The changes occurred in Intangible assets balance, during 2018, are analysed as follows:

(Thousands of euros)

	Balance on 1 January	Acquisitions / Charge	Disposals / Charged-off	Transfers	Exchange differences	Balance on 31 December
Intangible assets						
Software	35,849	17,573	(4,384)	-	16	49,054
Other intangible assets	177	-	-	(28)	4	153
	36,026	17,573	(4,384)	(28)	20	49,207
Accumulated amortisation						
Software	(14,534)	(9,274)	4,378	-	(7)	(19,437)
Other intangible assets	(83)	-	-	-	(4)	(87)
	(14,617)	(9,274)	4,378	-	(11)	(19,524)
	21,409	8,299	(6)	(28)	9	29,683

The changes occurred in Intangible assets balance, during 2017, are analysed as follows:

(Thousands of euros)

	Balance on 1 January	Acquisitions / Charge	Disposals / Charged-off	Transfers	Exchange differences	Balance on 31 December
Intangible assets						
Software	26,378	14,030	(4,525)	-	(34)	35,849
Other intangible assets	192	-	-	-	(15)	177
	26,570	14,030	(4,525)	-	(49)	36,026
Accumulated amortisation						
Software	(11,949)	(7,122)	4,524	-	13	(14,534)
Other intangible assets	(95)	-	-	-	12	(83)
	(12,044)	(7,122)	4,524	-	25	(14,617)
	14,526	6,908	(1)	-	(24)	21,409

28. Income tax

The deferred income tax assets and liabilities are analysed as follows:

(Thousands of euros)

	2018			2017		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Deferred taxes not depending on the future profits (a)						
Impairment losses	925,420	-	925,420	925,673	-	925,673
Employee benefits	835,234	-	835,234	837,422	-	837,422
	1,760,654	-	1,760,654	1,763,095	-	1,763,095
Deferred taxes depending on the future profits						
Other tangible assets	1,977	(3,184)	(1,207)	2,027	(3,252)	(1,225)
Impairment losses	709,541	(50,303)	659,238	930,619	(50,303)	880,316
Employee benefits	39,757	(205)	39,552	28,179	(1,803)	26,376
Financial assets at fair value through other comprehensive income	139,254	(165,893)	(26,639)	n.a.	n.a.	n.a.
Financial assets available for sale	n.a.	n.a.	n.a.	10,076	(16,993)	(6,917)
Tax losses carried forward	319,768	-	319,768	319,768	-	319,768
Others	57,646	(26,476)	31,170	62,835	(25,740)	37,095
	1,267,943	(246,061)	1,021,882	1,353,504	(98,091)	1,255,413
Total deferred taxes	3,028,597	(246,061)	2,782,536	3,116,599	(98,091)	3,018,508
Offset between deferred tax assets and deferred tax liabilities	(246,061)	246,061	-	(98,091)	98,091	-
Net deferred taxes	2,782,536	-	2,782,536	3,018,508	-	3,018,508

(a) Special Regime applicable to deferred tax assets

Special regime applicable to deferred tax assets

The Extraordinary General Meeting of the Bank, held on 15 October 2014, approved the Bank's adherence to the special regime applicable to deferred tax assets, approved by Law no. 61/2014, of August 26, applicable to expenses and negative equity variations recorded in taxable periods beginning on or after 1 January 2015 and the deferred tax assets that are recorded in the annual accounts of the taxpayer to the last period prior to that date and the taxation of the expenses and negative equity variations that are associated with them. Pursuant to Law no. 23/2016, of 19 August, this special regime is not applied to expenses and negative equity changes recorded in the tax periods beginning on or after 1 January 2016, or to tax assets associated with them.

The Special Regime applicable to the deferred tax assets, provides an optional framework with the possibility of subsequent resignation, according to which, in certain situations (those of negative net result in individual annual accounts or liquidation by voluntary dissolution, insolvency decreed in court or revocation of the respective authorization), there will be a conversion into tax credits of the deferred tax assets that have resulted from the non-deduction of expenses and reductions in the value of assets resulting from impairment losses on credits and from post-employment or long-term employee benefits. In this case, it should be constituted a special reserve corresponding to 110% of its amount, which implies the simultaneous constitution of conversion rights attributable to the State of equivalent value, which rights can be acquired by the shareholders through payment to the State of that same amount. Tax credits can be offset against tax debts of the beneficiaries (or from an entity based in Portugal of the same prudential consolidation perimeter) or reimbursable by the State. Under the regime described, the recovery of deferred tax assets covered by the optional regime approved by Law no. 61/2014, of 26 August, is not dependent on future profits.

