU - Consultores, Valores Hipotecários, LDA	1.2%
ESTILOVALOR - Engenharia e Avaliação Imobiliária, LDA	17.6%
EUROVALOR - Sociedade Geral Imobiliária LDA	0.8%
EUROVALOR MADEIRA - Engenharia e Consultoria Imobiliária, LDA	0.4%
J.CURVELO, LDA	1.0%
MENCOVAZ - Consultoria Imobiliária e Avaliação, LDA	28.5%
PVW – Price Value and Worth, Lda.	13.5%
QUANTIMO - Projetos de Engenharia e Avaliações de Imóveis LDA	14.9%
TERRAVAL - Avaliação e Consultadoria Imobiliária, LDA	8.0%
TINSA PORTUGAL - Avaliações e Consultoria, S.A	13.1%
VALTECSA - Sociedade de Avaliação de Bens, Lda	1.0%
	100.0%

39. RELATED PARTIES

In accordance with IAS 24, the entities considered to be related to Banco BPI are:

- those in which the Bank has direct or indirect significant influence over their management and financial policies Associated companies and jointly controlled entities and pension funds;
- those that have direct or indirect significant influence over the management and financial policies of the Bank - Shareholders, this is presumed to happen when the equity holding is greater than 20%;
- the members of the key management personnel of Banco BPI, such being considered for this purpose the executive and nonexecutive members of the Board of Directors and individual persons and companies related with them.

In accordance with these criteria, BPI's related parties at 31 December 2019, were the following

Name of related entity	Registered office	Effective holding	Direct holding
Shareholders of Banco BPI			
CaixaBank Group	Spain	100.0%	
Associated and jointly controlled entities			
BPI Incorporated	E.U.A.	100.0%	100.0%
BPI (Suisse), S.A.	Switzerland	100.0%	100.0%
Banco Comercial e de Investimentos, S.A.	Mozambique	35.7%	35.7%
Companhia de Seguros Allianz Portugal, SA	Portugal	35.0%	35.0%
Cosec - Companhia de Seguros de Crédito, SA	Portugal	50.0%	50.0%
Inter-Risco – Sociedade de Capital de Risco, S.A.	Portugal	49.0%	49.0%
Unicre - Instituição Financeira de Crédito, SA	Portugal	21.0%	21.0%
Pension Funds of BPI Employees			
Fundo de Pensões Banco BPI	Portugal	100.0%	
Fundo de Pensões Aberto BPI Acções	Portugal	7.3%	
Fundo de Pensões Aberto BPI Valorização	Portugal	37.2%	
Fundo de Pensões Aberto BPI Segurança	Portugal	20.2%	
Fundo de Pensões Aberto BPI Garantia	Portugal	7.5%	
Members of the Board of Directors of Banco BPI			
Fernando Ulrich			
Pablo Forero			
António Lobo Xavier			
Alexandre Lucena e Vale			
António Farinha Morais			
António José Cabral			
Cristina Rios Amorim			
Fátima Barros			
Francisco Barbeira			
Gonzalo Gortázar Rotaeche			
Ignacio Alvarez-Rendueles			
Javier Pano Riera			
João Pedro Oliveira e Costa			
José Pena do Amaral			
Lluís Vendrell			
Natividad Capella			
Pedro Barreto			
Tomás Jervell			

In accordance with these criteria, BPI's related parties at 31 December 2018, were the following:

Name of related entity	Registered office	Effective holding	Direct holding
Shareholders of Banco BPI			
CaixaBank Group	Spain	100.0%	
Associated and jointly controlled entities			
Banco Português de Investimento, S.A.	Portugal	100.0%	100.0%
BPI Incorporated	USA	100.0%	100.0%
BPI Madeira SGPS	Portugal	100.0%	100.0%
BPI Private Equity - Sociedade de Capital de Risco, S.A.	Portugal	100.0%	100.0%
BPI (Suisse), S.A.	Switzerland	100.0%	100.0%
Banco Comercial e de Investimentos, S.A.	Mozambique	35.7%	35.7%
Companhia de Seguros Allianz Portugal, SA	Portugal	35.0%	35.0%
Cosec - Companhia de Seguros de Crédito, SA	Portugal	50.0%	50.0%
Inter-Risco – Sociedade de Capital de Risco, S.A.	Portugal	49.0%	
Unicre - Instituição Financeira de Crédito, SA	Portugal	21.0%	21.0%
Pension Funds of BPI Employees			
Fundo de Pensões Banco BPI	Portugal	100.0%	
Fundo de Pensões Aberto BPI Acções	Portugal	7.8%	
Fundo de Pensões Aberto BPI Valorização	Portugal	38.1%	
Fundo de Pensões Aberto BPI Segurança	Portugal	20.1%	
Fundo de Pensões Aberto BPI Garantia	Portugal	8.2%	
Members of the Board of Directors of Banco BPI			
Fernando Ulrich			
Pablo Forero			
António Lobo Xavier			
Alexandre Lucena e Vale			
António Farinha Morais			
António José Cabral			
Cristina Rios Amorim			
Fátima Barros			
Francisco Barbeira			
Gonzalo Gortázar Rotaeche			
Ignacio Alvarez-Rendueles			
Javier Pano Riera			
João Pedro Oliveira e Costa			
José Pena do Amaral			
Lluís Vendrell			
Natividad Capella			
Pedro Barreto			
Tomás Jervell			

At 31 December 2019 the total amount of assets, liabilities, results, capital and off-balance sheet commitments relating to transactions with associated and jointly controlled companies, pension funds of BPI Employees, Shareholders of Banco BPI, members of the Board of Directors and companies in which these hold significant influence were broken down as follows:

	Shareholders of Banco BPI CaixaBank Group [1]	Associated and jointly controlled entities	Pension Funds of BPI Employees	Members of the Board of Directors of Banco BPI	Companies in which the Members of the Board of Directors of Banco BPI have significant influence [2]
Assets					
Cash and cash balances at central banks and other demand deposits	2 173				229
Financial assets held for trading	18 938				
Financial assets not designated for trading compulsorily measured at fair value through profit or loss - Equity instruments	1 102				62 525
Financial assets at fair value through other comprehensive income - equity instruments	648				
Financial assets at amortised cost					
Debt securities					103 823
Loans and advances - central banks and other credit institutions	16 738	28 425			
Loans and advances - Customers	151 635			2 688	44 929
Derivatives - Hedge accounting	7 424				
Investments in joint ventures and associates		97 175			
Tangible assets	229				
Intangible assets	11 486				
Other assets	16 093	27 869			
	226 466	**153 469**		**2 688**	**211 506**
Liabilities					
Financial liabilities held for trading	18 424				
Financial liabilities at amortised cost					
Deposits - Customers	198 499	30 208	38 830	8 187	16 145
Deposits - Credit Institutions	10 156	395			22
Debt securities issued	304 440				
Other financial liabilities	9	(16)		24	
Derivatives - Hedge accounting	2				
Fair value changes of the hedged items in portfolio hedge of interest rate risk	33				
Provisions - Commitments and guarantees given					22
Other liabilities	1 695				
	533 258	**30 587**	**38 830**	**8 211**	**16 189**
Capital					
Equity instruments issued other than capital	275000				
Other reserves	(5 114)				
	269 886				
Results					
Net interest income	927	54	(118)	(4)	482
Dividend income	80	28 839			1 573
Fee and commission income	43 759	52 948	10	4	201
Fee and commission expenses	(3 212)	(75)			
Gains/(losses) on financial assets and liabilities held for trading, net	(894)				
Gains/(losses) on derecognition of financial assets not measured at fair value through profit or loss, net	36				
Gains/(losses) from hedge accounting, net	1 454				
Other operating income and expenses	15 272				(600)
Administrative expenses - Other administrative expenses	(19 932)	(978)	(12 771)		
Depreciation	(5 449)				
Provisions or reversal of provisions - Commitments and guarantees given					(21)
Impairment/(reversal) of impairment losses on financial assets not measured at fair value through profit or loss	(11)			7	(70)
Profit/(loss) from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	460				
	32 490	**80 788**	**(12 879)**	**7**	**1 565**
Off-balance sheet items					
Guarantees given and other contingent liabilities					
Guarantees and sureties	341	12 109	60	3	27 413
Guarantees received				90	2 331
Commitments to third parties					
Revocable commitments	69 611	1 188		36	34 618
Irrevocable commitments					29 375
Liabilities for services provided					
Deposit and safekeeping of valuables	5 927 038	1 132 668	1 452 903	2 322	132 685
Other	33 652				18 750
Foreign exchange transactions and derivative instruments					
Purchase	2 096 158				
Sale	(1 667 914)				
	6 458 886	**1 145 965**	**1 452 963**	**2 451**	**245 172**

[1] Includes the CaixaBank Group and the companies which it controls.
[2] Includes the companies in which the Members of the Board of Directors have significant influence, not included in other categories.

At 31 December 2018, the total amount of assets, liabilities, results, capital and off-balance sheet commitments relating to transactions with associated and jointly controlled companies, pension funds of BPI Employees, Shareholders of Banco BPI, members
of the Board of Directors and companies in which these hold significant influence were broken down as follows:

	Shareholders of Banco BPI CaixaBank Group [1]	Associated and jointly controlled entities	Pension Funds of BPI Employees	Members of the Board of Directors of Banco BPI	Companies in which the Members of the Board of Directors of Banco BPI have significant influence[2]
Assets					
Cash and cash balances at central banks and other demand deposits	7 655				
Financial assets held for trading	3 547				
Financial assets at fair value through other comprehensive income - equity instruments	618				50 000
Financial assets at amortised cost					
Debt securities					55 106
Loans and advances - central banks and other credit institutions	94	24 816			
Loans and advances - Customers	200 661			7 319	50 756
Derivatives - Hedge accounting	3 312				
Investments in joint ventures and associates		302 380			
Tangible assets	167				
Intangible assets	12 728				
Other assets	15 574	24 436			
	244 356	**351 632**		**7 319**	**155 862**
Liabilities					
Financial liabilities held for trading	1 421				
Financial liabilities at amortised cost					
Deposits - Customers	623 990	203 742	90 690	6 604	22 606
Deposits - Credit Institutions	14 485	21 068			
Debt securities issued	304 514				
Other financial liabilities	3	97		24	
Fair value changes of the hedged items in portfolio hedge of interest rate risk	86				
Provisions - Commitments and guarantees given					1
Other liabilities		120			
	944 499	**225 027**	**90 690**	**6 628**	**22 607**
Capital					
Fair value changes of equity instruments measured at fair value through other comprehensive income	(188)				
	(188)				
Results					
Net interest income	(6 163)	130	(510)	(4)	490
Dividend income	13	21 944			1 116
Fee and commission income	35 922	51 920	334	3	2
Fee and commission expenses		(1 537)			
Gains/(losses) from hedge accounting, net	179				
Other operating income	6 543				
Administrative expenses - other administrative expenses	(1 600)	(930)	(14 730)		
Depreciation and amortisation	(2 058)				
Provisions or reversal of provisions - Commitments and guarantees given		21			83
Impairment/(reversal) of impairment losses on financial assets not measured at fair value through profit or loss	2			17	289
Gains/(losses) on derecognition of non-financial assets, net	98 842				
Profit/(loss) from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	460				
Profit/(loss) before tax from discontinued operations	77 658				
	209 798	**71 548**	**(14 906)**	**16**	**1 980**
Off-balance sheet items					
Guarantees given and other contingent liabilities					
Guarantees and sureties	341	14 930	60	3	3 509
Guarantees received				2 298	1 783
Commitments to third parties					
Revocable commitments	225	5 006		53	27 558
Irrevocable commitments					10 000
Liabilities for services provided					
Deposit and safekeeping of valuables	5 817 006	1 114 160	1 598 194	6 754	38 584
Other					2 500
Foreign exchange transactions and derivative instruments					
Purchase	997 170	84			
Sale	(751 779)	(84)			
Written-off loans					200
	6 062 963	**1 134 096**	**1 598 254**	**9 108**	**84 134**

[1] Includes the CaixaBank Group and the companies which it controls.
[2] Includes the companies in which the Members of the Board of Directors have significant influence, not included in other categories.

Operations with CaixaBank Group companies are part of the Bank's regular business activity and are carried out on arm's length terms. The most significant operations carried out in 2019 and 2018 (included in this note) are the following:

- In September 2019 Banco BPI issued undated deeply subordinated notes - Additional Tier 1 (AT1) capital instruments for a nominal amount of 275 million euros. The issue, whose conditions are described in Note 24, was fully subscribed by CaixaBank, S.A. The value of this operation is recognised in the caption "Equity instruments issued, except for share capital", and its remuneration is recognised under "Other reserves (Note 24).

- The sale operations of businesses and equity holdings to Caixabank agreed in the last quarter of 2017 were concluded in 2018. Given that these transactions constitute related party transactions, the corresponding resolutions taken by the Board of Directors required a previous analysis and opinion issued by a Board of Directors committee composed of non-executive members of the Board of Directors and by the Supervisory Board.

  The sale of the legal positions in the merchant acquiring business to Comercia Global Payments, Entidad de Pago, S.L., in August 2018, generated a gain of 57 788 t.euros, and the sale of the cards business to Caixabank Payments E.F.C. E.P., S.A., in November 2018 generated a gain of 41 054 t.euros. In 2018, these gains were included in the caption Gains/(losses) with derecognition of nonfinancial assets, net (Note 36).

  The gains on the sale of BPI Gestao de Activos and BPI GIF to CaixaBank Group totalled 61 755 t.euros and, in 2018, were included in the caption profit/(loss) before tax from discontinued operations.

- In 2018 Banco BPI approved a loan on current account to Caixabank Payments E.F.C. E.P., S.A. up to the amount of 200 000 t.euros at an interest rate equivalent to the 12-month EURIBOR + 0.99%.
  In July 2019 a new agreement was entered into that changed the loan on current account to a contracted overdraft, with a commitment fee of 0.40% and interest rate at the 12-month Euribor + 0.80%. In December 2019 the ceiling on the contracted overdraft was changed to 175 000 t.euros. At 31 December 2019 and 2018 the amount of this transaction was 138 337 t.euros and 200 341 t.euros, respectively, being recognised under the caption "loans and advances - Customers". At 31 December 2019 the unused amount of the credit amounted to 36 707 t.euros and was recognised in the off-balance sheet caption "revocable commitments".

- In March 2017 Banco BPI made a 300 000 t.euros issue of subordinated bonds, at a rate equivalent to the 6-months EURIBOR + 5.74%, that was fully subscribed by CaixaBank. This operation is recognised in the caption Financial liabilities at amortised cost – debt securities issued, and at 31 December 2019 and 2018 amounts to 304 440 t.euros and 304 514 t.euros respectively. (Note 20).

The fees charged by the Bank for guarantees provided to related entities vary between 0% and 4% and are recognised in the caption "Fee and commission income".

For compliance with article 477 of the Portuguese Commercial Code, it is hereby informed that at 31 December 2019 the members of the Board of Directors held no Banco BPI shares or share options.

40. SUBSEQUENT EVENTS

On 6 March Banco BPI made an issue of senior non-preferred debt in the amount of 450 million euros, maturing in March 2025. This issue, which was fully subscribed by CaixaBank, S.A. aimed at reinforcing eligible liabilities for compliance with the forthcoming MREL requirement (Minimum Requirement for own funds and Eligible Liabilities). The issue has a yield equivalent to the 5-year swap rate plus a spread of 130 basis points.

The global expansion of the COVID-19 coronavirus has generated an unprecedented sanitary crisis. This event has a significant impact on economic activity and consequently may affect the Bank's financial situation. The magnitude of the impacts will depend on future developments, which cannot be reliably predicted, including the effect of measures to contain or treat the disease and mitigate its impact on the economies of the affected countries, as well as on the social and economic support policies that are being adopted by the governments of the affected countries, among others. Banco BPI has contingency and business continuity plans for crisis situations.

41. NOTE ADDED FOR TRANSLATION

These individual financial statements are a translation of financial statements originally issued in Portuguese in conformity with the International Financial Reporting Standards (IFRS) as endorsed by the European Union, some of which may not conform to or be required by generally accepted accounting principles in other countries. In the event of discrepancies, the Portuguese language version prevails.

(Free translation from a report originally issued in Portuguese language. In case of doubt, the Portuguese version will always prevail)

Statutory Audit Report and Auditors' Report

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Banco BPI S.A. ("Banco BPI" or "Bank"), which comprise the balance sheet as at December 31, 2019 (which shows total assets of Euros 31.664.529 thousand and total shareholders' equity of Euros 3.283.374 thousand including a net profit of Euros 342.113 thousand), the statement of income, 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 to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly in all material respects, the financial position of Banco BPI, S.A. as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Our responsibilities under those standards are described in the "Auditor's responsibilities for the audit of the financial statements" section below. In accordance with the law we are independent of Banco BPI and we have fulfilled our other ethical responsibilities in accordance with the ethics code of the Institute of Statutory Auditors.

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

Emphasis

We draw attention to the information disclosed in note 40 of the accompanying explanatory notes to the financial statements, related to the possible impacts of the pandemic caused by COVID-19 in the economy and, consequently, on the Bank's future activity.

Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	***Summary of the Audit Approach***
Impairment losses on financial assets at amortized cost – Loans and Advances to Customers *Measurement and disclosures related to impairment losses on loans and advances to customers presented in notes 2.7, 13.2 and 34 attached to the financial statements of the Bank*	
The constitution of this key matter for the purposes of our audit is justified by the significant expression of financial assets at amortized cost and impairment losses. This process requires a set of complex assumptions and judgments from the Bank's management in relation to the identification of clients with a significant increase in credit risk or in default, as well as the determination of impairment losses amount. As at December 31, 2019, the gross amount of loans and advances to customers amounted to Euros 22.346.645 thousand and the corresponding impairment losses recognized at that date amounted to Euros 390.317 thousand. Impairment losses on loans and advances to customers are determined by management on an individual basis, through a case-by-case analysis of a significant component of the total impairment losses of the loans portfolio, and for the remaining portfolio determined through a collective analysis. For the most significant exposures, evaluated in terms of the total amount of responsibilities to the Bank and the possible existence of signs of default, the Bank performs an individual staging analysis (“ISA”), in order to corroborate the indicative allocation of automatic stage (stages 1, 2 and 3), and an individual impairment measurement analysis ("IIA"). The individual impairment analysis is only performed for exposures classified as stage 3, in which the amount of impairment is determined through a detailed analysis of the economic and	The audit procedures developed included the identification, understanding and evaluation of policies and procedures established by the Bank for the impairment losses on the loans and advances to customers portfolio determination process as well as the key controls related to the approval, recording and monitoring of credit risk and to the timely identification, measurement and recording of impairment losses. On a sample basis, we have analysed a group of clients within the Bank's individual analysis perimeter, based on the criteria defined in internal normative, with the objective of: (i) reviewing the conclusions and results obtained by the Bank in the individual staging analysis and in the individual impairment measurement analysis; (ii) obtain our own judgment over the existence of situations of significant increase in credit risk and default; and (iii) assess how the impairment losses were timely identified, measured and recognized by management. In this process, it was also confirmed that the perimeter of individual analysis included all the exposures that met the criteria defined by the Bank in its methodology. For a sample of exposures representative of the credit population subject to individual analysis classified in stage 3 by the Bank as of December 31, 2019, the procedures we have developed consisted of: (i) reviewing the available documentation on credit processes; (ii) verify the adequacy of the cash flows used to determine impairment with those reflected in the contractual support; (iii) analysing the contractual

financial position of each individual customer, having as reference (i) the estimated cash flows that may be generated in the future for the fulfilment of their responsibilities – “going” approach; or (ii) the evaluation attributed to the collateral received in the scope of the loan granted, whenever the recovery is anticipated through the lieu, foreclosure and/or sale of the collateral, less the costs inherent to its recovery and sale – “gone” approach.

For exposures not covered by the individual analysis, the Bank developed collective analysis models to determine expected impairment losses, in light of the requirements of IFRS 9, which include namely the classification of exposures in different stages according to the evolution of their credit risk since the date of its recognition, and not according to the credit risk at the reporting date (stages 1, 2 or 3). These internal models are based on the internal historical information of defaults and recoveries. In order to be representative of the current economic context and simultaneously to incorporate a perspective of future economic evolution, these models use available forward looking prospective information such as (i) the expected GDP growth rate; (ii) the expected unemployment rate; (iii) the evolution of Euribor; and / or (iv) the prospects for the real estate market. Taking into account these macroeconomic data, potential scenarios are developed that allow estimating the expected loss in each segment based on a probability of occurrence.

In this context, changes in the assumptions or methodologies used by the Bank in the analysis and in the quantification of impairment losses of loans and advances to customers, as well as different recovery strategies, may condition the estimation of recovery flows and timing of their receipt and may have a material impact on the impairment losses amount recognized in each moment.

support and the most relevant collaterals and confirming the registration of them in favour of the Bank; (iv) analysing the available appraisals of collaterals ; (v) to examine the criteria for determining the significant increase in credit risk (stage 2) and classification under impairment (stage 3) on an individual basis; (vi) review the incorporation of forward looking information; (vii) analysing the discounted cash flows underlying the impairment determination; (viii) assessing the evolution of exposures; and (ix) understanding the views of the Bank's responsibles regarding the economic and financial situation of the clients, as to the predictability of expected cash flows of the respective businesses, as well as the prospects of collectability of credits.

Whenever we concluded for the need to review some assumption used by management, we recalculated the estimated amount of impairment and compared the results obtained with those calculated by the Bank, in order to assess the existence of possible material significant divergences.

For the portfolio whose impairment is assessed through the collective model, we developed a set of specific procedures with the objective of evaluating how the assumptions considered by management include the risk variables by comparison to the historical performance and recoveries of the Bank's loan portfolio. We have performed namely the following: (i) review of the methodological documentation for the development and validation of the models; (ii) analysis of the documentation regarding the risk parameters backtesting exercise; (iii) review and testing of portfolio segmentation; (iv) analysis of the Bank's definition of default and the criteria applied in the classification of staging, on a sample basis; (v) review and testing of the main risk parameters; (vi) critical analysis of the main assumptions and sources of information used in the future recoveries incorporated in the LGD (Loss Given Default), including the test of historical recoveries incorporated in this calculation, on a sampling basis; and (vii) recalculation of Expected Credit Loss (ECL) for the loan portfolio, with reference to December 31, 2019.

Our audit procedures included the review of the disclosures regarding loans and advances – customers, as well as their respective impairment losses, presented on the Bank’s accompanying notes to the financial statements, considering the applicable accounting standards.

Recoverability of deferred tax assets

Measurement and disclosures related to deferred tax assets presented in notes 2.13 and 25.3 attached to the financial statements of the Bank

In the Bank's balance sheet as of December 31, 2019, the deferred tax assets amounted to Euros 262.676. thousand, of which the recoverability of Euros 153.459 thousand depends on the ability to generate future taxable income (deferred tax assets not eligible under the special regime applicable to deferred taxes, approved by Law no. 61/2014 of August, 26), namely: (i) Euros 54.258 thousand related to the impairment losses for loans and guarantees; (ii) Euros 24.324 thousand related to other taxed impairment losses and provisions; (iii) Euros 54.480 thousand related to employee benefits and; (iv) Euros 20.397 thousand related to reportable tax losses related to the individual activity of Banco BPI, mostly originated in 2014 and 2016.

