

50. Contingent liabilities and other commitments

In accordance with accounting policy 1V.3, the main Contingent liabilities and other commitments under IAS 37 are as follows:

1. In 2012, the Portuguese Competition Authority (“PCA”) initiated an administrative proceeding relating to competition restrictive practices (no. PRC 2012/9). On 6 March 2013, unannounced inspections were conducted in the premises of the Banco Comercial Português, S.A. (“BCP” or “Bank”) and other credit institutions, where documentation was seized to investigate allegations of a commercially sensitive information exchange between credit institutions in the Portuguese banking market.

The administrative proceeding was subject to judicial secrecy by the PCA, as the publicity of the process would not be compatible with the interests of the investigation and with the rights of the investigated companies. On 2 June 2015, the Bank was notified of the PCA’s statement of objections (“SO”) in connection with the administrative offence no. 2012/9, by which the Bank is accused of participating in a commercially sensitive information exchange between other 14 banks related to retail credit products, namely mortgage, consumer and small and medium enterprises credit products. The notification of a statement of objections does not constitute a final decision in relation to the accusation of the PCA.

The proceedings, including the deadline to submit a response to the SO, were suspended for several months between 2015 and 2017, following the appeals lodged by some defendants (including the Bank) before the Portuguese Competition, Regulation and Supervision Court (“Competition Court”) on procedural grounds (namely, on the right to have access to confidential documents which were not used as evidence by the PCA – for several months, the PCA denied the Defendant’ right to have access to confidential documents not used as evidence). In the end of June 2017, the suspension on the deadline to reply to the SO was lifted.

On 27 September 2017, BCP submitted its reply to the statement of objections. A non-confidential version of the Bank’s defence was sent to the PCA, at the latter’s request, on 30 October 2017. The witnesses indicated by the Bank were interrogated by the PCA in December 2017.

On 23 October 2018, BCP was notified of the non-confidential versions of the oral hearing of the defendants Santander Totta and Unión de Créditos (which took place in December 2017). On 7 December 2018, the Bank requested the PCA to have access to the confidential version of these oral hearings.

In May 2018, the PCA refused the Bank’s application for confidential treatment of some of the information in the Bank’s reply to the SO, having also imposed that the Bank protects the confidential information of the co-defendants (providing a summary of the information). On 1 June 2018, the Bank filed an appeal with the Competition Court, which, upholding the appeal, concluded that the PCA infringed on the right to a prior hearing. Complying with the judgment, in November 2018, the PCA notified the Bank of its intention to refuse the application for confidential treatment of some of the information included in the Bank’s defence, restating its arguments. The Bank submitted a non-confidential revised version of its reply but reaffirmed that it is not the Bank that must protect the confidential information of the co-defendants. On 25 January 2019, the PCA granted the Bank a 10-business day period to provide summaries for the co-defendants’ confidential information. On 4 February 2019, the Bank filed an appeal before the Competition Court and, on 11 February 2019, submitted a reply to the PCA (although restated its opposition to the PCA’s request).

If the PCA issues a conviction decision, the Bank may be subject to a fine calculated in accordance with the applicable legislation, namely pursuant to article 69 of Law no. 19/2012, of 8 May. However, the Bank may challenge the application of any sanction.

2. On 3 December 2015 a class action was served on the Bank Millennium, S.A. (Bank Millennium) in Poland. A group of the Bank Millennium debtors (454 borrowers party to 275 loan agreements) is represented by the Municipal Consumer Ombudsman in Olsztyn. The plaintiffs demanded payment of the amount of PLN 3.5 million (Euros 0.81 million), claiming that the clauses of the agreements, pertaining to the low down payment insurance, are unfair and thus not binding. The plaintiff group was extended in the court letter filed on 4 April 2018, therefore the claims increased from PLN 3.5 million (Euros 0.81 million) to over PLN 5 million (Euros 1.16 million).

