

1. Accounting policies

A. Basis of presentation

Banco Comercial Português, S.A. Sociedade Aberta (the “Bank”) is a private capital bank, established in Portugal in 1985. It started operating on 5 May 1986, and these separate financial statements reflect the results of the operations of the Bank for the years ended 31 December 2020 and 2019.

In accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002, and Bank of Portugal Notice no. 5/2015 (which revoked Bank of Portugal Notice no. 1/2005), the Bank’s separate financial statements are required to be prepared in accordance with International Financial Reporting Standards (IFRS), as endorsed by the European Union (EU), since 2016. IFRS comprise accounting standards issued by the International Accounting Standards Board (IASB), as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and its predecessor bodies. The separate financial statements and the accompanying notes were approved on 24 March 2021 by the Bank’s Board of Directors and are presented in thousands of Euros, rounded to the nearest thousand.

All the references in this document related to any normative always report to the respective current version.

The separate financial statements for the year ended 31 December 2020 were prepared for the purpose of recognition and measurement, in accordance with the IFRS approved by the EU effective on that date.

These separate financial statements are a translation of financial statements originally issued in Portuguese. In the event of discrepancies, the Portuguese language version prevails.

A1. Comparative information

The Bank has adopted IFRS and interpretations mandatory for accounting periods beginning on or after 1 January 2020. The accounting policies are consistent with those used in the preparation of the financial statements of the previous period.

During the month of September 2019, the Board of Directors of Banco Comercial Português, S.A. and Banco de Investimento Imobiliário, S.A. (BII) approved the merger project of BII, a subsidiary 100% owned by Banco Comercial Português, S.A., by incorporation in the latter. The merger process for incorporating BII into BCP was concluded on 30 December 2019, after the signing of the merger deed, with effect from 1 January 2019. The detail of this operation is presented in note 53. Merger of Banco de Investimento Imobiliário S.A. with Banco Comercial Português, S.A.

The Bank’s financial statements were prepared under the going concern assumption, the accrual basis of accounting and under the historical cost convention, as modified by the application of fair value for derivative financial instruments, financial assets and liabilities at fair value through profit or loss and financial assets at fair value through other comprehensive income. Financial assets and liabilities that are covered under hedge accounting are stated at fair value in respect of the risk that is being hedged, if applicable. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost. Non-current assets and disposal groups held for sale are stated at the lower of carrying amount or fair value less costs to sell. The liability for defined benefit obligations is recognised as the present value of the past liabilities with pensions net of the value of the fund’s assets.

The preparation of the financial statements in accordance with IFRS requires the Board of Directors, under advice of the Executive Committee, to make judgments, estimations and assumptions that affect the application of the accounting policies and reported amounts of assets, liabilities, income and expenses. The estimations and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances and form the basis for making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimations. The issues involving a higher degree of judgment or complexity or for which assumptions and estimations are considered to be significant are presented in note 1.Y.

B. Financial instruments (IFRS 9)

B1. Financial assets

B1.1. Classification, initial recognition and subsequent measurement

At the initial recognition, financial assets are classified into one of the following categories:

- “Financial assets at amortised cost”;
- “Financial assets at fair value through other comprehensive income”; or,
- “Financial assets at fair value through profit or loss”.

The classification is made taking into consideration the following aspects:

- the Bank’s business model for the management of the financial asset; and,
- the characteristics of the contractual cash flows of the financial asset.

Business Model Evaluation

With reference to 1 January 2018, the Bank carried out an evaluation of the business model in which the financial instruments are held at portfolio level, since this approach reflects how assets are managed and how that information is made available to management bodies. The information considered in this evaluation included:

- the policies and purposes established for the portfolio and the practical operability of these policies, including how the management strategy focuses on receiving contractual interest, maintaining a certain interest rate profile, adjusting the duration of financial assets to the duration of liabilities that finance these assets or on the realization of cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank’s management bodies;
- the evaluation of the risks that affect the performance of the business model (and of the financial assets held under this business model) and the way these risks are managed;
- the remuneration of business managers, i.e., in what way the compensation depends on the fair value of the assets under management or on contractual cash flows received; and,
- the frequency, volume and sales periodicity in previous periods, the reasons for these sales and the expectations about future sales. However, sales information should not be considered individually, but as part of an overall assessment of how the Bank establishes financial asset management objectives and how cash flows are obtained.

Financial assets held for trading and financial assets managed and evaluated at fair value by option are measured at fair value through profit or loss because they are not held either for the collection of contractual cash flows (HTC), nor for the collection of cash flows and sale of these financial assets (HTC and Sell).

Evaluation if the contractual cash flows correspond to Solely Payments of Principal and Interest (SPPI)

For the purposes of this assessment, “principal” is defined as the fair value of the financial asset at initial recognition. “Interest” is defined as the counterparty for the time value of money, for the credit risk associated with the amount owed over a given period of time and for other risks and costs associated with the activity (e.g., liquidity risk and administrative costs), as well as for a profit margin.

In the evaluation of the financial instruments in which contractual cash flows refer exclusively to the receipt of principal and interest, the Bank considered the original contractual terms of the instrument. This evaluation included the analysis of the existence of situations in which the contractual terms can modify the periodicity and the amount of the cash flows so that they do not fulfil the SPPI condition. In the evaluation process, the Bank considered:

- contingent events that may change the periodicity and the amount of the cash flows;
- characteristics that result in leverage;
- terms of prepayment and extension of maturity;
- terms that may limit the right of the Bank to claim cash flows in relation to specific assets (e.g., contracts with terms that prevent access to assets in case of default - non-recourse asset); and,
- characteristics that may change the time value of money.

In addition, an advance payment is consistent with the SPPI criterion if:

- the financial asset is acquired or originated with a premium or discount in relation to the contractual nominal value;
- the prepayment represents substantially the nominal amount of the contract plus accrued contractual interest, but not paid (may include reasonable compensation for prepayment); and,
- the prepaid fair value is insignificant at initial recognition.

B1.1.1. Financial assets at amortised cost

Classification

A financial asset is classified under the category "Financial assets at amortised cost" if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect their contractual cash flows; and,
- its contractual cash flows occur on specific dates and are solely payments of principal and interest on the principal amount outstanding (SPPI).

The "Financial assets at amortised cost" category includes loans and advances to credit institutions, loans and advances to customers and debt instruments managed based on a business model whose purpose is to receive their contractual cash flows (government bonds, bonds issued by companies and commercial paper).

Initial recognition and subsequent measurement

Loans and advances to credit institutions and loans and advances to customers are recognised at the date the funds are made available to the counterparty (settlement date). Debt instruments are recognised on the trade date, that is, on the date the Bank accepts to acquire them.

Financial assets at amortised cost are initially recognised at fair value plus transaction costs and are subsequently measured at amortised cost. In addition, they are subject, at their initial recognition, to the measurement of impairment losses for expected credit losses (note B1.5), which are recognised in "Impairment of financial assets measured at amortised cost".

Interest of financial assets at amortised cost is recognised under "Interest and similar income", based on the effective interest rate method and in accordance with the criteria described in note B3.

Gains or losses generated at the time of derecognition are registered in "Gains/(losses) with derecognition of financial assets and liabilities at amortised cost".

B1.1.2. Financial assets at fair value through other comprehensive income

Classification

A financial asset is classified under the category of "Financial assets at fair value through other comprehensive income" if both of the following conditions are met:

- the financial asset is held within a business model whose objective is both to collect its contractual cash flows and to sell this financial asset; and,
- its contractual cash flows occur on specific dates and are solely payments of principal and interest on the principal amount outstanding (SPPI).

In addition, at the initial recognition of an equity instrument that is not held for trading, nor a contingent retribution recognised by an acquirer in a business combination to which IFRS 3 applies, the Bank may irrevocably choose to classify it in the category of "Financial assets at fair value through other comprehensive income" (FVOCI). This option is exercised on a case-by-case basis and is only available for financial instruments that comply with the definition of equity instruments provided in IAS 32 and cannot be used for financial instruments whose classification as an equity instrument under the scope of the issuer is made under the exceptions provided in paragraphs 16A to 16D of IAS 32.

Initial recognition and subsequent measurement

Debt instruments at fair value through other comprehensive income are initially recognised at fair value plus transaction costs and are subsequently measured at fair value. Changes in the fair value of these financial assets are recognised against other comprehensive income and, at the time of their disposal, the respective gains or losses accumulated in other comprehensive income are reclassified to a specific income statement item designated "Gains or losses on derecognition of financial assets at fair value through other comprehensive income".

Debt instruments at fair value through other comprehensive income are also subject, from their initial recognition, to the measurement of impairment losses for expected credit losses (note B1.5). Impairment losses are recognised in the income statement under "Impairment for financial assets at fair value through other comprehensive income", against "Other comprehensive income", and do not reduce the carrying amount of the financial asset in the balance sheet.

Interest, premiums or discounts on financial assets at fair value through other comprehensive income are recognised in "Interest and similar income", based on the effective interest rate method and in accordance with the criteria described in note B3.

Equity instruments at fair value through other comprehensive income are initially recognised at fair value plus transaction costs and are subsequently measured at fair value. The changes in the fair value of these financial assets are recognised against "Other comprehensive income". Dividends are recognised in the income statement when the right to receive them is attributed.

Impairment is not recognised for equity instruments at fair value through other comprehensive income, and the respective accumulated gains or losses recognised in "Fair value changes" are transferred to "Retained earnings" at the time of their derecognition.

B1.1.3. Financial assets at fair value through profit or loss

Classification

A financial asset is classified in the category "Financial assets at fair value through profit and loss" if the business model defined by the Bank for its management or the characteristics of its contractual cash flows do not meet the conditions described above to be measured at amortised cost or at fair value through other comprehensive income (FVOCI).

In addition, the Bank may irrevocably designate a financial asset at fair value through profit or loss that meets the criteria to be measured at amortised cost or at FVOCI at the time of its initial recognition if this eliminates or significantly reduces an inconsistency in measurement or recognition (accounting mismatch), that would otherwise arise from measuring assets or liabilities or recognising their gains and losses in different bases.

The Bank classified "Financial assets at fair value through profit and loss" in the following items:

a) "Financial assets held for trading"

These financial assets are acquired with the purpose of short-term selling; at the initial recognition, they are part of a portfolio of identified financial instruments and for which there is evidence of profit-taking in the short-term; or they can be defined as derivatives (except for hedging derivatives).

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

This item classifies debt instruments whose contractual cash flows do not correspond only to repayments of principal and interest on the principal amount outstanding (SPPI).

c) "Financial assets designated at fair value through profit or loss"

This item includes the financial assets that the Bank has chosen to designate at fair value through profit or loss to eliminate accounting mismatch.

Initial recognition and subsequent measurement

Considering that the transactions carried out by the Bank in the normal course of its business are in market conditions, financial assets at fair value through profit or loss are initially recognised at their fair value, with the costs or income associated with the transactions recognised in profit and loss at the initial moment. Subsequent changes in the fair value of these assets are recognised in profit and loss.

The accrual of interest and of the premium/discount (when applicable) is recognised in "Net interest income", based on the effective interest rate of each transaction, as well as the accrual of interest from derivatives associated with financial instruments classified in this category. Dividends are recognised in profit and loss when the right to receive them is attributed.

Trading derivatives with a positive fair value are included in the item "Financial assets held for trading", while trading derivatives with negative fair value are included in "Financial liabilities held for trading".

B1.2. Reclassification between categories of financial assets

Financial assets should be reclassified into other categories only if the business model used in their management has changed. In this case, all financial assets affected must be reclassified.

