54. Impact of COVID-19 Pandemic

Background

The year of 2020 was marked by the spread of the COVID-19 disease on a global scale after the first cases of SARS-CoV-2 (Coronavirus) infection were detected in China, still in late 2019, leading to the declaration of a pandemic by the World Health Organization on 11 March 2020. The immediate impacts of this pandemic have reached an unprecedented dimension in the alert situation created, in the exhaustion of health systems and in the severe containment and combat measures implemented in several countries including Portugal where the state of emergency was declared on March 18, 2020, for the first time since the country's current Constitution was enacted.

The outbreak of COVID-19 forced the majority of the countries to implement restraining measures, including successive renewals of the state of emergency, temporary confinement of large proportions of the populations of the most-affected countries and strong restrictions to the normal economic activity of many companies in almost every sector, to contain the spread of the disease. These measures turned out to be very harmful for the global economy, causing a sudden slowdown in activity.

According to the International Monetary Fund (IMF), the COVID-19 pandemic has likely led to a contraction of the World economy of 3.5% in 2020, in a context of strong restrictions to the normal functioning of the economic activity. Though global, the recessive intensity proved heterogeneous, having affected more the developed economies than the emerging markets. For 2021, the IMF envisions a scenario of strong recovery of the global activity, which is naturally subject to the dissipation of the pandemic.

The extraordinarily negative impact of the pandemic on the global economy led to a generalized and unprecedented economic policy response, both on the monetary and fiscal fronts. With the aim of accelerating the economic recovery the European leaders approved in July an extraordinary package of funds named NextGeneration EU, amounting to 750 billion euros distributed into subsidies and loans, that will be deployed from 2021 to 2023 and that will be financed by the issuance of European debt. In the Euro Area, the ECB launched an emergency public debt purchase program and strengthened other mechanisms of liquidity injection into the financial system, which contributed to keep the Euribor rates in negative values along the whole extension of the curve and also led to a reduction of the government bond yields of the peripheral member-states, including Portugal.

Additionally, in order for credit institutions to preserve capital to retain their capacity to support the economy in an environment of heightened uncertainty caused by COVID-19, ECB issued a recommendation related to dividend distributions. According to this recommendation, banks should refrain from paying out dividends and from assuming irrevocable commitment to pay out dividends for the financial years 2019 and 2020 and should also abstain from buying-back shares aimed at remunerating shareholders. The deadline for this recommendation, initially scheduled until 1 October 2020, was subsequently extended to at least 1 January 2021. On 15 December 2020, ECB issued a new recommendation stating that, until 30 September 2021, significant credit institutions should exercise extreme caution in the payment of dividends or in the repurchase of shares designed to remunerate shareholders, and should previously debate with the supervision, the acceptable level of distribution.

In the year of 2020, the Portuguese economy recorded an unprecedented contraction of 7.6% stemming from the effects of the pandemic on activity, which turned out particularly pernicious for tourism, private consumption, and to a lesser degree investment. The strong recovery of GDP in the third quarter suffered a sharp slowdown in the last three months of the year due, to a great extent, to the implementation of new health-driven restrictions. Notwithstanding the adverse context and the elevated uncertainty, the economic recovery should proceed in 2021, supported by the expansionism of both the monetary and fiscal policies and by the significant increase of households' savings in the last few quarters. However, the lockdowns imposed from January of the new year should dampen some of the recovery dynamism. According to the latest forecasts of the Bank of Portugal, the growth of GDP in 2021 should be 3.9%. The effort of supporting the household and corporate income by the government led to a substantial deterioration of the fiscal performance and, consequently, of the public debt ratios, an evolution that should improve progressively in tandem with the recovery of economic activity.

Measures to support the economy

Credit lines guaranteed by the Portuguese State

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

Credit moratoriums

The Portuguese Government, through Decree-Law no. 10-J/2020, of 26 March, introduced a moratorium on credits towards financial institutions with the objective of supporting families and companies in an adverse context of a substantial decline in income caused by the COVID-19 pandemic. This public moratorium establishes exceptional measures to protect the credits of beneficiary entities in the context of the COVID-19 pandemic, allowing the deferral of the fulfilment of responsibilities, when they represent credits assumed by the beneficiary entities towards the Bank, which are not overdue on the date on which the application to the public moratorium is received.

As the economic crisis generated by the COVID-19 pandemic was evolving, in June 2020, the Portuguese Government extended the scope and the deadline of the public moratorium. Thus, Decree-Law No. 26/2020, of 16 June, introduced changes to the public moratorium, regarding the period covered, the timing for accession and the scope of the beneficiaries and the operations covered. With these changes, bank customers began to benefit from an extension of the term of the public moratorium. The moratorium term initially set at six months, until September 30, 2020, has been extended until 31 March 2021. This new term is applicable not only to new moratoriums but to those that were subscribed in periods prior to the extension. Within the scope of these amendments, 30 June 2020 was set as deadline for adhering to the public moratorium.