On 1 October 2018, the group’s representative corrected the total amount of claims pursued in the proceedings and submitted a revised list of all group members, covering the total of 697 borrowers – 432 loan agreements. The value of the subject of the dispute, as updated by the claimant, is PLN 7.37 million (Euros 1.72 million). On 21 November 2018, Bank Millennium filed objections regarding the membership of individual people in the group.

The next stage of the proceedings is establishing the composition of the group (i.e. determining whether all people who joined the proceedings may participate in the group).

3. On 21 October 2014 a class action was delivered to Bank Millennium in which a group of the Bank Millennium borrowers represented by the Municipal Consumer Ombudsman in Olsztyn seeks the ascertainment that Bank Millennium is liable for unjust enrichment in connection with the CHF-indexed mortgage agreements.

The members of the group claim that Bank Millennium unduly collected excessive amounts from them for the repayment of loans. According to the statement of claim, the overstatement of such amounts was the result from the application of abusive contractual provisions concerning the CHF-indexation of credits.

The number of the group members amounts to approximately 5,400 and the value of the litigation has been estimated to approximately PLN 146 million (Euros 34 million). The number of loan agreements involved is approximately 3,400. The current stage of the proceedings is establishing the composition of the group (i.e. determining whether all people who joined the group may participate in the group).

4. On 28 December 2015, Bank Millennium was notified of a case brought up by Europejska Fundacja Współpracy Polsko-Belgijskiej/European Foundation for Polish-Belgian Cooperation (EFWP-B) against Bank Millennium, worth of the dispute PLN 521.9 million (Euros 121.5 million) with statutory interest from 5 April 2016 until the day of payment.

The plaintiff filed the suit dated 23 October 2015 to the Regional Court in Warsaw. The suit was served to Bank Millennium on 4 April 2016. According to the plaintiff, the basis for the claim is damage to their assets, due to the actions taken by Bank Millennium and consisting in the wrong interpretation of the Agreement for working capital loan concluded between Bank Millennium and PCZ S.A., that resulted in considering the loan as overdue.

In the case brought by EFWP-B, the plaintiff moved for securing the claim in the amount of PLN 250 million (Euros 58.2 million). The petition was dismissed on 5 September 2016 with legal validity by the Appellate Court. Bank Millennium is requesting complete dismissal of the suit, stating disagreement with the charges raised in the claim.

Supporting the position of Bank Millennium, Bank's Millennium attorney submitted a binding copy of final verdict of Appeal Court in Wrocław favourable to Bank Millennium, issued in the same legal state in the action brought by PCZ SA against Bank Millennium.

Favourable forecasts for Bank Millennium, as regards dismissal of the suit brought by EFWP-B to the Warsaw Regional Court, have been confirmed by a renowned law firm representing Bank Millennium in this proceeding.

5. On 19 January 2018, Bank Millennium has received the lawsuit petition of First Data Polska SA requesting the payment of PLN 186.8 million (Euros 43,5 million). First Data Polska SA claims a share in an amount which Bank Millennium has received in connection with the Visa Europe takeover transaction by Visa Inc. The plaintiff based its request on an agreement with Bank Millennium on cooperation in scope of acceptance and settlement of operations conducted with the usage of Visa cards. Bank Millennium does not accept the claim and filed the response to the lawsuit petition within the deadline set forth in the law. The case is being examined by the Court of First Instance.

6. 2018 year did not bring legal changes towards FX mortgage portfolios. On 2 August 2016 the Poland President's Bill on support for FX mortgage borrowers was submitted to the Parliament. The proposed law, to be approved, provides for the application to all FX (all currencies) loan agreements signed from 1 July 2000 to 26 August 2011 (when the "Anti-spread Act" came into force). This Bill concerns the return of part of FX spreads applied by banks.