According to ISA 12 – Income Taxes, the recognition of deferred tax assets assumes the existence of future taxable profits to allow its recoverability.

Management performed the analysis of the recoverability of the deferred tax assets based on Bank's business plan for the period from 2020 to 2022. This estimate required the application by management of a set of judgments, namely: (i) estimation of future taxable income, depending on the Bank's future strategy and the markets in which it operates; (ii) long-term growth rates; (iii) investments' rates of return; and (iv) discount rates.

Any changes in the assumptions used in the estimation of future results or in the interpretation of tax legislation may have relevant impacts on the recoverability of deferred tax assets recognized in the Bank's consolidated financial statements as of December 31, 2019. As a result, for the purposes of our audit this was considered as a key matter.

The audit procedures developed included the identification and understanding of key controls established by the Bank . Those controls relate to (i) the analysis of the recoverability of deferred tax assets recognized in the financial statements and (ii) identification of the main assumptions considered by the management to estimate the generation of future taxable profits that allow the recovery of deferred tax assets recognized in the balance sheet.

We performed an understanding and analysis of the main assumptions considered relevant to the elaboration of the projections, in order to assess the recoverability of the deferred tax assets recognized on the Bank's financial statements at December 31, 2019.

The reasonableness of the projections used was also analyzed based on pre-tax results presented in previous years, the future taxable income in the Bank's projections for 2020-2022, future prospects presented by the Board of Directors at those dates and other available information on this matter.

Our audit procedures have also included a review of disclosures related to the deferred tax assets in the accompanying notes to the Bank's financial statements, taking into account applicable and current accounting standards.

Fair value of financial instruments not listed in an active market – level 3 of the fair value hierarchy

Measurement and disclosures related to the fair value of financial instruments not listed in an active market, classified as level 3 of the fair value hierarchy and presented in the notes 38.1 attached to the financial statements.

Due to its relevance on the Bank's financial statements context and its degree of judgement, the assessment of the fair value of financial instruments not listed in an active market was considered a key matter in our audit. As of December 31, 2019, the balance sheet's asset value of such financial instruments amounted to Euros 889.451 thousand and the balance sheet's liability value amounted to Euros 218.966 thousand, from which Euros 684.900 thousand and Euros 22.197 thousand, respectively, are valued based on valuation techniques that use variables which are not observable on the market and, therefore, are classified on the level 3 of the fair value hierarchy.

For the financial instruments classified as level 3 of the fair value hierarchy, and when observable market data is not available, the Bank determines the fair value of such instruments trough estimates, namely trough the usage of valuation models based on discounted cashflows techniques, which comprehend a high level of judgement in the definition of assumptions and inputs to be used.

As of December 31, 2019, the financial instruments not listed in an active market and classified as level 3 of the fair value hierarchy are composed by (i) debt securities with either a "hold to collect and sale" or trading business model, (ii) derivatives classified as trading or hedging derivatives, (iii) equity instruments; and (iv) assets and liabilities subject to fair value changes due to the recognition of accounting hedges, namely the customers' loans and deposits portfolio and other responsibilities represented by securities accounted at amortized cost. From the mentioned assets, the investment on Banco de Fomento Angola, S.A. stands out. It is classified as a "financial assets at fair value through other comprehensive income – equity instruments" and its fair value, determined with the dividend discount methodology, amounted to Euros 413.474 thousand, at December 31, 2019.

Our audit procedures included the identification and comprehension of the key controls underlying the fair value assessment methodologies, implemented by the Bank.

For a sample of financial instruments whose measurement consisted substantially on non-observable data, our procedures included a reasonableness evaluation whether the models developed by the Bank, and the data and assumptions used are reasonable in the circumstances, by comparing the observed data with market information collected from external and independent sources, when available.

Our audit procedures also included the review of the disclosures regarding financial instruments not listed in an active market presented on the notes attached to the financial statements, taking into account the applicable accounting standards.

In this context, any change in the assumptions and measurement techniques used by the management may have material impacts on the assessment of financial instruments' fair value recognized on the Bank's financial statements.

Employees post-employment benefits

Measurement and disclosures related to employees' post-employment benefits presented in notes 2.11, 22, 23 and 32 attached to the Bank's financial statements

As of December 31, 2019, the liabilities resulting from past services of the Bank in relation to its pensioners, employees and directors amounted to Euros 1.862.164 thousand, mainly covering retirement and survivors' pensions, disability, health care and death benefit , in particular those forseen in the Collective Bargaining Agreement ("Acordo Coletivo de Trabalho") for the banking sector.

These liabilities are estimated based on actuarial valuations performed by an actuary certified by the Insurance and Pension Funds Supervisory Authority ("ASF"). These valuations incorporate a set of financial and actuarial assumptions, such as the discount rate, inflation rate, mortality and disability tables, pension and wages growth rates, among others, defined by management and adjusted to the characteristics of the benefits and to the population of administrators, employees and pensioners, and to the current and future behaviour of these variables.

In the specific case of the discount rate used in the actuarial studies, it is determined based on the market rates for high-quality entities in terms of credit risk, denominated in the currency in which the benefits will be paid (euros) and with a similar maturity to the duration of the payment of the plan's benefits.

In this context, future changes in the assumed financial and actuarial assumptions may give rise to material impacts on the net liabilities as well as on the assets held to meet these liabilities. This subject was considered a key matter for the purposes of our audit.

The audit procedures developed included the identification and understanding of the key controls instituted by the Bank to ensure that the information collected and provided to the independent actuary is correct and complete to calculate the plan's liabilities and funding needs, as well as the adequacy of the fund's assets fair value estimation process.

The audit work included meetings with the management and the independent actuary in order to identify the methodologies and options considered in the definition of the main financial and actuarial assumptions adopted. Given the relevance of the judgments required from management, we proceeded to evaluate the reasonableness of the main assumptions, comparing them with the data that, independently, we were able to obtain.

A compliance review was performed on: (i) the employee historical information used for the purpose of calculating responsibilities; (ii) the accounting recognition of plan cuts or liquidations, of costs related to past services and of other changes in assumptions and estimates that occurred during the year; and (iii) the fair value of the fund's assets, calculating it independently, whenever possible, for a sample of assets.

Finally, we have developed a detailed analysis of the actuarial study prepared with reference to December 31, 2019, based on the results of the procedures mentioned above.

The audit procedures included the review of the disclosures on the post-employment benefits of directors, employees and pensioners in the notes to the financial statements of the Bank, taking into account applicable and current accounting standards.

Contingent Liabilities

Measurement and disclosures related to contingent liabilities presented in notes 2.19 and 21.3 attached to the Bank's financial statements

From the contingent liabilities disclosed in note 21.3 attached to the Bank's financial statements as of December 31, 2019, we would like to highlight the following ones:

Resolution Fund

The resolution measures applied in 2014 to Banco Espírito Santo, S.A. – process that originated the creation of Novo Banco S.A. ("Novo Banco") - and in 2015 to Banif – Banco Internacional do Funchal, S.A. ("Banif) created uncertainty regarding the eventual lack of the Resolution Fund's resources to ensure the fulfilment of its responsibilities, particularly the short-term redemption of the loans contracted to meet this purpose. Those uncertainties have highlighted a greater significance underlying the assumed responsibilities and contingent liabilities, namely: (i) of the effects of the application of the principle that any creditor of the financial institution under resolution can assume a loss higher than the one it would assume if such institution went into liquidation; (ii) of the legal proceedings initiated against the Resolution Fund; (iii) of the negative impacts of responsibilities or additional contingencies to Novo Banco and Banif, resulting from the resolution process, that must be neutralised by the Resolution Fund and (iv) of the contingent capitalisation mechanism related to the Novo Banco's sale process to Lone Star, under the terms in which the Resolution Fund, as a Novo Banco's shareholder, may be called to perform capital injections, if certain conditions regarding to the performance of a group of Novo Banco's assets and the evolution of its capitalisation levels are verified.

Competition Authority

In 2012, the Competition Authority initiated an administrative infraction proceeding against a group of banks, including Banco BPI, due to alleged competition restrictive practices. On September 9 2019, the Competition Authority notified the banks of its decision, in which it is decided for their conviction, resulting in a penalty attributed to Banco BPI of Euros 30 million. The Bank considers that it did not commit this infringement, having appealed against the aforementioned decision to the Competition,

The audit procedures developed for this matter included the identification and understanding of the processes and key controls implemented by the Bank, regarding the identification and monitorization of the contingent liabilities.

Given the relevance and complexity of the judgements required to management, we performed in our audit, among others, the following procedures regarding the Resolution Fund: (i) monitorization of the most important changes on the Resolution Fund's simplified cash flow projections model presented by the Bank when the renegotiation of the granted loans took place, based on the contractual conditions agreed between the Banks and the Resolution Fund; (ii) appreciation of the relevant public communications regarding the responsibilities and contingent liabilities assumed by the Resolution Fund and/or Portuguese State; (iii) analysis of the evolution of the Bank's exposures with the Resolution Fund; and (iv) understanding of the perception Bank's responsible bodies regarding the Resolution Fund's financial and economic situation and the predictability of the expected cashflows of its regular revenue.

We also analyzed the available information regarding the developments on these matters that occurred as from December 31, 2019.

Our audit procedures also included the review of the disclosures regarding contingent liabilities, presented on the Bank's attached notes to the financial statements, taking into account the applicable accounting standards.

Regulation and Supervision Court on October 23, 2019.

The financial statements as of December 31, 2019 reflect the expectation of management that special contributions or any type of extraordinary contributions to finance the resolution matters applied to BES and Banif or any other liability or contingent liability assumed by the Resolution Fund will not be demanded to Banco BPI, as a participating entity of the Resolution Fund. Additionally, the Board of Directors believes that the probabilities of the process ending without the Bank having to pay a penalty are higher than the alternative scenario.

The contingent liabilities may evolve differently from the originally expected, given that they are subject to a continuous revision in order to assess if the possibility of a cash outflow became probable. In these circumstances, the assessment of these contingent liabilities implies that the Bank's management uses estimates and complex judgements regarding the probability of materialisation and measurement of the responsibilities that may arise from the litigations and contingencies in which the Bank is involved and, therefore, this matter was considered relevant to our audit.

Responsibilities of management and supervisory board for the financial statements

Management is responsible for:

a) the preparation of the financial statements, which present fairly the financial position, the financial performance and the cash flows of the Bank in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union;

b) the preparation of the Directors' Report, including the Corporate governance Report, in accordance with the applicable law and regulations;

c) the creation and maintenance of an appropriate system of internal control to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

d) the adoption of appropriate accounting policies and criteria; and

e) the assessment of the Bank's ability to continue as a going concern, disclosing, as applicable, events or conditions that may cast significant doubt on the Bank's ability to continue its activities.

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

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

a) identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;

e) evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

f) communicate with those charged with governance, including the supervisory board, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;

g) of the matters we have communicated to those charged with governance, including the supervisory board, we determine which one's were the most important in the audit of the financial statements of the current year, these being the key audit matters. We describe these matters in our report, except when the law or regulation prohibits their public disclosure; and

h) confirm to the supervisory board that we comply with the relevant ethical requirements regarding independence and communicate all relationships and other matters that may be perceived as threats to our independence and, where applicable, the respective safeguards.

Our responsibility also includes verifying that the information included in the Directors' report is consistent with the financial statements and the verification set forth in paragraphs 4 and 5 of article No. 451 of the Portuguese Company Law, and verifying that the non-financial statement was presented.

Report on other legal and regulatory requirements

Director's report

In compliance with paragraph 3 e) of article No. 451 of the Portuguese Company Law, it is our opinion that the Director's report has been prepared in accordance with applicable requirements of the law and regulation, that the information included in the Directors' report is consistent with the audited financial statements and, taking into account the knowledge and assessment about the Bank, no material misstatements were identified. As set forth in paragraph 7 of article No. 451 of the Portuguese Company Law, this opinion is not applicable to the non-financial statement included in the Director's report.

Non-financial information set forth in article No. 66-B of the Portuguese Company Law

In compliance with paragraph 6 of article No. 451 of the Portuguese Company Law, we hereby inform that the Bank included in its Director's report the non-financial statement set forth in article No. 66-B of the Portuguese Company Law.

Corporate governance report

In compliance with paragraph 4 of article No. 451 of the Portuguese Company Law, it is our understanding that the Corporate governance report includes the information required under article No. 245-A of the Portuguese Securities Market Code, that no material misstatements were identified in the information disclosed in this report and that it complies with paragraphs c), d), f), h), i) and m) of that article.

Additional information required in article No. 10 of the Regulation (EU) 537/2014

In accordance with article No. 10 of Regulation (EU) 537/2014 of the European Parliament and of the Council, of April 16, 2014, and in addition to the key audit matters referred to above, we also provide the following information:

a) We were first appointed auditors of Banco BPI, S.A. in the Shareholders' General Meeting of April 26, 2017 for the period from 2018 to 2021.

b) The management has confirmed to us it has no knowledge of any allegation of fraud or suspicions of fraud with material effect in the financial statements. In the planning and execution of our audit in accordance with ISAs, we have maintained professional scepticism throughout the audit and determined overall responses to address the risk of material misstatement due to fraud in the financial statements. Based on the work performed, we have not identified any material misstatement in the financial statements due to fraud.

c) We confirm that our audit opinion is consistent with the additional report that was prepared by us and issued to the Bank's supervisory board on this same date.

d) We declare that we did not provide any prohibited non-audit services referred to in paragraph 8 of article No. 77 of the by-laws of the Institute of Statutory Auditors ("Estatutos da Ordem dos Revisores Oficiais de Contas") and that we remain independent of the Bank in conducting our audit.

March 23, 2020

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
represented by:

José Manuel Henriques Bernardo, R.O.C.

REPORT AND OPINION OF THE SUPERVISORY BOARD
INDIVIDUAL ACCOUNTS
- 2019 FINANCIAL YEAR -

(THIS REPORT IS A FREE TRANSLATION TO ENGLISH FROM THE ORIGINAL PORTUGUESE VERSION)

For compliance with the provisions of Article 420 of the Commercial Companies Code (CCC), the Supervisory Board of Banco BPI, S.A. (or Banco BPI or Bank) hereby issues:

- the report on its supervision activity conducted during 2019 within the scope of Banco BPI; and
- its opinion on the individual accounts of Banco BPI for the same financial year.

This document was prepared as a result of a vast number of initiatives undertaken by the Supervisory Board, which, among others:

- Monitored directly the evolution of the Banco BPI's activity, and in particular watched over compliance with the legal provisions, specifically the rules issued by the supervision authorities, the Bank's statutory and regulatory provisions, and also the general policies, standards and practices instituted internally;
- Supervised the adequacy and effectiveness of the Internal Control, Risk Management, Internal Audit and Compliance Systems, as well as of the Money Laundering and Terrorism Financing Prevention System, having issued the reports on the Internal Control System that were sent to the European Central Bank and to Banco de Portugal, pursuant to Notice no. 5/2018 of the Portuguese supervision authority;
- Received and took follow-up action on the communications of irregularities submitted to it by employees and clients of the Bank;
- Monitored compliance with the accounting policies and practices adopted by the Bank;
- Supervised the process of preparation and disclosure of financial information;
- Monitored the activity of the Statutory Audit Firm (hereinafter referred to as Statutory Auditors), PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda. (PwC);
- Approved the fees for "Audit Services" and “Non-audit services required by Law from the Statutory Auditors", for Banco BPI and the entities controlled by it;
- Under the terms of Article 420 (2) (d) of the CCC, the Supervisory Board verified the conditions of independence of Banco BPI's Statutory Auditors, and, after obtaining the relative opinions, approved the contracting of “Non-audit services

not required from the Statutory Auditors by law" (and naturally not prohibited), controlling, as evidenced in the Supervisory Board's 2019 Report on the BPI Group: (i) the share of the fees charged for these services relative to the total fees charged, which was 26.8% in 2019 and (ii) the share of these fees in 2019 relative to the average of the fees charged for "Audit Services" in the two previous years (taking into account that PwC only became the Statutory Auditor of Banco BPI in 2018), which was 54.3%, therefore standing below the maximum legal limit of 70%.

- The Supervisory Board examined the following documents relating to financial year 2019, which deserved its agreement:
  - Management Report and Corporate Governance Report of Banco BPI, both expressed in the context of BPI Group;
  - Banco BPI's Individual Accounts, namely comprising the Balance Sheet, the Income Statement, the Statement of Changes in Shareholders' Equity and the Cash Flow Statement, and the respective Notes; and
  - The Statutory Certification of the Individual Accounts and the Auditors Report, prepared by the Statutory Auditors.

In view of the above, the Supervisory Board hereby expresses its appreciation for the contents of Banco BPI's Management Report, and in particular for the Proposed Appropriation of Earnings contained therein, and notes as very positive the concern thereby reflected of permanent compliance with the law and the Company's Articles of Association, hereby stating its opinion that the 2019 individual accounts of Banco BPI are in conformity with the applicable legal, statutory and accounting requirements, and therefore recommending their approval.

Lisbon, 23 March 2020

The Supervisory Board,

Manuel Sebastião

Elsa Roncon Santos

Ricardo Pinheiro

Rui Campos Guimarães

EXPLANATION ADDED FOR TRANSLATION
(This report is a translation of a report originally issued in Portuguese. In the event of discrepancies, the Portuguese language version prevails.)

Statement of the Board of Directors

DECLARATION REFERRED TO IN ARTICLE 245 (1) C)
OF THE SECURITIES CODE

Article 245 (1) (c) of the Securities Code prescribes that each one of the persons responsible for the company issues a declaration, the content of which is defined therein.

The Members of Banco BPI's Board of Directors, identified here by name, individually subscribe to the declaration transcribed as follows[1]:

"I declare in the terms and for the purposes for article 245 (1) (c) of the Securities Code that, to the best of my knowledge, the directors' report, the annual accounts, the statutory audit certification and other documents forming part of Banco BPI, S.A.'s annual report, all relating to the 2019 financial year, were prepared in conformity with the applicable accounting standards, giving a true and fair view of the assets and liabilities, the financial situation and the results of that company and of the companies included in the consolidation perimeter, and that the directors' report provides an accurate account of that company's and of the companies included in the consolidation perimeter business, performance and financial position, as well as containing a description of the principal risks and uncertainties which they confront."

BOARD OF DIRECTORS

Chairman	Fernando Ulrich
Deputy-Chairmen	António Lobo Xavier
	Pablo Forero
Members	Alexandre Lucena e Vale
	António Farinha Morais
	António José Cabral
	Cristina Rios Amorim
	Fátima Barros
	Francisco Barbeira
	Gonzalo Gortázar
	Ignacio Alvarez-Rendueles
	Javier Pano
	João Pedro Oliveira e Costa
	José Pena do Amaral
	Lluís Vendrell
	Natividad Capella
	Pedro Barreto
	Tomás Jervell

Porto, 20 March 2020

1) The Supervisory Board members signed statements with the same contents. Within the scope of the documents for which they are responsible, the External Auditors have signed an equivalent declaration.

Corporate Governance Report

Index

This document is a translation from the Portuguese original “Relatório de Governo da Sociedade 2019”.
In the event of any inconsistency the Portuguese version shall prevail.

Information on shareholding structure, organisation and governance of the company

This report was drawn up under the terms of Article 70-2-b) of the Portuguese Commercial Companies Code and Article 245-A of the Portuguese Securities Code.

1. Banco BPI's share capital is fully held by CaixaBank, S.A..

2. All the shares representing the share capital are of a single class and series, conferring identical rights on their holders, including voting and profit-sharing rights.

   There are no restrictions of any nature whatsoever on the transferability of shares, which is fully free.

   There is no system in place for employee participation in Banco BPI's share capital.

3. The Company has a sole shareholder. There is no shareholders' agreement.

4. Under the terms of the Company's Articles of Association, each share is entitled to one vote.

5. The company has not entered into any agreements the coming into force of which is dependent on a change in the Bank's shareholder structure, or which are amended or terminate as a result thereof.

   There are no significant agreements to which BPI is a party which come into force, are amended or terminate in the event of a change of control in the Company. Six loans, for a total amount of €1 060 million, include clauses that, in case of change of control, provide for certain consequences, namely the obligation of early redemption in case certain circumstances are met.

   There are no agreements between BPI and members of the management board or senior officers that make provision for compensation in case of resignation, dismissal without due cause or termination of the labour relationship following a change in control of the company, save as provided for under the applicable general law.

6. The Company is organically structured in accordance with the model provided for in Article 278-1a) of the Commercial Companies Code, commonly referred to as “Latin Model”.

   The Company's corporate bodies are the General Meeting, the Board of Directors and the Supervisory Board. The Company also has a Statutory Auditor (“*Revisor Oficial de Contas - ROC*”)

   The regular term of office of the corporate bodies is three years, except for the Statutory Auditor, which has a term of office of four years.

   The Board of Directors meets at least monthly and whenever a meeting is convened by its Chairman or by two Directors.

   The Shareholders attending the General Meeting on 26 April 2017 approved an amendment to Banco BPI's Articles of Association, under the terms of which they authorised the Board of Directors to approve increases in share capital and to define all of the terms and characteristics thereof, subject to the limitations and rules contained in the following sub-paragraphs:

   a) The authorisation encompasses the resolution on one or more capital increases, through cash contributions and the issuance of shares of the same category of the existing shares or of some other category permitted by law or by the articles of association;

   b) The total cash proceeds from the capital increases deliberated on by the Board of Directors under the authorisation foreseen in this number may not exceed €500 000 000 (five hundred million euros);

   c) Unless said right is limited or removed by the General Meeting, any capital increases are offered to the shareholders of Banco BPI under the terms of the respective pre-emptive right;

   d) Any shares not subscribed by the shareholders of Banco BPI under the terms of their pre-emptive right may, if so provided for in the resolution which approves the capital increase, be offered for subscription by third parties;

e) The shares representing capital increases may be issued with or without an issue premium and they shall bestow entitlement to profits, reserves or any other assets whose distribution is deliberated subsequently to their issue;

f) The resolution on the share capital increase requires a prior favourable opinion of the supervisory body of the company;

g) The authorisation is valid for a period of 5 years as from 26 April 2017.

In addition to the general rules provided for in the law, the rules defined in the Nomination and Evaluation Policy approved by the General Meeting on 29 April 2015 are applicable to the appointment and replacement of Directors.

It is the responsibility of the Nominations, Evaluation and Remuneration Committee to assess the performance of the executive directors, pursuant to its Regulations and the aforementioned Policy. This assessment shall take into account not only the criteria set forth in this Policy, but also the achievement of corporate and individual objectives that have been established for the period under assessment.

Any changes to Banco BPI's Articles of Association require the approval of two thirds of the votes cast at a General Meeting expressly convened for the purpose, as set forth in article 31 thereof. Also in accordance with BPI's Articles of Association (article 31, paragraph 2), any amendment to the aforementioned rule, as well as the dissolution of the company, must be approved by a qualified majority of seventy five percent of the votes cast at a General Meeting.