The reclassification must be applied prospectively from the date of reclassification and any gains, losses (including the ones related to impairment) or interest previously recognised should not be restated.

It is not allowed the reclassification of investments in equity instruments measured at fair value through other comprehensive income, nor of financial instruments designated at fair value through profit or loss.

B1.3. Modification and derecognition of financial assets

General principles

- i) The Bank shall derecognise a financial asset when, and only when:
 - the contractual rights to the cash flows from the financial asset expire; or,
 - it transfers the financial asset as set out in notes ii) and iii) below and the transfer qualifies for derecognition in accordance with note iv).
- ii) The Bank transfers a financial asset if, and only if, it either:
 - transfers the contractual rights to receive the cash flows of the financial asset; or,
 - retains the contractual rights to receive the cash flows of the financial asset but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions presented in note iii).
- iii) When the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay these cash flows to one or more entities (the 'eventual recipients'), the Bank shall treat the transaction as a transfer of a financial asset if all of the following three conditions are met:
 - the Bank does not have any obligation to pay amounts to the eventual recipients, unless it collects equivalent amounts from the original asset. Short-term advances with the right of full recovery of the amount lent, plus accrued interest at market rates, do not violate this condition;
 - the Bank is contractually prohibited from selling or pledging the original asset other than as a security to the eventual recipients due its obligation to pay them cash flows; and,
 - the Bank has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, it is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents (as defined in IAS 7 - Statement of Cash Flows) during the short settlement period from the collection date until the date of required remittance to the eventual recipients, and interest earned on such investments is passed to the eventual recipients.
- iv) When the Bank transfers a financial asset (see note ii) above), it shall evaluate the extent to which it retains the risks and benefits arising from owning the financial asset. In this case:
 - if the Bank transfers substantially all the risks and benefits arising from owning the financial asset, it shall derecognise the financial asset and recognise separately any rights and obligations created or retained in the transfer, as assets or liabilities;
 - if the Bank retains substantially all the risks and benefits arising from owning the financial asset, it shall continue to recognise the financial asset;
 - if the Bank neither transfers nor retains substantially all the risks and benefits arising from owning the financial asset, it shall determine whether it retained control of the financial asset. In this case:

- a) if the Bank did not retain control, it shall derecognise the financial asset and recognise separately, as assets or liabilities, any rights and obligations created or retained in the transfer;
- b) if the Bank retained control, it shall continue to recognise the financial asset to the extent of its continued involvement in the financial asset.
- v) The transfer of risks and benefits (see prior note) is evaluated by comparing the Bank's exposure, before and after the transfer, with the variability in the amounts and timing of the net cash flows of the transferred asset.
- vi) The question of whether the Bank retained or not control (see note iv) above) over the transferred asset depends on the transferee's ability to sell the asset. If the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and can exercise that ability unilaterally without needing to impose additional restrictions on the transfer, the entity did not retain control. In all other cases, the entity retained control.

Derecognition criteria

In the context of the general principles listed in the previous section, and considering that contract modification processes may lead, in some circumstances, to the derecognition of the original financial assets and recognition of new ones (subject to POCI identification), the purpose of this section is to set the criteria and circumstances that may lead to the derecognition of a financial asset.

The Bank considers that a modification in the terms and conditions of a credit exposure will result in derecognition of the transaction and in recognition of a new transaction when the modification translates into at least one of the following conditions:

- creation of a new exposure that results from a debt consolidation, without any of the derecognised instruments having a nominal amount higher than 90% of the nominal amount of the new instrument;
- double extension of residual maturity, provided that the extension is not shorter than 3 years compared to the residual maturity in the moment of modification;
- increase of on-balance exposure by more than 10% compared to the nominal amount (refers to the last approved amount on the operation subject to modification);
- change in qualitative features, namely:
 - a) change of currency, unless the exchange rate between the old and the new currency is pegged or managed within limits restricted by law or relevant monetary authorities;
 - b) exclusion or addition of a substantial equity conversion feature to a debt instrument, unless it is not reasonably possible that it will be exercised over its term;
 - c) transfer of the instrument's credit risk to another borrower, or a significant change in the structure of borrowers within the instrument.

Loans written-off

The Bank writes off a loan when it does not have reasonable expectations of recovering a financial asset in its entirety or partially. This registration occurs after all the recovery actions developed by the Bank prove to be fruitless. Loans written-off are recognised in offbalance sheet accounts.

B1.4. Purchased or originated credit-impaired assets

Purchased or originated credit-impaired (POCI) assets are assets that present objective evidence of credit impairment in the moment of their initial recognition. An asset is credit-impaired if one or more events have occurred with a detrimental impact on the estimated future cash flows of the asset.

The two events that lead to the origin of a POCI exposure are presented as follows:

- financial assets arising from a recovery process, where there have been changes to the terms and conditions of the original agreement, which presented objective evidence of impairment that resulted in its derecognition (note B1.3) and recognition of a new contract that reflects the credit losses incurred;
- financial assets acquired with a significant discount, where the existence of a significant discount reflects credit losses incurred at the time of their initial recognition.

At initial recognition, POCI assets do not carry an impairment allowance. Instead, lifetime expected credit losses (ECL) are incorporated into the calculation of the effective interest rate (EIR). Consequently, at initial recognition, the gross book value of POCI (initial balance) is equal to the net book value before being recognised as POCI (difference between the initial balance and the total discounted cash flows).

B1.5. Impairment losses

B1.5.1. Financial instruments subject to impairment losses recognition

The Bank recognises impairment losses for expected credit losses on financial instruments recognised in the following accounting items:

B1.5.1.1. Financial assets at amortised cost

Impairment losses on financial assets at amortised cost reduce the balance sheet value of these financial assets against the item "Impairment for financial assets at amortised cost" (in the income statement).

B1.5.1.2. Debt instruments at fair value through other comprehensive income

Impairment losses for debt instruments at fair value through other comprehensive income are recognised in the income statement under "Impairment for financial assets at fair value through other comprehensive income", against other comprehensive income (they do not reduce the balance sheet amount of these financial assets).

B1.5.1.3. Credit commitments, documentary credits and financial guarantees

Impairment losses associated with credit commitments, documentary credits and financial guarantees are recognised in liabilities, under the balance "Provisions for guarantees and other commitments", against "Other provisions" (in the income statement).

B1.5.2. Classification of financial instruments by stages

← Changes in credit risk since the initial recognition →			
	Stage 1	Stage 2	Stage 3
Classification criterion	Initial recognition	Significant increase in credit risk since initial recognition	Impaired
Impairment losses	12-month expected credit losses	Lifetime expected credit losses	

The Bank determines the expected credit losses of each operation as a result of the deterioration of credit risk since its initial recognition. For this purpose, operations are classified into one of the following three stages:

- Stage 1: the operations in which there is no significant increase in credit risk since its initial recognition are classified in this stage. Impairment losses associated with operations classified in this stage correspond to expected credit losses resulting from a default event that may occur within 12 months after the reporting date (12-month expected credit losses);
- Stage 2: the operations in which there is a significant increase in credit risk since its initial recognition (note B1.5.3) but are not impaired (note B1.5.4) are classified in this stage. Impairment losses associated with operations classified in this stage correspond to the expected credit losses resulting from default events that may occur over the expected residual life of the operations (lifetime expected credit losses);
- Stage 3: impaired operations are classified in this stage. Impairment losses associated with operations classified at this stage correspond to lifetime expected credit losses.

B1.5.3. Significant increase in credit risk (SICR)

Significant increase in credit risk (SICR) is determined according to a set of mostly quantitative, but also qualitative criteria. These criteria are mainly based on the risk grades of customers, according to the Bank's Rating Master Scale, and on its evolution, in order to detect significant increases in Probability of Default (PD), complemented by other information regarding the customers' behavior towards the financial system.

B1.5.4. Definition of financial assets in default and impaired

Until 31 December 2019, customers who met at least one of the following criteria were considered to be in default:

- a) Customers that are in default or with a limit exceeded for more than 90 days above the materiality applicable;
- b) Customers subjected to individual analysis of impairment, for which the amount of impairment represents more than 20% of total exposure;
- c) Customers submitted to the individual analysis of impairment and for which impairment value exceeds Euros 5 million;
- d) Clients declared insolvent;
- e) Customers that are subject to judicial recovery, excluding guarantors;
- f) Customers with restructured operations caused by financial difficulties, for which it was registered, at the time of restructuring, an economic loss over Euros 5 million or 20% of total exposure;
- g) Customers with restructured operations caused by financial difficulties, due for more than 45 days above the customer applicable materiality considering all its credit operations;
- h) Customers that register a recurrence of restructured operations due to financial difficulties within a 24 months period since default resulting from a previous restructuring. If the previous restructuring did not result in default, the 24 months period count begins at the date of the previous restructuring;
- i) Customers for which a part or the entirety of their exposure was sold with a loss greater than 20% or Euros 5 million (excluding sales that result from a decision regarding balance sheet management and not from a disposal of problematic loans);
- j) Customers for which takes place a new sale with loss, regardless of the amount, within a period of 24 months since the trigger resulting from the previous sale;
- k) Guarantors of operations overdue for more than 90 days above the defined materiality, as long as the respective guarantee has been activated;
- l) Cross default at the BCP Group level;
- m) Customers with restructured operations at a lower interest rate than the refinancing rate of the European Central Bank (unproductive credit).

Until 31 December 2019, it was considered as having objective signs of impairment (i.e., impaired):

- i) customers in default, i.e., marked as grade 15 on the Bank's Rating Master Scale;
- ii) customers that, when submitted to a questionnaire for analysis of financial difficulties evidence, are considered with objective signs of impairment;
- iii) customers whose contracts' values, that are due for more than 90 days, represent more than 20% of their total exposure in the balance sheet;
- iv) the Non-Retail customers with one or more contracts overdue for more than 90 days and whose total overdue amount exceeds Euros 500;
- v) the Retail customers contracts overdue for more than 90 days and in which the overdue amount exceeds Euros 200;
- vi) contracts restructured due to financial difficulties that are overdue for more than 30 days and in which the overdue amount exceeds Euros 200.

As of 1 January 2020, all customers who meet at least one of the following conditions are marked as default and, consequently, in NPE:

a) Delay over 90 days of material payment:

- Amounts of principal, interest or fees not paid on the due date that, cumulatively, represent:

- i) more than Euros 100 (retail) or more than Euros 500 (non-retail); and,
- ii) more than 1% of the total debt (direct liabilities).

After these two conditions are met, the counting of days of delay begins: if more than 90 consecutive days in which the customer is in this situation have been counted, it is classified as default (or GR15).

The existence of a material payment delay gives rise to the default setting (GR15) of all holders of the operation (or operations).

b) Signs of low probability of payment:

- i. Credit restructuring due to financial difficulties with loss of value;
- ii. Delay after restructuring due to financial difficulties;
- iii. Recurrence of restructuring due to financial difficulties;
- iv. Credit with signs of impairment (or stage 3 of IFRS 9);
- v. Insolvency or equivalent proceedings;

- vi. Litigation;
- vii. Guarantees of operations in default;
- viii. Credit sales with losses;
- ix. Credit fraud;
- x. Unpaid credit status;
- xi. Breach of covenants in a credit agreement;
- xii. Spread of default in an economic group;
- xiii. Cross *default* in BCP Group.