On 2 August 2017 a new Presidential Bill appeared in Parliament regarding changes in the Act on Support for Distressed Borrowers who Took Residential Loans. The Bill assumes a modification of the existing Borrowers' Support Fund by separating-out two Funds: Supporting Fund and Conversion Fund. As regards the Supporting Fund, the Bill aims to increase availability of money from the fund by means of: relaxing criteria, which must be satisfied by a borrower applying for support; increasing the maximum amount of support; extending the period, for which the support is granted; forgiving part of the support granted conditional on punctual repayment to the fund. The Conversion Fund is to be used for currency conversion of FX mortgages to PLN. The Bill contains very general regulations and does not specify criteria of eligibility for such currency conversion and its rules. Quarterly payments to the Conversion Fund made by lenders are not to exceed the equivalent of the FX mortgage portfolio and the rate of 0.5%. The maximum costs for the entire sector, assessed based on FX mortgage balance (PLN 128 billion (Euros 29.8 billion) in December 2018 according to the Polish Financial Supervision Authority (KNF)), equal to up to PLN 2.6 billion (Euros 600 million) in the first year of operation of the Conversion Fund. According to the Bill, KNF may issue a recommendation to lenders specifying the principles of voluntary conversion of receivables with consideration of stability of the financial system and effective use of money in the Restructuring Fund. After Government's acceptance and voting of several changes by the Parliamentary Committees, Presidential Bill of 2 August 2017 will be able to put to the vote by the chambers of Parliament.

The two above Bills included, so far four draft Acts have been submitted to Parliament and in consequence it is not possible to estimate the impact of the proposed legislation on the banking sector and the Group. However if any of the Bills is adopted and begins to bind banks, this may lead to significant reduction of the Group's future profitability and its capital position.

7. On 1 October 2015, a set of entities connected to a group with past due loans to the Bank worth Euros 170 million, resulting from a loan agreement signed in 2009 - debts already fully provisioned in the Bank's accounts -, filed against the Bank, after receiving the Bank's notice for mandatory payment, a lawsuit aiming to:

- a) that the Court declares that two of the defendants are mere fiduciary owners of 340,265,616 BCP shares since they acted pursuant to a request made by the Bank for the making of the respective purchases and also that the court orders the cancellation of the registration of those shares in the name of those companies;
- b) that the Court declares the nullity of the financing agreement established between the plaintiffs and the Bank, due to relative simulation;
- c) that the court sentences the Bank, in accordance with the legal regime of the mandate without representation, to become liable for the amounts due to the institution, abstaining from requesting those amounts to the plaintiffs and to deliver to them the cost they incurred while complying with that mandate, namely, Euros 90,483,816.83 regarding Banco Espírito Santo, S.A. (BES) and Euros 52,021,558.11 regarding Caixa Geral de Depósitos, S.A. (CGD), plus default interests;
- d) the amount of the lawsuit determined by the plaintiffs is Euros 317,200,644.90;
- e) the Bank opposed and presented a counter claim wherein it requests the conviction, namely of a plaintiff company in the amount of Euros 185,169,149.23 for the loans granted, plus default interests and stamp tax.

The Court made a decision accepting the formalities of right of action and already established the facts proven and those that must be proven yet. We are waiting for the appointment of an expertise, requested by the plaintiffs, and each one of the parties must, afterwards, indicate an expert and the Court shall indicate a third expert.

8. RESOLUTION FUND

Resolution measure of Banco Espírito Santo, S.A.

On 3 August 2014, with the purpose of safeguarding the stability of the financial system, the Bank of Portugal applied a resolution measure to Banco Espírito Santo, S.A. (BES) in accordance with the article 145 C (1.b) of the Legal Framework for Credit Institutions and Financial Companies (RGICSF), namely by the partial transfer of assets, liabilities, off-balance sheet items and assets under management into a transition bank, Novo Banco, S.A. (Novo Banco), incorporated on that date by a decision issued by the Bank of Portugal. Within the scope of this process, the Resolution Fund made a capital contribution to Novo Banco amounting to Euros 4,900 million, becoming, on that date, the sole shareholder.