7. The Board of Directors comprises an Executive Committee, to which the day-to-day management of the Bank is delegated, with the broadest powers set forth in the law, subject to the following limitations:

a) Lending or financing operations and remunerated personal guarantees provided shall not result in the financial involvement with any single entity (or if that entity forms part of a group that for internal risk analysis corresponds to a single risk group, then with respect to that group) corresponding to more than 15% of Banco BPI's consolidated shareholders' equity, as reported in the latest quarterly accounting information approved by the Board;

b) The provisions of a) above shall not apply to operations resulting in a financial involvement exceeding 15% of the Bank's consolidated shareholders' equity if the debtor is the Portuguese State, or if, due to any other circumstance, the Bank's exposure as a result of said operations is Portuguese sovereign risk. Such operations may therefore be decided by the Executive Committee, which in any case must obtain the favourable opinion of the Risk Committee prior to taking such decision. For this purpose, Portuguese sovereign risk shall be understood as the exposure to the credit risk of any entity under direct administration of the State, or to the risk of any other entity or transaction for which the Portuguese State is responsible, whether as a result of the legal regime of that entity or of the State having provided a personal guarantee to that transaction;

c) Decisions concerning debt relief or delivery in accord and satisfaction in lieu of payment, when concerning debts to the Bank from persons that are, under the applicable law, Politically Exposed Persons or holders or other political or public offices, are also excluded from the delegation of powers.

The Executive Committee is therefore the body responsible for the day-to-day management of the businesses and for representing the Bank. It meets weekly or whenever convened by its Chairman or by two of its members, watching over the evolution of the company's businesses on an ongoing basis.

Four specialised committees operate within the scope of the Board of Directors:

a) the Audit and Internal Control Committee, which, without prejudice to the legal powers vested on the Supervisory Board and the powers of the Risk Committee, is responsible for:

- monitoring the activity of the Executive Committee;
- watching over compliance with legal and regulatory provisions, the Company's articles of association and the rules issued by the supervision authorities, as well as with the general policies, standards and practices instituted internally;
- watching over the adequacy of and compliance with the accounting policies, criteria and practices adopted, and ascertaining that the documents that support them are in order;

- assessing the legal certification of the accounts;
- supervising the process of preparation and disclosure of financial information;
- evaluating and promoting the effectiveness of the internal control systems, and, in coordination with the Risk Committee, performing the function of specialised monitoring of operational, compliance and reputational risks;
- ensuring the independence of the Statutory Auditor, particularly when such auditor provides additional services to the company;
- supporting and advising the Board of Directors on matters related to corporate governance, and, in particular, in aspects related to the governance of the Bank and the improvement of its governance and supervision model, with the objective of promoting compliance with principles and practices that ensure a diligent, effective and balanced management of the interests of shareholders and other stakeholders.

b) the Risk Committee (RC), which, without prejudice to the Board of Directors' overall powers in matters of risk, is responsible for:

- advising the management body on current and future appetite for risk and the general current and future risk strategy of the credit institution;
- assisting the management body in overseeing the execution of the institution's risk strategy by senior management;
- assessing whether the conditions of the products and services offered to the clients take into account the credit institution's business model and risk strategy, and submitting a correction plan to the management body when this assessment shows that said conditions do not adequately reflect the risks;
- verifying whether the incentives set out in the credit institution's remuneration policy take into account the liquidity and capital risks as well as earnings expectations, including cash-flow dates.

c) the Nominations, Evaluation and Remuneration Committee (NERC), whose duties include issuing opinions on the filling of vacancies in the governing bodies and on the choice of Directors to be appointed to the Executive Committee, and performing the functions which on the subject of remuneration policy are envisaged in article 7 of Banco de Portugal Notice 10/2011;

d) the Social Responsibility Committee, which is responsible for supporting and advising the Board of Directors on matters related to the Bank's social responsibility, for issuing opinions on the social solidarity, education, science, innovation and cultural patronage policies pursued by the BPI Group, as well as on the design of specific initiatives within these policies, and for monitoring the prize awarding process of the BPI Capacitar, BPI Sénior and BPI Solidário awards.

8. The company's global corporate governance model is as follows:

Remuneration Committee

Chairman
Abel Suárez Busquets
Members
Carlos Moreira da Silva
Xavier Coll Escursell
Alternate
Armand Reixach de Linares

General Meeting Committee

Chairman
Carlos Osório de Castro
Deputy-Chairman
Agostinho Cardoso Guedes
Secretaries
Alexandra Magalhães
Luís Manuel Amorim

Supervisory Board

Chairman
Manuel Ramos Sebastião
Members
Elsa Roncon
Ricardo Frias Pinheiro
Rui Campos Guimarães
Alternate members
Manuel Correia de Pinho
Luis Roque de Pinho Patrício

Nominations, Evaluation and Remuneration Committee

Chairman
Tomás Jervell
Members
António José Cabral
Lluís Vendrell
Natividad Capella

Board of Directors

Chairman
Fernando Ulrich
Deputy-Chairmen
Pablo Forero
António Lobo Xavier
Members
Alexandre Lucena e Vale
António Farinha Morais
António José Cabral
Cristina Rios Amorim
Fátima Barros
Francisco Barbeira
Gonzalo Gortázar Rotaeche
Ignacio Alvarez-Rendueles
Javier Pano Riera
João Pedro Oliveira e Costa
José Pena do Amaral
Lluís Vendrell
Natividad Capella
Pedro Barreto
Tomás Jervell

Statutory Auditor

Member in Office
PricewaterhouseCoopers & Associados, SROC, Lda., represented by José Manuel Bernardo
Alternate
Ana Maria Ávila de Oliveira Lopes Bertão

Social Responsibility Committee

Chairman
Artur Santos Silva
Members
Rafael Chueca
José Pena do Amaral
Isabel Jonet
António Barreto

Audit and Internal Control Committee

Chairman
António Lobo Xavier
Members
Alfredo Rezende de Almeida
Fátima Barros
Lluís Vendrell

Risk Committee

Chairman
Javier Pano
Members
António José Cabral
Cristina Rios Amorim

Executive Committee of the Board of Directors

Chairman
Pablo Forero
Members
Alexandre Lucena e Vale
António Farinha Morais
Francisco Barbeira
Ignacio Alvarez-Rendueles
João Pedro Oliveira e Costa
José Pena do Amaral
Pedro Barreto

Company Secretary

Member in office
João Avides Moreira
Alternate
Miguel Pessanha Moreira

Positions held by the members of the Board of Directors and Supervisory Board in other companies

Board of Directors	Positions in commercial companies	Other positions
Chairman		
Fernando Ulrich	Does not hold other positions in commercial companies	Does not hold any other positions
Deputy-Chairmen		
Pablo Forero	Does not hold other positions in commercial companies	Does not hold any other positions
António Lobo Xavier	Non-executive Director at NOS SGPS, S.A. Non-executive Director at Mota Engil, S.A. Non-executive Director at Fábrica Têxtil Riopele, S.A.	Chairman of the Board of the General Meeting of Têxtil Manuel Gonçalves, S.A. Chairman of the General Meeting of Mysticinvest, Holding S.A. Member of the Board of Trustees of Fundação Belmiro de Azevedo Member of the Council of State
Members		
António José Cabral	Does not hold other positions in commercial companies	Does not hold any other positions
Alexandre Lucena e Vale	Does not hold other positions in commercial companies	Member of the Board of Associação de Empresas Emitentes de Valores Cotados em Mercado (Portuguese Issuers Association) Member of the General Board of the Portuguese Corporate Governance Institute Chairman of the Board of the General Meeting of Leacok – Investimentos, SGPS, S.A. Chairman of the Board of the General Meeting of Prestibel – Empresa de Segurança, S.A.
António Farinha Morais	Non-executive Director at Banco Comercial e de Investimentos , S.A. (BCI Mozambique)	Does not hold any other positions
Cristina Rios Amorim	Non-executive Director at Amorim, SGPS, S.A. Deputy-Chairman of the Board of Directors and CFO of Amorim Investimentos e Participações, SGPS, S.A. Non-executive Director at Corticeira Amorim, SGPS, S.A.	Member of the Board of BCSD Portugal – Business Council for Sustainable Development
Fátima Barros	Non-executive Director at Brisa Concessão Rodoviária, S.A. Member of the Supervisory Board of Warta – Retail & Services Investments B.V.	Director at Francisco Manuel dos Santos Foundation Member of the Governance and Social Responsibility Committee of Jerónimo Martins, SGPS, S.A.
Francisco Barbeira	Non-executive Director at UNICRE - Instituição de Crédito, S.A. Non-executive Director at SIBS, SGPS, S.A. Non-executive Director at SIBS, Forward Payment Solutions, S.A.	Chairman of the Supervisory Board of INEGI - Instituto de Ciência e Inovação em Engenharia Mecânica e Engenharia Industrial
Gonzalo Gortázar	CEO of CaixaBank, S.A. Non-executive Chairman of VidaCaixa	
Ignacio Alvarez-Rendueles	Does not hold other positions in commercial companies	Does not hold any other positions
Javier Pano	Non-executive Director at CECABANK, S.A.	Chief Financial Officer of CaixaBank, S.A.
João Oliveira Costa	Non-executive Director at BPI Suisse Non-executive Director at Companhia de Seguros Allianz Portugal, S.A.	Does not hold any other positions
José Pena do Amaral	Non-executive Director at Companhia de Seguros Allianz Portugal, S.A.	Chairman of the Board of Directors of the Casa da Música Foundation Chairman of the Advisory Board of The Lisbon MBA
Lluís Vendrell	Non-executive Director at BPI Suisse	Does not hold any other positions
Natividad Capella	Non-executive Director at VidaCaixa	Head of Global Risk at CaixaBank, S.A.
Pedro Barreto	Deputy-Chairman of the Board of Directors of BCI – Banco Comercial e de Investimento, S.A.	Does not hold any other positions
Tomás Jervell	Chief Executive Officer at Nors, S.A. Non-executive Director at Ascendum, S.A.	Does not hold any other positions

Supervisory Board	Positions in commercial companies	Other positions
Chairman		
Manuel Sebastião	Non-executive Director and Chairman of the Audit Committee at REN, SGPS, S.A.	Chairman of the Supervisory Board of IPCG – Instituto Português de Corporate Governance Chairman of the Board of Directors of the Ulisses Foundation (Lisbon MBA) Member of the Supervision and Disciplinary Committee of Instituto Superior de Contabilidade e Administração de Coimbra (ISCAC) Member of the Audit Committee of the AiR351-Art in Residence Association
Members		
Elsa Roncon	Does not hold other positions in commercial companies	Does not hold any other positions
Ricardo Pinheiro	Member of the Supervisory Board of ECS – Sociedade Gestora de Fundos de Investimento Imobiliário, S.A. Managing partner of Companhia Agrícola da Assencada, Lda.	Member of the Financial Management Board of Universidade Católica Portuguesa Member of the Registration Committee of the Association of Statutory Auditors ("OROC")
Rui Guimarães	Does not hold other positions in commercial companies	Does not hold any other positions

Transactions with CaixaBank shares and BPI or CaixaBank bonds made by the members of the Board of Directors and Supervisory Board in 2019 (for compliance with art. 447 of the Commercial Companies Code)

The totality of the shares representing the share capital of Banco BPI are held by its single shareholder, CaixaBank, S.A., therefore no transactions on BPI shares were carried out by members of its Board of Directors or Supervisory Board in 2019.

None of the members of the Board of Directors or Supervisory Board holds or carried out transactions with bonds of Banco BPI or CaixaBank.

The information on transactions with CaixaBank, S.A. shares is provided in the table below:

Board of Directors	Position at 31 Dec. 2018	Acquisitions	Disposals	Position at 31 Dec. 2019
Chairman				
Fernando Ulrich	0	0	0	0
Deputy-Chairmen				
Pablo Forero	69.884	7 Feb: 17.000 / 2.88€ 26 Feb: 6.052 / 3.03€ *26 Apr: 3.008 / 3.99€ *10 May: 15.276 / 2.88€ 29 May: 31.776 / 2.78€ 9 Jun: 13.000 / 2.18€	0	155.996
António Lobo Xavier	0	0	0	0
Members				
António José Cabral	0	0	0	0
Alexandre Lucena e Vale	5.538	*26 Apr: 1.662 / 3.99€ *10 May: 9.198 / 2.88€		16.398
António Farinha Morais	36.668	*26 Apr: 2.001 / 3.99€ *10 May: 10.415 / 2.88€	0	49.084
Cristina Rios Amorim	0	0	0	0
Fátima Barros	0	0	0	0
Francisco Barbeira	5.333	*26 Apr: 1.600 / 3.99€ *10 May: 13.123 / 2.88€	0	20.056
Gonzalo Gortázar	671.527	4 Feb: 101.385 / 2,98€ 26 Feb: 58.378 / 3,01€ 29 May: 29.367 / 2,79€ 26 Jul: 100.000 / 2,28€	0	960.657

Ignacio Alvarez-Rendueles	30.959	Feb: 2.749 / 2.95€ *26 Apr: 2.673 / 3.99€ May: 6.356 / 2.79€ *10 May: 14.165 / 2.88€	0	56.902
Javier Pano	76.181	26 Feb: 15.616 / 3,01€ 30 May: 10.352 / 2,79€	0	102.149
João Oliveira Costa	10.302	*26 Apr: 3.091 / 3.99€ *10 May: 17.001 / 2.88€	0	30.394
José Pena do Amaral	5.665	*26 Apr: 1.700 / 3.99€ *10 May: 9.235/ 2.88€	0	16.600
Lluís Vendrell	9.316	26 Feb: 10.877 / 3,01€ 29 May: 3.686 / 2,79€	0	23.879
Natividad Capella	67.768	26 Feb: 11.271/ 3.01€ 29 May: 4.011/ 2.79€	0	83.050
Pedro Barreto	10.302	*26 Apr: 3.091/ 3.99€ *10 May: 15.917/ 2.88€	8 Nov: 10.302 /2.80€	19.008
Tomás Jervell	0	0	0	0
Supervisory Board				
Chairman				
Manuel Sebastião	0	0	0	0
Members				
Elsa Roncon	0	0	0	0
Ricardo Pinheiro	0	0	0	0
Rui Guimarães	0	0	0	0

*) Shares awarded within the execution of Banco BPI Board of Directors Remuneration Policy.

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The main areas of responsibility of the members of the Executive Committee are the following:

Executive Committee	Main areas of responsibility
Chairman Pablo Forero	Compliance and Human Resources
Members	
Alexandre Lucena e Vale	Legal Department, Corporate Secretary, Asset Management Support Unit, Data Protection
António Farinha Morais	Risk Management Function, Credit Admission and Credit Recovery
Francisco Barbeira	Digital Banking, Information Systems, Operations, Efficiency and Organisation, Procurement, Budget and Assets and Security
Ignacio Alvarez-Rendueles	Financial, Accounting, Planning and Statistics, Economic and Financial Studies, Special Analyses and Projects, Capital Markets
João Oliveira Costa	Individuals, Small Businesses and Premier, Private Banking, Individuals Business Support, Consumer Finance, Real Estate and Individuals Partnerships
José Pena do Amaral	Communication, Brand and Social Responsibility
Pedro Barreto	Corporate and Institutional, Companies Structured Financing, Corporate Products and Services, Corporate Business Development, Corporate and Investment Banking

The Internal Audit Division reports to the Audit and Internal Control Committee, without prejudice to its duty to report to the Chairman of the Board of Directors and to the Supervisory Board to enable these bodies' adequate fulfilment of their functions.

In addition, there are a set of interdisciplinary Committees that monitor and control the whole activity of the institution, and have the following missions and responsibilities:

Level 1 Committees

Committees in which at least three members of the Executive Committee participate. This model provides for the existence of specialised Committees to take decisions equivalent to the decisions of the Executive Committee of the Board of Directors.

Global Risk Committee

The Global Risk Committee is responsible for the overall management, control and monitoring the risks included in Banco BPI's Risk Catalogue.

To do so, it analyses the Bank's global risk positioning and establishes policies for optimising the monitoring and management of risks in line with its strategic objectives.

The Global Risk Committee also has as objectives to align Banco BPI’s risk strategy to the guidelines established by the Board of Directors in the Risk Appetite Framework (RAF), to coordinate the measures taken to mitigate non-performing exposures and the response to RAF early warning signals, and to keep the Board of Directors informed, through the Risk Committee, of the main activity lines and status of BPI's risks.

The Global Risk Committee must also ensure that the group's corporate policies within its sphere of intervention are implemented and complied with at Banco BPI.

ALCO Committee

The ALCO Committee is responsible for:

- Managing, controlling and monitoring the liquidity, interest rate and exchange rate structural risks within the scope of BPI Group;
- Optimise and improve the profitability of the balance sheet financial structure, including the Net interest income and Income from Financial Operations;
- Determining the transfer rates for the various businesses, and monitoring the prices, maturities and volumes of asset- and liability-generating activities, in accordance with the policies, risk appetite framework and risk limits approved by the Board of Directors.

In addition, the ALCO Committee is the sole body with decision-powers with regard to BPI Group's wholesale funding - issue of bonds, securitisations, loans and equity instruments -, for which it must take the adequate decisions and issue recommendations to the various areas of activity.

All the members of the ALCO Committee must inform the Committee about any matters within their sphere of competence that are liable of affecting the management of risk under the responsibility of the Committee.

Business and Marketing Committee

The mission of the Business and Marketing Committee is to coordinate the activities and businesses of the Corporates and Institutionals (including Corporate and Investment Banking when applicable), Private Banking and Individuals, Businesses and Premier networks, deciding on, or preparing for decision by other bodies, in line with the Bank's organic policies, standards and powers, all matters that are of common interest to the commercial networks, namely the organisation of the product offer, the management of segments, the price positioning and the commercial communication.

Permanent Credit Committee

The mission of this Committee is to decide on loan granting and recovery, obligatorily analysing all credit exposures (including those fully hedged by financial assets qualifying as mitigators) within its sphere of competence, as well as to decide on loan granting, recovery and management policies, including risk mitigation measures, and on sector-specific risk analysis.

Recovery and Resolution Committee

The Recovery and Resolution Committee has a two-tier mission, i.e., it focuses on the Recovery Plan and on the Resolution Plan.

- Recovery Plan: ensure the drafting and updating of BPI Group's Recovery Plan, for subsequent approval by BPI's Board of Directors, based on the regulations and recommendations issued by the supervisors or regulators, and ensure alignment with CaixaBank. The Committee must also monitor the indicators that may trigger the activation of the Plan and, if necessary, promote its implementation, in accordance with the governance rules established.

- Resolution Plan: make sure that any requests for information by the resolution authorities, either made directly to Banco BPI, or through CaixaBank, are satisfied.

Information Governance Committee

The main objective of the Information Governance Committee is to ensure compliance with the BCBS 239 Regulation, namely watching over the coherence, consistency and quality of the information and defining the data management strategy. The Committee must also promote the value of information and data as a corporate asset and a critical and differentiating element.

Materialising BPI Group's Information Governance global policy, across all levels, and through the following tasks:

- Assignment of responsibilities for the information items, namely concepts and reporting;
- Standardisation of concepts;
- Data documentation principles that ensure the centralisation, integrity and consistency of all the information;
- Processes to assess and improve data quality;

The Committee is also responsible for supervising and ensuring the correct execution and monitoring of the Information Governance policy in Banco BPI.

Level 2 Committees

Level 2 Committees include at least one member of the Executive Committee and report to level 1 committees or to the Executive Committee. Their functions are the specialised monitoring, assessment and first-resort decision on the matters delegated to them by the Level 1 Committees to which they report.

Operational Risk Committee

The mission of this Committee is to manage, control and monitor the operational risk of Banco BPI.

The Operational Risk Committee must ensure that the corporate policies under its sphere of intervention are complied with at Banco BPI. Accordingly, the Committee is responsible for periodically reviewing the operational risk management model established in its policy, in order to ensure that it remains updated and aligned with Banco BPI’s global operational risk positioning.

In addition, it is also a function of the Committee to review the information required to identify critical points and to define actions to mitigate operational risk, focusing in particular on establishing the nature of, classifying, and managing significant occurrences, and approving the corresponding mitigation measures.

Information Security Committee

The mission of this Committee is to supervise the Information Security Management system, namely by making known and executing BPI's Information Security Policy, which combines CaixaBank Group's Corporate Information Security Policy with Specific Policies approved for BPI by this Committee.

The Information Security Committee must ensure that the corporate policies that apply to its sphere of intervention are complied with at Banco BPI.

Rating Committee

The Rating Committee has the following mission:

- Decide on derogations to the Rating Models (Medium-sized Companies, Large Companies and Businesses) and on BPI's rating of counterparties included in groups with an exposure limit above €10 million.
- Analyse the ratings assigned by the competent areas to lower exposure levels.
- Monitor the revision of the ‘BPI Rating’ assignment methodology, and changes to the variables used in the analysis.

Product Validation Committee

This Committee has as mission and responsibilities to assess and issue a binding opinion on legal, compliance, data protection and operational issues and related risks, as well as, when applicable, on credit, market, counterparty and liquidity risks, related to the creation, marketing and monitoring of products marketed or to be marketed by the Bank.

It is also responsible for ensuring that the product approval and monitoring procedures set out in the Product Governance Policy at any time in force are regularly assessed.

The Committee keeps the Business and Marketing Committee informed and provides it with the opinions issued.

Business Continuity Committee

The mission of this Committee is to supervise the implementation and dissemination of the Business Continuity Management Policy which it has approved.

The Business Continuity Committee must also ensure that the corporate policies that apply to its sphere of intervention are complied with at Banco BPI.

Planning Committee

The mission of the Planning Committee is to monitor and control the process of preparation of the Budget, ensuring coordination with the remaining corporate processes and making sure that all those involved participate in the process, so as to ensure its overall consistency. This Committee takes decisions on the planning process, being subordinated to BPI's Executive Committee.

Efficiency and Continuous Improvement Committee

The mission of this Committee is to promote the systematic identification, planning and monitoring of initiatives implemented to attain the efficiency strategic objectives (FTE and costs) at the Bank's level, and to monitor the measures taken for the continuous improvement of efficiency and Customer and Employee Satisfaction, established at Division level within the scope of the Lean methodology.

Labour Incidents Committee

The mission of the Labour Incidents Committee is to analyse all labour incidents processes submitted to it, to take decisions that fall within its competence and/or to submit proposals for assessment and decision by the Executive Committee of the Board of Directors (“CECA”).

Its main attributions comprise the analysis of information sent by the audit area or which come to its knowledge by any other channel, with regard to relevant irregularities that could correspond to breaches of labour duties, and the taking of decisions on whether to initiate disciplinary proceedings, with or without the intention to proceed to a dismissal, or to immediately apply a reprimand sanction.