The above-mentioned legal framework was densified by ordinance no. 259/2016, of 4 October, about the control and use of tax credits, and by the ordinance No. 293-A/2016, of 18 November, which establishes the conditions and procedures for the acquisition by the shareholders of the referred rights of the State. According to this legislation, among other aspects, these rights are subject to a right of acquisition by the shareholders on the date of creation of the rights of the State, exercisable in periods that will be established by the Board of Directors until 10 years after the date of its creation, and the issuing bank shall deposit in favor of the State the amount of the price corresponding to all the rights issued, within 3 months of date of the confirmation of the conversion of the deferred tax asset into tax credit. Such deposit shall be redeemed when and to the extent that the rights of the State are acquired by the shareholders or exercised by the State.

Deferred taxes are calculated based on the tax rates expected to be in force when the temporary differences are reversed, which correspond to the approved rates or substantively approved at the balance sheet date. The deferred tax assets and liabilities are presented on a net basis whenever, in accordance with applicable law, current tax assets and current tax liabilities can be offset and when the deferred taxes are related to the same tax.

The deferred tax rate is analysed as follows:

Description	2018	2017
Income tax	21.0%	21.0%
Municipal surtax rate (on taxable net income)	1.5%	1.5%
State tax rate (on taxable net income)		
More than Euros 1,500,000 to Euros 7,500,000	3.0%	3.0%
From more than Euros 7,500,000 to Euros 35,000,000	5.0%	5.0%
More than Euros 35,000,000 (a)	9.0%	7.0%

(a) Law 114/2017, dated 29 December (State Budget Law for 2018) establishes the increase of the state tax rate for the portion of the taxable income above Euros 35,000,000 from 7% to 9% for taxation periods beginning on or after 1 January 2018.

The tax applicable to deferred taxes related to tax losses is 21% (31 December 2017: 21%).

The average deferred tax rate associated with temporary differences of the BanK is 31.30% (31 December 2017: 31.30%).

The reporting period of tax losses in Portugal is 5 years for the losses of 2012, 2013, 2017 and 2018 and 12 years for the losses of 2014, 2015 and 2016.

In 2016, the Bank adhered to the Special Regime for the Taxation of Groups of Companies ("RETGS") for the purposes of IRC taxation, with BCP being the dominant entity. In 2017 and 2018 the RETGS application was maintained.

The balance of Deferred tax assets not depending 'on the future profits (covered by the scheme approved by Law no. 61/2014, of 26 August), include the amounts of Euros 210,686,000 and Euros 4,020,000 recorded in 2015 and 2016, respectively, related to expenses and negative equity variations with post-employment or long-term employee benefits and to specific credit impairment losses registered up to 31 December 2014.

The differed income tax assets associated to tax losses carried forward, by expire date, is presented as follows:

(Thousands of euros)

Expire date	2018	2017
2026	10,297	80,758
2028	309,471	239,010
	319,768	319,768

Following the publication of the Notice of the Bank of Portugal No. 5/2015, the entities that presented their financial statements in Adjusted Accounting Standards issued by the Bank of Portugal (NCA), since 1 January 2016, began to apply the International Financial Reporting Standards as adopted in the European Union, including, among others, the Bank's individual financial statements.

As a result of this change, in the Bank's individual financial statements, the loans portfolio, guarantees provided and other operations of a similar nature became subject to impairment losses calculated in accordance with the requirements of International Accounting Standard (IAS 39 through 31 December 2017 and IFRS 9 as of 1 January 1 2018), replacing the registration of provisions for specific risk, for general credit risks and for country risk, in accordance with Bank of Portugal Notice No. 3/95.

The Regulatory Decree No. 5/2016, of November 18, established the maximum limits of impairment losses and other corrections of value for specific credit risk deductible for calculating the taxable profit in 2016. This Decree declares that Bank of Portugal Notice No. 3/95 (Notice that was relevant to the determination of provisions for credit in the financial statements presented in the NCA basis) should be considered for the purposes of calculating the maximum loss limits for impairment losses accepted for tax purposes in 2016. This methodology was also applied for the treatment of the transition adjustments related to credit impairment of entities that previously presented their financial statements on an NCA basis.