Within this context, the Resolution Fund borrowed Euros 4,600 million, of which Euros 3,900 million were granted by the State and Euros 700 million by a group of credit institutions, including the Bank.

As announced on 29 December 2015, the Bank of Portugal transferred to the Resolution Fund the liabilities emerging from the “eventual negative effects of future decisions regarding the resolution process that may result in liabilities or contingencies”.

On 7 July 2016, the Resolution Fund declared that it would analyse and evaluate the diligences to take, following the publication of the report on the result of the independent evaluation, made to estimate the level of credit recovery for each category of creditors under a hypothetical scenario of a normal insolvency process of BES on 3 August 2014.

In accordance with the applicable law, when the BES liquidation process is over, if it is verified that the creditors, whose credits were not transferred to Novo Banco, would take on a higher loss than the one they would hypothetically take if BES had gone into liquidation right before the application of the resolution measure, such creditors shall be entitled to receive the difference from the Resolution Fund.

Moreover, following this process, a significant number of lawsuits against the Resolution Fund was filed and is underway.

On 31 March 2017, the Bank of Portugal communicated about the sale of Novo Banco, where it states the following: "Banco of Portugal today selected Lone Star to complete the sale of Novo Banco. The Resolution Fund has consequently signed the contractual documents of the transaction. Under the terms of the agreement, Lone Star will inject a total of Euros 1,000 million in Novo Banco, of which Euros 750 million at completion and Euros 250 million within a period of up to 3 years. Through the capital injection, Lone Star will hold 75% of the share capital of Novo Banco and the Resolution Fund will maintain 25% of the share capital.

The terms agreed also include a contingent capital mechanism, under which the Resolution Fund, as a shareholder, undertakes to make capital injections in case certain cumulative conditions are to be met related to: i) the performance of a specific portfolio of assets and ii) the capital levels of the bank going forward.

Any capital injections to be carried out pursuant to this contingent mechanism benefit from a capital buffer resulting from the injection to be made under the terms of the agreement and are subject to an absolute cap. The terms agreed also provide for mechanisms to safeguard the interests of the Resolution Fund and to align incentives as well as monitoring mechanisms, notwithstanding the limitations arising from State Aid rules.

On 18 October 2017, following the resolution of the Council of Ministers No. 151-A/2017 of 2 October 2017, the Bank of Portugal communicated the conclusion of the sale of Novo Banco to Lone Star, with an injection by the new shareholder of Euros 750 million, followed by a further capital increase of Euros 250 million by the end of 2017. Upon completion of the transaction, the status of Novo Banco as a bridge institution will cease, fully complying with the purposes of the resolution of Banco Espírito Santo.

On 26 February 2018, the European Commission published the non-confidential version of its decision regarding the approval of State aid underling Novo Banco's sale process. This statement identifies the three support measures by the Resolution Fund and the state that are part of the sale agreement associated with a total gross book value of around Euros [10-20] billion (*) that revealed significant uncertainties as regards adequacy in provisioning (**):

(i) contingent Capital Agreement (CCA) which allows Lone Star to reclaim, from the Resolution Fund, funding costs, realised losses and provisions related to an ex-ante agreed portfolio of existing loan stock, up to a maximum of Euros 3.89 billion, subject to a capital ratio trigger (CET1 below 8%-13%) as well as to some additional conditions (*) (***) (***);

(ii) underwriting by the Resolution Fund of a Tier 2 instrument to be issued by Novo Banco up to the amount necessary (but no more than Euros 400 million). The amount that can be reclaimed by the Resolution Fund under the Contingent Capital Agreement is subject to the cap of Euros 3.89 billion (**);

(iii) in case the Supervisory Review and Evaluation Process ("SREP") total capital ratio of Novo Banco falls below the SREP total capital requirement, the State will provide additional capital in certain conditions and through different instruments (**).