Impairment Committee

The mission of this Committee is to decide on the matters listed below. The Committee must keep the Global Risk Committee informed about the main decisions taken, given their importance for business development.
Its main responsibilities are:

- Changes in the Classification of individually assessed Loans;
- Changes in and monitoring of the composition of the watchlist;
- Changes in impairment of loans with evidence of impairment losses;
- Changes to the methodology to calculate collective impairments;
- Regular review and amendments to the General Regulation on Loan Provisions and Impairments and Legal Action.

Global Loan Recovery and NPL Committee

Its mission is to implement, together with each of the intervenient in the process, the global objectives approved for NPL. The Committee is also responsible for following up on and monitoring the level of achievement of the objectives defined. In case of deviations, the Committee should coordinate with the different Areas the measures required for correction.

Banco BPI Pension Fund Committee

The mission of this Committee is to draw up action proposals on matters related to the valuation of the liabilities or assets, or operational issues of Banco BPI's Pension Fund, for decision of Banco BPI's Executive Committee.

Financial Committee

The mission of the Financial Committee is to monitor the main events that influence the markets' behaviour, and the liquidity and value of the Bank's Balance sheet, and to draft proposals for decision by the ALCO Committee on financial operations or products with an impact on the Balance sheet.

Talent Committee

The mission of this Committee is to ensure that three key principles - Meritocracy, Diversity and Cross-cutting nature- are followed in all appointment processes.

Structures Committee

The mission of this Committee is to assess proposals on organisation and function changes with an impact on the workforce and the size of areas and teams. These proposals must be submitted by the Divisions and previously analysed by the Efficiency and Organisation Division. The Committee's scope of action comprises Banco BPI's Central Services and Commercial Networks.

Level 3 Committees

These committees do not include members of the Executive Committee and they may report either to Level 2 Committees or only to the Board Member responsible for the area in question. Their main function is the day-to-day effective management of processes, documents or projects, ensuring operational and technical monitoring of activities under the responsibility of the Level 2 Committee or the Board Member to which they report.

Operational Credit Committee

This Committee, which is subordinated to the Permanent Credit Committee, monitors and decides on loan granting and recovery, obligatorily analysing all loan exposures (including operations fully hedged by financial assets qualifying as mitigators) within its powers.

Expenditure and Investment Committee

The Expenditure and Investment Committee is responsible for challenging the need to carry out expenditure and investment proposals, for driving improvements and savings across the organisation, and for defining alerts for the need to analyse expenditure and investment results.

Information Governance and Data Quality Operational Committee

The main objective of the Information Governance and Data Quality Operational Committee is to promote the articulation between the business interlocutors and the governance bodies, proposing measures and initiatives for decision by the Information Governance Committee. In 2020, this Committee should be split into the Data Quality Operational Committee and the Information Governance Operational Committee.

Regulatory Consistency Operational Committee

The main objective of the Regulatory Consistency Operational Committee is to ensure consistency within the various regulatory reportings, coordinate the definition and monitoring of consistency controls and monitor regulatory changes with a cross-cutting impact.

Risk Policies Committee

The Risk Policies Committee is responsible for the definition and implementation of policies aligned to and supporting the Risk Appetite Framework approved by the Board of Directors. The Committee must ensure the consistent implementation of the RAF in alignment with CaixaBank Group's corporate policies. The Risk Policies Committee must also ensure that the group's corporate policies within its sphere of intervention are implemented and complied with at Banco BPI.

Financial Instruments Valuation Committee

This Committee ensures that Banco BPI's criteria for the valuation of financial instruments are complied with.

Occupational Risks Prevention Committee

The main objective of the Occupational Risks Prevention Committee is to supervise and ensure the correct execution and monitoring of all legal obligations concerning health and security in the workplace, which namely involves the implementation of proposed occupational risk surveys (including psychosocial risks) and surveys on the organisational climate, and the identification of needs for improvements to be incorporated into the Bank's preventive management system.

Models and Parameters Committee

The scope of action of the Models and Parameters Committee covers all aspects related to the methodology, scope of application, compliance with internal and external rules and guidelines, and appropriate use of models, as well as the formal approval of all associated documentation.

The Models and Parameters Committee must also ensure that the corporate policies that apply to its sphere of intervention are complied with at Banco BPI.

Due to their potential impact at regulatory and management level, the Committee must keep the Global Risk Committee informed of all the main decisions taken.

Money Laundering Prevention Committee

The Money Laundering Prevention Committee is a prevention money laundering / terrorist financing internal control body of BPI, with deliberation and decision powers, created with the purpose of establishing and proposing the policy and the procedures to prevent money laundering and terrorist financing.

Committee for Banco BPI's Internal Code of Conduct on Securities Markets

The main objectives of the Committee for Banco BPI's Internal Code of Conduct on Securities Markets are to identify and review any issues related to the risk of non-compliance with the Internal Code of Conduct and its procedures, to identify the Affected Persons and the Related Persons, and to propose procedures and action plans to manage the risks arising from application of the Internal Code of Conduct.

9. Main features of the company's internal control and risk management systems in relation to the financial reporting process Article 245-A (1-m) of the Securities Code

On 26 September 2017 the EBA published its Guidelines on Internal Governance. These guidelines, which came into force on 30 June 2018, lay down the model for Internal Governance that Credit Institutions and Investment Companies must implement to comply with Article No. 74 (1) of Directive 2013/36/EU. Their application aims to ensure that Institutions implement an adequate and prudent management model.

Based on these guidelines, BPI approved its Internal Control Policy, which establishes and formalises the internal guidelines of the Internal Control System and is based on the 3LoD Model, highlighting the functions of Global Risk Management (referred to in the regulation as RMF or Risk Management Function), Compliance and Internal Audit. This policy is deployed through the implementation of the 3 LoD Model in the Institution and for all risks identified in the Risks Catalogue approved by the Board of Directors. Banco BPI's Internal Control Framework establishes the functions and procedures that implement the policy across each of the risks and for each of the lines of defence identified.

Within the scope of the Internal Control System, Banco BPI draws up and submits to Banco de Portugal and the CMVM an Annual Report on its Control System. The Internal Control System has the following objectives:

- To ensure the effective use of assets and resources, business continuity, and, ultimately, the survival of the institution;
- To ensure the existence of comprehensive, relevant, reliable, and timely financial and management information;
- To ensure that the regulations bearing on the Institution are applied.

At BPI, the Global Risk Management Division integrates the Risk Management Functions (RMF), being responsible for ensuring the implementation of the Internal Control System and the 3LoD Model. The Financial Control Internal Unit, which reports functionally to the RMF, and the Global Risk Management Division - Operational Risk, perform the second line of defence functions with regard to the financial information reliability risk, ensuring the execution and follow-up by the internal control system of the financial information.

In 2019 the Board of Directors of Banco BPI approved the Policy on Disclosure and Verification of Financial Information, under the responsibility of the Financial Control Internal Unit, which establishes the governance framework, and the principles and rules underlying the management of the reliability risk of financial information to be disclosed by the Bank to the market, establishing the perimeter of the documents covered by the policy and the layers of control that must be applied to each document prior to disclosure.

10. The Bank's main business areas are the following:

Retail Banking and Private Banking

BPI serves approximately 1.9 million Customers in the domestic market, boasting relevant market shares in the various products and services offered.

Its business model is based on the provision of a complete range of financial products and services, structured to meet the specific needs of each segment through a specialist, multichannel and fully integrated distribution network.

Individuals, Businesses and Premier Banking was responsible at the end of 2019 for commercial initiatives with individual Customers, small businesses and companies with turnover of up to €2 million, operating in parallel with the Corporate and Institutional Banking in the segment of up to €5 million. For this purpose, it relies on a retail distribution network - physical and virtual (homebanking, telephone banking and mobile applications) – designed to serve mass-market Customers and small businesses, and on a network of Premier Centres that specialise in serving high net worth Customers or Customers with potential for wealth creation.

BPI Private Banking, conducted by a team of experts based in Portugal and also comprising a 100% held subsidiary in Switzerland – BPI Suisse – provides discretionary management and financial advisory specialist services to high net worth individual Customers.

Corporate Banking and Corporate Investment Banking

Corporate and Institutional Banking served at the end of 2019, through its specialist network, companies with turnover of more than €2 million, operating in parallel with Individuals, Businesses and Premier Banking in the segment of up to €5 million. This network is also directed to Institutional Customers, namely Public Sector entities, State and Municipal Companies, State-owned Enterprises or other institutional entities.

Corporate and Investment Banking, created in 2017, monitors, under an Iberian approach, the largest domestic business groups and the subsidiaries of the largest Spanish companies.

11. The Bank fully complies with Banco de Portugal Notice no. 5/2008 on Internal Control.

Accordingly, the Bank has in operation a risk identification and management system compliant with articles 11 and 12 of said Notice, and is organised in such a manner as to foster an appropriate control environment and a solid risk management system.

In particular, policies and procedures have been defined and are put into practice with regard to all the risks referenced in Article 11 of Banco de Portugal Notice no. 5/2008.

These policies and procedures are available to and easily accessible by all the Institution's employees, being disclosed in a dedicated area in the Bank's Intranet.

12. The risk management, compliance, and audit functions are institutionalised under the legal and regulatory terms, through the Global Risk Division, the Compliance Division and the Internal Audit Division, respectively.

The broad lines that govern the organisation and functioning are described below:

a) Global Risk Division

The Global Risk Division is responsible for BPI's Risk Management Function and comprises the second line of defence, acting independently from the business and support units that integrate the first line of defence. The mission of the Risk Management Function is to identify, measure, monitor and disclose risk at the level of the organisation, in a segregated manner. Its scope of action encompasses the entire organisation, and it plays a key instrumental role in the effective implementation of the Risk Management Structure and Policies, providing a global perspective over all the risks.

The functions performed by the various areas of the Global Risk Division are designed to fit in the second line of defence roles of follow-up, management and control of the financial activity specific risks, the business model and the protection against losses.

In this context, the Global Risk Division defines policies and methodologies relative to the Catalogue risks, which are executed by the first-line risk-taking units, and monitors compliance therewith.

From the main functions performed by the Global Risk Management Division, the following should be stressed on account of their importance for the management of the Bank's risk, and as guarantors of an adequate internal control system:

- General Nature
  - To draw up the risk-taking internal regulations, in coordination with but independently of the 1LoD;
  - To follow up and monitor BPI’s relevant exposures;
  - To support the provision of information to the supervisory authorities, namely with regard to the risks which it monitors, in collaboration with other Divisions of the Bank;

- Policies and rules
  - To draw up risk management and control policies, in coordination with but independently of the 1LoD, and aligned to the RAF;
  - To validate, in a critical manner, compliance with the internal rules and their alignment with the policies.

- Models
  - To calculate the necessary capital requirements for the risks identified and to make forward-looking projections in light of the expected evolution of risks, from both the regulatory and the economic perspectives;
  - To design scoring/rating models and follow-up and control these models;
  - To develop, update and monitor the collective impairment models and the Bank's individual impairment processes, for all credit segments;
  - To define the methodology for and monitor and report on Risk Adjusted Pricing;

- Risks and Controls;
  - To define the risk measurement and quantification methodology, and to validate, taking a critical approach, the identification and assessment of risks and respective controls, including the emerging risks;
  - To ensure that the risk analysis models comply with the regulatory rules and standards, in terms of both design and functioning, and that they are a useful and appropriate assessment tool;
  - To identify, measure, monitor and control the risks inherent in the Bank's activity, and to set them against the limits and tolerances established in the Risk Appetite Statement approved by the Board of Directors;
  - To make a periodic follow-up of the emerging risks;

- Monitoring of indicators
  - To validate, taking a critical approach, the identification of indicators by the 1LoD and their measurement criteria, and to make a periodic follow-up of the indicators defined;
  - To follow-up, monitor and project the evolution of risk indicators;
  - To monitor the risk metrics assigned to it within the scope of the Risk Appetite Framework (RAF);

- Control Weaknesses and Remediation Plans
  - To support and/or define criteria for the production of action plans by the 1LoD and to critically validate the identification of weaknesses and the definition, implementation and monitoring of action plans by the 1LoD;
  - To make a periodic follow-up of the weaknesses identified by the 1LoD, 2LoD or 3LoD and the implementation of action plans by the 1LoD;

- *Reporting*
  - To report to the Corporate Bodies, Senior Management or other internal control or management bodies: (i) the relevant information on risks, (ii) the main control weaknesses identified, (iii) the action plans' status of implementation, and (iv) an opinion on the risk control framework.

The Global Risk Management Function also plays an important role in the preparation and transmission of information to the Bank's corporate and supervision bodies.

At the end of 2019 the Global Risk Division concluded its transformation process, aimed at specialising the teams and creating synergies, and is now divided into five major areas:

- Financial Risks
- Information and Non-financial Risks
- Credit Risk Monitoring, Policies and Control
- Liquidity Risk, Market Risk and IRRBB
- Model Validation and Risk

The identification and monitoring of legal risks and Compliance risks are excluded from the scope of responsibility of the Global Risk Division.

b) Compliance Division

The Compliance Division is responsible for the Compliance Function at Banco BPI, as the second line of defence of the risk governance model; it acts independently, permanently, effectively and alongside the activity of the first line of defence, identifying, measuring, monitoring and reporting on the conduct, legal and reputational risks.

In this context, the main mission of the Compliance Division is to manage and control the risk of actions contrary to the interests and rights of the Customers and remaining stakeholders, and the risk of adoption of procedures leading to acts or omissions that are out of step with the applicable legal and regulatory framework or the internal codes and standards. In this manner, it seeks to prevent and minimise damages arising from potential sanctions applied to Banco BPI, as well as damages of a reputational nature.

Reflecting the importance of this function within the Group's internal control system and in accordance with best practices, the Compliance Division reports directly to the Chairman of the Executive Committee of Banco BPI. Likewise, the Compliance Division also drafts a set of periodic reports to the Management and Supervisory Bodies.

In this context, the risk of conduct gains expression through a set of risk taxonomies which are being progressively implemented at Banco BPI:

- Risk related to Customer protection:
  Risk of non-compliance with regulations and rules that govern the activity developed by the Employees or agents, such as may harm the interests and/or rights of Customers.

- Internal governance risk:
  Risk of non-compliance with regulations, rules or international standards applying to the structure, organisation, supervision and sound governance of the Compliance function and its spectrum of action.

- Market and integrity risk:
  Risk of non-compliance with regulations and rules applying to market integrity and activities liable of damaging the proper functioning of the markets.

- Data protection and information governance risk:
  Risk of non-compliance with regulations and rules applying to the privacy and protection of personal data and with information governance.

- Risk related to the Employees' activities:
  Risk of non-compliance with regulations and rules applying to the activities performed by the Employees, where they may put their personal interests above those of the Bank or the Clients.

- Risk of prevention of money laundering and terrorism financing:
  Risk of non-compliance with regulations and rules intended to prevent financial institutions from being used as an instrument for money laundering and terrorist financing.

- Risk of sanctions:
  Risk of non-compliance with regulations and rules that impose economic sanctions or restrictions on free trade with certain countries, governments, or individuals.

The current structure of the Compliance Division consists of three areas:

- Normative Risks;
- Prevention of Money Laundering and Terrorist Financing;
- Projects, Methodology and Reporting.

In the area of Money Laundering and Terrorist Financing, there are three teams with specific competences in terms of admission, monitoring and discharge of Clients, investigations, alerts and communications and, finally, international sanctions and restrictive measures.

c) Internal Audit Division

i) Positioning and reporting

The Internal Audit Function at Banco BPI, S.A. (BPI, BPI Group or Institution) is performed by the Internal Audit Division, which reports to the Audit and Internal Control Committee, without prejudice to its duty to report to the Chairman of the Board of Directors and to the Supervisory Board to enable these bodies' adequate fulfilment of their functions. This arrangement ensures the Internal Audit Division 's independence and authority within the institution, in compliance with the regulatory practices set forth in the EBA Guidelines on internal governance (EBA/GL/2017/11).

The mission, responsibilities and powers of the Internal Audit Function, as well as the principles, rules and duties that govern its performance are set forth in the Internal Audit Function's Rules of Procedure, approved by the Board of Directors on 23 October 2018.

ii) Composition

The Internal Audit Division 's team is composed of employees with adequate capabilities and the necessary expertise and skills for the performance of their functions. The Internal Audit Division is structured into the following areas:

- Methodologies and Reporting - performs support functions to the activity of the other areas and the Division;
- Commercial Networks and Business - among other functions, it performs audits that place particular attention on the risks associated to the design, placement and marketing of products;
- Markets and Risk - among other functions, it performs audits that place particular attention on the credit, solvency, market, funding and liquidity, interest rate and operational risks; it also audits the internal models for assessment of capital and liquidity (ICAAP and ILAAP);
- Systems, Processes and Digital Banking - among other functions, it performs audits that place particular attention on the risks associated to cybersecurity, data privacy, the business continuity plan and the disaster recovery plan;
- Financial, Equity Holdings and Compliance - among other functions, it performs audits that place particular attention on the risks associated with the reliability of the financial information, reputation, asset impairment, compliance (compliance with the legal and regulatory framework, and with the internal codes and standards), the loss of value of the assets that support the pension plans of the Institution's Employees, and other risks with a potential material impact on the financial stability of the pension plan (Pension Fund).
- Fraud and Special Investigations - among other functions, it is responsible for making technical analyses, establishing responsibilities, detecting procedural deficiencies and identifying losses, with regard to all irregularities of which the Internal Audit Division is aware and which indicate the practice of internal fraud, including Customer complaints which were directly addressed to the Internal Audit Division or referred by this Division to other Bodies of the Bank, with a view to initiating an investigation process.

With regard to CaixaBank, the following should be noted:

- The Internal Audit Division is included in the internal audit corporate perimeter of the CaixaBank Group. Therefore, the Internal Audit Division, as an autonomous unit acting independently in the execution of its works, is aligned with the corporate governance framework, as well as with the audit policies and procedures established at CaixaBank Group's level; and
- The CaixaBank Group's audit supervises the correct application of the function's governance framework established at Group level, so as to guarantee that the information reported to BPI's Audit and Internal Control Committee is consistent with that reported at corporate level.

iii) Mission

The mission of the Internal Audit Function is to provide independent and objective assurance to the Board of Directors about the quality and effectiveness of the systems and processes related to internal control, risk management and governance, having regard to their alignment with legal and regulatory requirements and the Bank's internal procedures. As part of its activities, Internal Audit performs independent reviews to and watches over the quality and efficiency of the internal control system, with regard to the first and second lines of defence as well as to the risk governance structure, thus contributing to ensure compliance with the Bank's strategic objectives.

As regards the entities of the BPI Group that have a local Internal Audit Function or have outsourced this function, the Internal Audit Function may use locally developed works as a basis, being responsible for coordinating and supervising their quality and for assessing the coherence and consistency of the internal control systems in place at each entity.

iv) Scope of activity

The scope of activity of the Internal Audit Function covers all the entities of the BPI Group except for those that are not in a control or parent-subsidiary relationship.

In addition, it may provide Internal Audit services to entities other than those referred in the previous paragraph, providing there is an agreement therefor, and these entities are part of the CaixaBank Group.

v) Action principles

In accordance with the three lines of defence (LoD) model, Internal Audit acts as the 3rd LoD, supervising the performance of the 1st and 2nd LoD, with the aim of ensuring a systematic and disciplined approach to the assessment and improvement of the risk management/control and internal governance processes. Through its activity, the Internal Audit Division aims to provide reasonable assurance to the governance bodies about:

- The effectiveness and efficiency of the internal control system in the mitigation of the risks inherent to the Bank's activities;
- Compliance with the legislation in force, namely the regulatory requirements and the adequate implementation of the Internal Control Framework and Risk Appetite Framework;
- Compliance with the internal policies and regulations, including corporate guidelines from CaixaBank, and alignment with risk appetite and the sector's best practices; and
- The integrity, reliability and timeliness of financial, accounting and operational information.

Hence the scope of activity of this function includes assessing:

- The adequacy, effectiveness and implementation of Policies, Regulations and Standards;
- The effectiveness of controls;
- The adequate measurement and monitoring of the 1LoD and 2LoD indicators;
- The existence and correct implementation of action plans for control weaknesses;
- The validation, monitoring and assessment of control by the 2LoD.

The scope of activity of the Internal Audit Function covers all the entities, financial and non-financial, of the BPI Group except for those that are not in a control or parent-subsidiary relationship.

vi) Responsibilities

Without prejudice to the remaining responsibilities attributed to it under the law, the Internal Audit Function is responsible in particular, in the discharge of the mission entrusted to it, for the following:

a) Drawing up and keeping updated an Audit Plan aimed at examining and assessing the adequacy and effectiveness of the internal governance, of the various components of the internal control system of the Institution and of BPI Group, as well as of the internal control system as a whole;

b) Issuing recommendations based on the results of the assessments made, and monitoring on an ongoing basis any situations identified, with the regularity warranted by the associated risk, so as to ensure that the necessary corrective measures are adequate and timely implemented;

c) Monitoring market developments, legal and regulatory changes, the strategic planning process and respective decisions of the Institution and the BPI Group, namely when involving acquisitions, disposals, mergers, or the launch of new activities or products, in order to ensure a timely and appropriate response from the audit activity;

d) Developing its activity in line with the internationally recognised and accepted internal audit principles and with the sector's best practices in this area;

e) Preparing and submitting at least once a year to the Audit and Internal Control Committee, the Chairman of the Board of Directors and the Supervisory Board a report on the audit activity containing a summary of the main deficiencies detected in control actions, including deficiencies that although immaterial when considered separately may reveal a tendency for the deterioration of the internal control system, as well as indication of the recommendations issued and a status update on their implementation;

f) Keeping constant watch over the indicators of fraudulent activity, of internal or external origin, with an impact on the Institution or on BPI Group, and taking the necessary steps in accordance with the evidence established;

g) Immediately reporting to the Supervisory Board any serious irregularity concerning the administration, accounting organisation and supervision, or indications of a breach of the duties set forth in the General Law on Credit Institutions and Financial Companies (RGICSF), which may have a material impact on the economic or financial situation or on the reputation of the Institution and BPI Group.

Remuneration

I. POWER TO FIX REMUNERATION

1. Power to fix the remuneration of the Company's corporate bodies and Senior Management

Under the terms of the law and the Remuneration Policy in force, it is the responsibility of the Remuneration Committee, aided by the external experts and advisors which it deems fit to consult, to define the Remuneration Policy of the members of the management and supervision bodies, the approval of which is the responsibility of the General Meeting. Under the terms of the law and the Remuneration Policy in force, the Remuneration Committee is the body in charge of determining the remuneration of the corporate bodies.
Pursuant to the law and the Remuneration Policy for Identified Staff, the definition and approval of the Remuneration Policy for the Identified Staff is the responsibility of the Board of Directors. The remuneration of the Identified Staff is determined by the Executive Committee, upon an opinion issued by the Nominations, Evaluation and Remuneration Committee.