In the third quarter of this year, Decree-Law no. 78-A/2020, of 29 September, introduced additional amendments to Decree-Law no. 10-J/2020, establishing a further extension of the period of validity of the public moratorium. In this context, bank customers who had adhered to the public moratorium regime until 30 September 2020 will benefit from the support measures provided for in that regime until 30 September 2021. It should be noted, however, that between 31 March 2021 and 30 September 2021, support measures are different depending on whether or not customers operate in sectors especially affected by the pandemic COVID-19. Bank customers operating in sectors particularly affected by the COVID-19 pandemic may continue to benefit from the suspension of capital reimbursement and payment of interest, commissions and other charges, while the remaining customers will only be entitled to benefit from the grace period for repayment of capital during the additional period. In addition, it should be noted that the new deadlines are automatically applicable to the public moratoriums in force, unless customers intend to benefit from the effects of protection measures for a shorter period, in which case they will have to communicate this intention to the Bank with a minimum period of 30 days in advance. The referred Decree-Law no78/A/2020 also includes a new measure applicable only to the moratorium credits granted to entities comprised in one of the sectors of activity specified in the Decree-Law, that corresponds to an additional extension of the term of 12 months , added to the extension arising from the application of the moratorium.

On 2 December 2020, following the impacts of the second wave of the pandemic, the European Banking Authority reactivated bank moratorium, allowing new applications to the moratoriums between 1 January 2021 and 31 March 2021, for a moratorium period of up to nine months from the date of accession. In this sense, Decree-Law No. 107/2020, of 31 December, was published in order to adapt the national legislative framework to the European prudential framework, maintaining the conditions and characteristics of the moratorium regime in force for new accessions, but with the adaptations inherent to the reactivation of the measure, namely, the term of application and the duration of the moratorium.

Based on this framework, the Bank provides credit moratoriums designed to protect, namely, companies, self-employed entrepreneurs and other professionals, private social solidarity institutions, non-profit associations and other entities of the social economy, which fulfil the requirements of the law.

In the case of households, moratoriums covers loans with mortgage guarantee (with multi-purpose, namely mortgage loans, including credit granted for the acquisition of secondary residential property or for rental purposes), as well as the real estate financial leasing and the consumer credit agreements for the purpose of education, including for academic and professional training.

Following the guidance issued by the European Banking Authority on public and private moratoriums applied to credit operations in the context of the COVID-19 pandemic, the Portuguese Banking Association provided for two private moratoriums open to natural persons, residents or non-residents in Portugal , one of which relates to mortgage loans and the other to non-mortgage loans (e.g. personal or automobile). In the case of non-mortgage loans, the moratoriums agreed until 30 June 2020 are granted for a period of 12 months, counting from the date of the agreement. The moratoriums that will be agreed after 30 June 2020 will end on 30 June 2021. In the case of mortgage loans, the moratoriums will last until 31 March 2021.

Measures to support clients

(i) Exemption and commissions reduction

In parallel with the suspension of certain commissions due for the use and carrying out of payment transactions through digital platforms, established by Law No. 7/2020, of 10 April, the Bank created several exemptions or commission reductions benefiting corporate and private customers, mainly those most affected by the pandemic. In this context, the access to integrated solutions with special conditions or reduced prices was extended and facilitated for private customers.

(ii) Other measures implemented by the Bank

In addition to the aforementioned measures, BCP launched a set of additional measures to help families and companies to overcome the economic challenges caused by the COVID-19 pandemic.

Simultaneously with the moratorium on the repayment of principal and interests, BCP suspended, between 1 April and 30 June 2020, spread increases on real estate credit agreements to private customers for non-compliance with contractual bonus conditions, resulting from the constraints associated with the COVID-19 pandemic. Additionally, the digital transformation was accelerated, making it easier and faster to access the Bank and its services.

In order to support the economy, protect employment and strengthen corporate sustainability, BCP under the corporate support program, also offers current-account credit facilities and immediate liquidity, with Factoring and Confirming products, providing even the possibility of access to several credit lines, namely following the protocol signed with European Investment Fund, with European Investment Bank and with Development Financial Institution.

Adoption of new procedures and criteria in the preparation of accounting estimates in the context of the COVID-19 pandemic

In the context of the current crisis caused by the spread of the COVID-19 pandemic, several supervisors and regulators, including the European Central Bank, the European Securities and Markets Authority (ESMA), the European Banking Authority (EBA) and the International Accounting Standards Board (IASB) issued guidelines and recommendations to ensure the consistency and comparability of the metrics, principles and requirements provided for in the International Financial Reporting Standards (IFRS), in particular regarding IFRS 9 - Financial instruments.