On 28 March 2018, following the disclosure of the 2017 annual results by Novo Banco, the Resolution Fund made a communication on the activation of the CCA totalling EUR 792 million. According to this press release, the amount determined by Novo Banco falls within the obligations of the Resolution Fund agreed upon in connection with the partial sale of the Resolution Fund's stake in Novo Banco, which includes the CCA, and is contained in that limit.

On 24 May 2018, arising from the referred mechanism, the Resolution Fund paid Euros 791,695 thousand to the Novo Banco using its available financial resources from banking contributions (direct or indirect) and complemented by a State loan of Euros 430,000 thousands under the terms agreed between the Portuguese State and the Resolution Fund.

In its 2018 annual results press release, on 1 March 2019, Novo Banco states that "in connection with the impact of losses related to the sale and write-downs of legacy assets, Novo Banco will request a compensation of Euros 1,149 million under the existing CCA. 69% of this amount results from the losses incurred on the assets included in the CCA and 31% due to regulatory requirements for capital increase in the adjustment of the transitional period of capital ratios and to the impact of IFRS 9".

On the same day, the Resolution Fund reported that the amount determined by Novo Banco falls within the obligations established in the contract by 2017 and are contained in the maximum limit of Euros 3,890 million. The same press release mentions that the payment due in 2019 by the Resolution Fund will be carried out after the legal certification of Novo Banco's accounts and following a verification procedure by an independent entity, to ascertain that the amount to be paid by the Fund has been correctly accounted for.

Novo Banco is held by Lone Star and the Resolution Fund, corresponding to 75% and 25% of the share capital respectively.

Resolution measure of Banif – Banco Internacional do Funchal, S.A.

On 19 December 2015, the Board of Directors of the Bank of Portugal announced that Banif was "at risk of insolvency or insolvent" and started an urgent resolution process of the institution through the partial or total sale of its activity, which was completed on 20 December 2015 through the sale to Banco Santander Totta S.A. (BST) of the rights and obligations of Banif, formed by the assets, liabilities, off-balance sheet items and assets under management.

The largest portion of the assets that were not sold, were transferred to an asset management vehicle denominated Oitante, S.A. (Oitante) specifically created for that purpose, having the Resolution Fund as the sole shareholder. For that matter, Oitante issued bonds representing debt in the amount of Euros 746 million. The Resolution Fund provided a guarantee and the Portuguese State a counter-guarantee. In 2017 Resolution Fund Report, it is disclosed that: (i) as a result of the partial early repayments made by Oitante, the amount outstanding of these obligations had been reduced to Euros 565.6 million at the end of 2017; (ii) in 2018 Oitante made a new partial early reimbursement of Euros 10 million, and (iii) considering the early repayments, as well as the information provided by the Oitante's Board of Directors regarding the activity performed in 2017, the Resolution Fund expects that there will be no relevant situations triggering the guarantee provided by the Resolution Fund.

The operation also involved state aid, of which Euros 489 million were provided by the Resolution Fund. The Euros 489 million taken by the Resolution Fund was funded through a loan granted by the State.

(*) Exact value not disclosed by the European Commission for confidentiality reasons

(**) As referred to in the respective European Commission Decision

(***) According to 2018 Novo Banco's earnings institutional presentation, the minimum capital condition is (i) CET1 or Tier 1 < CET1 or Tier 1 SREP requirement plus a buffer for the first years (2017-2019); (ii) CET1 < 12%

In a statement of 28 March 2018, the Resolution Fund confirms the outstanding principal amount of Euros 353 million related to this loan, due to the early reimbursement of Euros 136 million already made. This amount of Euros 136 million corresponds to the income of the contribution collected, until 31 December 2015, from the institutions covered by the Regulation of the Single Resolution Mechanism that was not transferred to the Single Resolution Fund and will be paid to the Single Resolution Fund by credit institutions that are covered by this scheme over a period of 8 years, starting in 2016 (according to the Resolution Fund Annual Report of 2016).