B1.5.5. Estimates of expected credit losses - Individual analysis

1. Customers who are in one of the following conditions are subject to individual analysis:

Customers in default	Customers in litigation or insolvency, since the total exposure of the group members in these situations exceeds Euros 1 million
	Customers integrated into groups with an exposure over Euros 5 million, since they have a risk grade 15
Groups or customers who are not in default	Other customers belonging to groups in the above conditions
	Groups or customers with an exposure over Euros 5 million, since a group member has a risk grade ¹⁴
	Groups or customers with an exposure over Euros 5 million, since a member of the group has a restructured loan and a risk grade 13
	Groups or customers with an exposure over Euros 10 million, since at least one member of the group is in stage 2
	Groups or customers not included in the preceding paragraphs, whose exposure exceeds Euros 25 million

2. Regardless of the criteria described in the previous point, the individual analysis is only performed for customers with a credit exposure over Euros 500,000, not being considered customers with exposure below this limit for the purpose of determining the exposure referred in the previous point.
3. Other customers that do not meet the criteria defined in 1 will also be subject to individual analysis, if under the following conditions:
 - have impairment as a result of the latest individual analysis;
 - according to recent information, show a significant deterioration in risk levels; or,
 - are a Special Purpose Vehicle (SPV).
4. The individual analysis includes the following procedures:
 - for customers that are not in default, the analysis of financial difficulties indicators to determine whether the customer has objective signs of impairment, or whether it should be classified in stage 2 given the occurrence of a significant increase in credit risk, considering for this purpose a set of predetermined signs;
 - for customers in default or for which the previous analysis has allowed to conclude that the customer has objective signs of impairment, determination of the loss.
5. The individual analysis is the responsibility of the departments in charge of customers' management and of the Credit Department, the latter in respect to the customers managed by the Commercial Networks.

The assessment of existence of impairment losses in individual terms is determined through an analysis of the total credit exposure on a case-by-case basis. For each loan considered individually significant, the Bank assessed, at each balance sheet date, the existence of objective evidence of impairment. In the assessment of impairment losses in individual terms, the following factors were considered:

- total exposure of each customer towards the Bank and the existence of overdue loans;
- viability of the customer's business and its capacity to generate enough cash flows to service debt obligations in the future;
- the existence, nature and estimated value of the collaterals associated to each loan;
- significant deterioration of the customer's rating;
- the customer's available assets in liquidation or insolvency situations;
- the existence of preferential creditors;
- the amount and expected recovery term.

6. Each of the units referred to in the previous point is responsible for assigning an expectation and a recovery period to exposures relating to customers subject to individual analysis, which must be transmitted to the Risk Office as part of the regular process of collecting information, accompanied by detailed justification of the proposed impairment.
7. The expected recovery shall be represented by a recovery rate of the total outstanding exposure, which may be a weighted rate considering the different recovery prospects for each part of the customer's liabilities.
8. The recovery estimation referred to in the previous point should be influenced by future prospects (forward-looking), contemplating not only a more expected scenario but also alternative scenarios (an unbiased and probability-weighted amount). The application and weighting of the scenarios should be carried out both in a global perspective and in an individualized perspective, the latter when cases that, due to their specificity, have a high degree of uncertainty regarding the expected recovery estimation are identified.
9. The macroeconomic adjustment set out in point 8 should be analysed annually and weighted according to the type of recovery strategy associated with the exposure under analysis:
 - for Going Concern strategies (i.e., the estimation is based on the cash flows of the business), the possibility of applying the 2 additional macroeconomic scenarios (optimistic and pessimistic) should be analysed in a global way, to ascertain if there is the risk of a skewed view of the expected losses from the consideration of only one scenario;
 - for Gone Concern strategies (i.e., the recovery estimation is based on the realization of the collateral), the impact of the macroeconomic scenario on collaterals should be analysed, for example, to what extent the projected real estate index allows anticipate significant changes to the current valuation values.
10. It is the responsibility of the units referred to in point 5 to consider in their projection macroeconomic expectations that may influence the recoverability of the debt.
11. For the purposes of the preceding paragraphs, the Studies, Planning and ALM Department shall disclose the macroeconomic data that allow the estimations to be made.
12. The decision to consider global impacts related to the going and gone concern scenarios should be made by the Risk Committee, as proposed by the Risk Office.
13. For specific cases with a high degree of uncertainty, the allocation of alternative scenarios should be considered casuistically. Examples of recovery situations with a degree of uncertainty include:
 - recovery of collateral in geographies in which the Bank has no relevant recovery experience;
 - recovery of debt related to geographies in which there is a strong political instability;
 - recovery of non-real estate collateral for which there is no evidence of market liquidity;
 - recovery of related collateral or government guarantees in a currency other than the country's own;
 - recovery of debt related to debtors for whom there is a strong negative public exposure.
14. The Risk Office is responsible for reviewing the information collected and for clarifying all identified inconsistencies, which is the final decision on the customer's impairment.
15. Customers that have objective signs of impairment, but an individual impairment amount is equal to zero, are included in the collective analysis, assuming a PD 12 months equivalent to the risk grade of the customer.
16. The individual impairment analysis must be carried out at least annually. In case of significant signs of deterioration or improvement in the customer's economic and financial situation are detected, as well as the macroeconomic conditions affecting the customer's ability to accomplish debt, it is the responsibility of the Risk Office to promote the review anticipated impairment of this customer.

B1.5.6. Estimates of expected credit losses - Collective analysis

Transactions that are not subject to an individual impairment analysis are grouped considering their risk characteristics and subject to a collective impairment analysis. The Bank's credit portfolio is divided by internal risk grades and according to the following segments:

- a) Segments with a reduced history of defaults, designated 'low default': Large corporate exposures, Project finance, Institutions (banks/financial institutions) and Sovereigns;
- b) Segments not 'low default': - Retail: Mortgages; Overdrafts; Credit cards; Small and medium enterprises - Retail ('SME Retail'); and Others - Corporate: Small and medium enterprises - Corporate ('Large SME'); and Real Estate.

The Bank performs statistical tests in order to prove the homogeneity of the segments mentioned above, with a minimum period of one year.

Expected credit losses are estimates of credit losses that are determined as follows:

- financial assets with no signs of impairment at the reporting date: the present value of the difference between the contractual cash flows and the cash flows that the Bank expects to receive;
- financial assets with impairment at the reporting date: the difference between the gross book value and the present value of the estimated cash flows;
- unused credit commitments: the present value of the difference between the resulting contractual cash flows if the commitment is made and the cash flows that the Bank expects to receive;
- financial guarantees: the current value of the expected repayments less the amounts that the Bank expects to recover.

The main inputs used to measure ECLs on a collective basis should include the following variables:

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

These parameters are obtained through internal statistical models and other relevant historical data, considering the already existing regulatory models adapted to the requirements of IFRS 9.

PDs are estimated based on a certain historical period and will be calculated based on statistical models. These models are based on internal data including both quantitative and qualitative factors. If there is a change in the risk of the counterparty or exposure, the estimate of the associated PD will also vary. The PDs will be calculated considering the contractual maturities of exposures.

The risk grades are a highly relevant input for determining the PD associated with each exposure.

The Bank collects performance and default indicators about their credit risk exposures with analysis by types of customers and products.

LGD is the magnitude of the loss that is expected to occur if exposure goes into default. The Bank estimates the LGD parameters based on the historical recovery rates after entry into counterparty defaults. The LGD models consider the associated collaterals, the counterparty activity sector, the default time, as well as the recovery costs. In the case of contracts secured by real estate, it is expected that the LTV (loan-to-value) ratios are a parameter of high relevance in the determination of LGD.

The EAD represents the expected exposure if the exposure and/or customer defaults. The Bank obtains the EAD values from the counterparty's current exposure and potential changes to its current value as a result of the contractual conditions, including amortisations and prepayments. For commitments and financial guarantees, the value of the EAD will consider both the amount of credit used and the expectation of future potential value that may be used in accordance with the agreement.

As described above, with the exception of financial assets that consider a 12-month PD as they do not present a significant increase in credit risk, the Bank will calculate the ECL value considering the risk of default during the maximum contractual maturity period of the contract, even if, for the purpose of risk management, it is considered to be a longer period. The maximum contractual period shall be considered as the period up to the date on which the Bank has the right to require payment or end the commitment or guarantee.

The Bank adopted as a residual term criterion for renewable operations, when in stage 2, a term of 5 years. This term was determined based on the behavioural models of this type of products applied by the Bank in the liquidity risk and interest rate (ALM) analysis. According to these models, the maximum period of repayment of these operations is the 5 years considered conservatively in the scope of the calculation of credit impairment.

The Bank uses models to forecast the evolution of the most relevant parameters to the expected credit losses, namely probability of default, which incorporate forward-looking information. This incorporation of forward-looking information is carried out in the relevant elements considered for the calculation of expected credit losses (ECL).

The PD point-in-time (PDpit) considered for the determination of the probability of performing exposures at the reference date becoming defaulted exposures considers the expected values (in each scenario considered in the ECL calculation) for a set of macroeconomic variables. These relationships were developed specifically based on the Bank's historical information on the behaviour of this parameter (PDpit) in different economic scenarios and are different by customer segment and risk grade.

B2. Financial liabilities

B2.1. Classification, initial recognition and subsequent measurement

At initial recognition, financial liabilities are classified in one of the following categories:

- "Financial liabilities at amortised cost";
- "Financial liabilities at fair value through profit or loss".

B2.1.1. Financial liabilities at fair value through profit or loss

Classification

Financial liabilities classified under "Financial liabilities at fair value through profit or loss" include:

a) "Financial liabilities held for trading"

In this balance are classified the issued liabilities with the purpose of repurchasing in the near term, the ones that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or is a derivative (except for a derivative classified as hedging instrument).

b) "Financial liabilities designated at fair value through profit or loss"

The Bank may irrevocably assign a financial liability at fair value through profit or loss at the time of its initial recognition if at least one of the following conditions is met:

- the financial liability is managed, evaluated and reported internally at its fair value; or,
- the designation eliminates or significantly reduces the accounting mismatch of transactions.

Initial recognition and subsequent measurement

Considering that the transactions carried out by the Bank in the normal course of its business are made in market conditions, financial liabilities at fair value through profit or loss are initially recognised at fair value with the costs or income associated with the transactions recognised in profit or loss at the initial moment.

Subsequent changes in the fair value of these financial liabilities are recognised as follows:

- the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability shall be presented in other comprehensive income;
- the remaining amount of change in the fair value of the liability shall be presented in profit or loss.

The accrual of interest and the premium/discount (when applicable) is recognised in "Interest expense and similar charges" based on the effective interest rate of each transaction.

B2.1.2. Financial guarantees

If they are not designated at fair value through profit or loss at the time of initial recognition, the financial guarantee contracts are subsequently measured at the highest of the following amounts:

- the provision for losses determined according to the criteria described in note B1.5;
- the amount initially recognised deducted, when appropriate, from the accumulated amount of income recognised according to IFRS 15 - Revenue from contracts with customers.

Financial guarantee contracts that are not designated at fair value through profit or loss are presented under "Provisions".

B2.1.3. Financial liabilities at amortised cost

Classification

Financial liabilities that were not classified at fair value through profit or loss, or correspond to financial guarantee contracts, are measured at amortised cost.

The category "Financial assets at amortised cost" includes resources from credit institutions and from customers, as well as subordinated and non-subordinated debt securities.

Initial recognition and subsequent measurement

Financial liabilities at amortised cost are initially recognised at fair value plus transaction costs and are subsequently measured at amortised cost. Interest on financial liabilities at amortised cost are recognised in "Interest expense and similar charges", based on the effective interest rate method.