Identified Staff are understood to be the members of staff who:

i) are part of senior management, with senior management being understood as comprising all the Employees who report directly to the Executive Committee of the Board of Directors or to any of its members;
ii) are responsible for the assumption of risks, it being understood that this scope includes the Employees who are responsible for taking risk-assumption decisions, and in the area of credit risk, those who participate in these decisions at the specific level of risk analysis and evaluation, i.e., all those who are members in service of the Global Risk Committee, the Permanent Credit Committee, the Asset and Liability Committee (ALCO Committee) and the Risk Policies Committee, and also those in the position of primary responsibility for the Credit Risk Division, Individuals Credit Risk Division and Financial Division;
iii) receive remuneration that places them on the same remuneration bracket as the members of the Executive Committee or the Employees referred to in points (i) and (ii) above, and at the same time meet any of the qualitative or quantitative requirements provided for in Commission Delegated Regulation (EU) no. 604/2014, of 4 March 2014; or
iv) are responsible for control functions within the meaning provided for in Banco de Portugal Notice 5/2008, i.e., Employees in the position of primary responsibility for the Compliance Division, Internal Audit Division and Risk Analysis and Control Division, as well as Employees who report directly to those with primary responsibility for the Compliance Division and Internal Audit Division.

II. REMUNERATION COMMITTEE

Powers and Duties

According to the Company's Articles of Association (Article 28), the remuneration of the members of the elected corporate bodies is determined by the Remuneration Committee, upon consultation with the Nominations, Evaluation and Remuneration Committee with respect to the remuneration of the members of the Executive Committee.

The Remuneration Committee therefore has the following responsibilities:

- define the Remuneration Policy of the members of the corporate bodies and apply the Retirement Benefits Regulation for members of the Executive Committee of Banco BPI;
- within the framework of the Remuneration Policy approved by the General Meeting, determine the remuneration of the members of Banco BPI's corporate bodies (in the case of the Executive Committee, upon consultation with the Nominations, Evaluation and Remuneration Committee).

In the exercise of its powers, the Remuneration Committee takes into consideration the proposals and recommendations presented to it by the Nominations, Evaluation and Remunerations Committee, as provided for in Article 7-4 of Banco de Portugal Notice 10/2011.

2. Composition of the Remuneration Committee

Pursuant to the articles of association of Banco BPI, the Remuneration Committee is composed of three members elected every three years by the General Meeting, which must also elect two alternate members.

In the performance of its duties, the Remuneration Committee may be assisted by the external experts and consultants that the Committee believes it should consult.

The Remuneration Committee does not resort to the services of natural or legal persons which are not independent on account of being bound to the Board of Directors under an employment or service contract, or, where applicable, of having a current relationship with a consultancy firm of BPI.

The Remuneration Committee is currently composed as follows:

Permanent members:
- Abel Suárez Busquets (Chairman)
- Xavier Coll Escursell
- Carlos Moreira da Silva

Alternate member
- Armand Reixach de Linares

3. Knowledge and experience of the members of the Remuneration Committee in remuneration policy matters
All the members of the Remuneration Committee have knowledge and experience in remuneration policy matters.

III. REMUNERATION STRUCTURE
4. Description of the remuneration policy of the management and supervision bodies, as provided for in Article 3 of Law no. 28/2009 of 19 June
The full text of the "Banco BPI Remuneration Policy applicable to the members of the Board of Directors and Supervisory Board" (hereinafter "Remuneration Policy"), approved by CaixaBank SA, as the sole shareholder, on 29 April 2019, is transcribed below.

BANCO BPI REMUNERATION POLICY
APPLICABLE TO MEMBERS OF THE BOARD OF DIRECTORS AND SUPERVISORY BOARD

1. SUBJECTIVE SCOPE

This Remuneration Policy is applicable:

- to members, executive and non-executive, of the Board of Directors of Banco BPI, S.A. (Banco BPI);
- to members of the Supervisory Board of Banco BPI.

2. OBJECTIVE SCOPE
This Remuneration Policy is applicable to the persons referred to in Section 1 who perform those functions at Banco BPI.

Banco BPI will promote the adoption by its subsidiaries, with necessary modifications arising in particular from the proportionality and adequacy criteria, respectively, set forth in the General Regime of Credit Institutions and Financial Companies (*Regime Geral das Instituições de Crédito e Sociedades Financeiras*, hereinafter General Regime) and from the need for compatibility with other legal regulations, this policy and the principles arising therefrom.

3. DEFINITION OF REMUNERATION POLICY
The definition of the Remuneration Policy is the responsibility of the Remuneration Committee, assisted by external experts and consultants this Committee intends to consult.

In defining the Remuneration Policy of Banco BPI, the Remuneration Committee accounts for the principles and objectives listed in section 4.

The defined Remuneration Policy must be compatible with Banco BPI's corporate strategy and long-term objectives, values and interests, as defined by the relevant corporate bodies.

In the definition of the Remuneration Policy, and in a manner that accounts for and is adequate and proportional to the nature, characteristics, dimension, organisation and complexity of Banco BPI activities, the Remuneration Committee must also account for applicable legal principles and rules, particularly those set forth in the General Regime of Credit Institutions, approved by Decree-Law 298/92, of 31 December (hereinafter referred to as RGIC) and in Bank of Portugal Notice 10/2011.

In defining the Remuneration Policy, the Committee of the Board of Directors designated by Nominations, Evaluation and Remuneration Committee (NERC) will be responsible for collaborating and performing the functions set forth in the RGIC, Article 7 of Bank of Portugal Notice 10/2011 and its Operating Rules.

In the process of defining the Remuneration Policy, the Remuneration Committee and/or the Nominations, Evaluation and Remuneration Committee may consult those responsible for Audit, Compliance and Global Risk Management units, from whom contributions may be requested that are deemed relevant and with respect to the risks in which each one of these functions is involved.

3.1 Remuneration Committee

3.1.1 Responsibilities

Pursuant to Article 28(2) of Banco BPI's articles of association, the remuneration of the members of Banco BPI's management and supervisory bodies is determined by the Remuneration Committee. With regard to the members of the Board of Directors who are members of the Executive Committee (hereinafter referred to as Executive Directors), the Nominations, Evaluation and Remuneration Committee should be consulted in advance.

At least one member of the Remuneration Committee is always present at Banco BPI's General Meeting of Shareholders.

3.1.2 Composition of Committee

Under the terms of Banco BPI's articles of association, the Remuneration Committee is composed of three members elected every three years by the General Meeting, who among them will elect the Chairman thereof, who will have a casting vote.

3.2. Comparables used

In defining the remuneration of Banco BPI's management and supervisory bodies, the Remuneration Committee properly considers the remuneration policies and practices of comparable Iberian banks.

3.3. Annual evaluation

The Nominations, Evaluation and Remuneration Committee promotes an annual analysis and evaluation of the application of the Remuneration Policy, with a view to determining whether this application affects the institution's risk management, capital and liquidity, that call for a review of such policy, and, if applicable, the identification of adjustment measures to be adopted.

In the analysis and evaluation under consideration, the Nominations, Evaluation and Remuneration Committee may consult, among others, those responsible for the Audit, Compliance and Global Risk Management units, from whom contributions may be requested that are deemed relevant for this purpose and with respect to the risks in which each one of these functions is involved.

The Nominations, Evaluation and Remuneration Committee will notify the Remuneration Committee of the results of such analysis and evaluations, and coordinate with the latter the annual presentation to the Annual General Meeting of the conclusions reached.

4. GENERAL PRINCIPLES AND OBJECTIVES

The Remuneration Policy takes into account the general principles and objectives, which are organised in the following points:

a) The remuneration policy is intended to promote behaviours that ensure the generation of long-term value and the sustainability of results over time, within a framework that is coherent and contributes to the promotion of sound and prudent risk management. In this sense, the remuneration component based on variable remuneration takes into account not only the fulfilment of objectives, but also the manner in which they are achieved.

b) The individual objectives of the recipients of the remuneration policy are defined on the basis of the commitment they reach and establish with those responsible.

c) The remuneration policy's strategy is based on attracting and retaining talent by providing its recipients with participation in a distinctive corporate and entrepreneurial project, the possibility of professional development and competitive conditions of global compensation.

d) Under these global compensation terms, the remuneration policy is based on a competitive position related to the amount of fixed remuneration and social benefits.

e) Fixed and social benefit components constitute the predominant part of the general remuneration conditions, where, in general, the variable remuneration concept tends to be conservative because of its potential role as a risk generator.

4.1. Remuneration structure

4.1.1 Non-Executive Directors and members of the Supervisory Board

Pursuant to Article 28(1) of the articles of association, the remuneration of non-executive members of the Board of Directors (Non-Executive Directors) and members of the Supervisory Board is composed exclusively of fixed remuneration, paid monthly, not including any variable remuneration and, therefore, is not dependent on Banco BPI's results. In the case of the Chairman of the Board of Directors and of the Non-Executive Directors who are members of the advisory and support bodies of the Board of Directors as provided for in the articles of association, a complementary fixed remuneration is added to such base remuneration.

4.1.2 Executive Directors

4.1.2.1. The remuneration of Executive Directors is composed of fixed remuneration and a variable remuneration in the form of a bonus. The variable remuneration may not be allocated in exceptional cases, particularly if the attribution thereof limits Banco BPI's capacity to strengthen its capital base and, in all cases, all types of current and future risks always will be taken into consideration in the granting of such remuneration.

The fixed remuneration of the Executive Directors includes the remuneration they may receive for serving in management positions in BPI Group companies or in other entities of interest thereto, such that this remuneration is deducted from the amount payable by BPI as fixed remuneration.

Taking into account the objective of maintaining a reasonable and prudent balance between the fixed and variable components of remuneration:

(i) the fixed remuneration amounts of Executive Directors must be sufficient; and
(ii) the percentage representing variable remuneration in the form of bonuses (not therefore considering other possible variable components such as the Long-Term Incentive set forth in Section 6) on the annual fixed remuneration should generally be relatively low, not exceeding, as a rule, 40 percent.

Under the terms of the law, the annual variable remuneration of any one of the Executive Directors may not exceed the total amount of fixed remuneration earned by the respective Executive Director in the immediately preceding year.

The approval and attribution of a higher value than that cited above, which at maximum may be equal to twice the fixed remuneration, will be conditional upon compliance with the legally requirements established for this purpose.

The classification as fixed or variable of a remuneration component is carried out in accordance with the legal rules on remuneration defined for financial institutions.

4.1.2.2. Variable remuneration in the form of a bonus is as follows:

- 50 percent will be paid in cash;
- The remaining 50 percent will be paid in instruments; whenever payment is made in the form of instruments, such payment preferably will be made in CaixaBank shares; However, Banco BPI may deliver other instruments admitted for payment of variable remuneration, under the conditions and pursuant to the requirements provided for in Article 115-E of the RGIC, Delegated Regulation (EU) No. 527/20145 (hereinafter "Regulation 527/2014") and EBA Guidelines.

The aforementioned variable remuneration is subject to the deferral rules set forth in Section 5.1.

4.1.2.3. In addition to the variable remuneration in the form of bonus, a long-term incentive based on CaixaBank instruments or referenced to their value (hereinafter "LTI"), as established in Section 6, may be defined for all or some Executive Directors.

4.2 Overall limits applicable to members of the management and supervisory body

For the 2017-2019 three-year period, the following limits apply to the total annual remuneration to be attributed, and the distribution of remuneration for each member of the following bodies is performed in compliance with the principles and rules set forth in this Remuneration Policy, by resolution of the Remuneration Committee:

4.2.1. Non-Executive Directors (not including, for this purpose, attendance fees): €1 600 000

4.2.2. Executive Directors:

a) Fixed part: €5 500 000

b) Variable Part (variable remuneration in the form of a bonus): €1 550 000

The amount provided for in a) does not include the retirement benefits referred to in point 4.7 and the value referred to in b) *infra* does not include the LTI referred to by Section 6.

4.2.3. Members of Supervisory Board:

a) Chairman: €80 000

b) Members (each): €70 000

4.3 Determination of remuneration

4.3.1 Non-Executive Directors and members of the Supervisory Board

The actual remuneration of Non-Executive Directors (comprising the base fixed remuneration and the complementary remuneration of the Chairman of the Board of Directors and the remuneration due for participation in committees of the Board) and of the members of the Supervisory Board is defined at the beginning of each three-year period by the Remuneration Committee.

4.3.2 Executive Directors

4.3.2.1 Fixed Remuneration

The determination of the value of fixed remuneration of Executive Directors is carried out by the Remuneration Committee, in consultation with the Nominations, Evaluation and Remuneration Committee, within the limits defined in point 4.2.

The value of this remuneration is adjusted annually taking into account the level of responsibility of the Executive Director, or his/her professional career and market remuneration for positions equivalent to those occupied by Executive Directors, with such adjustment determined by the Remuneration Committee, following consultation with the Nominations, Evaluation and Remuneration Committee.

4.3.2.2 Variable remuneration in the form of bonus

The value of variable remuneration in the form of bonus for Executive Directors is determined by the Remuneration Committee, upon consultation with the Nominations, Evaluation and Remuneration Committee, in accordance with the rules defined in Section 5.

4.4 Profit sharing

Banco BPI does not have a policy of remunerating its Directors through profit sharing.

4.5 Other benefits

4.5.1 Retirement Benefits – main characteristics

Members of the management body benefit from pension plans applicable to the majority of Banco BPI Employees in the same circumstances, to the extent that they have been Banco BPI Employees before performing these duties and their employment contract has been suspended by law.

The Executive Directors who were part of the Executive Committee of the Board of Directors for the 2014-2016 term or who served therein in prior terms of office (or, in the case of the previous governance model, Management) are also entitled, under a defined benefit regime, to an additional retirement benefit, approved at the meeting of the Bank's General Board on 25 July 1995. This supplementary retirement benefit provides the respective beneficiaries with a retirement supplement whose monthly value is a function of the monthly salary in force on 31 December 2009 for the office of the Executive Committee corresponding to that in which such beneficiary serves and the number of years of performance of duties thereof.

The rules governing the cited benefit are set out in the Regulation on Retirement Benefits for Members of the Board of Directors, approved in the aforementioned meeting of the General Board and which is reproduced in the annex, with the amendment provided for in the addition of a new Article 1(4), intended to define the persons to whom such benefit is directly applicable.

Executive Directors (whether those on the Executive Committee to the Board of Directors until the end of the 2014-2016 term of office or others) may be entitled to a complementary pension under a defined contribution regime, under the terms of which the Remuneration Committee defines each benefit.

It is provided that the following are deducted from the pensions provided by the Executive Directors' plan:

i) pensions granted by Social Security which fall into any of the following two categories:

- those relating to functions performed in the BPI Group;
- those relating to functions provided to third-party entities by appointment of the BPI Group and which the BPI Group has recognised for that purpose;

ii) pensions attributed by other pension plans of the BPI Group.

Members of the management and supervisory body who are not, nor have been, Executive Directors (or, in the case of the previous governance model, members of the Management) receive no retirement benefit attributed by the Bank.

BPI does not attribute any discretionary pension benefits to its Executive Directors.

4.5.2 Situations of dismissal or termination of current or previous functions

It is not provided that, in the event of dismissal or early termination of the duties of a member of the Board of Directors, the Bank will pay such member any compensation, in addition to, any item provided for under the provisions of applicable laws.

5. SPECIFIC RULES APPLICABLE TO VARIABLE REMUNERATION OF EXECUTIVE DIRECTORS

As referred to in Section 4, only the remuneration of Executive Directors includes a variable component, which, in addition to that defined therein, is also subject to the following rules:

5.1. Variable Remuneration in the form of Bonus

5.1.1. General aspects

Executive Directors may be attributed variable remuneration in the form of a risk-adjusted bonus, based on measurement of performance. Performance measurement is carried out by ex-ante and ex-post adjustments, as a way of applying risk control.

The attribution of variable remuneration, in the form of a premium, is conditional a priori on the Institution's good performance.

The good performance of the Institution is measured through reliable parameters, defined every year at the time Banco BPI objectives (Corporate Objectives) are defined and validated.

Guaranteed variable remuneration cannot be granted except when a new Executive Director is hired, and, in any case, such guaranteed variable remuneration may only be applicable to the first year in which duties are performed and is only due if it is verified that the Bank has a solid and strong capital base.

5.1.2. Performance measurement

Quantitative (financial) and qualitative (non-financial) criteria, which must be specified and clearly documented, are used for the measurement of performance and evaluation of individual results.

Variable remuneration applicable to Executive Directors is determined based on a "target bonus" defined for each of them by the Remuneration Committee, on proposal of the Nominations, Evaluation and Remuneration Committee.

The variable remuneration to be attributed depends on the "level of achievement of objectives" determined for the Executive Director. The maximum percentage of this "level of achievement of objectives" that can be reached is 120%, in which case the Executive Director is entitled to receive variable remuneration equivalent to 120% of the "target bonus" value.

For the "level of achievement of objectives", 50% of Banco BPI (corporate objectives) and 50% of individual objectives will be considered:

Banco BPI Objectives

Banco BPI's objectives should be determined for each year by the Remuneration Committee, on proposal of the Nominations, Evaluation and Remuneration Committee, and their weight should be a function of the parameters defined on the basis of the Bank's main objectives. These parameters may include but are not limited to all or some of the following:

- ROTE (return on tangible equity)
- Recurring operating expenses
- Risk Appetite Framework
- Regulatory compliance
- Quality

Whatever the case, the proposed composition and weighting of Banco BPI's objectives must be established in accordance with the provisions of the law and may vary between Executive Directors.

Individual objectives

The share of individual objectives (50 percent) must be globally distributed between the objectives associated with Banco BPI's strategy. The final evaluation will be carried out by the Remuneration Committee, on proposal of the Nominations, Evaluation and Remuneration Committee.

The final determination of variable remuneration will be approved by the Remuneration Committee, on proposal of the Nominations, Evaluation and Remuneration Committee.

5.1.3. Special cases of restriction

Variable remuneration is subject to reduction, if, at the time of performance appraisal, a requirement or recommendation from Banco BPI's prudential supervisory authority is in effect to restrict Banco BPI's dividend distribution policy, or if required as such by the competent authority, all in accordance with the provisions of the RGIC.

5.1.4. Variable remuneration: portion paid immediately and deferred portion

One portion of variable remuneration is paid immediately after the attribution thereof, in the sense that the ownership of both the cash and instruments corresponding to such non-deferred portion of variable remuneration is transferred to the Executive Director.

The other portion of variable remuneration (deferred portion) is subject to a deferral period, phase in accordance with point 5.1.5. The cash and instruments whose attribution is subject to the deferral period are only transferred to the Executive Director after the respective phase of the deferral period.

The percentage of deferral applicable to variable remuneration of Executive Directors is 60 percent.

This percentage of deferral may be modified if competent authorities establish absolute or relative limits for determination of "particularly high variable remuneration amounts", pursuant to the provisions of EBA Guidelines.

5.1.5. Deferral period

On the date of payment of variable remuneration, the non-deferred portion is paid (hereinafter "Initial Payment Date"), i.e., the ownership of the cash and instruments that comprise that non-deferred portion of variable remuneration is transferred to the Executive Director. Half of this non-deferred portion of variable remuneration is paid in cash and the remaining half is paid in instruments.

Provided that the reduction assumptions set out under Section 5.2 are not met, the deferred portion of risk-adjusted variable remuneration will be paid in five tranches, the amounts and dates of which are as follows:

- 1/5 12 months after Initial Payment Date
- 1/5 24 months after Initial Payment Date
- 1/5 36 months after Initial Payment Date
- 1/5 48 months after Initial Payment Date
- 1/5 60 months after Initial Payment Date

5.1.6. Payment of cash and instruments

Half of the amount payable on each of the dates provided for in the previous paragraph is paid in cash and the remaining half is paid in instruments, once the applicable taxes (withholdings or payments on account) have been paid. Without prejudice to the provisions regarding the retention policy, the ownership of instruments is transferred to the Executive Director on the date of payment.

Whenever there is payment in instruments, such payment is preferably made in CaixaBank shares; However, Banco BPI may deliver other instruments admitted for payment of variable remuneration, under the conditions and in accordance with the requirements provided for in Article 115-E of the RGIC, Regulation 527/2014 and EBA Guidelines.

5.1.7. Retention policy

All instruments delivered are subject to a retention period of one year from the date upon which they are paid/delivered, during which period the Executive Director cannot dispose of them.

During the retention period, the rights inherent to the instruments are held by the Executive Director.

5.1.8. Termination or suspension of professional relationship

The termination or suspension of the management relationship, in particular in the event of sick leave, early retirement or retirement by age limit, will not result in interruption of the payment cycle of variable remuneration; without prejudice to the provisions relating to the reduction and recovery of the variable remuneration provided for in point 5.2.

In the event of death, the Human Resources Department, together with the Global Risk Management Division, must determine, and, if necessary, propose the process for settlement of pending payment cycles in accordance with the general principles of the RGIC and this Remuneration Policy.

5.1.9. Special situations

In special unforeseen situations (i.e., corporate transactions that affect the ownership of instruments delivered or deferred), specific solutions must be applied in accordance with the law and principles of the General Remuneration Policy, so as not to artificially dilute or alter the value of the corresponding compensation.

5.1.10. Time-in-service requirement

It is a necessary condition for receipt of variable remuneration in the form of a bonus that the Executive Director maintains his or her management relationship with Banco BPI on 31 December of the year in which such variable remuneration expires.

5.1.11. Incompatibility with personal hedging strategies or avoidance schemes

In accordance with the provisions of Article 115-E(15) of the RGIC, the Executive Directors agree not to use any risk hedging mechanism to mitigate or neutralise the effects from alignment of risks inherent in the remuneration arrangements or through the payment of the variable remuneration component through special purpose vehicles or other methods with equivalent effect.

5.2. Reduction and Reversal of Variable Remuneration

5.2.1. Reduction assumptions

In accordance with the provisions of the law, the right of Executive Directors to receive variable remuneration amounts, in whole or in part, including those pending payment, either in cash or by delivery of instruments, may be reduced in the event of poor financial performance of Banco BPI as a whole or of a specific division or specific area thereof. For this purpose, Banco BPI must compare the performance evaluation conducted with the subsequent behaviour of variables that contributed to achievement of the objectives.

The assumptions that lead to reduction of variable remuneration are as follows:

I. Significant failures in risk management by Banco BPI or by a business or risk control unit, including the existence of qualifications in the external auditor's audit report or circumstances that reduce the financial parameters that served as the basis for calculation of variable remuneration;

II. Increase in capital requirements for Banco BPI or one of its business units, unless foreseen at the time of assuming the risk exposure that generates such needs;

III. Regulatory sanctions or court convictions for events that may be attributable to the Executive Director or to units dependent upon such Executive Director.

IV. Failure to comply with the institution's internal regulations or codes of conduct, including, in particular:
   a. Regulatory violations attributable to them and classified as serious or very serious;
   b. Violation of internal regulations that are classified as serious or very serious;
   c. Failure to comply with the suitability and correction requirements applicable thereto;
   d. Regulatory violations attributable thereto and that, irrespective of whether they involve losses or not, may jeopardise the solvency of a business line, and, in general, involvement or responsibility in conduct that has generated significant losses.

V. Irregular conduct, individual or collective, especially considering the negative effects from the marketing of inappropriate products and responsibilities of Executive Directors in making these decisions.