Liabilities and Financing of the Resolution Fund

Pursuant to the resolution measures applied to BES and Banif and after the agreement of sale of Novo Banco to Lone Star, the Resolution Fund, as at 31 December 2018, all the share capital of Oitante, and 25% of the capital of Novo Banco but without the corresponding voting rights.

Under the scope of these measures, the Resolution Fund borrowed loans and assumed other responsibilities and contingent liabilities resulting from:

- Effects of the application of the principle that no creditor of the credit institution under resolution may assume a loss greater than the one it would take if that institution did not go into liquidation;
- Negative effects resulting from the resolution process that result in additional liabilities or contingencies for Novo Banco, S.A., which must be neutralized by the Resolution Fund;
- Legal proceedings filed against the Resolution Fund;
- Guarantee granted to the bonds issued by Oitante S.A. This guarantee is counter-guaranteed by the Portuguese State;
- Contingent Capital Agreement which allows Lone Star to reclaim, from the Resolution Fund, funding costs, realised losses and provisions related to an ex-ante agreed portfolio of existing loan stock subject to a capital ratio trigger (CET1 below 8%-13%) and some additional conditions. The amount that can be reclaimed under the CCA is subject to the CCA cap or EUR 3.89 billion (*) (**) (***)
- Underwriting by the Resolution Fund of a Tier 2 instrument to be issued by Novo Banco up to the amount necessary (but no more than Euros 400 million). The amount that can be reclaimed under the CCA is subject to the CCA cap of EUR 3.89 billion. That amount is reduced by the amount which the Resolution Fund has to provide in the course of the underwriting of the Tier 2 instruments (**). This underwriting did not take place as the instruments were placed with third party investors as disclosed by Novo Banco on 29 July 2018;
- In case the SREP total capital ratio of Novo Banco falls below the SREP total capital requirement, the Portuguese State can provide additional capital in certain conditions and through different instruments (**);
- State loan in the amount of Euros 430,000 thousand under the agreement between the Portuguese State and the Resolution Fund to cover possible funding needs arising from the activation of the aforementioned contingent capital mechanism.
- According to a Resolution Fund's press release dated 1 March 2019, "In accordance with 2018 Novo Banco's earnings release, the amount to be paid in 2019 by the Resolution Fund will amount to Euros 1,149 million (...) Under the terms agreed on the contract, a payment of Euros 791.7 million was made in 2018. The amount paid in 2018 and the amount now determined by Novo Banco fall within the obligations contracted in 2017 and is within that cap. The payment due in 2019 by the Resolution Fund will be carried out after the legal certification of Novo Banco's accounts and following a verification procedure by an independent entity, to ascertain that the amount to be paid by the Fund has been correctly accounted for. To make the payment, the Resolution Fund will use, firstly, the available financial resources, resulting from the contributions paid, directly or indirectly by the banking sector. These resources will be complemented by the use of a loan agreed with the State in October 2017, with the annual cap, then set, of Euro 850 million".

By a public statement on 28 September 2016, the Resolution Fund and the Ministry of Finance communicated the agreement on the basis of a review of the terms of the Euros 3,900 million loan originally granted by the State to the Resolution Fund in 2014 to finance the resolution measure applied to BES. According to the Resolution Fund, the extension of the maturity of the loan was intended to ensure the ability of the Resolution Fund to meet its obligations through its regular revenues, regardless of the contingencies to which the Resolution Fund is exposed. On the same day, the Office of the Minister of Finance also announced that increases in the liabilities arising from the materialization of future contingencies will determine the maturity adjustment of State and Bank loans to the Resolution Fund, in order to maintain the contributory effort required to the banking sector at current levels.