B2.2. Reclassification between categories of financial liabilities

Reclassifications of financial liabilities are not allowed.

B2.3. Derecognition of financial liabilities

The Bank derecognises financial liabilities when these are cancelled or extinct.

B3. Interest recognition

Income and expense related to interest from financial instruments measured at amortised cost are recognised in "Interest and similar income" and "Interest expense and similar charges" (net interest income) through the effective interest rate method. Interest related to financial assets at fair value through other comprehensive income is also recognised in net interest income.

The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument (or, when appropriate, for a shorter period), to the net carrying amount of the financial asset or financial liability.

For calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument (e.g., early payment options) but without considering future impairment losses. The calculation includes all fees paid or received considered as included in the effective interest rate, transaction costs and all other premiums or discounts directly related to the transaction, except for assets and liabilities at fair value through profit and loss.

Interest income recognised in income associated with contracts classified in stage 1 or 2 are determined by applying the effective interest rate for each contract on its gross book value. The gross balance of a contract is its amortised cost, before deducting the respective impairment. For financial assets included in stage 3, interest is recognised in the income statement based on its net book value (less impairment). The interest recognition is always made in a prospective way, i.e., for financial assets entering stage 3, interest is recognised at the amortised cost (net of impairment) in subsequent periods.

For purchased or originated credit-impaired assets (POCI), the effective interest rate reflects the expected credit losses in determining the expected future cash flows receivable from the financial asset.

B4. Hedge accounting

As allowed by IFRS 9, the Bank opted to continue to apply the hedge accounting requirements in accordance with IAS 39.

The Bank designates derivatives and other financial instruments to hedge its exposure to interest rate and foreign exchange risk, resulting from financing and investment activities. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative hedging instruments are stated at fair value and gains and losses on revaluation are recognised in accordance with the hedge accounting model adopted by the Bank. A hedge relationship exists when:

- at the inception of the hedge there is formal documentation of the hedge;
- the hedge is expected to be highly effective;
- the effectiveness of the hedge can be reliably measured;
- the hedge is valuable in a continuous basis and highly effective throughout the reporting period; and,
- for hedges of a forecasted transaction, the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

When a derivative financial instrument is used to hedge foreign exchange variations arising from monetary assets or liabilities, no hedge accounting model is applied. Any gain or loss associated to the derivative is recognised through profit and loss, as well as changes in currency risk of the monetary items.

B4.1. Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedge instruments are recognised in profit and loss, together with changes in the fair value attributable to the hedged risk of the asset or liability or group of assets and liabilities. If the hedge relationship no longer meets the criteria for hedge accounting, the cumulative gains and losses due to variations of hedged risk linked to the hedge item recognised until the discontinuance of the hedge accounting are amortised through profit and loss over the residual term of the hedged item.

B4.2. Cash flow hedge

In a hedge relationship, the effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity - cash flow hedge reserves in the effective part of the hedge relations. Any gain or loss relating to the ineffective portion of the hedge is immediately recognised in profit and loss when occurred.

Amounts accumulated in equity are reclassified to profit and loss in the periods in which the hedged item will affect profit or loss.

In case of hedging variability of cash flows, when the hedge instrument expires or is disposed or when the hedging relationship no longer meets the criteria for hedge accounting, or when the hedge relation is revoked, the hedge relationship is discontinued on a prospective basis. Therefore, the fair value changes of the derivative accumulated in equity until the date of the discontinued hedge accounting can be:

- deferred over the residual period of the hedged instrument; or,
- recognised immediately in results, if the hedged instrument is extinguished.

In the case of a discontinued hedge of a forecast transaction, the change in fair value of the derivative recognised in equity at that time remains in equity until the forecasted transaction is ultimately recognised in the income statement. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit and loss.

B4.3. Hedge effectiveness

For a hedge relationship to be classified as such according to IAS 39, effectiveness must be demonstrated. As such, the Bank performs prospective tests at the beginning date of the initial hedge, if applicable, and retrospective tests in order to demonstrate at each reporting period the effectiveness of the hedging relationships, demonstrating that the variations in fair value of the hedging instrument are hedged by the fair value variations of the hedged item in the portion assigned to the risk covered. Any ineffectiveness is recognised immediately in profit and loss when incurred.

B4.4. Hedge of a net investment in a foreign operation

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any exchange gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. The gain or loss relating to the ineffective portion is immediately recognised in profit and loss. Gains and losses accumulated in equity related to the investment in a foreign operation and to the associated hedge operation are recognised in equity and transferred to profit and loss, on the disposal of the foreign operation as part of the gain or loss from the disposal.

B5. Embedded Derivatives

An embedded derivative is a component of a hybrid agreement, which also includes a non-derived host instrument.

If the main instrument included in the hybrid contract is considered a financial asset, the classification and measurement of the entire hybrid contract is carried out in accordance with the criteria described in note B1.1.3.

Derivatives embedded in contracts that are not considered financial assets are treated separately whenever the economic risks and benefits of the derivative are not related to those of the main instrument, since the hybrid instrument is not initially recognised at fair value through profit or loss. Embedded derivatives are recorded at fair value with subsequent fair value changes recorded in profit or loss for the period and presented in the trading derivatives portfolio.

C. Securitization operations

C1. Traditional securitizations

The Bank has three residential mortgage credit securitization operations (Magellan Mortgages no.1, no.3 and no.4), which portfolios were derecognised from the Bank's individual balance sheet, as the residual portions of the referred operations were sold to institutional investors and, consequently, their risks and benefits were substantially transferred.

The three operations are traditional securitizations, where each mortgage loan portfolio was sold to a portuguese Loan Titularization Fund, which has financed this purchase through the sale of titularization units to a SPE with office in Ireland. At the same time, this SPE issued and sold in capital markets a group of different portions of bonds.

As at 31 December 2020, the Bank has three residential mortgage credit securitization operations (Magellan Mortgages no.1, no.3 and no.4), having occurred in October 2019 the liquidation of the operation Magellan Mortgages no.2 and the consequent incorporation of its credits in BCP and BII.

C2. Synthetic securitizations

Currently, the Bank has two synthetic securitization operations.

Caravela SME no.3, which started on 28 June 2013, has a medium and long-term loans portfolio of current accounts and authorized overdrafts granted by BCP, mainly to small and medium companies.

Caravela SME no.4 is a similar operation, initiated on 5 June 2014, which portfolio contains car, real estate and equipment leasing granted between the Bank and a group of clients that belong to the same segment (small and medium companies).

In both operations, the Bank hired a Credit Default Swap (CDS) with a Special Purpose Vehicle (SPV), buying, this way, the protection for the total portfolio referred. Both cases, the synthetic securitizations, the same CDS, the risk of the respective portfolios were divided in 3 classes: senior, mezzanine and equity. The mezzanine and part of the equity (20%) were placed in the market through an SPV, and the subscription by investors, the Credit Linked Notes (CLNs). The Bank retained the senior risk and part of the equity remaining (80%). The product of the CLNs issue was invested by the SPV in a deposit which total collateral the responsibilities in the presence of the Bank, in accordance of the CDS.

D. Equity instruments

A financial instrument is an equity instrument only if: i) the instrument includes no contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; and, ii) the instrument will or may be settled in the issuer's own equity instruments, it is either a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments or a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

An equity instrument, independently from its legal form, evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Transaction costs directly attributable to an equity instruments' issuance are recognised in equity as a deduction to the amount issued. Amounts paid or received related to sales or acquisitions of equity instruments are recognised in equity, net of transaction costs.

Preference shares issued by the Bank are considered as an equity instrument when redemption of the shares is solely at the discretion of the Bank and dividends are paid at the discretion of the Bank.

Income from equity instruments (dividends) are recognised when the obligation to pay is established and are deducted to equity.

E. Securities borrowing and repurchase agreement transactions

E1. Securities borrowing

Securities lent under securities lending arrangements continue to be recognised in the balance sheet and are measured in accordance with the applicable accounting policy. Cash collateral received in respect of securities lent is recognised as a financial liability. Securities borrowed under securities borrowing agreements are not recognised. Cash collateral placements in respect of securities borrowed are recognised under loans and advances to either banks or customers. Income and expenses arising from the securities borrowing and lending business are recognised on an accrual basis over the period of the transactions and are included in interest income or expense (net interest income).

E2. Repurchase agreements

The Bank performs acquisition/sale of securities under reselling/repurchase agreements of securities substantially equivalent in a future date at a predetermined price ('repos'/'reverse repos'). The securities related to reselling agreements in a future date are not recognised in the balance sheet. The amounts paid are recognised in loans and advances to customers or loans and advances to credit institutions. The receivables are collateralised by the related securities. Securities sold through repurchase agreements continue to be recognised in the balance sheet and are revaluated in accordance with the applicable accounting policy. The amounts received from the proceeds of these securities are considered as deposits from customers and deposits from credit institutions. The difference between the acquisition/sale and reselling/repurchase conditions is recognised on an accrual basis over the period of the transaction and is included in interest income or expenses.

F. Investments in subsidiaries and associates

Investments in subsidiaries and associates are accounted for in the Bank's financial statements at their historical cost less any impairment losses.

Subsidiaries are entities controlled by the Bank (including investment funds and securitization vehicles). The Bank controls an entity when it holds the power to designate the relevant activities of the entity, and when it is exposed or has rights to variable returns from its involvement with the entity and is able to take possession of those results through the power it holds over the relevant activities of that entity (*de facto* control).

Investments in associates

Associates are those entities in which the Bank has significant influence but not control over the financial and operating policy decisions of the investee. It is assumed that the Bank has significant influence when it holds, directly or indirectly, 20% or more of the voting rights of the investee. If the Bank holds, directly or indirectly less than 20% of the voting rights of the investee, it is presumed that the Bank does not have significant influence, unless such influence can be clearly demonstrated.

The existence of significant influence by the Bank is usually evidenced in one or more of the following ways:

- representation on the Board of Directors or equivalent governing body of the investee;
- participation in policy-making processes, including participation in decisions about dividends or other distributions;
- material transactions between the Bank and the investee;
- interchange of the management team; or
- provision of essential technical information.

Impairment

The recoverable amount of the investments in subsidiaries and associates is assessed annually, with reference to the end of the year or whenever exists any impairment triggers. Impairment losses are calculated based on the difference between the recoverable amount of the investments in subsidiaries and associates and their book value. Impairment losses identified are charged against results and subsequently, if there is a reduction of the estimated impairment loss, the charge is reversed, in a subsequent period. The recoverable amount is determined based on the higher between the assets value in use and the fair value deducted of selling costs, calculated using valuation methodologies supported by discounted cash flow techniques, considering market conditions, the time value of money and the business risks.

Merger of companies

The process of merging companies by incorporation corresponds to the incorporation of the assets and liabilities of a company (merged) into another company (acquirer). In the event that the Bank is the acquirer company and the merged company is controlled by the Bank, the merger is classified as a transaction between companies under common control, and the Bank uses the denominated 'predecessor approach' as a criterion for recording in its individual accounts, which consists of recording the assets and liabilities of the merged company at their book value as presented in the Bank's consolidated accounts. This criterion provides for intra-group balances and historical transactions between the two companies to be eliminated and the amounts regarding assets and liabilities to be adjusted accordingly. The net difference between the amount recorded by the Bank and the amounts of the assets and liabilities incorporated is recorded as a "Merger reserve".