In this context, the following main guidelines and recommendations should be highlighted:

- Statement on the application of the prudential framework regarding default, forbearance and IFRS 9 in light of COVID-19 measures, issued by EBA on 25 March 2020;

- IFRS 9 and COVID-19 - Accounting for expected credit losses applying IFRS9 Financial Instruments in the light of the current uncertainty resulting from the COVID-19 pandemic, issued on 27 March 2020 by IASB;

- Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis, issued by EBA on 2 April 2020 (EBA/GL/2020/02) and updated on 25 June 2020 and thereafter on 2 December 2020;

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

- Guidance (EBA/GL/2020/12) amending the EBA guidance (EBA/GL/2018/01) on uniform disclosure (CRR Article 473 A) with respect to the transitional regime to reduce the impact of the introduction of IFRS 9 on own funds to ensure compliance with the CRR "Quick Fix" in response to the COVID-19 pandemic;

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

Analysis of the impacts of the COVID-19 pandemic on the determination of risk stages under IFRS 9, classification of customers in situations of increased risk or default and determination of impairments

Since the time at which it was perceived that the outbreak of the COVID-19 pandemic would have significant impacts globally, the Bank has been directing its attention and the necessary efforts towards addressing the challenges that this threat represents. In this regard, we may highlight the following fronts:

- The holding of discussion and analysis sessions involving several areas of the Bank such as the Executive Commission, the Marketing Division, the Operations Division, the IT Division, the Credit Division, the Rating Division and the Risk Office;
- Identification of the potential impacts on the Bank's risk profile, and possible mitigation measures, in relation to the COVID-19 outbreak;
- Understanding/evaluation of the range of support measures implemented or promoted by entities such as the Portuguese Government, European bodies, Supervisory Authorities, Banking Associations, etc. to minimise the impacts of COVID-19;
- Definition of a strategy to deal with the risks faced by the Institution with the COVID-19 pandemic, in line with the risk appetite of the institution;
- Development of a framework that allows information regarding the scope and effects related to the use of the moratorium and other support measures (such as lines of credit with State Guarantees) to be collected, processed and reported, on a regular basis, to the governance bodies, Supervisory Authorities and market participants in general;
- Review of the principles of the Bank's credit policy for facing the challenges of the COVID-19 pandemic, which are periodically reviewed according to shifts in scenarios.
- Adaptation/updating of prevailing models and procedures used to estimate expected credit losses (ECL) and evaluate situations with a significant rise in credit risk or unlikeliness to pay;

More specifically in terms of the implications for the classification of risk into stages, as provided under IFRS 9, which consists of identifying and classifying customers in situations of increased risk, or indeed default, as well as the determination of impairments, the main procedures implemented by the Bank are those set forth below.

i. Updating of macroeconomic scenarios

With respect to the portfolio of customers subject to collective analysis, at the end of June and at the end of December, updates were made to the macroeconomic assumptions used in the calculation of impairment, in both cases based on three scenarios (Central, Upside and Downside Scenarios) prepared by the Bank's Planning division, which took into account, at each point in time, the most recent forecasts of leading bodies that publish forecasts of macroeconomic variables, such as the Bank of Portugal and European bodies.

These scenarios are used across the Bank for various purposes beyond the calculation of collective impairment.

Taking as a reference point the last update of macroeconomic assumptions conducted in December and taking as a point of comparison the macroeconomic assumptions existing prior to the outbreak of the COVID-19 pandemic, the impact in Portugal on the amount of impairment resulting from the component corresponding to the application of the collective impairment model was around Euros 58 million (applying to the portfolio of Loans and advances to customers, guarantees and other commitments), reflecting the changes in the probability of default.

The tables presented below systematise the updates performed in December 2020 for Portugal of the central scenarios in relation to some of the most critical variables used in the estimation of collective impairment, and their comparison with that considered in December 2019, where it is possible to perceive the significant magnitude of the changes incorporated.

Update of main macroeconomic scenario assumptions (Base Scenario)

	December 2019 Scenario		December 2020 Scenario		Difference	
Variable	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**
Unemployment rate	6.10 %	6.00 %	7.20 %	8.80 %	1.10 %	2.80 %
Nominal GDP annual evolution	2.80 %	2.80 %	(5.90)%	5.20 %	(8.70)%	2.40 %
Savings Rate	6.20 %	6.30 %	10.10 %	8.70 %	3.90 %	2.40 %
German 10 year Sovereign Debt Yield	(0.69)%	(0.66)%	(0.61)%	(0.55)%	0.08 %	0.11 %

The following tables describe the weightings attributed to the different macroeconomic scenarios considered at the end of 2019 and December 2020, which may be considered conservative:

	Weightings	
Scenario	**December 2019**	**December 2020**
Central	60 %	60 %
Upside	20 %	10 %
Downside	20 %	30 %

With respect to Portugal, in order to draw attention to the impact of a less favourable trend in two variables especially critical for the estimation of collective impairment (GDP growth and unemployment rate), a simulation was performed of an additional worsening of one percentage point in these indicators, which is reflected in the impacts presented in the table shown below, taking as a baseline the collective impairment of the portfolio in Portugal at 31 December 2020, which stood at Euros 510 million:

Variable	Estimated impact (% variation)
100 bp GDP growth aggravation	1.9%
100 bp unemployment rate growth aggravation	0.8%

ii. Inclusion of impairment overlays

In an effort to follow the Supervisors' guidelines, namely with respect to the identification and measurement of credit risk against the backdrop of the COVID-19 pandemic, the Bank recorded additional impairment in relation to the prevailing models for the calculation of collective impairment (overlays), which amounted to around Euros 27 million in Portugal.