VI. Dismissal for just cause (total reduction in this case).

VII. When the respective payment or consolidation is not sustainable according to Banco BPI's financial situation as a whole, or if not justified based on the results of Banco BPI as a whole or of business units dependent upon the Executive Director in question.

VIII. Any others established by law or by decision of competent authorities.

5.2.2. Reversal assumptions

In cases where the causes giving rise to these situations described in a) above occurred at a time prior to payment already made of any variable remuneration amount, whereby if such situation were to have been considered, the cited payment would not have been made in whole or in part, the Executive Director must reimburse Banco BPI for the part of the variable remuneration unduly received. This reimbursement will be paid in cash or instruments, as the case may be.

In particular, cases in which the Executive Director in question has contributed significantly to the achievement of weak or negative financial results, as well as case of fraud or other malicious conduct or gross negligence causing significant losses, will be considered particularly serious cases.

5.2.3. Common standards

The Remuneration Committee is responsible for proposing to the Board of Directors the application of reduction or loss of right to payment of deferred amounts, or their total or partial recovery, depending on the characteristics and circumstances of each particular case.

According to the provisions of the EBA Guidelines, the assumptions for the reduction of variable remuneration are applicable throughout the deferral period of the remuneration in question. The assumptions for recovery of the variable remuneration are applicable for a period of one year from the payment of variable remuneration, unless there is fraud or negligence of the Executive Director.

The implementing provisions of LTI must establish the specific rules for reduction or recovery of benefits provided to Executive Directors, adapting the assumptions for reduction and reversal provided for in the Remuneration Policy to the nature and purposes of the LTI.

5.2.4. General principles of labour or contractual law

Under the provisions of the RGIC, proposals to reduce or recover variable remuneration should take into account the general principles of contract or employment law.

6. INSTRUMENT-BASED LONG-TERM INCENTIVES

Executive Directors (all or some of them) may benefit from a long-term incentive plan based on instruments as a form of multi-year variable remuneration (LTI).

The LTI may be structured as a variable remuneration scheme that allows its participants to receive, after a certain period of time, an amount in shares or other instruments, or options on them, or in cash, provided that certain conditions established in the LTI are met.

The decisions on the existence and definition of specific LTI conditions (including those relating to the payment cycle and reduction and recovery clauses), which should be adapted to and compatible with the principles of this Remuneration Policy:

a) Are the responsibility of the Remuneration Committee, with consultation of the Nominations, Evaluation and Remuneration Committee;

b) Must be approved by the General Meeting of Banco BPI whenever terms dictate that such approval is mandatory in accordance with the law.

7. DISCLOSURE AND UPDATE

The Remuneration Policy is disclosed on the Bank's intranet and Banco BPI's institutional website (www.bancobpi.pt) and is available for consultation by anyone.

This Policy and its implementation are subject to annual review by the Remuneration Committee, with consultation with the Nominations, Evaluation and Remuneration Committee, with the Remuneration Committee responsible for presenting changes to Shareholders as deemed justified.

Updated version, with the amendments approved by the single shareholder CaixaBank, S.A. through written unanimous resolution no. 2 of 29 April 2019.

In accordance with Banco BPI's Articles of Association, the members of the corporate bodies shall have a fixed remuneration and the members of the Executive Committee may receive, in addition to a fixed remuneration, a variable remuneration determined in accordance with the criteria defined in the remuneration policy for the members of the supervision and management bodies.

The remuneration of the elected members of the corporate bodies shall be fixed by the Remuneration Committee, after consultation with the NERC with respect to the remuneration of the members of the Executive Committee.

The Remuneration Policy defines the limits for the total annual remuneration to be attributed to the members of the management and supervision bodies in the mandate 2017/2019:

a) Non-executive Directors (not including, for this purpose, attendance fees): €1 600 000;

b) Executive Directors:
- fixed component: €5 500 000
- variable component: (variable remuneration in the form of a bonus): €1 550 000

c) Members of the Supervisory Board: Chairman €80 000; members (each) €70 000.

In 2019 a variable remuneration was attributed to the executive Directors for their performance in 2018, under the terms of the proposal submitted for the purpose by the Remuneration Committee to the single Shareholder, and approved by the latter through written unanimous resolution no. 2 of 29 April 2019.

Whereas,

a) The Remuneration Policy:
   i) defines the overall maximum amount of the remuneration of the members of the Board of Directors; and
   ii) as regards the variable remuneration, it defines the criteria the Remuneration Committee shall use to determine the overall amount to attribute in each year to the members of the Executive Committee and the amount to attribute to each member of this body;
b) every year the governance report notes the individual amounts paid to the members of the corporate bodies in the year the report refers to;

This ensures that there is:

- minimum predictability, within parameters of reasonableness, regarding the maximum potential remuneration of each of the members of the corporate bodies;
- information about the effective remuneration of each of the members of the corporate bodies;
- effective transparency about the individual remuneration policy for each of the members of the corporate bodies.

5. Alignment of the interests of the Directors with the long-term interests of the company

The combined effect of the statutory rule that sets forth that the terms of office of the Board of Directors and the Supervisory Board have the duration of three years, the Remuneration Policy rule that establishes the deferred payment of the variable remuneration in five annual tranches of the same amount (with half the amount payable on each date distributed by 50% in cash and the other 50% in financial instruments), and the rule that all the financial instruments awarded are subject to a retention period of one year as from the date they were paid/ awarded, necessarily ensures that there is compatibility between the incentives arising from the variable remuneration awarded to the executive directors and the long-term interests of BPI.

6. Variable remuneration component and impact of the performance assessment on this component.

The remuneration of the members of the Executive Committee (Executive Directors) is made up of a fixed component and a variable component, the latter in the form of a bonus.

The variable component in the form of a bonus is in turn composed of a part in cash and another part in financial instruments, preferably CaixaBank shares, attributed in the framework and under the terms of the Remuneration Policy.

The amount of the variable remuneration in the form of a bonus of the Executive Directors is determined by the Remuneration Committee, after consultation with the NERC, in accordance with the following rules:

a) A risk-adjusted variable remuneration in the form of a bonus may be awarded to the Executive Directors, based on performance measurement.
b) No guaranteed variable remuneration shall be awarded except where a new Executive Director is hired. In any event, such guaranteed variable remuneration shall only be awarded in the first year of service and shall only be due if the Bank has a sound and strong capital basis.
c) Quantitative (financial) and qualitative (non-financial) criteria, which must be specified and clearly documented, are used for performance measurement and assessment of individual results.
d) The variable remuneration applicable to the Executive Directors is determined on the basis of a "target bonus" defined for each of them by the Remuneration Committee, acting on a proposal of the NERC.
e) The variable remuneration to be awarded will depend on the "level of achievement of the objectives" set for the Executive Director. The maximum percentage which this "level of achievement of the objectives" may reach is 120%, in which case the Executive Director will be entitled to receive a variable remuneration equivalent to 120% of the value of the "target bonus".
f) The "level of achievement of the objectives" is determined based on the achievement of Banco BPI objectives (corporate objectives) and individual objectives, where each set of objectives has a weight of 50%.
g) Banco BPI objectives: Banco BPI's objectives must be set for each year by the Remuneration Committee, on a proposal from the NERC, and their weight should be based on parameters defined in accordance with the Bank's main objectives. These parameters may include, but are not limited to, all or some of the following:
    - ROTE (return on tangible equity)
    - Recurring operating expenses
    - Risk Appetite Framework
    - Regulatory compliance
    - Quality
h) The proposed composition and weighting of Banco BPI's objectives should in any case be established in accordance with the provisions of the law, and may differ between Executive Directors.
i) Individual objectives: The share corresponding to the individual objectives (50 percent) should be distributed globally among the objectives associated with Banco BPI's strategy. The final assessment of fulfilment of the individual objectives will be carried out by the Remuneration Committee, acting on a proposal of the NERC.
j) Special restriction cases: The variable remuneration shall be subject to reduction if, at the time of the performance appraisal, a requirement or recommendation of Banco BPI's prudential supervision authority is in force to the effect of restricting its dividend distribution policy or if such is required by the competent authority, all in accordance with the provisions of the RGICSF.

7. Deferred payment of the variable remuneration component

One part of the variable remuneration (40%) is paid immediately after it is awarded (the award date will henceforward be referred to as “Initial Payment Date”), with ownership of both the cash and the instruments that compose it being transferred to the Executive Director. This 40% portion is composed in equal parts by cash and financial instruments.

Without prejudice to the reduction assumptions set forth in Section 5.2. of the Remuneration Policy, the payment of the remaining part of the variable remuneration (the deferred portion) is phased out as follows:

- 1/5 - 12 months after the Initial Payment Date
- 1/5 - 24 months after the Initial Payment Date
- 1/5 - 36 months after the Initial Payment Date
- 1/5 - 48 months after the Initial Payment Date
- 1/5 - 60 months after the Initial Payment Date

The cash and instruments whose award is subject to the deferral period shall only be transmitted to the Executive Director after the end of the respective phase of the deferral period.

The percentage of the variable remuneration subject to deferral is 60 percent. This percentage of deferral may be changed if the competent authorities set absolute or relative limits for the calculation of "particularly high variable remuneration amounts", pursuant to the provisions of the EBA Guidelines.

8. Sundry information about variable remuneration in shares

The criteria for awarding variable remuneration in shares are given in point 6 above.

The remuneration policy contains rules about permanence, where it states that one of the necessary conditions to receive the variable remuneration in the form of a bonus is that the Executive Director is still a member of the Board of Banco BPI on the 31st of December of the year in which said variable remuneration is due.

Bearing in mind the provisions of Article 115-E (15) of the RGICSF, the remuneration policy also contains rules that determine the incompatibility with personal hedging strategies or evasion mechanisms, committing the executive directors not to use any risk hedging mechanism to lessen or neutralise the risk-alignment effects inherent in the remuneration arrangements or through the payment of the variable component of the remuneration through special purpose entities or other methods with equivalent effect.

9. Criteria on which the awarding of variable remuneration in options is based and indication of the deferral period and the exercise price

The current remuneration policy does not foresee the award of share options or financial instrument options as a component of the variable remuneration.

10. Main factors and grounds for any annual bonus scheme and any other non-cash benefits

BPI Group's Directors do not benefit from other forms of remuneration – cash or non-cash – other than those referred to in the Corporate Governance Report or in the Notes to the Financial Statements or which stem from the normal application of the Collective Wage Agreement or labour law.

Note 4.52 - Related parties, to the consolidated financial statements, provides information about the loans granted to the Executive Directors for the acquisition of owner-occupied houses and the loans granted under the Variable Remuneration in Shares ("RVA") programme (as is the case with the Employees), and about the various insurance policies which the Executive Directors benefit from.

11. Main characteristics of the supplementary pension or early retirement schemes for directors and date when said schemes were approved by the general meeting, on an individual basis.

The members of the management body who are or have been Executive Directors (or, under the previous governance model, members of the Management body) benefit from the pension plan applicable to Banco BPI's Employees in general under the same circumstances, to the extent that they were Banco BPI Employees before holding those positions and their employment was suspended, under the terms of the law.

The members of the management body who were Executive Directors in the 2014/2016 term of office or who were members of this body (or, under the previous governance model, members of the Management body) in earlier terms of office, also enjoy as a defined benefit, a supplementary retirement benefit, as approved at the Bank's General Board meeting of 25 July 1995, which provides them with a retirement supplement the monthly amount of which depends on their monthly income as Executive Directors and on the number of years served in said positions.

The rules which govern the aforesaid benefit are set out in the Retirement Entitlement Regulations for the Members of the Management Board, approved at the above-mentioned General Board meeting, and transcribed below:

"Article 1

1. *The members of Banco BPI's Management Board are entitled to retire as set out in the Articles of Association and herein established, provided that the following conditions are met:*
   a) *They have reached the age of 60 or became incapacitated to perform their duties;*
   b) *Being, at the time when the facts referred to in the preceding sub-paragraph occur, elected to the post of Manager or, if they are not, they meet the requirements set out in article 4;*
   c) *They have held this post for at least three consecutive or non-consecutive years.*
2. *For the purpose of the requirement provided in paragraph c) in the point above, the time that is counted is:*
   a) *The entire length of tenure as a Director, even before these Regulations;*
   b) *The entire length of tenure as a Director, before the alteration to the Bank's structure and as SPI – Sociedade Portuguese de Investimentos, SARL's Director.*
3. *If Banco BPI, S.A.'s structure is changed again to Board of Directors instead of Management Board, the provisions herein set out shall still apply to Directors' retirement, as the aim is to regulate the retirement entitlement of the members of this bank's management body.*
4. *It is hereby established that the people this Regulation applies to directly are those who sit on the Board of Directors' Executive Committee in the 2014-2016 term of office or who are part of it (or in the case of the previous governance model, the Senior Management) in terms of office before this*[1]*.*

Article 2

1. *Retirement entitles the beneficiaries to receive from the Bank a pension calculated on the basis of the amount of the fixed monthly remuneration as at 31 December 2009 for the Management Board post corresponding to that which they occupied at the date the conditions envisaged in article 1 are met, updated at the identical rate of increase as that, according to the Collective Employment Agreement for the banking sector, which is applied to level 18 remuneration.*
2. *The pension amount shall be that which results from the application of the percentages given below to the compensation referred to in paragraph 1 of this Article, depending on whether it is a disability to perform the duties or retirement age, and shall be calculated according to the number of years in which the office as member of the Board has been held:*

No. of years the office as member of the Management Board was held	*Disability to hold the office*	*Mandatory Retirement (age limit)*
> 3	*25%*	-
> 4	*30%*	-
> 5	*35%*	-
> 6	*40%*	-
> 7	*45%*	-
> 8	*50%*	-
> 9	*55%*	*30%*
> 10	*60%*	*40%*
> 11	*65%*	*50%*
> 12	*70%*	*60%*
> 13	*75%*	*70%*
> 14	*80%*	*80%*
> 15	*90%*	*90%*
> 16	*100%*	*100%*

3. *The retirement pension, fixed under the terms of the preceding paragraphs, shall be updated annually by the CPI rate of change.*
4. *Irrespective of the provisions set forth in Article 1 (1) (c), if disability results from accident at work or illness caused by work, the beneficiary is entitled to a pension in an amount which results from the application to the compensation referred to in paragraph 1 of this Article of a percentage that, as from 10%, shall grow as much for each full year of tenure as member of the Management Board, other than the first year, up to 100%.*

1) Alteration approved at the General Meeting of 26 April 2017.

5. *For purposes of the application of the provisions of the preceding numbers, where the beneficiaries have exercised management functions at any Bank controlled by Banco BPI with head office in Portugal, whether these were exercised before or after the acquisition of that control, the relevant number of years exercise of functions (first column of table no. 2) shall correspond to the sum of the number of years during which the exercise of the office of Management Board member was exercised and the number of years of the exercise of management functions at the foresaid Bank(s) controlled by Banco BPI.*

Article 3

1. *For the purposes provided herein, the right to reach statutory retirement may be exercised when the Director reaches 60 years of age or is incapacitated to remain in office.*
2. *Any Director wishing to retire shall inform the General Board that, within 3 months from the date the notice is served, conditions herein set are met.*
3. *If the grounds for reaching retirement is a disability, the General Board may, if deemed fit, require that the Director be submitted to medical examination by experts appointed by the Board for the purpose.*

Article 4

1. *Whoever has completed 9 years, consecutive or interspersed, of the exercise of the office of Manager and who, having so ceased to exercise it, if he/she remains in management functions at any Bank controlled by Banco BPI until reaching the age of 60, in other functions at the last-mentioned or at a BPI Group company, or in functions outside the BPI Group but in the latter's interest or at the latter's instruction, upon reaching that age, or if before reaching that age becomes incapacitated for exercising such functions, acquires the right to start receiving a retirement pension which will be calculated by the application of the percentages indicated in article 2(2) for the situation of reaching retirement age to the amount of the salary referred to in article 2(1).*
2. *The amount of the pension referred to in the in the preceding paragraph shall be:*
   a) revised under the terms set out in paragraph 3 of article 2;
   b) reduced by 20%, in case the beneficiary no longer is part of BPI' s Management Board or of the management bodies of the banks listed therein, due to relinquishment of his / her posts on unfair grounds, or, if not re-elected, ceases to serve the BPI Group before attaining 60 years of age.

Article 5

1. *In case of death of any Director who is retired, or who is still holding office but has already acquired rights pursuant to Article 4 of these Regulations, his/her relatives are entitled to a survivor's pension.*
2. *The amount of the survivor's pension provided for in the preceding paragraph shall be calculated based on the pension to which, pursuant to these Regulations, the beneficiary would be entitled if he/she were already retired, or on that already actually earned, as appropriate, and shall be revised annually by the CPI rate of change.*
3. *The percentages and conditions for granting a survivor pension to the relatives of the deceased Director shall be governed, in the part not specifically provided for in these Regulations, by the rules of the social security general scheme in force, which is attached hereto as Annex I.*

Article 6

1. *Pensions referred to in the preceding articles shall be deducted of the entire amount of pensions received or to be received by beneficiaries for their years of service at the BPI Group, or which the BPI Group may have acknowledged for said purpose.*
2. *If and when the interested party is entitled to the pensions referred to in the preceding paragraph, it shall apply for them and notify the Bank that they have been awarded and of any changes to the amounts – otherwise, the Bank shall not pay the pension due – substantiating, upon request, the amounts actually received for the Bank to calculate the amount of the pension to be paid or any repayment to be made by the beneficiary to the Bank.*
3. *The pensions set out herein shall be paid 14 times a year: twelve in the calendar months, one in June and the other before Christmas.*
4. *Any Director removed from the Management Board on fair grounds, or who has lost its mandate, as well as any Director not re-elected on fair grounds for dismissal, shall lose any right it may have acquired.*

Article 7

1. *The Bank may transfer any liabilities arising from the retirement entitlement herein ruled to an insurer or any pension fund.* [1]
2. *Such transfer requires prior written agreement of the beneficiaries whenever it causes changes to retirement conditions or a reduction in benefits or guarantees that they had been enjoying.*

1) In December 2006, the liabilities for defined-benefit retirement and survivors' pensions of the BPI Group's Banks were transferred to an open-end pension fund (Fundo de Pensões BPI Valorização).

3. *Insurance contracts against the risk that the Bank is extinguished shall be made, at the Bank's expense, ensuring, besides the extinction, that pensions continue to be paid.*
4. *The Management Board is authorised to enter into the insurance contracts mentioned in the preceding paragraph.*

Article 8

Any expedient action resulting from the application of these Regulations, including the starting of retirement proceedings shall be organised by the relevant departments of the Bank.

Article 9

The General Board may delegate to the Compensation Committee the powers conferred in article 3, as well as any issues concerning the interpretation and integration of these Regulations.

Article 10

These Regulations replace those entered into force on 29 November 1990 but, for Board Members currently in office, apply only to those who, until 31 December 1995, opt for being subject to these Regulations."

There is a provision that the pensions paid under the Social Security which fall within any one of the following three categories shall be deducted from the pensions paid under the Executive Directors' plan:

- those concerning duties performed at the BPI Group;
- those concerning duties performed for third parties by indication of the BPI Group and which the BPI Group has recognised for this purpose;
- pensions awarded under other pension plans of the BPI Group.

By resolution of the Remuneration Committee, under the terms of the current Remuneration Policy, six of the eight Executive Directors are also entitled to a defined contribution supplementary pension benefit.

The members of the management and supervision bodies who are not nor have ever been Executive Directors (or, under the previous governance model, members of the Management body) are not entitled to any retirement benefit attributed by the Bank.

A sum of €11 894 thousand, corresponding to the present value of past service liabilities, was allocated to the Executive members of the Board of Directors who at 31 December 2019 are beneficiaries of a defined contribution pension plan:

Amounts in € thousand

Executive Directors	Amount
José Pena do Amaral	3 965
Pedro Barreto	1 782
João Oliveira e Costa	1 626
António Farinha Morais	4 521

For the Executive Directors Alexandre Lucena e Vale and Francisco Manuel Barbeira, who benefit from a pension scheme under the Collective Wage Agreement and/or the Social Security, the sum allocated, corresponding to the present value of past service liabilities, was €1 026 thousand:

Amounts in € thousand

Executive Directors	Amount
Alexandre Lucena e Vale	689
Francisco Manuel Barbeira	337

In 2019, the annual cost of retirement and survivor's pensions calculated based on the actuarial evaluation of 31 December 2018 was €446 thousand, broken down as follows:

Amounts in € thousand

Executive Directors	Normal cost
José Pena do Amaral	202
Pedro Barreto	98
João Oliveira e Costa	110
António Farinha Morais	26
Alexandre Lucena e Vale	7
Francisco Manuel Barbeira	3

IV. REMUNERATION DISCLOSURE

12. Details on the amount relating to the annual remuneration paid as a whole and individually to members of the company's board of directors, including fixed and variable remuneration and as regards the latter, reference to the different components that gave rise to same.

A) Fixed Remuneration

In 2019 the overall fixed remuneration of the members of the Board of Directors totalled €6 118 018.
Over and above this amount there were attendance fees of €357 300 for their participation in the meetings of the advisory and support committees of the Board of Directors foreseen in the Articles of Association.

Amounts in euros

Board of Directors	Fixed remuneration	Attendance fees
Fernando Ulrich	750 000	–
Pablo Forero	1 028 396	–
António José Cabral	60 000	66 600
António Lobo Xavier	81 000	53 900
Alexandre Lucena e Vale	468 990	–
António Farinha Morais	542 232	–
Cristina Rios Amorim	60 000	37 000
Fátima Barros	60 000	40 700
Francisco Manuel Barbeira	402 117	–
Gonzalo Gortázar Rotaeche	60 000	–
Ignacio Alvarez-Rendueles	824 961	-
Javier Pano Riera	60 000	40 700
João Pedro Oliveira Costa	499 045	–
José Pena do Amaral	542 232	–
Lluís Vendrell	60 000	66 600
Natividad Capella Pifarre	60 000	25 900
Pedro Barreto	499 045	–
Tomaz Jervell	60 000	25 900

B) Variable Remuneration

i) General Features

As referred, the members of the Board of Directors who are members of the Executive Committee may be entitled to receive a variable remuneration.

This variable remuneration is dependent upon the performance of the Executive Committee member during a given year, and its attribution is usually decided and made during the first half of the following year.

Under the terms of the applicable Remuneration Policy, this variable remuneration is subject to deferral, i.e., one part thereof is paid in the year in which it is attributed and another over subsequent years.

ii) Variable remuneration relative to the performance of the members of the Executive Committee in 2019

The existence and amount of this variable remuneration shall be subject to a decision to be taken in the first half of 2020, under the terms referred to hereinabove. However, and in accordance with the applicable accounting rules, it was considered in Banco BPI's 2019 financial statements that the variable remuneration to be attributed to the members of the Executive Committee in the first half of 2020, with reference to financial year 2019, would match the limit approved in the Remuneration Policy (total amount of €1.55 million).

iii) Variable remuneration relative to the performance of the members of the Executive Committee in financial years before 2019

Portions of variable remuneration attributed to the members of the Executive Committee for their performance in years prior to 2019, the payment of which was subject to deferral under the terms referred to hereinabove, were paid in 2019.