G. Non-current assets held for sale and Discontinued or discontinuing operations

Non-current assets, groups of non-current assets held for sale (groups of assets together with related liabilities that include at least a non-current asset) and discontinued operations are classified as held for sale when it is intention to sell the referred assets and liabilities and when the referred assets or group of assets are available for immediate sale, subject to the terms of sale usually applicable to these types of assets, and its sale is highly probable, in accordance with IFRS 5. For the sale to be considered highly probable, the Bank must be committed to a plan to sell the asset (or disposal group) and must have been initiated an active program to locate a buyer and complete the plan. In addition, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. Furthermore, it should be expected the sale to qualify for recognition as a completed sale within one year from the date of classification, except as permitted by paragraph 9 of IFRS 5, and that the Bank remains committed to the asset sales plan and the delay is caused by events or circumstances beyond its control.

The Bank also classifies as non-current assets held for sale those non-current assets or groups of assets acquired exclusively with a view to its subsequent disposal, which are available for immediate sale and its sale is highly probable. Immediately before classification as held for sale, the measurement of the non-current assets or all assets and liabilities in a disposal group, is performed in accordance with the applicable IFRS. After their reclassification, these assets or disposal groups are measured at the lower of their cost and fair value less costs to sell.

G1. Non-operating real estate (INAE)

The Bank also classifies non-current assets held for sale the non-operating real estate (INAE), which include properties acquired by the Bank as a result of the resolution of customer credit processes, as well as own properties that are no longer used by the Bank's services.

At the time of acquisition, real estate classified as INAE is recognised at the lower of the value of the loans existing on the date on which the recovery occurs, or the judicial decision is formalised, and the fair value of the property, net of estimated costs for sale. Subsequent measurement of INAE is made at the lower of their book value and the corresponding fair value, net of the estimated costs for their sale and are not subject to amortisation. Impairment losses are recorded in the results of the period in which they arise.

The fair value is determined based on the market value, which is determined based on the expected sales price obtained through periodic evaluations made by expert external evaluators accredited to the Comissão do Mercado de Valores Mobiliários (CMVM).

Whenever the net fair value of the selling costs calculated for an INAE is less than the amount by which the same is recognised in the Bank's balance sheet, an impairment loss is recorded in the amount of the decrease in value ascertained. Impairment losses are recorded against income for the year.

If the net fair value of the selling costs of an INAE, after recognition of impairment, indicates a gain, the Bank may reflect that gain up to the maximum of the impairment that has been recorded on that property.

H. Lease transactions (IFRS 16)

The Bank adopted IFRS 16 - Lease transactions on 1 January 2019, replacing IAS 17 - Lease transactions, which was in force until 31 December 2018. The Bank did not adopt earlier any of the requirements of IFRS 16 in prior periods.

This standard establishes the new requirements regarding the scope, classification/recognition and measurement of leases:

- from the lessor's perspective, leases will continue to be classified as finance leases or operating leases;
- from the lessee's perspective, the standard defines a single model of accounting for lease contracts, which results in the recognition of a right-of-use asset and a lease liability for all leases, except for those which the lease term ends within 12 months or for those which the underlying asset is of low-value and, in these cases, the lessee may opt for the exemption from recognition under IFRS 16, and shall recognise the lease payments associated with these leases as an expense.

The Bank chose not to apply this standard to short-term lease contracts, i.e. contracts with a term shorter than or equal to one year, and to lease contracts in which the underlying asset's value is below Euros 5,000. Additionally, this standard was not applied to leases of intangible assets.

Lease definition

The new lease definition focusses on the control of the identified asset, establishing that a contract constitutes or contains a lease if it carries the right to control the use of an identified asset, i.e., the right to obtain substantially all the economic benefits of using it, and the right to choose how to use the identified asset over a period in exchange of a payment.

Impacts from the lessee's perspective

The Bank recognises for all leases, except for those with a term under 12 months or for leases of low-value assets:

- a right-of-use asset initially measured at cost must consider the Net Present Value (NPV) of the lease liability plus the value of payments made (fixed and/or variable), deducted from any lease incentives received, penalties for terminating the lease (if reasonably certain), as well as any cost estimates to be supported by the lessee with the dismantling and removal of the underlying asset and/or with the recovery of its location. Subsequently, it will be measured according to the cost model (subject to depreciations/amortisations and impairment tests);
- a lease liability initially recorded at the present value of the remaining lease payments (NPV), which includes:
 - fixed payments deducted from any lease incentives receivable;
 - variable lease payments that depend on a rate or an index, initially measured considering the rate or index as at the commencement date;
 - amounts expected to be paid by the lessee under residual values guarantees;
 - the exercise price of a purchase option, if the lessee is reasonably certain to exercise that option;
 - payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to end the lease.

Since it is not possible to easily determine the implicit interest rate in the lease (paragraph 26 of IFRS 16), lease payments are discounted according to the lessee's incremental borrowing rate, which embodies the risk-free rate curve (swap curve) plus the Bank's spread of risk, applied over the weighted average term of each lease contract. For contracts with term, that date is considered as the end of lease date, while for contracts without term, or with renewable terms, it is assessed the date in which the contract is enforceable, as well as eventual economic penalties associated with the lease contract. In the evaluation of enforceability, it is considered the particular clauses of the contracts, as well as the current law on Urban Leases.

Subsequently, lease payments are measured as follows:

- by increasing their carrying amount to reflect interest;
- by reducing their carrying amount to reflect lease payments;
- carrying amount shall be remeasured to reflect any leases' revaluations or changes, as well as to reflect the review of in-substance fixed payments and the review of the lease term.

The Bank remeasures the lease liability (and makes a corresponding adjustment to the right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using the revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);
- a lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using the revised discount rate.

The Bank did not make any adjustment during the periods presented.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If the lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The implementation of this standard implies changes in the Bank's financial statements, namely:

- in the income statement:
 - (i) recording in "Interest Income" the interest expenses related to lease liabilities;
 - (ii) recording in "Other administrative costs" the amounts related to short-term lease contracts and to lease contracts of low-value assets; and,
 - (iii) recording in "Amortisations and depreciations" the depreciation expenses related to right-to-use assets.
- in the balance sheet:
 - (i) recording in "Other tangible assets" the recognition of right-to-use assets; and,
 - (ii) recording in "Other liabilities" the amount of recognised lease liabilities.
- in the statement of cash flows, the balance "Cash flows arising from operating activities - Payments (cash) to suppliers and employees" includes amounts related to short-term lease contracts and to lease contracts of low-value assets, and the balance "Cash flows arising from financing activities - Decrease in other sundry liabilities and non-controlling interests" includes amounts related to payments of lease liabilities' capital portions, as detailed in the separate statement of cash flows.

Impact from the lessor's perspective

In accordance with IFRS 16, lessors will continue to classify leases as finance or operational leases, which does not imply significant changes to what is defined in IAS 17.

I. Lease transactions (IAS 17)

Until 31 December 2018, and in accordance with IAS 17, the lease transactions were classified as financial whenever their terms transferred substantially all the risks and rewards associated with the ownership of the property to the lessee. The remaining leases were classified as operational. The classification of the leases was done according to the substance and not the form of the contract.

11. Finance lease transactions

At the lessee's perspective, finance lease transactions were recorded at the beginning as an asset and liability at fair value of the leased asset, which was equivalent to the present value of the future lease payments. Lease rentals are a combination of the financial charge and the amortisation of the capital outstanding. The financial charge is allocated to the periods during the lease term to produce a constant periodic rate of interest on the remaining liability balance for each period.

At the lessor's perspective, assets held under finance leases were recorded in the balance sheet as a receivable at an amount equal to the net investment in the lease. Lease rentals were a combination of the financial income and amortisation of the capital outstanding. Recognition of the financial result reflected a constant periodical return rate over the remaining net investment of the lessor.

Assets received arising from the resolution of leasing contracts and complying with the definition of assets held for sale classified in this category, were measured in accordance with the accounting policy defined in note 1.G.

I2. Operational leases

At the lessee's perspective, the Bank had various operating leases for properties and vehicles. The payments under these leases were recognised in Other administrative costs during the life of the contract, and neither the asset nor the liability associated with the contract was evidenced in its balance sheet.

J. Recognition of income from services and commissions

Income from services and commissions is recognised according to the following criteria:

- in the moment it is received, as services are being provided, it is recognised in the income statement of the period to which it corresponds;
- when it results from a service, it is recognised as income when the referred service is concluded.

Income from services and commissions, that is an integral part of the effective interest rate of a financial instrument, is recognised in net interest income.

K. Net gains/(losses) from financial operations at fair value through profit or loss, Net gains/(losses) from foreign exchange, Net gains/(losses) from hedge accounting, Net gains/(losses) from derecognition of assets and liabilities at amortised cost and Net gains/(losses) from derecognition of financial assets at fair value through other comprehensive income

These balances include gains and losses arising from financial assets and liabilities at fair value through profit and loss, i.e., fair value changes and interest on trading derivatives and embedded derivatives, as well as the corresponding dividends received. This balance also includes the gains and losses arising from the sale of financial assets at fair value through other comprehensive income and financial assets and financial liabilities at amortised cost. The changes in fair value of hedging derivatives and hedged items, when fair value hedge is applicable, are also recognised in this balance, as well as the net gains or losses from foreign exchange.

L. Fiduciary activities

Assets held in the scope of fiduciary activities are not recognised in the Bank's financial statements. Fees and commissions arising from this activity are recognised in the income statement in the period in which they occur.

M. Other tangible assets

Other tangible assets are stated at acquisition cost less accumulated depreciation and impairment losses. Subsequent costs are recognised as a separate asset only when it is probable that future economic benefits will result for the Bank. All other repairs and maintenance expenses are charged to the income statement during the financial period in which they are incurred, under the principle of accrual-based accounting.

Depreciation is calculated on a straight-line basis, over the following periods which correspond to their estimated useful life:

	Number of years
Buildings	50
Expenditure on freehold and leasehold buildings	10
Equipment	4 to 12
Other tangible assets	3

Whenever there is an indication that a fixed tangible asset might be impaired, its recoverable amount is estimated and an impairment loss shall be recognised if the net value of the asset exceeds its recoverable amount. The recoverable amount is determined as the highest between the fair value less costs to sell and its value in use calculated based on the present value of future cash flows estimated to be obtained from the continued use of the asset and its sale at the end of the useful life. The impairment losses of the fixed tangible assets are recognised in the income statement of the period.

N. Investment property

Real estate properties owned by the Bank are recognised as 'Investment properties', considering that the main objective of these buildings is their capital appreciation on a long-term basis and not their sale in a short-term period, nor their maintenance for own use.

These investments are initially recognised at their acquisition cost, including transaction costs, and subsequently revaluated at their fair value. The fair value of the investment property should reflect the market conditions at the balance sheet date. Changes in fair value are recognised in the income statement, as "Other operating income/ (losses)" (note 6).

The experts responsible for the valuation of the assets are properly certified for that purpose, being registered in CMVM.

O. Intangible assets

01. Research and development expenditure

The Bank does not capitalise any research and development costs. All expenses are recognised as costs in the period in which they occur.

02. Software

The Bank recognises as intangible assets the costs associated to software acquired from external entities, and depreciates them on a straight-line basis by an estimated lifetime of three years. The Bank does not capitalise internal costs arising from software development.

P. Cash and cash equivalents

For the purposes of the cash flow statement, the item "Cash and cash equivalents" comprises balances with less than three months maturity from the balance sheet date, where are included the items "Cash and deposits at Central Banks" and "Loans and advances to credit institutions".