The approach underlying the calculation of the value of overlays took into consideration several factors considered relevant to an assessment of the potential risk of customer exposures within the exceptional context resulting from the COVID-19 pandemic, including data already observed of the customers and estimated impacts, adopting complementary and distinct criteria in relation to the methodologies in force for the calculation of impairment, having been adopted different approaches for the calculation of the overlays for corporate and households segments, which also continued to be implemented.

The exercise carried out was translated in terms of impairment value, for calculating the estimated impact arising from the migrations of customers identified as having a higher risk to Stage 2 and Stage 3, based on the various factors considered in the analysis, it should be noted that the most significant impact was verified in the corporate segment.

iii. Review of the credit portfolio with respect to most significant exposures

With respect to customers with more significant credit exposures, we should highlight the implementation of a series of extraordinary procedures with the aim of evaluating the potential impacts of the outbreak of the COVID-19 pandemic.

a) Customers with significant exposures - Performing portfolio:

With respect to customers who form part of the individual analysis of impairment group, which consists of customers with greater exposures or with a risk profile considered high, significant effort was made to bring forward the implementation of questionnaires regarding signs of impairment. This process began in the second quarter of 2020, the year ending with a group of customers for whom the questionnaire was brought forward, which amounted to an exposure corresponding to around 20% of the Bank's performing portfolio of companies at 31 December 2020.

Overall, it should likewise be highlighted that, in the period following the outbreak of the COVID-19 pandemic, individual analysis questionnaires were implemented with an exposure value representing around 45% of the Bank's performing portfolio of companies as of 31 December 2020.

The re-evaluation of the portfolio of significant cases sought to identify customers who may have experienced a significant rise in credit risk and/or an increase in the probability of default that could result in a transfer of stage or classification as NPE.

b) Customers with significant exposures - NPE Portfolio:

For this group of customers, in addition to the usual portfolio analysis, special attention was paid to a review of more representative customers, which occurred above all up to the end of the 3rd quarter, with subsequent follow-ups. In this group, the analysis of the following cases was particularly noteworthy:

- Review of impairment for customers of the 20 largest NPE Groups and/or 20 largest NPE customers with going concern approach;
- Review of impairment for NPE customers with gone concern approach and collateral with valuation of over Euros 10 million.

With reference to 31 December 2020, NPE customers subject to more detailed analysis correspond to exposure of around Euros 1.2 billion, corresponding to around 50% of the portfolio of companies classified as NPE by the Bank and 7% of the total Corporate portfolio. The amounts are lower than those of June and September due to the significant drop in NPE.

c) Private Customers:

In relation to private customers, it is important to take into consideration that most of the portfolio corresponds to mortgage lending operations, representing around Euros 17.4 billion. This kind of operation corresponds to 45.1% of the Bank's credit portfolio and 87% of the credit portfolio to private individuals, and is characterised by low levels of delinquency and higher rates of recovery, due to the weight and liquidity of the associated collateral.

The levels of impairment of the portfolio that benefited from a mortgage guarantee at the end of December 2020 corresponded to an average rate of impairment of 0.30% for operations classified under stage 2.

iv. Transverse approach with a view to identifying situations involving more vulnerable corporate customers and respective close monitoring

As with the objective of identifying, evaluating and monitoring the impact in terms of credit risk arising from the COVID-19 pandemic crisis, from a more global and transverse perspective, and one which may allow consistent support during the period in which the effects of the aforementioned pandemic persist, the Bank has developed an approach to Corporate customers, with heavy involvement of the Rating Division, which is reflected in the following methodology:

- Identification of the business sectors deemed to be at greater risk and with a more adverse potential impact in the context of the COVID-19 crisis;
- Definition of stress scenarios adapted to the severity of the impact expected for each business sector;
- Assessment of resilience (measured in terms of the potential deterioration of the respective rating) of the companies belonging to the sectors identified as being more vulnerable;
- Identification of customers who exhibit greater vulnerability, according to the assessment carried out.

Under this process, the Bank assessed practically all the exposure of the sectors deemed to have been impacted most.

This assessment constitutes a highly valuable starting point for selecting the most vulnerable customers, identifying customers who should be subject to closer monitoring and analysis and devising the credit strategy to be followed on a case-by-case basis for each of these customers.

The aforementioned support is given in coordination with the commercial areas, which supports the customers identified, and the credit division, and involves the requesting of monthly or quarterly information with the aim of monitoring, in the most timely manner possible, changes in their economic and financial situation. The conclusions of this analysis are presented to a monitoring committee specifically created for the purpose, on which members of the Executive Committee sit.

This approach allows the early detection of potential default risk, creating the conditions for informed and prompt action by the Bank, specifically adjustment of the credit strategy to be adopted for each customer prior to the end of the period of the moratoriums. The strategy to be determined for each case may involve measures such as those listed below:

- Reducing exposure;
- Reducing unused internal limits;
- Restructuring loans with amortisation plans, anticipating potential future defaults;
- Increasing guarantees;
- Maintenance (without changes);
- Maintenance with the option of granting specific credit operations with a good risk profile (e.g.: commercial credit);
- Partial conversion of financial loans into commercial credit;
- Repricing;
- Transfer to the recovery division.

v. Approach addressed to customers in the Retail segment

In terms of the retail segment, with a view to monitoring and following up the default risk of customers within the context of the COVID-19 pandemic and supporting the determination and implementation of more appropriate solutions to address the potential default of each cluster of customers, the Bank is in the process of developing a series of projects and activities to adapt credit portfolio monitoring and management processes to the new situation on the ground.