This remuneration does not therefore concern the year 2019 in so far as it rewards performance of previous years, but it was paid in 2019 due to the rules on deferral set forth in the Remuneration Policy.

Hence, with regard to performance in 2015, 2017 and 2018, the members of the Executive Committee then in office received in 2019 the following amounts of variable remuneration related to these years:

In equity instruments (CaixaBank shares)

(Amounts in euros)	2017	2018
Pablo Forero	12 000	44 000
Alexandre Lucena e Vale	6 628	26 492
António Farinha Morais	7 980	30 000
Francisco Barbeira	6 383	37 800
Ignacio Alvarez-Rendueles	10 661	40 800
João Oliveira e Costa	12 329	48 970
José Pena do Amaral	6 780	26 600
Pedro Bissaia Barreto	12 329	45 846

In cash

(Amounts in euros)	2015	2017
Fernando Ulrich	319 302	
Pablo Forero		12 000
Alexandre Lucena e Vale	76 970	6 628
António Farinha Morais		7 980
Francisco Barbeira		6 383
Ignacio Alvarez-Rendueles		10 661
João Oliveira e Costa	225 447	12 329
José Pena do Amaral	225 447	6 780
Manuel Ferreira da Silva	225 447	
Maria Celeste Hagatong	225 447	
Pedro Bissaia Barreto	225 447	12 329

Finally, and with regard to performance in 2018, the General Meeting of Shareholders of 29 April 2019, upon a proposal of the Remuneration Committee and under the transitory provision set out in Article 28 (5) of the Articles of Association, approved the attribution of the following variable remuneration:

Variable remuneration relative to 2018

(Amounts in euros)	Amount attributed	Amount paid in 2019	Deferred amount with payment phased out from 2020 to 2024 (1/5 each year)
Pablo Forero	220 000	88 000	132 000
Alexandre Lucena e Vale	132 460	52 984	79 476
António Farinha Morais	150 000	60 000	90 000
Francisco Manuel Barbeira	189 000	75 600	113 400
Ignácio Alvarez-Rendueles	204 000	81 600	122 400
João Oliveira e Costa	244 849	97 940	146 909
José Pena do Amaral	133 000	53 200	79 800
Pedro Bissaia Barreto	229 231	91 692	137 539

The amounts referred in the above table, i.e., both those paid in 2019 and those whose payment was deferred and are scheduled for phased payment over each of the five years of the 2020-2024 period, shall be paid half in cash and half in kind (the latter, in CaixaBank shares, valued at €2.8805 per share). The amounts paid in kind shall be subject to an unavailability period of one year starting on the date when the respective payment takes place.

i) Long-term incentives

General Features

CaixaBank has implemented a conditional variable remuneration scheme (Long-term Incentives Plan) linked to the 2019-2021 Strategic Plan for the Executive Board Members and a restricted group of Key Employees. The Plan's recipients are called the Beneficiaries. Acting in line with CaixaBank, a Long-term Incentives Plan was also put in place at Banco BPI, linked to its own 2019-2021 Strategic Plan.

Objective

The Plan has the following objectives:

- To drive the new Strategic Plan, by motivating the Beneficiaries to reach its Objectives. To retain the Beneficiaries.
- To be competitive and adapt to the trends followed by comparable credit institutions, maintaining a remuneration system pegged to a multi-annual objective, as provided for in the legislation applying to credit institutions.
- To make the remuneration of the Beneficiaries of the Plan coincide with the interest of the shareholders, in the long term.
- To reinforce the link between variable remuneration and risk appetite.
- To comply with the recommendations on corporate governance issued by the European Union, the National Securities Market Commission, the proxy advisors and institutional investors, to the effect of having a Multi-Year Variable Remuneration System.

The Plan

The Plan consists in a Variable Remuneration Scheme that combines short- and long-term metrics based on the Strategic Plan.

It provides for the allocation of a certain number of Units to each beneficiary, free of charge and multi-annually (2019, 2020 and 2021), which will subsequently serve as a basis to determine the number of Shares to be delivered, providing the requirements set forth in the Regulation are met.

The allocation of Units does not by itself give the Beneficiaries the status of shareholders of the Company, as it does not imply the attribution of economic, political or other rights resulting from the status of shareholder. Under the current Plan the status of Shareholder results from the holding of Shares.

Beneficiaries

The beneficiaries are members of the Board of Directors with executive functions (members of the CECA) who are invited to participate by the Remuneration Committee, which approved the list and amounts in its meeting of 16 July 2019.

The beneficiaries also include certain members of the Identified Collective whom the Board of Directors deems fit to invite and who accept to participate, in accordance with the established procedure, the Board of Directors having approved the list and amounts at its meeting of 23 July 2019, upon the opinion of the Nominations, Evaluation and Remuneration Committee.

The maximum number of Beneficiaries of the Plan, whether they be Executive Directors or other Employees, will be that approved by the General Meeting for each cycle. This number already includes any possible new inclusions of Beneficiaries in the Cycle during the period of validity.

The target incentive defined for the 2019 plan, under which the first effective payment will only be made in 2023 (providing the conditions on which its allocation depends are met) was the following:

- Chairman of the CECA – €100,000
- Other members of the CECA – €50,000 each
- Invited Employees - €25,000 each

13. Any amounts paid, for any reason whatsoever, by other companies in a control or group relationship, or subject to common control.

None of the members of the Executive Committee received any remuneration from any Group company other than from Banco BPI.

14. Remuneration paid as profit sharing and/or as payment of bonuses and the reasons for said bonuses or profit sharing being awarded.

As explained in point 12 above, the members of the Executive Committee who were in office in 2018 were awarded in 2019 the variable remuneration referred to in this point for their performance in that year.

The attribution of this remuneration was approved by written unanimous resolution taken by the single Shareholder on 29 April 2019.

15. Compensation paid or owed to former executive directors in relation to contract termination during the financial year.

There was no payment for early termination in 2019.

16. Details of the annual remuneration paid, as a whole and individually, to the members of the company's supervisory board for the purposes of Law No. 28 / 2009 of 19 June.

The overall remuneration of the members of the Supervisory Board in 2019 totalled €264 000. The individual amounts are indicated below:

Remuneration of the Supervisory Board

Amounts in euros

Supervisory Board	Fixed Remuneration
Manuel Ramos Sebastião	73 200
Rui Campos Guimarães	63 600
Ricardo Filipe Pinheiro	63 600
Elsa Roncon Santos	63 600

17. Details of the remuneration in said year of the Chairman of the General Meeting.

In 2019, the overall amount of the remuneration awarded to the Chairman of the General Meeting was €14 400, paid in 12 instalments.

The members of the Presiding Board of the General Meeting do not benefit, under this circumstance, from any retirement rights.

V. AGREEMENTS WITH REMUNERATION IMPLICATIONS

18. Contractual limitations envisaged for the compensation payable for the removal of a director without due cause and its relationship with the variable component of remuneration.

Regarding this matter, article 403-5 of the Companies Code states that: “If there is no just cause for the dismissal, the director shall have the right to compensation for any damages suffered, through the means stipulated in the contract he entered into or under the general terms of the law, but the compensation must not exceed the amount of the remuneration which the director would presumably receive until the end of the period for which he was elected.”

There are no contractual limitations / conditions foreseen for compensation to be paid for the dismissal of a director without due cause.

19. Agreements between the company and members of the management board or senior officers that make provision for compensation in case of resignation, dismissal without due cause or termination of the labour relationship following a change in the control of the company.

There are no agreements between BPI and members of the management board or senior officers that make provision for compensation in case of resignation, dismissal without due cause or termination of the labour relationship following a change in the control of the company, save as provided for under the applicable general law.

VI. SHARE-ALLOCATION OR STOCK OPTION PLANS

20. Details of the plan and the number of persons included therein.

The terms under which Banco BPI awards financial instruments (CaixaBank shares) as part of the variable remuneration of the Executive Directors and remaining Identified Staff are defined and described in Section 4 - point 4.1 and Section 5 of the Remuneration Policy of the Board of Directors and Supervisory Board, and in Section 5 - point 5.2 and Section 7 of the Remuneration Policy of the Identified Collective, respectively.

These Policies do not provide for any stock option plan as a form of remuneration.

Until the end of 2017, Banco BPI had a share-based remuneration programme consisting in the attribution of BPI shares and stock options, called the “RVA Programme”, which applied to the Executive Directors, the Identified Staff, and the remaining Employees, which is described in detail in previous government reports.

21. Details of the share allocation and stock option plan

As referred in the previous point, the terms and conditions for the allocation of shares are defined in the referred points of the above-mentioned Policies.

22. Stock options for the company's Employees and staff

There are no rights of this nature of which the Executive Directors, the Identified Staff or any other Employees of Banco BPI are the beneficiaries.

23. Control mechanisms for a possible employee-shareholder system in as much as the voting rights are not directly exercised by said employees (Article 245-A/1/e).

There is no such mechanism in place. The current Policies only provide for the allocation of CaixaBank shares, and not for the allocation of Banco BPI shares.

Related party transactions

I. CONTROL MECHANISMS AND PROCEDURES

1. Mechanisms implemented by the company for the purpose of controlling related-party transactions

In accordance with IAS 24, the following entities are considered as Banco BPI related parties:

- those in which the Bank has direct or indirect significant influence over their management and financial policies – Associate and jointly controlled entities and Pension Funds;
- those that have direct or indirect significant influence over the management and financial policies of the Bank – Shareholders, this is presumed to happen when the equity holding is greater than 20%;
- the members of the key management personnel of Banco BPI, such being considered for this purpose the executive and non-executive members of the Board of Directors and natural and legal persons related with them.

The Bank maintains a permanent list of the entities included in the concept of “related party” in a centralised IT application, and has defined in a specific standard the set of rules that must be followed in transactions with such entities.

In addition, the following is also stored in centralised IT applications:

- information about exposure per Client;
- the integrated position of the Clients.

Where significant transactions other than current banking transactions are concerned, such as transactions involving equity holdings, business agreements, and such, these are subject to a resolution of the Board of Directors based on the analysis and prior opinion of a committee of the Board of Directors formed by Non-Executive Members and an opinion of the Supervisory Board.

The most significant transactions carried out with CaixaBank in 2019 are described in point 41 of the Notes to the Financial Statements.

The Bank has internal regulations that lay down the limitations, as well as the approval and reporting procedures for lending operations to members of the management and supervision bodies, shareholders with qualifying holdings, as well as family members thereof and entities which the law deems to be related to any of the former.

These regulations aim to ensure effective control of compliance with the legal rules set out in the General Law on Credit Institutions and Financial Companies (RGICSF) concerning the granting of loans to the abovementioned persons and entities.

2. Indication of the transactions which were subject to control in the year under review

Information reported for compliance with Articles 85 and 109 of the RGICSF about credit used and guarantees provided by Banco BPI, S.A. at 31 December 2019.

Information reported for compliance with Article 85 of the RGICSF

Amounts in € thousand	Credit used	Guarantees provided
Board of Directors		
António Lobo Xavier		
Related entities	86 570	
Cristina Rios Amorim		
Related entities	141	0
Fernando Ulrich		
Related entities	59	0
Francisco Manuel Barbeira		
Related entities	28 425	11 542
Gonzalo Gortázar		
Related entities	9 833	0
João Pedro Oliveira e Costa		
Related entities	0	561
José Pena do Amaral		
Related entities	0	561
Fátima Barros		
Related entities	13	23 569
Tomás Jervell		
Related entities	60 235	3 639
Supervisory Board		
Manuel Sebastião		
Related entities	100 012	24 227

Notes
1). "Related Entities" are deemed to be the legal persons controlled by the Director or in which the Director has a qualifying holding, as well as those where he/she is a manager.
2). Includes credit operations and guarantees provided to companies related simultaneously with more than one Director, in the amount of €14 thousand related to credit used and €561 thousand to guarantees provided.

Taking into account that Banco BPI is fully held by CaixaBank and is included in the same consolidation perimeter as CaixaBank, the discipline set forth in Article 109 of the RGICSF does not apply to the transactions with the Bank's sole shareholder.

Other information

I. DISCLOSURE OF THE APPLICABLE REMUNERATION POLICY AND QUANTITATIVE INFORMATION ABOUT THE REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS, SUPERVISORY BOARD AND THE SO-CALLED "IDENTIFIED STAFF", PURSUANT TO AND FOR THE PURPOSE OF COMPLIANCE WITH ARTICLES 16 AND 17 OF BANCO DE PORTUGAL NOTICE NO. 10/2011

1. Information concerning the members of the Board of Directors and the members of the Supervisory Board

The Bank complies with the obligation to disclose the information referred to in the above-mentioned rules regarding the members of the Board of Directors and the members of the Supervisory Board, through this Governance Report, the notes to the financial statements and other information they contain about the remuneration policy followed by the Bank.

2. Information concerning the so-called "Identified Staff"

Remuneration Policy of the Identified Staff

Pursuant to the RGICSF, the rules on remuneration policy set forth therein apply not only to the members of the Board of Directors (executive and non-executive) and of the Supervisory Board, but also to the Employees (designated by BPI as "Identified Staff") who:

a) are part of senior management, with senior management being understood as comprising all the Employees who report directly to the Executive Committee of the Board of Directors or to any of its members;
b) are responsible for the assumption of risks, it being understood that this scope includes the Employees who are responsible for taking risk-assumption decisions, and in the area of credit risk, those who participate in these decisions at the specific level of risk analysis and evaluation, i.e., all those who are members in service of the Global Risk Committee, the Permanent Credit Committee, the Asset and Liability Committee (ALCO Committee) and the Risk Policies Committee, and also those in the position of primary responsibility for the Credit Risk Division, Individuals Credit Risk Division and Financial Division;
c) receive remuneration that places them on the same remuneration bracket as the members of the Executive Committee or the Employees referred to in a) and b) above, and at the same time meet any of the qualitative or quantitative requirements provided for in Commission Delegated Regulation (EU) no. 604/2014, of 4 March 2014; or
d) are responsible for control functions within the meaning provided for in Banco de Portugal Notice 5/2008, i.e., Employees in the position of primary responsibility for the Compliance Division, Internal Audit Division and Global Risk Management Division (formerly the Risk Analysis and Control Division), as well as Employees who report directly to those with primary responsibility for the Compliance Division and Internal Audit Division.

For compliance with Article 115-C-5 of the RGICSF, on 18 March 2019 the Board of Directors of Banco BPI approved the Remuneration Policy of the Identified Staff, the content of which is described below.

This Policy was fully applied in 2019.

REMUNERATION POLICY OF THE BANCO BPI "IDENTIFIED EMPLOYEES"

1. Subjective scope

This remuneration Policy applies to Banco BPI employees who:

i. Are part of the **top management**, which is understood to include all Employees who report directly to the Board of Directors Executive Committee (CECA) or any of its members;

ii. Are **responsible for taking risks**, it is understood that this includes the Employees who take the decisions to take risks and, in the domain of credit risk, those who participate in this decision in the specific area of its analysis and assessment, i.e. all those who are effective members of the Global Risk Committee, the Permanent Credit Committee, the ALCO Committee (Asset-Liability Committee) and the Risk Policy Committee as well as the heads of the Credit Risk Department, the Individual Credit Risk Department and the Financial Department;

iii. Receive a remuneration that puts them on the same remuneration scale as the members of the Executive Commission or the Employees mentioned in points (i) and (ii) above and also meet any of the quantitative or qualitative requirements provided in the Delegated Regulation (EU) No. 604/2014 of the Commission of 4 March 2014; or

iv. Are responsible for control functions in the sense of Bank of Portugal Notice 5/2008, i.e. the Employees who are the heads of the Compliance Division, Internal Audit Division and the Risk Analysis and Control Division, along with the Employees who report directly to the heads of the Compliance Division and Internal Audit Division.

In the last quarter of each year, after obtaining the positive opinion of the Nominations, Evaluation and Remuneration Committee, the CECA shall approve the Human Resources Division (DRH) proposed list of names who, as they are in the categories mentioned in paragraphs i) to iv) above must, therefore, be considered to be covered by this Policy as of 1 January the next year.

The DRH shall use the qualitative and quantitative criteria provided in Delegated Regulation No. 604/2014, particularly the work done up until 30 September the year before regarding the qualitative criteria and shall use all the fixed remuneration paid in the year before and the total variable remuneration awarded for performance in the same year as a baseline for the quantitative criteria.

Employees who are included in the list mentioned in the previous paragraph shall be called "Identified Employees" in this document.

Notwithstanding the above-mentioned obligation, the DRH shall propose an updated list of Identified Employees to the CECA whenever there are any changes to the respective jobs. The group of Identified Employees includes everyone who has performed functions that meet the qualitative criteria for at least 3 months. This Policy will be applied proportionally by complete months, to any Identified Employees who stop performing the functions that led to their qualification before the end of the year.

The DRH shall advise each of the people on the list of their situation as an "Identified Employee" for the purpose of this Policy, informing them of the meaning and the reason behind the decision along with the date as of when they would be considered to be subject to this Policy.

The final approval of the list of functions to be included in the identified collective is the responsibility of the Nominations, Evaluation and Remuneration Committee.

2. Objective scope

The present Remuneration Policy is applicable to the persons referred to in section 1 who perform the aforementioned functions at Banco BPI.

Banco BPI shall promote the adoption, with the necessary adaptations, namely of the proportionality and suitability criteria envisaged in the General Regime for Credit Institutions and Financial Companies (hereinafter the General Regime) and of the necessity of rendering it compatible with other applicable legal regulations, namely in the case of foreign subsidiaries, of the present policy and the principles embodied in it, by its subsidiaries.

In any event the present Policy is not applicable to the part of fixed or variable remuneration granted directly by the subsidiaries not wholly held by the Bank to Employees, since BPI does not have full control over those subsidiaries, it does not have the power to impose its application, as well as by the fact that the present matter may be subject to its own legislation in those same jurisdictions (in the case of foreign subsidiaries) whose compliance the aforesaid subsidiaries are bound by in the first instance.

3. General principles and objectives

3.1 Principles

The Remuneration Policy takes into account the general principles of Banco BPI remuneration as shown below:

i. The remuneration policy aims to encourage behaviour that ensures the generation of long-term value and the sustainability of the long-term profits. The variable remuneration, therefore, takes into account meeting the objectives and how they are reached.
ii. The individual objectives of the remuneration policy beneficiaries are defined using the commitment that they reach and establish with their superiors.
iii. The remuneration policy bases its strategy on capturing and retaining talent by providing the professionals with participation in a distinctive social and business project, the possibility of professional development and competitive conditions of total compensation.
iv. Under the scope of these overall compensation terms, the remuneration policy focusses on a competitive positioning in the amount of the fixed remuneration and social benefits, based mainly on its ability to capture and retain talent through both remuneration components.
v. The fixed components are the largest part of the general remuneration conditions, where, generally the variable remuneration concept tends to be conservative because of its potential role as a risk generator.
vi. The promotion system is based on an assessment of the skills, performance, commitment, and professional qualification constantly over time.

3.2 Objectives

The objectives of this Remuneration Policy are:

i. To contribute towards promoting and being coherent with sound, prudent risk management;
ii. To have a configuration that does not encourage taking on higher levels of risk than those tolerated by Banco BPI; and
iii. To avoid creating or contributing towards conflicts of interest.

4. Definition of the Remuneration Policy

The Board of Directors is responsible for defining the Remuneration Policy with assistance from any experts and external consultants it deems to consult.

The Board of Directors bears in mind the objectives mentioned in point 3.2 when it defines the Banco BPI Remuneration Policy.

The Remuneration Policy defined must be compatible with the business strategy and Banco BPI's long-term goals, values and interests, just as these are and may become defined by the competent governing bodies for this purpose.

The Board of Directors should also bear in mind, in defining the Remuneration Policy, and in such a manner that takes into account and are suitable and proportional to the nature, characteristics, scale, organisation and complexity of Banco BPI's activities, the applicable principles and legal rules, namely those envisaged in the General Regime and in Bank of Portugal Notice 10/2011.

The Board of Directors' Nominations, Evaluation and Remuneration Committee (NERC) shall participate in defining the Remuneration Policy and it shall be responsible for collaborating and undertaking the jobs foreseen in the General Regime, in article 7 of the Bank of Portugal Notice No. 10/2011 and its operating Regulation.

In defining the Remuneration Policy, the Board of Directors may hear the heads of the auditing, compliance, and risk management units, who it may ask to contribute regarding the risks where each of these areas intervene if they consider it relevant.

5. Structure

The Remuneration Policy is structured taking into account the Banco BPI situation and profits, mainly including:

I. a fixed remuneration based on the level of responsibility and the career of the Identified Employee, which shall be a significant part of their total compensation;
II. when so decided, a variable remuneration of incentives tied to compliance with pre-set objectives and a prudent management of risks; and
III. social assistance and social benefits, in the group institutions where they have been established.

The variable remuneration may not be awarded in exceptional cases such as if its award would limit the ability of Banco BPI to bolster its equity base, and in any case, it will always take into consideration all kinds of current and future risks.

Legally, the annual variable remuneration of any of the Identified Employees cannot be greater than the total amount they earned from their fixed remuneration in the previous year.

The approval and attribution of any amount that is higher than that mentioned above, up to a maximum limit of twice the fixed remuneration, depend on meeting the legally established requirements to do so.

The classification of a remuneration component as fixed or variable shall imply complying with the following rules in matters of remuneration set for financial institutions.

5.1. Fixed remuneration

The fixed remuneration calculated for each Employee and is the result of applying the respective work contract and the Collective Work Agreement for the banking sector (ACT) and it is also based on the relevant professional experience and the organisational responsibility of the Employee.

The CECA may decide to award retribution supplements and/or job supplements and /or special retribution for work outside office hours.

5.2. Variable remuneration

The variable remuneration is composed as follows:

- 50% is paid in cash;
- The other 50% is paid in instruments; whenever there is reason to pay in instruments, this will preferentially be made in CaixaBank shares; however, Banco BPI can award other instruments admitted for the payment of the variable remuneration, on the conditions and pursuant to the requirements provided in article 115-E of the General Regime, in the Delegated Regulation (EU) No. 527/20145 (hereinafter called "Regulation 527/2014") and EBA guidelines.

The variable remuneration is subject to the deferral rules provided in section 7.

Furthermore, apart from a variable remuneration, some or all of the Identified Employees may be awarded a variable remuneration component involving a long-term incentive based on CaixaBank instruments or that are referenced to their value (hereinafter LTI), as established in Section 8.

5.3 Special rules that apply to Employees who are responsible for control functions

The remuneration of Employees responsible for control functions (referred to in paragraph iv) of Section 1), is mainly based on the fixed component of remuneration, and is directly supervised by the Nominations, Evaluation and Remuneration Committee, as per paragraph 3-d) of Article 115-C of the General Law on Credit Institutions and Financial Companies.

Identified Employees who work in control functions must be remunerated in compliance with the objectives related to their jobs regardless of the business areas they control; consequently the professional objectives connected with the control areas, used to calculate their performance for the payment of the variable remuneration, are established using the performance parameters agreed by the professional and the area head, without being related with the results of the business areas they control and supervise.