Q. Offsetting

Financial assets and liabilities are offset and recognised at their net book value when: i) the Bank has a legal right to offset the amounts recognised and transactions can be settled at their net value; and, ii) the Bank intends to settle on a net basis or realize the asset and settle the liability simultaneously. Considering the current operations of the Bank, no compensation of material amount is made. In case of reclassification of comparative amounts, the provisions of IAS 1.41 are disclosed: i) the nature of the reclassification; ii) the amount of each item (or class of items) reclassified; and, iii) the reason for the reclassification.

R. Foreign currency transactions

Transactions in foreign currencies are converted into the respective functional currency of the operation at the foreign exchange rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted into the respective functional currency of the operation at the foreign exchange rate on the reporting date. Foreign exchange differences arising from conversion are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are converted into the respective functional currency of the operation at the foreign exchange rate on the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are converted into the respective functional currency of the operation at the foreign exchange rate on the date that the fair value was determined against profit and loss, except for financial assets at fair value through other comprehensive income, for which the difference is recognised against equity.

S. Employee benefits

S1. Defined benefit plans

The Bank has the responsibility to pay to their employees' retirement pensions and widow and orphan benefits and permanent disability pensions, in accordance with the terms of the two collective labour agreements approved. These benefits are estimated in the pension's plans 'Plano ACT' and 'Plano ACTQ' of the Pension Plan of BCP Group.

Following the publication of Decree-Law no. 54/2009, of 2 March, banking entities are obligatorily enrolling new employees in the General Social Security System (RGSS). These employees have the RGSS as their basic retirement scheme, and do not have any benefits under the ACT (base plan). In the scope of its management and human resources, the Bank had already adopted as a rule the inclusion of new employees in the RGSS since July 2005. However, until the transposition into the ACT of the alterations resulting from said DL 54/2009, all employees were covered by the provisions of the social security chapter of the ACT, and for employees who were already registered with the RGSS, the ACT benefit worked as a complement to the RGSS. As of 1 July 2009, in accordance with the ACT, all new employees only have the RGSS as their basic social security scheme.

Until 2011, along with the benefits provided in two planes above, the Bank had assumed the responsibility, if certain conditions were verified in each year, of assigning complementary benefits to the Bank's employees hired before 21 September 2006 (Complementary Plan). The Bank at the end of 2012 decided to extinguish (cut) the benefit of old age Complementary Plan. As at 14 December 2012, the Instituto de Seguros de Portugal (ISP - Portuguese Insurance Institute) formally approved this change to the benefit plan of the Bank with effect from 1 January 2012. The cut of the plan was made, having been assigned to the employees, individual rights acquired. On that date, the Bank also proceeded to the settlement of the related liability.

From 1 January 2011, Bank's employees were integrated in the General Social Security Scheme which now covers their maternity, paternity, adoption and pension benefits. However, the banks remain liable for benefits as concern illness, disability and life insurance (Decree-Law no. 1-A/2011, of 3 January).

The contributory rate is 26.6% divided between 23.6% supported by the employer and 3% supported by the employees, replacing the Banking Social Healthcare System which was extinguished by the decree law referred above. As a consequence of this amendment the capability to receive pensions by the actual employees are covered by the General Social Security Scheme regime, considering the service period between 1 January 2011 and the retirement age. The banks support the remaining difference for the total pension assured in the Collective Labour Agreement (ACT).

This integration has led to a decrease in the present value of the total benefits reported to the retirement age to be borne by the Pension Fund, and this effect is to be recorded in accordance with the Projected Unit Credit during the average lifetime of the pension until the normal retirement age is reached. The calculation of the liability for pensions carried out periodically by the actuary considers this effect and is calculated considering the actuarial assumptions in force, ensuring that the liabilities calculated with reference to 31 December 2010, not considering the effect of the integration of bank employees into the General Social Security Scheme are fully covered and deducted from the amount of the effect recognised until the date. The component of this effect for the year is recognised under the heading "Current service costs".

Following the approval by the Government of the Decree-Law no. 127/2011, which was published on 31 December, was established an agreement between the Government, the Portuguese Banking Association and the Banking Labour Unions in order to transfer, to the Social Security, the liabilities related to pensions currently being paid to pensioners and retirees, as at 31 December 2011.

This agreement established that the responsibilities to be transferred related to the pensions in payment as at 31 December 2011 at fixed amounts (discount rate 0%) in the component established in the IRCT - Instrument of Collective Regulation of Work of the retirees and pensioners. The responsibilities related to the increase in pensions as well as any other complements namely, contributions to the Health System (SAMS), death benefit and death before retirement benefit continued to be under the responsibility of the Financial Institutions.

At the end of December 2016, a revision of the ACT was reached between the BCP Group and two federations of the unions that represented the Group's employees, which introduced changes in the Social Security chapter and consequently in the pension plan financed by the BCP Group Pension Fund. The new ACT has already been published by the Ministry of Labour in Bulletin of Labour and Employment on 15 February 2017 and their effects were recorded in the financial statements of 31 December 2016, for employees associated with these two unions.

The negotiation with Sindicato dos Bancários do Norte (SBN), which was also involved in the negotiations of the new ACT, was concluded in April 2017 with the publication of the Bulletin of Labour and Employment, with the effects of this new ACT recorded in the financial statements as at 31 December 2017, for employees associates of SBN.

The most relevant changes occurred in the ACT were the change in the retirement age (presumed disability), that changed from 65 years to 66 years and two months in 2016 and the subsequent update of an additional month in each year, which cannot, in any case, be higher than the one in force at any moment in the General Regime of Social Security, the change in the formula for determining the employer's contribution to the SAMS and, lastly, it was introduced a new benefit called the End of Career Premium, that replaces the Seniority Premium.

These changes described above were framed by the Bank as a change to the pension plan under the terms of IAS 19, as such had an impact on the present value of the liabilities with services rendered and were recognised in the income statement for the year under "Staff costs".

In 2017, after the authorization of the Autoridade de Supervisão de Seguros e Fundos de Pensões (ASF - Portuguese Insurance and Pension Funds Supervision Authority), the BCP Group's pension fund agreement was amended. The main purpose of the process was to incorporate into the pension fund the changes introduced in the Group's ACT in terms of retirement benefits, as well as to transfer to the pension fund the responsibilities that were directly chargeable to the company's (extra-fund liabilities). The pension fund has a part exclusively affected to the financing of these liabilities, which in the scope of the fund are called Additional Complement. The End of Career Premium also became the responsibility of the pension fund under the basic pension plan.

The Bank's net obligation in respect of pension plans (defined benefit pensions plan) is calculated on a half year basis at 31 December and 30 June of each year, and whenever there are significant market fluctuations or significant specific events, such as changes in the plan, curtailments or settlements since the last estimation. The responsibilities with past service are calculated using the Projected Unit Credit method and actuarial assumptions considered adequate.

Pension liabilities are calculated by the responsible actuary, who is certified by the ASF.

The Bank's net obligation in respect of defined benefit pension plans and other benefits is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is discounted in order to determine its present value, using a discount rate determined by reference to interest rates of high quality corporate bonds that have maturity dates approximating the terms of the Bank's obligations. The net obligations are determined after the deduction of the fair value of the Pension Plan's assets.

The income/cost of interests with the pension plan is calculated, by the Bank, multiplying the net asset/liability with retirement pension (liabilities less the fair value of the plan's assets) by the discount rate used in the determination of the retirement pension liabilities, mentioned before. On this basis, the income/cost net of interests includes the interest costs associated with retirement pension liabilities and the expected return of the plan's assets, both measured based on the discount rate used to calculate the liabilities.

Gains and losses from the re-measurement, namely (i) actuarial gains and losses resulting from differences between actuarial assumptions used and the amounts actually observed (experience gains and losses) and changes in actuarial assumptions and (ii) gains and losses arising from the difference between the expected return of the plan's assets and the amounts obtained, are recognised against equity under "Other comprehensive income".

The Bank recognises in its income statement a net total amount that comprises (i) the current service cost, (ii) the income/cost net of interest with the pension plan, (iii) the effect of early retirement, (iv) past service costs and, (v) the effects of any settlement or curtailment occurred during the period. The net income/cost with the pension plan is recognised as interest and similar income or interest expense and similar costs depending on their nature. The costs of early retirements correspond to the increase in liabilities due to the employee's retirement before reaching the age of retirement.

Employee benefits, other than pension plans, namely post-retirement health care benefits and benefits for the spouse and descendants for death before retirement are also included in the benefit plan calculation.

The contributions to the funds are made annually by each company of the Bank, according to a specific contributions plan that ensures the solvency of the fund. In the end of each year, according to Bank of Portugal Notice no. 12/2001, the minimum level required for the responsibilities funding must be 100% regarding pension payments and 95% regarding past services of active employees.

S2. Revision of the salary tables for employees in service and pensions in payment

The Bank established, in September 2019, an agreement with the trade unions regarding the review of salary tables and other pecuniary clauses for 2018 and 2019, with reference to 1 January 2018 and 1 January 2019, respectively. This agreement established, for 2018, the increase in the base salary of 0.75% until level 6 and of 0,50% for the levels from 7 until 20 (similar increase for 2019), as well as the increase in other pecuniary clauses, such as lunch allowance, diuturnities, among others.

At the end of 2019, the Bank started a negotiation process for the full revision of the Collective Labour Agreements' Clauses, with work continuing to take place during the first months of 2020, until they were interrupted in March, due to the constraints imposed by the pandemic. In June, negotiations with the Unions resumed, following the proposals received in the meantime from the Unions regarding the 2020 update of the Salary Tables and other clauses of pecuniary expression of the Collective Labour Agreements under negotiation, which led to the Bank formally presenting to the Unions, on 3 July, a counter-offer to update them by 0.3%, in line with the variation registered in 2019 in the Consumer Price Index, according to official information from the National Statistical Institute.

Following the negotiation process developed in 2020 with several unions subscribing to the Collective Labour Agreements, the Bank agreed, on 30 July 2020, with SNQTB - Sindicato Nacional dos Quadros e Técnicos Bancários, SIB - Sindicato Independente da Banca and SBN - Sindicato Bancários do Norte, meanwhile renamed to SBN - Sindicato dos Trabalhadores do Sector Financeiro de Portugal, the update of the Bank's Salary Tables and Contributions for SAMS in 2020 by 0.30%, and the increase in other clauses of pecuniary expression, such as lunch allowance, diuturnities, among others. The agreed updates took effect on 1 January 2020, except for remunerations related to subsistence and travel allowances, which will be updated after the operationalization of the agreed updates.

Regarding the remaining unions subscribing to the Group's Collective Labour Agreements, i.e., SBSI - Sindicato Bancários Sul e Ilhas, meanwhile renamed to Mais Sindicato do Sector Financeiro, and SBC - Sindicato Bancários do Centro, during September, a platform of understanding was reached with them, embodied in an agreement in principle to the salary update agreed with the other unions, which allowed its application to all the Bank's Employees in the salary processing of September 2020, regardless of their union affiliation. In September, negotiations were resumed with all the unions subscribing to the Group's Collective Labour Agreements for the conclusion of the full review of their respective Clauses, which are still ongoing.

The publication in the Labour and Employment Bulletin of the referred Agreements with the respective Unions is in progress.

S3. Defined contribution plan

For the defined contribution plans, the responsibilities related to the benefits attributed to the Bank's employees are recognised as expenses when incurred.

As at 31 December 2020, the Bank has two defined contribution plans. One plan covers employees who were hired before 1 July 2009. For this plan, called non-contributory, Bank's contributions will be made annually and equal to 1% of the annual remuneration paid to employees in the previous year. Contributions shall only be made if the following requirements are met: (i) the Bank's ROE equals or exceeds the rate of government bonds of 10 years plus 5 percentage points, and (ii) distributable profits or reserves exist in the accounts of Banco Comercial Português.