These initiatives, which form part of the NPA Reduction Plan, are being developed in an integrated manner under the auspices of a specific Project, with the direct involvement of all relevant internal stakeholders and, despite also involving customers who have benefited from support measures such as recourse to moratoriums, it is not limited to those.

The development of this approach is based on CRM tools, Data Analytics and Decision Models with the goal of boosting efficiency and automatization.

In short, the main initiatives in this domain may be characterised in the following terms:

a) Improvement of credit data marts for all customers with credit exposure, with a view to supporting:

- the production of information on customers (financial/non-financial/behavioural)
- credit decision models
- internal and external reporting

With this support, the goal of the Bank is to systematise information critical to customer evaluation, in particular in the following domains:

- Historical analysis pre-COVID, and in the entire subsequent period
- Analysis of financial flows (inflows and outflows) and recurring flow variations
- Analysis of the variation in financial assets
- Analysis of credit behaviour in OCI (number of entities, recourse to moratoriums, balance history) and their changes
- Analysis of delays in payments and receipts and other risk implications
- Analysis of the impacts of the pandemic from a sectoral perspective

b) Bolstering of the system of early warning signs for the retail segment (private and small business)

c) Segmentation in homogeneous clusters, with a view to prioritising contact and action plans

d) Launch of a process of contacting customers, in particular the completion of questionnaires to gauge their economic and financial situation, inter alia to evaluate the impacts of the pandemic.

e) Development of standard credit solutions adapted to the different standard situations and review of the predefined solutions in effect.

f) Determination of a pre-analysed restructuring option for customers with risk implications.

g) Broadening of the range of solutions on the Banking App.

h) Increase in the capacity to monitor customers in difficulties, involving an increase in the capacity for processing customers and simplification and automation of support processes that allow the Bank to cope with the increase in the number of transactions.

vi. Classification of operations as restructured due to financial difficulties

Specifically, with respect to the classification of customers as restructured due to financial difficulties, under the provisions of the guidelines issued by regulators and supervisory authorities, operations that fell under the state moratorium (Decree-Law 10-J/2020, of 26 March) or the sectoral moratorium (official memorandum adopted within the context of the APB), did not have to be flagged as restructured due to financial difficulties. Even so, the Bank decided to adopt a conservative approach, classifying as restructured due to financial difficulties operations that benefited from the aforementioned moratoriums which, as of 26 March (the date of entry into force of Decree-Law 10-J/2020), had been in default for more than 60 consecutive days after the due dates, and which remained in a situation of default as of 31 March.

With respect to the flagging of restructuring due to financial difficulties for other operations or contractual amendments, the Bank continued to intensify internal procedures with a view to strict classification of new operations or modification of ongoing operations considered carried out due to the customers' financial difficulties.

Taking as a reference the range of operations that fall under the general moratoriums – the state moratorium (Decree-Law 10-J/2020, of 26 March) and the sectoral moratorium (official memorandum adopted within the context of the APB) – and with a view to conveying a perspective on the form in which the impacts already felt from the outbreak of the COVID-19 pandemic have affected the Bank's risk classification in exposures that used these mechanisms of altering the debt service profile, a comparative analysis was carried out of the status of these operations between 29/2/2020 and 31/12/2020 with regard to the classification of Risk Stages under the terms laid down in IFRS 9, mindful of the fact that allocation to Stage 3 corresponds to a classification as NPE (default).

With respect to operations in the private segment, which at the end of 2020 had a moratorium in force, it is found that 87% of the exposure remained at the same stage and the part that was downgraded was smaller than that which saw an improvement (4.7% vs 7.7%), with an insignificant 1.2% of unclassified operations being recorded in February.

In the Corporate segment, the trend is different, with stage stability of 79% of the value of the operations, with a greater weight of cases with downgraded exposure (11.3%) in comparison with situations of improvement (5.8%).

(Thousands of euros)

		Exposure December 2020					
		Households			Corporates		
		Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Exposure 29 February 2020	Stage 1	2,877,986	141,844	6,132	2,163,464	420,538	25,033
	Stage 2	266,504	576,829	40,370	257,782	1,000,176	71,511
	Stage 3	2,989	40,668	45,248	465	9,318	444,745
	n.a	39,320	6,511	743	103,762	7,.631	5,911
	Total	3,186,799	765,852	92,493	2,525,473	1,505,663	547,200

An analysis of the development of IFRS 9 staging with respect to financing operations that fall under the lines adopted under the National Mutual Guarantees System, as guaranteed by the Portuguese State to mitigate the impacts of the COVID-19 pandemic, is not applicable, given that they correspond to new operations and they did not exist as of the end of February. In any case, it is important to mention that, as of the end of December, 76% of the Bank's exposure to this kind of instrument is allocated to stage 1, with the part relating to stage 3 being largely insignificant (0.3%).