This Regulatory Decree includes a transitional rule that provides for the possibility of the positive difference between the value of the provisions for credit created on 1 January 2016 under the Notice of Bank of Portugal No. 3/95 and the impairment losses recorded on 1 January 2016 referring to the same credits, will be considered in the calculation of the taxable income of 2016 only in the part that exceeds the tax losses generated in periods of taxation started on or after 1 January 2012 and not used. The Bank opted to apply this transitional standard.

The Regulatory Decrees No. 11/2017, of 28 December, and No. 13/2018, of 28 December established the maximum limits of impairment losses and other corrections of value for specific credit risk deductible for the purposes of calculating taxable income in 2017 and 2018, respectively. These Regulatory Decrees establish that the Notice of Bank of Portugal No. 3/95 (notice that was relevant to determine the provisions for credit in financial statments in NCA basis) should be considered for the purposes of calculating the maximum limits of impairment losses accepted for tax purposes in 2017 and 2018, respectively.

In 2018, the Bank adopted IFRS 9 - Financial Instruments. Since there is no transitional regime that establishes the tax treatment to be applied to the transition adjustments to IFRS 9, the treatment given resulted from the interpretation of the general rules application of the IRC Code.

Analysis of the recoverability of deferred tax assets

In accordance with the accounting policy 1 Y.1), and with the requirements of IAS 12, the deferred tax assets were recognised based on the Bank's expectation of their recoverability. The recoverability of deferred taxes depends on the implementation of the strategy of the Bank's Board of Directors, namely the generation of estimated, the evolution of tax legislation and respective interpretation. Any changes in the assumptions used in estimating future profits or tax legislation may have material impacts on deferred tax assets.

The assessment of the recoverability of deferred tax assets was carried based on the respective financial statements prepared under the budget process for 2019 and adjusted according to the strategic plan approved by governing bodies, which support future taxable income, considering the macroeconomic and competitive environment.

To estimate taxable profits for the periods 2019 and following, the following main assumptions were considered:

- in the absence of specific rules regarding the tax regime for credit impairment and guarantees for taxation periods beginning on or after 1 January 2019, the tax rules considered, that were in force in 2018, similiar to the one's in force in 2015, 2016 and 2017, and through Decree-Laws published at the end of each of the referred years established that the Notice of Bank of Portugal No. 3/95 should be considered for the purposes of calculating the maximum limits of impairment losses accepted for tax purposes. In applying these rules, the following assumptions were considered in general terms:

a) non-deductible expenses related to charge in credit impairments were estimated based on the average percentage of amounts not deducted for tax purposes in the last years, compared to the amounts of impairment charges recorded in those years;

b) impairment reversals not accepted for tax purposes were estimated based on the Reduction Plan of Non-Performing Assets 2019-2021 and also based on the average reversal percentage observed in the last years;

c) the average percentages concerned were segregated, depending on the existence or absence of a mortgage guarantee, the eligibility for the special regime applicable to deferred tax assets and according to the classification of clients as Non Performing Exposures;

- in the absence of a transitional regime that establishes the tax treatment to be given to the transition adjustments resulting from the adoption of IFRS 9, the general rules of the IRC Code have been applied;
- the deductions related to impairment of financial assets were projected based on the destination (sale or settlement) and the estimated date of the respective operations;
- the deductions related to employee benefits were projected based on their estimated payments or deduction plans, in accordance with information provided by the actuary of the pension fund.