The other plan covers employees who have been hired after 1 July 2009. For this plan, designated contributory, monthly contributions will be made equal to 1.5% of the monthly remuneration received by employees in the current month, either by themselves or by the Bank and employees. This contribution has a mandatory character and is defined in the Collective Labour Agreement of the BCP Group and does not have a performance criterion.

S4. Variable remuneration paid to employees

The remuneration policy for employees includes an annual variable remuneration system for employees not covered by commercial incentive systems, for which an assessment of the performance of each employee is carried out on an annual basis, based on quantitative and qualitative criteria. As a result of this assessment and of the annual fixed remuneration of reference for the role performed, and provided that the Bank's minimum level of performance, as measured by a set of quantitative indicators, is met, the amount of the variable remuneration to be attributed to each employee is determined.

The Executive Committee is responsible, under the terms defined in the remuneration policy, for setting the respective allocation criteria for each employee, whenever it is attributed. The variable remuneration attributed to employees is recorded against the income statement in the period to which it relates.

S5. Share-based compensation plan

As at 31 December 2020, a variable compensation plan with shares is in force for the members of the Executive Committee and for the employees considered key management members, resulting from the Remuneration Policies for the members of the management and supervisory bodies and for the employees, approved for the financial year of 2020 and following years, with the changes that may be approved in each financial year, namely by the General Shareholders' Meeting regarding the Remuneration Policy for the members of the management and supervisory bodies, and by the Board of Directors regarding the Remuneration Policy for Employees.

As defined in the Remuneration Policy for the members of the management and supervisory bodies, an annual variable remuneration system is foreseen, for which an assessment of the performance of each member of the Executive Committee is carried out on an annual basis based on quantitative and qualitative criteria. According to this assessment and the annual fixed remuneration, and provided that the Bank's minimum level of performance as measured by a set of quantitative indicators is met, the amount of the variable remuneration to be attributed to each member of the Executive Committee is determined. The payment of the amount of the variable remuneration attributed is subject to a deferral period of 5 years for 40% of its value, being 60% of its value paid in the year following the financial year to which it concerns. The amounts related to the non-deferred and deferred portion are paid 50% in cash and 50% in BCP shares. The number of BCP shares attributed results from their valuation at a quotation value defined in accordance with the approved Remuneration Policy.

The Remuneration Policy for Employees foresees an annual variable remuneration system for Employees not covered by Commercial Incentives Systems, based on the annual assessment of the performance of each Employee, carried out using quantitative and qualitative criteria. As a result of this assessment and the fixed reference remuneration for the function performed, and provided that the Bank's minimum level of performance in a set of quantitative indicators is met, the value of the variable remuneration to be attributed to each Employee is determined. For Employees considered as Employees with Key Functions, the payment of the amount of the variable remuneration attributed is subject to a deferral period of 5 years for 40% of its value, being 60% of its value paid in the year following the financial year to which it concerns. The amounts related to the non-deferred and deferred portion are paid 50% in cash and 50% in BCP shares. The number of BCP shares attributed and to be attributed results from their valuation at a quotation value defined in accordance with the approved Remuneration Policy.

Employees considered as Employees with Key Functions are not covered by Commercial Incentives Systems.

As foreseen in the approved Remuneration Policy and in the applicable legislation, the amounts of variable remuneration attributed to the members of the Executive Committee and to the Employees considered as Employees with Key Functions are subject to reduction and reversal mechanisms, to be applied in case of verification of extremely significant events, duly identified, in which the covered people have had a direct participation.

For the members of the Executive Committee, a long-term variable remuneration system is also foreseen, through which these members may receive variable remuneration fully paid in BCP shares after the end of the assessment period, from 1 January 2018 until 31 December 2021, provided that a certain level of performance is achieved in a set of long-term objectives. The amount of the long-term variable remuneration attributed is subject to a deferral period of 3 years for 40% of its value, being 60% of its value paid in the year following the assessment period to which it relates. The number of BCP shares attributed results from their valuation at a quotation value defined in accordance with the approved Remuneration Policy.

All the shares attributed to the members of the Executive Committee and to the Employees with Key Functions, within the scope of the payment of variable remuneration, including long-term, are subject to a retention period of 1 year after their payment.

The total variable remuneration to be attributed, each year, to each member of the Executive Committee and to each Employee considered as Employee with Key Function, regarding the proportion between its amount and the annual fixed remuneration, is limited to the limits provided in the respective Remuneration Policy.

T. Income taxes

The Bank is subject, in individual terms, to the regime established by the Corporate Income Tax Code (CIRC), the Special Regime applicable to Deferred Tax Assets approved by Law no. 61/2014 of 26 August, to which it adhered, and individual legislation. Additionally, deferred taxes relating to tax losses and to temporary differences between the accounting net income and the net income accepted by the Tax Authorities for Income Taxes calculation are accounted for, whenever there is a reasonable probability that these taxes will be paid or recovered in the future.

Income tax registered in net income for the year comprises current and deferred tax effects. Income tax is recognised in the income statement, except when related to items recognised directly in equity, which implies its recognition in equity. Deferred taxes arising from the revaluation of financial assets at fair value through other comprehensive income and cash flow hedging derivatives are recognised in shareholders' equity and are recognised after in the income statement at the moment the profit and loss that originated the deferred taxes are recognised.

Current tax is the value that determines the taxable income for the year, using tax rates enacted or substantively enacted by authorities at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred taxes are calculated in accordance with the liability method based on the balance sheet, considering temporary differences, between the carrying amounts of assets and liabilities and the amounts used for taxation purposes using the tax rates approved or substantially approved at balance sheet date and that is expected to be applied when the temporary difference is reversed.

Deferred tax liabilities are recognised for all taxable temporary differences except for non-deductible goodwill for tax purposes, differences arising from initial recognition of assets and liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that probably they will not reverse in the foreseeable future.

The item "Deferred tax assets" includes amounts associated with credit impairments not accepted for tax purposes whose credits have been written-off, according to the expectation that the use of such impairments will be deductible for the purposes of determining taxable income for the tax periods in which the legal conditions required for their tax deductibility are met.

Deferred tax assets are recognised when it is probable that there will be future taxable profits that absorb the deductible temporary differences for tax purposes (including reportable tax losses).

The Bank, as established in IAS 12, paragraph 74, compensates the deferred tax assets and liabilities if, and only if: (i) it has a legally enforceable right to offset current tax assets and current tax liabilities; and, (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes released by the same Tax Authority on either the same taxable entity, or different taxable entities that intend to settle current tax liabilities and assets on a net basis or to realize the assets and settle the liabilities simultaneously, in each future period in which deferred tax liabilities or assets are expected to be settled or recovered.

The Bank complies with the guidelines of IFRIC 23 - Uncertainty over Income Tax Treatments on the determination of taxable profit, tax bases, tax losses to be reported, tax credits to be used and tax rates in scenarios of uncertainty regarding the income tax treatment, not having occurred material impact on the Bank's financial statements resulting from its application.

In 2016, the Bank adhered to the Special Tax Regime for Groups of Companies (RETGS) for the purposes of IRC taxation, with BCP being the dominant entity. In the financial years of 2020 and 2019, the RETGS application was maintained.

U. Segmental reporting

The Bank adopted IFRS 8 - Operating Segments for the purpose of disclosing financial information by operating and geographic segments. A business segment is a Bank's component: (i) which develops business activities that can obtain revenues or expenses; (ii) whose operating results are regularly reviewed by the management with the aim of taking decisions about allocating resources to the segment and assess its performance; and, (iii) for which separate financial information is available.

Since the separate financial statements are presented with the Group's report, in accordance with paragraph 4 of IFRS 8, the Bank is exempt of presenting information on an individual basis regarding segmental reporting.

V. Provisions, Contingent liabilities and Contingent assets

V1. Provisions

Provisions are recognised when (i) the Bank has a present obligation (legal or resulting from past practices or published policies that imply the recognition of certain responsibilities); (ii) it is probable that a payment will be required to settle; and, (iii) a reliable estimation can be made of the amount of the obligation.

The measurement of provisions considers the principles set in IAS 37 regarding the best estimate of the expected cost, the most likely result of current actions and considering the risks and uncertainties inherent to the process result. On the cases that the discount effect is material, provision corresponds to the actual value of the expected future payments, discounted at a rate that considers the associated risk of the obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect the best estimate, being reverted through profit and loss in the proportion of the payments that are not probable.

Provisions are derecognised through their use in the obligations for which they were initially created, or in the case that these obligations cease to exist.

V2. Contingent assets

Contingent assets are not recognised in the financial statements and are disclosed when a future economic inflow of resources is probable.

V3. Contingent liabilities

Contingent liabilities are not recognised in the financial statements, being framed under IAS 37 whenever the possibility of an outflow of resources regarding economic benefits is not remote. The Bank registers a contingent liability when:

- i) it is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events that are not wholly within the control of the Bank; or,
- ii) it is a present obligation that arises from past events but is not recognised because:
 - a) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or,
 - b) the amount of the obligation cannot be measured with sufficient reliability.

The contingent liabilities identified are subject to disclosure, unless the possibility of an outflow of resources incorporating economic benefits is remote.

W. Earnings per share

Basic earnings per share are calculated by dividing net income attributable to shareholders of the Bank by the weighted average number of ordinary shares outstanding, excluding the average number of ordinary shares purchased by the Bank and held as treasury shares.

For the diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted to consider conversion of all dilutive potential ordinary shares. Potential or contingent share issues are treated as dilutive when their conversion to shares would decrease net earnings per share. If the earnings per share are changed as a result of an issue with premium or discount or other event that changed the potential number of ordinary shares or as a result of changes in the accounting policies, the earnings per share for all presented periods should be adjusted retrospectively.

X. Insurance or reinsurance intermediation services

Banco Comercial Português and Banco ActivoBank are entities authorized by Autoridade de Supervisão de Seguros e Fundos de Pensões (ASF) for the practice of insurance intermediation in the category of Linked Insurance Broker, in accordance with Article 8, paragraph a), subparagraph i) of Decree-Law no. 144/2006, of 31 July, carrying out insurance intermediation activities in life and non-life segments.

Within the scope of insurance intermediation services, these banks perform the sale of insurance contracts. As compensation for insurance intermediation services, they receive commissions for arranging insurance contracts and investment contracts, which are defined in agreements/protocols established with the Insurance Companies.

Commissions received for insurance intermediation are recognised in accordance with the accrual accounting principle, so the commissions whose receipt occurs at a different time from the period to which they refer are recognised as an amount receivable under the item "Other assets".

Y. Accounting estimates and judgments in applying accounting policies

IFRS set forth a range of accounting treatments that require the Board of Directors, under advice of the Executive Committee, to apply judgments and to make estimations when deciding which treatment is the most appropriate. These estimates were made considering the best information available at the date of preparation of the financial statements, considering the context of uncertainty that results from the impact of COVID-19 in the current economic scope (note 54). The most significant of these accounting estimates and judgments used when applying accounting principles are discussed in this section in order to improve understanding of how they affect the Bank's reported results and related disclosure.

Considering that in some cases there are several alternatives to the accounting treatment chosen by the Board of Directors, under advice of the Executive Committee, the Bank's reported results would differ if a different treatment was chosen. The Executive Committee believes that the choices made are appropriate and that the financial statements present the Bank's financial position and results fairly in all material relevant aspects.