Operations subject to legislative and non-legislative moratoriums and new loans granted under new systems of public guarantee introduced in response to the COVID-19 crisis

The tables presented below describe the operations that, as of 31 December 2020, were subject to legislative and non-legislative moratoriums, as well as new loans granted under new systems of public guarantee introduced in response to the COVID-19 crisis, in Portugal and consolidated.

From the details shown in the aforementioned tables, in terms of the moratoriums, the presentation of the structure of exposure by customer segment, performing/non-performing status, classification in stage 2 (operations with a significant increase in credit risk since initial recognition, but without impairment of credit), the existence of restructuring due to financial difficulties, impairment constituted and the residual term of the moratoriums should be noted.

In terms of loans granted under the new systems of public guarantee, a breakdown is presented of exposure by segment, the amount of the associated guarantees and an indication of the part classified as restructuring due to financial difficulties or classified as non-productive.

Loans and advances subject to legislative and non-legislative moratorium

The analysis of the gross carrying amount and respective accumulated impairment of the loans and advances subject to moratorium, with reference to 31 December 2020, is as follows:

(Thousands of euros)

	Gross carrying amount						
	Performing			Non performing			
		Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	Total
Loans and advances subject to moratorium	7,983,788	491,415	2,271,516	639,691	503,464	633,158	8,623,479
of which: Households	3,952,651	136,670	765,851	92,492	48,770	87,266	4,045,143
of which: Collateralised by residential immovable property	3,574,234	121,793	687,960	74,625	40,541	70,856	3,648,859
of which: Non-financial corporations	3,956,215	353,395	1,459,449	526,473	433,971	525,166	4,482,688
of which: Small and Medium-sized Enterprises	3,605,874	323,470	1,324,993	501,709	415,758	500,402	4,107,583
of which: Collateralised by commercial immovable property	1,439,642	79,947	648,336	198,606	150,430	198,552	1,638,248

The analysis of the impairment amount of the loans and advances subject to moratorium is as follows:

(Thousands of euros)

	Accumulated impairment, accumulated negative changes in fair value due to credit risk						Gross carrying amount
	Performing			Non performing			
		Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	Inflows to non-performing exposures
Loans and advances subject to moratorium	102,119	29,687	83,736	281,433	245,626	280,949	35,276
of which: Households	5,202	908	4,621	6,565	3,597	6,196	5,158
of which: Collateralised by residential immovable property	2,168	483	2,063	1,962	1,256	1,902	3,308
of which: Non-financial corporations	94,608	28,377	76,892	255,237	222,401	255,122	30,118
of which: Small and Medium-sized Enterprises	87,150	26,168	71,252	241,496	212,568	241,381	30,118
of which: Collateralised by commercial immovable property	32,042	3,014	28,207	78,288	63,586	78,287	23,776

Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratorium

The analysis of the loans and advances which moratorium was offered and was granted (includes already defaulted moratoriums) is as follows:

(Thousands of euros)

	Number of obligors	Gross carrying amount	Of which: legislative moratoria	Of which: expired
Loans and advances for which moratorium was offered	76,249	8,953,040		
Loans and advances subject to moratorium (granted)	75,961	8,921,422	8,190,460	297,943
of which: Households		4,149,444	3,418,482	104,301
of which: Collateralised by residential immovable property		3,731,429	3,351,770	82,570
of which: Non-financial corporations		4,674,796	4,674,796	192,108
of which: Small and Medium-sized Enterprises		4,261,385	4,261,385	153,802
of which: Collateralised by commercial immovable property		1,690,487	1,690,487	52,239

The analysis of the loans and advances which moratorium was offered and was granted by residual maturity of moratoria is as follows:

(Thousands of euros)

	Residual maturity of moratorium			
	<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	Total
Loans and advances subject to moratorium (granted)	625,690	81,994	7,915,795	8,623,479
of which: Households	625,690	81,994	3,337,459	4,045,143
of which: Collateralised by residential immovable property	375,700	93	3,273,067	3,648,860
of which: Non-financial corporations	—	—	4,482,688	4,482,688
of which: Small and Medium-sized Enterprises	—	—	4,107,583	4,107,583
of which: Collateralised by commercial immovable property	—	—	1,638,248	1,638,248

Newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis

The analysis of the loans and advances subject to public guarantee schemes is as follows:

(Thousands of euros)

	Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
		of which: forborne	Public guarantees received	Inflows to non-performing exposures
Newly originated loans and advances subject to public guarantee schemes	2,261,689	18	1,931,615	3,653
of which: Households	14,128		12,514	—
of which: Collateralised by residential immovable property	260		234	—
of which: Non-financial corporations	2,244,898	18	1,916,959	3,653
of which: Small and Medium-sized Enterprises	2,141,546		1,834,277	2,648
of which: Collateralised by commercial immovable property	75,741		62,819	1,501

Use of judgments and estimates in the preparation of financial statements

The preparation of financial statements requires using judgements, preparing estimates and making certain assumptions to determine the value of assets and liabilities and the amount of contingent assets and liabilities disclosed at the balance sheet date, as well as the reported amounts of revenue and expenses during the reporting period.