The projections made take into consideration, the Group's strategic priorities, essentially reflecting the projection of the Bank's medium-term business in Portugal in terms of results generation, and are globally consistent with the Reduction Plan of Non-Performing Assets 2019-2021, underlining:

- improvement of the net interest income, considering interest rate curves used under the scope of the projections of net interest income in line with the market forecasts;
- evolution of the ratio loans and advances over the balance sheet resources from customer by approximately 100% in Portugal;
- decrease in the cost of risk, supported by the expectation of a gradual recovery of economic activity, consubstantiating a stabilization of the business risk, as well as the reduction of the non-core portfolio. In this way, the gradual convergence of the cost of credit risk (up to 2023) is estimated to be close to those currently observed in other European countries, including in the Iberian Peninsula.
- control of the operating expenses, notwithstanding the investments planned by the Bank in the context of the expected deepening of the digitization and expansion of its commercial activities;
- positive net income, projecting the favourable evolution of the ROE and maintaining of the CET1 ratio fully implemented at levels appropriate to the requirements and benchmarks. From 2024 onwards, it is estimated an annual growth of the Net income before income taxes, which reflects a partial convergence to the expected level of ROE stabilized term.

The analyses made allow the conclusion of the recoverability of the total deferred tax assets recognised as at 31 December 2018.

In accordance with this assessment, the amount of unrecognised deferred tax, by year of expiration, is as follows:

(Thousands of euros)

Tax losses carried forward	2018	2017
2023	140,962	-
2026	202,537	132,076
2028	207,874	278,334
	551,373	410,410

The impact of income taxes in Net income and in other captions of Bank's equity is analysed as follows:

(Thousands of euros)

	2018			2017	
		Reserves and retained earnings			
	Net income for the year	Impact of adoption of IFRS 9 (note 52)	Movement of the year	Net income for the year	Reserves and retained earnings
Deferred taxes					
Deferred taxes not depending on the future profits (a)					
Impairment losses	(253)	-	-	57,564	-
Employee benefits	(2,188)	-	-	16,903	33,128
	(2,441)	-	-	74,467	33,128
Deferred taxes depending on the future profits					
Other tangible assets	18	-	-	1,039	-
Impairment losses (b)	(23,801)	(197,277)	-	60,498	-
Employee benefits	9,702	-	3,474	2,690	(5,522)
Financial assets at fair value through other comprehensive income	(10,076)	20,322	(36,885)	n.a.	n.a.
Financial assets available for sale	n.a.	6,917	n.a.	10,076	(39,457)
Tax losses carried forward	(1,685)	-	1,685	(92,330)	(78,590)
Others	(4,627)	(613)	(685)	2,202	-
	(30,469)	(170,651)	(32,411)	(15,825)	(123,569)
	(32,910)	(170,651)	(32,411)	58,642	(90,441)
Current taxes			-		
Actual year	(3,989)	-	-	(3,351)	-
Correction of previous years	790	-	-	862	-
	(3,199)	-	-	(2,489)	-
	(36,109)	(170,651)	(32,411)	56,153	(90,441)

(a) Deferred taxes related to expenses and negative equity variations, covered by the Deferred Tax Assets Special Regime (Law No. 61/2014 of 26 August). Under the Law No. 23/2016 of 19 August, is not applicable to expenses and negative equity variations registered in tax periods beginning on or after 1 January 2016, neither to the deferred taxes assets related to these. In 2017, there is a variation due to the increase of the state surtax from 7% to 9% on the portion of the taxable profit over Euros 35,000,000, applicable in tax periods began on or after 1 January 2018.

(b) - The tax on reserves and retained earnings corresponds to recognitions in reserves and retained earnings that contribute to the purpose of assessing the taxable profit.

The reconciliation between the nominal tax rate and the effective tax rate is analysed as follows:

(Thousands of euros)

	2018	2017
Net income / (loss) before income taxes	95,376	61,868
Current tax rate (%)	31.30%	31.30%
Expected tax	(29,853)	(19,365)
Elimination of double economic taxation of dividends received	69,882	22,473
Non deductible impairment	(50,505)	8,130
Contribution to the banking sector	(9,522)	(8,767)
Employees' benefits	-	11,761
Non-deductible expenses and other corrections	542	567
Effect of difference of rate tax and deferred tax not recognised previously (a)	(14,336)	43,186
(Autonomous tax) / Tax credits	(2,317)	(1,832)
Total	(36,109)	56,153
Effective rate (%)	37.86%	-90.76%

(a) In 2017, the amount corresponds to the impact of the tax rate and of the deferred tax not recognized before (Euros 133,494,000), essentially due to the state surtax increase from 7% to 9% on the portion of the taxable profit over Euros 35.000.000 applicable in tax periods began on or after 1 January 2018, net of derecognition of deferred tax related to tax losses (Euros 90,308,000).