The alternative outcomes discussed below are presented solely to assist the reader in understanding the financial statements and are not intended to suggest that other alternatives or estimations would be more appropriate.

Y1. Income taxes

Interpretations and estimations were required to determine the total amount of income taxes. There are many transactions and calculations for which the tax determination is uncertain during the ordinary course of business. Different interpretations and estimations could result in a different level of income taxes, current and deferred, recognised in the year.

This aspect assumes greater relevance for the purposes of the analysis of the recoverability of deferred taxes, in which the Bank considers projections of future taxable income based on a set of assumptions, including the estimate of income before tax, adjustments to taxable income, evolution of tax legislation and its interpretation. Thus, the recoverability of deferred tax assets depends on the implementation of the Bank's Board of Directors strategy, namely the ability to generate the estimated taxable income, the evolution of tax law and its interpretation.

The regulatory decrees no. 5/2016, of 18 November, no. 11/2017, of 28 December, and no. 13/2018, of 28 December, established the maximum limits for impairment losses and other value adjustments for specific credit risk deductible for the purposes of calculating taxable income under IRC in 2016, 2017 and 2018, respectively. These regulatory decrees establish that Bank of Portugal Notice no. 3/95 (Notice that was relevant for determining credit provisions in the financial statements presented in NCA) must be considered for the purposes of determining the maximum limits of impairment losses accepted for tax purposes in 2016, 2017 and 2018, respectively,

Meanwhile, it was published the Law no. 98/2019, of 4 September, that establishes the tax regime of credit impairment and of provisions for guarantees for the tax periods beginning on or after 1 January 2019, predicting the approximation between accounting and tax rules for purposes of deductibility of expenses related to the increase of credit impairments. Until the end of 2023, the rules prevailing until 2018 will continue to be applied, except if the option of applying the new regime is exercised earlier.

Regardless of the option mentioned above, the application of the new regime will be mandatory in the financial years of 2022 and/or 2023 in the following circumstances:

- in the financial year of 2022, if, as of 1 January 2022, the Bank distributes dividends related to that financial year or acquires its own shares, without having occurred a reduction in deferred tax assets covered by the Special Regime of at least 10% compared to the amount recognised on 31 December 2018;
- in the financial year of 2023, if, as of 1 January 2023, the Bank distributes dividends related to that financial year or acquires its own shares, without having occurred a reduction in deferred tax assets covered by the Special Regime of at least 20% compared to the amount recognised on 31 December 2018.

In the calculation of 2019's taxable income and in the estimation of taxable income, it was considered the maintenance of the tax rules in force until 2018, since the option of applying the new regime was not exercised.

Following changes provided for in Law no. 27-A/2020, of 24 July, within the scope of the Supplementary Budget for 2020, the period for reporting tax losses in Portugal is now 14 years for losses occurred in 2014, 2015 and 2016 and 7 years for tax losses occurred in 2017, 2018 and 2019. Tax losses occurred in the years of 2020 and 2021 have a reporting period of 12 years, which can be deducted up to 2032 and 2033, respectively. The limit for deducting tax losses increases from 70% to 80%, when the difference results from the deduction of tax losses recorded in the tax periods of 2020 and 2021.

In the projections of future taxable income, namely for the analysis of the recoverability of deferred tax assets carried out with reference to 31 December 2020, it was considered the approximation between accounting and tax rules as foreseen by Law no. 98/2019, of 4 September, resulting from not exercising earlier its application over the adaptation period of 5 years provided by the referred law, as well as the changes regarding the use of tax losses foreseen in the referred Law no. 27-A/2020, of 24 July.

In 2018, the Bank adopted IFRS 9 - Financial Instruments. Since it was not created a transitional regime that established the tax treatment to be applied to the transition adjustments to IFRS 9, the treatment given resulted from the interpretation of the application of IRC Code's general rules.

The taxable income or tax loss determined by the Bank can be corrected by the Portuguese Tax Authority in the period of four years, except if any deduction was made or if tax credit was used, in which the limitation period corresponds to the same of exercising of that right. The Bank recorded provisions or deferred tax liabilities in the amount that finds appropriate to face the tax amendments or the tax losses of which was object, as well as the contingencies regarding exercises not yet revised by the Tax Authority.

Y2. Non-current assets held for sale (real estate) valuation

The valuation of these assets, and consequently the impairment losses, is supported by evaluations carried out by external experts, which incorporate several assumptions, namely the selling price per square meter, discount rate, better use of the real estate and expectations regarding the development of real estate projects, as applicable, and also considers the Bank's historical experience in the commercialization of real estate, its perspectives on the evolution of the real estate market and the intentions of the management body regarding the commercialization of these assets. The assumptions used in the valuations of these assets have an impact on their valuation and consequently on the determination of impairment.

The hair-cut estimates applied in determining the fair value of these properties were adjusted, in the case of commercial properties and lands.

In part, this change stems from the impact on sales prices of the current pandemic situation of COVID-19.

Y3. Pension and other employees' benefits

Determining pension liabilities requires the use of assumptions and estimations, including the use of actuarial projections, estimated returns on investment, and other factors, such as discount rate, pensions and salary growth rates, mortality tables, that could impact the cost and liability of the pension plan.

As defined by IAS 19, the discount rate used to update the responsibilities of the Bank's pension fund is based on an analysis performed over the market yields regarding a bond issues universe - that the Bank considers to have high quality (low risk), different maturities (appropriate to the period of liquidation of the fund's liabilities) and denominated in Euros - related to a diverse and representative range of issuers.

Y4. Financial instruments - IFRS 9

Y4.1. Classification and measurement

The classification and measurement of financial assets depends on the results of the SPPI test (analysis of the characteristics of the contractual cash flows to determine if they correspond only to payments of principal and interest on the outstanding capital) and the test of the business model.

The Bank determines the business model at a level that reflects how financial asset groups are managed together to achieve a specific business objective. This evaluation requires judgment, since the following aspects, among others, must be considered: the way in which the performance of assets is evaluated; the risks that affect the performance of the assets and the way these risks are managed; and how asset managers are rewarded.

The Bank monitors the financial assets measured at amortised cost and at fair value through other comprehensive income that are derecognised prior to their maturity to understand the underlying reasons for their disposal and to determine whether they are consistent with the purpose of the business model defined for these assets. This monitoring is part of a process of continuous evaluation by the Bank of the business model of the financial assets that remain in the portfolio, to determine if it is adequate and, if it is not, if there was a change in the business model and, consequently, a prospective classification change of these financial assets.

Y4.2. Impairment losses on financial assets at amortised cost and debt instruments at fair value through other comprehensive income

The determination of impairment losses on financial instruments involves judgments and estimations regarding, among others, the following:

Significant increase in credit risk:

Impairment losses correspond to the expected losses on a 12-month for the assets in Stage 1 and the expected losses considering the probability of a default event occurring at some point up to the maturity date of the instrument financial assets for assets in Stages 2 and 3. An asset is classified in Stage 2 whenever there is a significant increase in its credit risk since its initial recognition. In assessing the existence of a significant increase in credit risk, the Bank considers qualitative and quantitative information, reasonable and sustainable.

In order to comply with the Supervisors' guidelines, namely with regard to the identification and measurement of credit risk in the context of the COVID-19 pandemic, the Bank proceeded to record additional impairments in relation to the current models of collective impairment calculation (overlays), as described in note 54.

The exercise carried out was based on an analysis of migrations from customers identified as having the highest risk for Stage 2 and Stage 3, with the greatest impact on the corporate segment.

Definition of groups of assets with common credit risk characteristics:

When expected credit losses are measured on a collective basis, the financial instruments are grouped based on common risk characteristics. The Bank monitors the adequacy of credit risk characteristics on a regular basis to assess whether it maintains its similarity. This procedure is necessary to ensure that, in the event of a change in the credit risk characteristics, the asset segmentation is reviewed. This review may result in the creation of new portfolios or in transferring assets to existing portfolios that better reflect their credit risk characteristics.

Definition of the number and relative weight of prospective information for each type of product/market and determination of relevant prospective information:

In estimating expected credit losses, the Bank uses reasonable and sustainable forecasting information that is based on assumptions about the future evolution of different economic drivers and how each of the drivers impacts the remaining drivers.

Probability of default:

The probability of default represents a determining factor in the measurement of expected credit losses and corresponds to an estimation of the probability of default in a given period, which is calculated based on historical data, assumptions and expectations about future conditions.

Loss given default:

It corresponds to a loss estimation in a default scenario. It is based on the difference between the contractual cash flows and those that the Bank expects to receive, through the cash flows generated by the customers' business or credit collaterals. The estimation of loss given default is based on, among other aspects, the different recovery scenarios, historical information, the costs involved in the recovery process and the estimation of the valuation of collaterals associated with credit operations.

Y4.3. Fair value of derivative financial instruments

Fair values are based on listed market prices if available, otherwise fair value is determined either by dealer price quotations (either for that transaction or for similar instruments traded) or by pricing models, based on net present value of estimated future cash flows which considers the market conditions for the underlying instruments, time value, yield curve and volatility factors. These pricing models may require assumptions or judgments in estimating their fair values. Consequently, the use of a different model or of different assumptions or judgments in applying a particular model could result in different results from the ones reported.

Due to market stress conditions, the Bank needed to reallocate the risk limits, especially in the sensitivity limit of the trading portfolio and to review the stress-test scenarios and their methodologies.

In the context of the COVID-19 pandemic, the calculation of fair value adjustments was revised taking into account liquidity discounts, the costs of closing positions (widening the buy and sell spread), credit risk, spreads of financing and increased volatility.

Y5. Impairment for investments in subsidiary and associated companies

The Bank assesses annually the recoverable amount of investments in subsidiary and associated companies, regardless of the existence of any impairment triggers. Impairment losses are calculated based on the difference between the recoverable amount of the investments in subsidiary and associated companies and their book value. Impairment losses identified are recognised against profit and loss, being subsequently reversed by profit and loss if there is a reduction in the estimated impairment loss in a subsequent period.

The recoverable amount is determined based on the highest between the value in use of the assets and the fair value deducted of selling costs, calculated using valuation methodologies supported by discounted cash flow techniques, considering market conditions, the time value of money and the business risks, which require the use of assumptions or judgments in establishing fair value estimates.

The use of alternative methodologies and different assumptions and estimates could result in a different level of impairment losses recognized, with the consequent impact on the Bank's consolidated income statement.

Y6. Leases (IFRS 16)

On 12 October 2020, the European Union published an amendment to IFRS 16, associated with income concessions related to COVID-19.

This amendment allows tenants, as a practical expedient, to have the possibility to choose not to consider a rent concession that occurs as a direct consequence of the COVID-19 pandemic as a modification of the lease. A lessee who uses this option must account for any concession that occurs at the rent level in the same way that he would do it under IFRS 16 - Leases, if this change did not constitute a modification of the lease. This amendment does not affect lessors.

Within the scope of the sublease, the Bank carried out the analysis of the respective contracts.

Z. Subsequent events

The Bank analyses events occurred after the balance sheet date, i.e., favourable and/or unfavourable events that occur between the balance sheet date and the date the financial statements were authorized for issue. In this context, two types of events can be identified:

- i) those that provide evidence of conditions that existed at the balance sheet date (events after the balance sheet date that give rise to adjustments); and,
- ii) those that are indicative of the conditions that arose after the balance sheet date (events after the balance sheet date that do not give rise to adjustments).

Events occurred after the date of the financial statements that are not considered as adjustable events, if significant, are disclosed in the notes to the financial statements.