The main judgments and estimates adopted in the context of preparing these financial statements are described in point Z. Accounting estimates and judgments in applying accounting policies, from note 1. Accounting policies.

The COVID-19 pandemic significantly increased the degree of uncertainty in the estimates made and reinforced the need to use expert judgment to assess how these estimates are influenced by the current macroeconomic situation, mainly in what concerns the calculation of impairments for financial assets and non-financial assets.

Although the estimates have been prepared based on the best information available with respect to the current and prospective context, the final outcome may differ from the values currently estimated.

Going concern assumption

The financial statements of BCP have been prepared on a going concern basis, as the Executive Committee considers that the Bank has the adequate resources to continue operations and business in the foreseeable future. The evaluation carried out by the Executive Committee was based on a wide range of information related to current and future conditions, including projections on future profitability, cash flows, capital requirements and funding sources. The Executive Committee regularly prepares projections based on different scenarios, including adverse and stress scenarios. The COVID-19 pandemic introduced an increased level of uncertainty in these projections and the need to take into consideration the impact on the BCP's operations, on its profitability, capital and liquidity.

Contingency plan

To deal with the COVID-19 pandemic, the Bank adopted a set of contingency measures planned and designed to ensure the protection of people and the continuity of the activity, including, among others, the recommendations of health authorities, telework and segregation of teams, trying to maximize the resilience of the organization.

In this context, the Bank activated the Contingency Plan, according to the Business Continuity Plan. This plan was updated and adapted specifically to the current pandemic scenario, with a specific Crisis Management Office being created for this purpose. Thus, in line with the guidelines issued by the authorities and supervisory entities, with which the Bank maintains regular contacts, an action plan was designed to protect Customers and Employees, minimize the chances of contagion and ensure the operational continuity of business.

Impacts in income statement

The main impacts of the COVID-19 pandemic on profitability are as follows:

- **Net interest income** - The COVID-19 pandemic produced several types of impacts on the net interest income of the Bank, with different magnitudes and effects depending on its nature. In 2020, net interest income benefited from the interest generated by the credit lines guaranteed by the Portuguese State, even though the average spread for these lines was lower than the average spread of the existing portfolio. In addition, the lower level of repayments associated to the credits covered by the legal framework of moratoria contributed positively to the net interest income of the year.

- **Commissions** – In 2020, commissions related to the banking business, in particular commissions related to transfers and cards, were significantly penalized, not only by the direct impacts of the pandemic caused by COVID-19, but also by the initiatives to support the economy adopted by the Bank in Portugal, embodied in exemptions granted to face the crisis situation that the country is going through. These commissions are mainly related to amounts charged for transactions made with cards and respective payment networks, bank transfers and use of points of sale (POS), activities that were transversally affected by the decrease in activity during the pandemic period. Commissions related to guarantees and credit also decreased from the same period of the previous year. Although the granting of credit commissions within the scope of measures related to COVID-19, have contributed positively to the commissions generated in this period, that contribution is limited, since the commissions generated by these operations are regulated and deferred.

- **Net trading income** – Net trading income, in 2020, was penalized by the negative impact arising from the revaluation of corporate restructuring funds, reflecting a review of the business plans and the evaluations of the assets from the funds by the respective management companies.

- **Other net operating income** - Other net operating income was penalized by the introduction, in 2020, of the additional solidarity contribution on the banking sector, aiming to finance the costs with the public measures to the impact of the actual crisis caused by COVID-19 pandemic.

- **Operating cost** - The impacts of COVID-19 pandemic on operating costs were mainly in other administrative costs. Therefore, there was a significant reduction in costs normally incurred for advisory services and representation costs, due to the suspension or postponement of certain projects and travel. Costs usually incurred with litigation and independent work also showed a significant decrease compared to the same period of the previous year, as there was a reduction in the activity of judicial recovery following the COVID-19 pandemic, registering lower costs with court fees and services, with law firms and execution agents. Similarly, advertising and sponsorship costs were also lower than those recognised in the previous year, since, due to the conditions imposed by the pandemic, fewer advertising campaigns were carried out, and there was even the cancellation of some events that had been held in 2019. Finally, it should be noted that the absence of a significant number of employees from the Bank's facilities also contributed to savings in other administrative costs, as they began to perform their duties remotely. In this context, savings on travel, hotel and representation costs, water, energy and fuel are particularly relevant, as are reductions in items such as other specialised services, advisory, independent work, advertising, legal expenses and communications, along with others with less impact, such as transportation, staff training and consumables. Conversely, there was an increase in outsourcing costs, IT costs and costs with services provided by SIBS, as well as an increase in costs associated mainly with the purchase of protection material, cleaning services and relocation of facilities.

- **Impairment for loan losses –** The impacts are quantified in the section “Analysis of the impacts of the COVID-19 pandemic on the determination of Risk Stages under IFRS 9, classification of customers in situations of increased risk or default and determination of impairments”.

- **Other impairment and provisions –** The impacts are quantified in the section “Analysis of the impacts of the COVID-19 pandemic on the determination of Risk Stages under IFRS 9, classification of customers in situations of increased risk or default and determination of impairments”.