6. Determination of the Variable Remuneration to be granted to each Employee

6.1. General Rule

The attribution of Variable Remuneration, in the form of a bonus, is conditional a priori on the Institution's good performance. The good performance of the Institution is measured through reliable parameters, defined every year at the time Banco BPI objectives (Corporate Objectives) are defined and validated.

The determination of the actual amount of the variable remuneration to be granted is done by the Executive Committee of the Board of Directors after the Nominations, Evaluation and Remuneration Committee opinion and taking into account:

a) The evaluation of the Employee's performance, which must consider, inter alia, compliance of his/her functions beyond that required, criteria of a financial and non-financial nature and the performance of the structural unit for which he/she is responsible relative to BPI's overall results ;
b) Observance of the rules and procedures applicable to the activity carried out, namely internal control rules and when applicable those relating to customer and investor relations;
c) The sustainable performance adapted to BPI's risk, considering amongst others the trend in the cost of own funds and liquidity;
d) In the case of Employees with control functions, the result of the performance of the respective control functions.

The Employee performance assessment takes into account not only the year that this variable remuneration regards, but also previous ones so that this assessment and consequently the variable remuneration to be awarded takes into account a multi-year view, ensuring that the assessment process is based on long-term performance and that the payment of the remuneration components that depend on it are shared over the period that takes into consideration the underlying economic cycle and the BPI business risks.

The setting of the overall amount of the variable component of the Employees' remuneration also, although without there being an automatic relationship of dependency, takes into consideration the variation of the overall amount defined for the variable remuneration of the other Banco BPI workers.

6.2. Special cases of restriction

The variable remuneration can be reduced if, at the time of the performance assessment, there is a demand or recommendation in force from the Banco BPI prudential supervision authority to restrict the dividend distribution policy, or if that was demanded by the competent authority, pursuant to the power they have been awarded by the regulations, all of which must be in accordance with the General Credit Institution Regime (RGIC in the original Portuguese).

No guaranteed variable remuneration can be awarded, unless in the case of a new Employee and, in any case, that guaranteed variable remuneration only applies to the first year in the job and will only be payable if there is a sound and solid capital base at the Bank.

7. Award, deferral, and provision

7.1. Variable remuneration: part paid immediately and part deferred

Part of the variable remuneration is paid immediately after it is awarded, in that the money and financial instruments that are the part of the variable remuneration that is not deferred are transferred to the Identified Employee.

The deferred part of the variable remuneration is subject to a step-by-step deferral period as provided in point 7.2. The deferred cash and instruments are only transferred to the Identified Employee after the end of the respective deferral period of each tranche.

The deferral percentage applied to the variable remuneration of the Identified Employees is 40%.

This deferral percentage can be altered if the competent authorities establish absolute or relative limits to calculate the "particularly high variable remuneration amounts" pursuant to the EBA Guidelines.

Insofar as it is not prohibited by the applicable regulations, the provisions in this Policy regarding the composition and deferral period of the variable remuneration will not apply to the variable remuneration of the Identified Employees that, in any given year, are not higher than €50 000 in which case they will be paid in full in cash without being subject to any percentage being deferred.

7.2. Deferral period

On the date of the variable remuneration payment, the part that is not deferred must be paid (hereinafter called the "Initial Payment Date"), i.e. the money and financial instruments that are the part of the variable remuneration that is not deferred must be transferred to the Identified Employee. Half of this variable remuneration that is not deferred is paid in cash and the other half in financial instruments.

The deferred part of the variable remuneration must be paid in three tranches as shown below, as long as the reduction suppositions provided in Section 7.10 of the Remuneration Policy, below do not occur:

- 1/3 12 months after the Initial Payment Date
- 1/3 24 months after the Initial Payment Date
- 1/3 36 months after the Initial Payment Date

7.3. Payment in cash and in instruments

Half of the amount to be paid on each of the dates given in the previous point is paid cash and the other half in instruments.

Notwithstanding the provision regarding the retention policy and the reduction and reversal mechanisms, the ownership of the money and the instruments that make up the variable remuneration are transmitted to the Identified Employee on the payment date and, in the case of part of this remuneration being deferred, after the deferral periods.

7.4. Definition of the number and value of the shares

The number of the instruments to be awarded is calculated by the quotient of the amount to be awarded to the Identified Employee pursuant to this policy and the value of the instrument on the day immediately before the initial due date.

The number of shares must always be rounded up to the next unit number.

7.5. Retention policy

All the instruments that are awarded are subject to a retention period of a year from the date they are transmitted, during which time the Identified Employee cannot sell them.

The Identified Employee enjoys all the rights that are inherent in the instruments during the retention period.

7.6. Termination or suspension of the professional relationship

Except in case of dismissal for fair cause, the termination or suspension of the professional relationship, namely in case of sick leave, early retirement or retirement due to age, will not affect the right to receive the deferred variable remuneration nor interrupt the cycle of its payment; notwithstanding the provisions regarding the reduction and reversal of the variable remuneration provided in point 7.11.

In case of death, and exceptional cases duly argued by the DRH, the deferral of the variable remuneration stops and the payment must be made to the heirs as quickly as possible.

7.7. Special Situations

In unforeseen special situations, (i.e. corporate transactions that affect the ownership of the instruments that have been awarded or deferred) specific solutions must be applied in compliance with the law and the principles of the Remuneration Policy so as not to dilute or artificially alter the value of the underlying considerations.

7.8. Permanence requirement

Except for situations that are justified and expressly agreed, in the case of a suspension or rescission (except on the Bank's initiative without fair cause) of the work contract with the Identified Employee who receives variable remuneration, the general criteria is applied that the Identified Employees who stop work before the end of the year should not receive variable remuneration for their performance in that year.

7.9. Incompatibility with personal hedging or evasion mechanism strategies

Bearing in mind the provision in article 115-E, point 15 of the General Regime, the Identified Employees undertake not to use any risk hedging mechanism to mitigate or neutralise the effects of the alignment by the risks inherent in the remuneration schemes or through the payment of the variable remuneration component by using entities that are instrumental or other methods with the same effect.

7.10. Reduction and Reversal of the Variable Remuneration

All deferred remuneration is still subject to the reduction or reversal mechanisms, such as:

a) Reduction mechanism: the system the bank can use to totally or partially reduce the amount of the variable remuneration in relation to the deferral period provided in 7.2 that has not yet occurred;

b) Reversal mechanism: the system the bank can retain the variable remuneration, and definitively not make it available, when the deferral period has already occurred.

7.11. Reduction and reversal suppositions

In line with the provisions in the law, Identified Employees may see their variable remuneration reduced or reverted if Banco BPI has poor financial performance either as a whole or just in a specific area or department. Banco BPI must, therefore, compare the performance assessment with the prior behaviour of the variables that contribute towards attaining the objectives.

The suppositions that lead to the reduction or reversal of the variable remuneration are given below:

1) Significant failings in risk management by Banco BPI or by a business or risk control unit, including reservations in the external auditor's report or circumstances that reduce the financial parameters that are used as the basis to calculate the variable remuneration;
2) An increase in capital needs at Banco BPI or one of its business units, except those foreseen when the exposure to the risk that generated the needs was assumed;
3) Regulatory sanctions of judicial convictions for facts that can be assigned to the Identified Employee or the units that depend on him or her;
4) Non-compliance by the Identified Employee of the institution's internal regulations or code of conduct, including in particular:
    a) Breaches of regulations that are classified as serious or very serious;
    b) Breach of internal regulations that are classified as serious or very serious;
    c) Non-compliance with requirements of reputation and correctness that are demanded of them;
    d) Breaches of regulations, regardless of whether they imply losses or not, that put the solvency of a business line at risk and, generally, the involvement or responsibility in conduct that causes significant losses;
5) Irregular individual or collective conduct, particularly considering the negative effects of selling inadequate products and the liability of the Identified Employee in taking these decisions;
6) Dismissal for fair cause (in which case the reduction is total);
7) When the respective payment or consolidation is not sustainable according to the financial situation of Banco BPI as a whole, or it is not justified based on the BPI earnings as a whole or of the business units that depend on the Identified Employee in question;
8) Any others established by law or the decision of competent authorities.

Particularly serious cases will be considered where the Identified Employee has significantly contributed towards getting poor or negative financial results, such as the cases of fraud, wilful misconduct or serious negligence that causes significant losses.

7.12. Common rules

The DRH is responsible for proposing the reduction or reversal of the total or partial deferred amounts to the CECA, depending on the characteristics and circumstances of each particular case.

According to the provisions in the EBA Guidelines, the variable remuneration reduction suppositions apply over the entire remuneration deferral period in question. The possibility of variable remuneration reversal applies during the period of a year after the payment of part of the variable remuneration to be reverted.

The provisions of the application of long-term incentives (LTI) shall establish specific rules on the reduction or reversal of payment instalments to the Identified Employees, adapting the reduction and reversal suppositions in the Remuneration Policy as required to the nature and purpose of the LTI.

7.13. General principles of labour or contract law

Pursuant to the provisions in the General Regime, the proposals to reduce or revert the variable remuneration must take into account the general principles of law regarding contracts and employment.

8. Long-term incentives based on instruments

The Identified Employees (all of them or just some) may benefit from a long-term incentive plan based on instruments as a form of multi-annual variable remuneration (LTI).

The LTI can be structured as a variable remuneration scheme that allows the participants to receive, after a specific period of time, an amount in shares or other instruments, or options on them, or in cash, as long as certain conditions in the LTI have been met.

The decision about the existence and the definition of the specific conditions of the LTI (including those about the payment cycle and reduction or reversal clauses) which must be adapted and be compatible with the principles of this Remuneration Policy:

a) Depend on the Board of Directors, following an opinion from the NERC;

b) Must be approved by the Banco BPI General Meeting, whenever the terms make that approval obligatory under the law.

9. Disclosure, updating, and evaluation

This Remuneration Policy is published on the Bank's intranet and the Banco BPI institutional website (www.bancobpi.pt) where anybody can access and read it.

The Board of Directors of Banco BPI shall periodically revise the general principles of this Remuneration Policy and they are responsible for supervising its implementation.

Therefore, they will revise the principles and procedures in this document every year so as to include or, when appropriate, propose the modifications, adaptations, implementation rules or guidelines, recommendations or necessary regulatory criteria.

The Internal Audit Division must produce an annual internal, central, independent assessment report, within the time period, with the reach and in compliance with the legally established requirements.

10. Other benefits

10.1 Retirement Benefits

As explained below, the retirement benefits awarded to the Employees are defined and consist of the benefit arising from the pension plan provided in the Collective Work Agreements (ACT) for the banking sector entered into with the Northern (SBN), Central (SBC) and Southern and Islands (SBSI) unions on the one hand and the National Union of Managers and Bank Specialists (SNQTB) and the Independent Banking Union (SIB) on the other. In some cases, as a result of previously assumed commitments, the Identified Employees may be subject to specific Pension Plans, set up by closed groups of Employees that cannot be altered.

The system to protect against invalidity, old-age or death that applies to bank employees works differently, namely depending on the date they joined the banking sector, meaning there are two pension plans:

a) Defined benefit pension plan
That ensures monthly payments after retirement, invalidity, and death, according to the social protection system provided in the ACT for the banking sector.

This plan covers Employees who joined the sector up until 2 March 2009 or until 1 October 2008 as long as they were not members of the SNQTB or SIB unions, including here the employees enrolled in the Bank Employee Family Bonus Fund (CAFEB) on 31 December 2010 and integrated in the General Social Security System (RGSS) on 1 November 2011 and Employees who, having joined the sector before these dates, are already covered by the RGSS and, additionally, by the system provided in the ACT as well as the relatives of these Employees with the right to monthly payments upon their death.

This plan guarantees the beneficiary employees the following instalments:

i) In case of invalidity and presumable invalidity of Employees who retire from work: Pursuant to clause 94 of the banking sector ACT, the right to a pension calculated using the amount of their level of remuneration given in the pensions table (Annex V to the ACT) plus the amount of their seniority pay as soon as they retire;
ii) In the case of old-age and invalidity of Employees who, for any reason, are not covered by the social protection system provided in the ACT at the time they retire: a pension pursuant to article 98, when they are placed in a situation of invalidity or old age by the applicable social protection system.

b) Defined contribution pension plan
This covers the Employees who joined after 2 March 2009 or between 1 October 2008 and 2 March 2009 as long as they were not members of the SNQTB or SIB unions- "new bank workers", covered by the general social security system (RGSS) that ensures protection, namely in the case of old age, invalidity and death pursuant to the specific legislation.

This is a pension plan - clause 93 of the ACT - where the contributions are previously defined in the banking sector ACT, where 1.5% of the effective monthly retribution, including the holiday and Christmas bonus, is paid by the worker and 1.5% by the Bank. The Employee can decide on which open pension fund the amounts should be credited to and they can also change this choice no more than once a year.

10.2 Other non-pecuniary benefits
The Identified Employees do not get other forms of cash and non-cash remuneration, except those referred in this Policy or that arise from the normal application of the ACT or labour law.

11. Interpretation and integration
The NERC is liable for interpreting and integrating any loopholes in this Policy.

12. Effective date
This Policy comes into force the day it is approved by the Board of Directors, revoking the "Remuneration Policy of Essential Job Holders", as approved by the Board of Directors on 11 December 2015, at the same time.

The Board of Directors
Lisbon, 12 June 2018

Updated version including the changes approved at the meeting of the Board of Directors of 22 May 2019.

3. Information provided in compliance with the provisions of article 17 of Banco de Portugal Notice no. 10/2011 about the remuneration policy of the Identified Staff:

a) Competent bodies of the institution to conduct the individual performance assessment

Pursuant to the Identified Staff Remuneration Policy, the Executive Committee is the competent body to assess individual performance.

b) Predetermined criteria for the individual performance assessment that is the basis for entitlement to a variable remuneration component

The determination of the specific amount of variable remuneration to be awarded is made by the Executive Committee upon an opinion from the NERC, and it takes into account:

a) the performance assessment of each Employee, which must consider, among others, the discharge of their functions beyond what is demanded, financial and non-financial criteria, and the performance of the structure unit they are responsible for vis-à-vis BPI's global results;
b) respect for the rules and procedures that apply to their activity, namely the internal control rules and, where applicable, those that govern the relations with Clients and investors;
c) BPI's sustained and risk-adjusted performance, taking into account, among others, the performance of the cost of own funds and liquidity;
d) in the case of Employees with control functions, the result of the performance of the respective control functions.

The setting of the overall amount of the variable component of the Employees' remuneration also takes into account the evolution of the global amount defined for the variable remuneration of all the remaining Employees of Banco BPI, although no automatic link between the two is established.

The Identified Staff who work in control functions are remunerated based on compliance with the objectives set for their functions, regardless of the business areas they control.

Consequently, the objectives of the professionals in control areas, based on which their performance is assessed and the variable remuneration to be paid is determined, are set based on performance parameters agreed between the professional and the head of his/her area, and are not related to the results of the business areas which they control and supervise.

c) The relative importance of the variable and fixed components of the remuneration and the maximum limits for each component;

The fixed remuneration of each Employee is subject to the respective employment contract and the Collective Wage Agreement for the Banking Sector, and is also based on the relevant professional experience of the Employee and organisational responsibility entailed by his/her functions, there being no predefined maximum limit for the fixed remuneration.

If so decided by the Executive Committee, remuneration and/or function supplements and/or an allowance for fixed working hours exemption may also be awarded.

The variable remuneration is composed as follows:

- 50% is paid in cash;
- the other 50% is paid in instruments, preferably CaixaBank shares.

In addition to the variable remuneration, a long-term incentive based on CaixaBank instruments or linked to their value (hereinafter "LTI") may be defined for all or part of the Identified Staff, as a variable component of the remuneration.

The remuneration of the Employees who are responsible for control functions is mainly based on the fixed remuneration component. The remuneration of these Employees may include a variable remuneration, which can never exceed 25% of the total remuneration and must be paid solely in cash, notwithstanding the application, with the necessary adaptations, of the rules on deferral and availability, namely as regards the period of deferral foreseen in the Remuneration Policy for 40% of the variable remuneration.

d) How the variable remuneration payment is subject to continuation of the positive performance of the institution over the deferral period

Pursuant to the Remuneration Policy in force, part of the variable remuneration (corresponding to 60% of the variable remuneration awarded) is paid immediately upon its award (i.e., ownership of the cash and instruments that compose this non-deferred part of the variable remuneration is transferred to the Identified Employee), and the other part (the deferred part, corresponding to 40% of the variable remuneration awarded) is subject to a phased-out deferral period, and paid in three tranches, providing the pre-established reduction assumptions do not materialise:

- 1/3 - 12 months after the Initial Payment Date
- 1/3 - 24 months after the Initial Payment Date
- 1/3 - 36 months after the Initial Payment Date

The circumstances foreseen in the Policy that may lead to the reduction of the variable remuneration regarding which the above-mentioned deferral period has not yet elapsed include, among others: an increase in the capital requirements of Banco BPI or of one of its business units (unless this was foreseen at the time of assumption of the risk exposure that generated such requirements); cases where the respective payment or consolidation is not sustainable in the light of the financial situation of Banco BPI as a whole, or is not justified on the basis of the results of Banco BPI as a whole or of the business units under the Identified Employee in question.

e) Criteria on which the awarding of variable remuneration in options is based and indication of the deferral period and the exercise price

The award of variable remuneration in options in not foreseen.

f) Main factors and grounds for any annual bonus scheme and any other non-cash benefits

The Employees do not benefit from other forms of remuneration – cash or non-cash – other than those referred to in this Policy or result from normal application of the Collective Wage Agreement or labour law.

4. Main characteristics of the retirement benefits scheme for key function holders

Retirement benefits

As explained below, the retirement benefits of the Identified Staff are defined in and consist of the benefit arising from, on the one hand, the pension plan provided for in the Collective Wage Agreements (ACT) for the banking sector entered into with the Northern (SBN), Central (SBC) and Southern and Islands (SBSI) unions, and on the other, with the National Union of Bank Managers and Technical Staff (SNQTB) and the Independent Banking Union (SIB). In some cases, as a result of previously assumed commitments, the Identified Staff may be covered by specific Pension Plans, set up by closed groups of Employees, which cannot be altered.

The protection system for disability, old-age or death that applies to bank Employees differs, among others, according to their admission date in the banking system, with the result that there are two pension schemes:

a) Defined benefit pension plan

Ensures the monthly payments for retirement, disability, and death, according to the social protection system provided in the ACT for the banking sector.

This plan covers the Employees who joined the banking sector up to 2 March 2009, or 1 October 2008 if they were not unionised or members of the SNQTB or SIB unions, which includes the Employees enrolled in the Caixa de Abono de Família dos Empregados Bancários (CAFEB) at 31 December 2010 and integrated in the General Social Security System (RGSS) on 1 November 2011 and those who, having joined the banking sector before these dates, were already covered by the RGSS and, additionally, by the scheme provided under the ACT, as well as the relatives of these Employees with the right to monthly payments upon their death.

This plan guarantees the following to the beneficiary Employees:

- In the case of disability and presumable disability of Employees who retire from work: Under the terms of clause 94 of the banking sector ACT, the right to a pension calculated based on the amount corresponding to their remuneration bracket as set out in the pensions table (Annex V to the ACT) plus the amount of the seniority payment, as soon as they retire;

- In the case of old-age and disability of Employees who, for any reason, are no longer covered by the social protection system provided in the ACT at the time of retirement: a pension pursuant to article 98, when qualified in the situation of disability or old age by the applicable social protection system.

b) Defined contribution pension plan

Covers the Employees who joined the banking sector as from 2 March 2009, or between 1 October 2008 and 2 March 2009 providing they were not unionised or members of the SNQTB or SIB unions - the so-called "new bank workers" -, covered by the general social security system (RGSS), which ensures protection, among others, in the case of old age, disability and death, under the terms set forth in specific legislation.

Under this pension plan (clause 93 of the ACT) the contributions are previously defined in the banking sector ACT: 1.5% of the effective monthly remuneration, including the holiday and Christmas allowances, is paid by the employee and 1.5% by the Bank. The Employee may decide on which open pension fund the amount of the contribution will be credited, and change this decision, although not more than once a year.

5. Quantitative information provided in compliance with the provisions of article 17 of Banco de Portugal Notice no. 10/2011 on the remuneration of the Identified Staff:

a) Annual amount of the fixed and variable components of remuneration and number of beneficiary Employees

The Identified Collective at Banco BPI, excluding the members of the Board of Directors and the members of the Supervisory Board, comprises 69 Employees.

The total remuneration attributed to the 69 members of the Identified Collective referred to in the previous paragraph with reference to 2019 was €9 795 thousand. This amount corresponds to €7 197 thousand of fixed remuneration and €2 598 thousand of variable remuneration attributed in 2020 with reference to 2019. From the total amount of the variable remuneration, €2 139 thousand were paid in cash and in CaixaBank shares, and €460 thousand were deferred. The total remuneration (€9 795 thousand) was distributed by the following business areas:

- Investment Banking - €249 thousand;
- Commercial Banking - €3 371 thousand;
- Corporate Functions - €4 262 thousand;
- Control Functions - €1 914 thousand.

None of the above-mentioned 69 individuals earned a global remuneration above €1 million.

The information on the fixed and variable remuneration earned by the members of the Board of Directors and Supervisory Board in 2019 is given in point 12 of section IV.

b) Amounts and types of variable remuneration, broken down by remuneration in cash, shares, share-linked instruments and other

The variable remunerations referred to in the previous point, totalling €4 101 thousand, were attributed in cash and in CaixaBank shares. The amount attributed in cash was €2 775 thousand, and that attributed in CaixaBank shares was €1 326 thousand.

c) Amount of the unpaid, deferred remuneration, broken down by invested and non-invested components

The information on the fixed and variable remuneration earned by the members of the Board of Directors and Supervisory Board in 2019 is given in point 12 of section IV.

The cumulative amount of variable remuneration awarded in previous years to the members of the Identified Collective, excluding the members of the Board of Directors and Supervisory Board, that at the end of 2019 was deferred and pending payment was €1 204 thousand, of which €656 thousand in cash and €548 thousand in CaixaBank shares.

d) Annual amounts of the deferred remuneration due, paid or subject to reductions as a result of adjustments made in accordance to the Employees' individual performance

In 2019 no amounts of the annual deferred remuneration due were paid or reduced as a result of adjustments made in accordance to the Employees' individual performance.

e) Number of new hirings in the reporting year

In 2019 there was 1 new hire to the Identified Collective (not including for this purpose the members of the management and supervisory bodies).

f) Quantitative Information on the individual remuneration paid to the members of the management and supervision bodies

The quantitative Information on the individual remuneration paid to the members of the management and supervision bodies, broken down by each of these bodies, is given in point 12.

g) Amount of annual payments made or due as a result of early termination of the employment contract with Employees, the number of beneficiaries of such payments and the largest payment made to a single Employee

No payments were made in 2019 for early termination of employment contracts with Employees.

BANCO BPI, S.A.

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