- **Income tax –** The tax impacts recognized in the year 2020 are detailed in note 27. Income tax.

Strategic guidelines and targets

The outbreak of COVID-19 caused a pandemic on a global scale that forced different countries to adopt exceptional measures with great impact on the lives of people and companies. Financial institutions were forced to change the focus of their business objectives to outline an action plan to respond to the crisis. In this context, the Bank reacted quickly and adjusted its priorities, trying to anticipate the impacts of the crisis. The strategic orientation focused on growth has temporarily been superimposed by a model aimed at protecting the quality of the balance sheet, supporting the economy and adapting business processes and models to the current situation.

The Bank has defined five priorities to 2020:

1. Protect Employees and customers
2. Defend the quality of the balance sheet, liquidity and solvency of the Bank
3. Support the economy, families, businesses and institutions
4. Adapt business models and processes to the new normal
5. Strengthen the social support component for the most vulnerable

The answer of financial institutions and of their customers has made it possible to highlight that the crisis was a powerful trends accelerator, with an adaptation of traditional business models and existing processes to a new context entitled as the “new normal”, which is primarily based on digital channels. The pandemic accelerated and even forced the use of digital channels by customers who would otherwise continue to use traditional channels for their needs. This evolution has validated the priorities of the 2018-2021 Strategic Plan, which the Bank has continued to implement, although subject to the immediate response to the crisis and adapting the initiatives to the environment emerging from the crisis.

Targets to be achieved after the impacts of the current pandemic

Among the priorities included in the 2018-2021 Strategic Plan, digitization focused on mobile takes a prominent place. The customers of BCP confirmed their positive appreciation of the digital approach of the Bank, reflected in an increasing number of digital customers, but above all in an increasing number of mobile customers. Thus, the targets initially established for the number of digital customers and mobile customers will not be harmed and are expected to even be exceeded. It should be noted, however, that the potential for revenue generated in a post-pandemic context, probably lower, will increase the pressure on financial institutions to capture additional efficiency gains in order to preserve the sustainability of their business models.

Additionally, it is necessary to highlight that, if the current crisis has accelerated the importance of digitalization, both in terms of attracting and retaining customers, and in terms of improving operational efficiency, the same crisis will jeopardize the achievement of the financial goals of the Strategic Plan, namely the profitability, financial efficiency and asset quality, within the initially predicted time horizon, until 2021, and as an inevitable reflection of the pronounced economic recession suffered.

The economic and social impacts of the public health crisis and the measures adopted by governments and authorities, including supervisory authorities, will produce effects that at this stage are still uncertain, but which will materially affect the activity of the Bank.

In this context, the Bank considers that the targets defined under the 2018-2021 Strategic Plan remain valid, reaffirming its commitment to the established goals. However, it considers that some of the defined financial targets will only be attainable after the effects of the current economic crisis are overcome.

Pandemic impacts on financial targets

The evolution of macroeconomic conditions on a global scale caused by the COVID-19 pandemic will have materially relevant impacts on the profitability and future financial position of the Bank. The impacts on bank income already observed in this exercise will persist in the subsequent periods, with greater or lesser intensity, depending on how fast countries will be able to tackle the public health crisis and on the constraints to the economic recovery. With regard to operating costs, in addition to the direct impacts of savings from the suspension or cancellation of several initiatives and the expenses arising from measures to protect employees and customers, the evolution of the pandemic will also affect the implementation of restructuring and capture efficiency gains measures. Profitability will also be influenced by the cost of risk, whose downward trend converging to the target of the Plan was interrupted and will tend to remain at a higher level, according to the evolution of macroeconomic conditions. Likewise, the pace of NPE reduction will be affected by a higher level of inflows associated with more adverse economic conditions, as well as by the constraints resulting from these same conditions in exit strategies.

Capital and liquidity requirements

The crisis of public health caused by COVID-19 has led regulators and supervisors to temporarily reduce capital, liquidity and operational requirements for banks, as described in the following paragraphs, to ensure that they still perform their role in supporting and financing the economy.

In particular, the European Commission, the European Central Bank and EBA issued clarifications on some of the flexibilities already incorporated in Regulation (EU) 575/2013, issuing interpretations and guidelines on the application of the prudential framework in the context of COVID-19.

The capital buffers have been designed with a view to allowing banks to withstand stressed situations and since the European banking sector has built up a significant amount of these buffers, the ECB will allow banks to operate temporarily below the capital level defined by Pillar 2 Guidance (P2G), the capital conservation buffer (CCB) and the systemic buffer (O-SII) and suggested the relaxation of the countercyclical capital buffer (CCyB) by the national macroprudential authorities.

Banks will also be allowed to partially use capital instruments that do not qualify as CET1 capital to meet Pillar 2 Requirements (P2R), bringing forward a measure included in the latest revision of the Capital Requirements Directive (CRD V), that was planned to come into force in January 2021.

In addition, the European Central Bank allows banks, if necessary, to use their liquidity buffers and temporarily operate below the minimum regulatory level of the LCR (100%).