According to the communication of the Resolution Fund of 21 March 2017:

- The conditions of the loans obtained from the Fund to finance the resolution measures applied to Banco Espírito Santo, S.A. and to Banif – Banco Internacional do Funchal, S.A. were changed". These loans in the amount of Euros 4,953 million, of which Euros 4,253 million were granted by the Portuguese State and Euro 700 million were granted by a group of banks";
- "Those loans are now due in December 2046, without prejudice to the possibility of being repaid early based on the use of the Resolution Fund's revenues. The due date will be adjusted so that it enables the Resolution Fund to fully meet its liabilities based on regular revenues and without the need for special contributions or any other type of extraordinary contributions. The liabilities resulting from the loans agreed between the Resolution Fund and the State and the banks pursuant to the resolution measures applied to BES and Banif are handled with one another";
- "The revision of the loans' conditions aimed to ensure the sustainability and financial balance of the Resolution Fund";
- "The new conditions enable the full payment of the liabilities of the Resolution Fund, as well as the respective remuneration, without the need to ask the banking sector for special contributions or any other type of extraordinary contributions".

(*) Exact value not disclosed by the European Commission for confidentiality reasons

(**) As referred to in the respective European Commission Decision

(***) According to 2018 Novo Banco's earnings institutional presentation, the minimum capital condition is (i) CET1 or Tier 1 < CET1 or Tier 1 SREP requirement plus a buffer for the first years (2017-2019); (ii) CET1 < 12%

On 2 October 2017, by Council of Ministers (Resolution No. 151-A/2017), the Portuguese State, as the ultimate guarantor of financial stability, was authorised to enter into a framework agreement with the Resolution Fund, to make available the necessary financial resources to the Resolution Fund, if and when it deemed necessary, to satisfy any contractual obligations that may arise from the sale of the 75% stake in Novo Banco. It is also mentioned that the reimbursement will consider the stability of the banking sector, i.e. without the Resolution Funds' participants being charged special contributions or any other extraordinary contributions.

The Resolution Fund's own resources had a negative balance of Euros 5,104 million, according to the latest 2017 annual report of the Resolution Fund.

To reimburse the loans obtained and to meet other liabilities that it may take on, the Resolution Fund receives proceeds from the initial and regular contributions from the participating institutions (including the Bank) and from the contribution over the banking sector (Law 55-A/2010). It is also provided for the possibility of the member of the Government responsible for the area of finance to determine, by ordinance that the participating institutions make special contributions, in the situations provided for in the applicable legislation, particularly in the event that the Resolution Fund does not have resources to fulfil with their obligations.

Pursuant to Decree-Law no. 24/2013 of 19 February, which establishes the method for determining the initial, periodic and special contributions to the Resolution Fund, provided for in the RGICSF, the Bank has been proceeding, since 2013, to the mandatory contributions, as provided for in the decree-law.

On 3 November 2015, the Bank of Portugal issued a Circular Letter under which it is clarified that the periodic contribution to the Resolution Fund should be recognised as an expense at the time of the occurrence of the event which creates the obligation to pay the contribution, i.e. on the last day of April of each year, as stipulated in Article 9 of the referred Decree-Law, thus the Bank is recognising as an expense the contribution to the RF in the year in which it becomes due.

The Resolution Fund issued, on 15 November 2015, a public statement declaring: "...it is further clarified that it is not expected that the Resolution Fund will propose the setting up of a special contribution to finance the resolution measure applied to Banco Espírito Santo, S.A., ('BES'). Therefore, the eventual collection of a special contribution appears to be unlikely."

The regime established in Decree-Law no. 24/2013 establishes that the Bank of Portugal fixes, by instruction, the rate to be applied each year on the basis of objective incidence of periodic contributions. The instruction of the Bank of Portugal No. 20/2017, published on 19 December 2017, set the base rate to be effective in 2018 for the determination of periodic contributions to the FR by 0.0459% against the rate of 0.0291% in 2017.

Thus, during 2018, the Bank made regular contributions to the Resolution Fund in the amount of Euros 11,151 thousands. The amount related to the contribution on the banking sector, registered in the first semester of 2018, was Euros 30,422 thousands. These contributions were recognized as cost in the months of April and June 2018, in accordance with IFRIC No. 21 – Levies.

In 2015, following the establishment of the Single Resolution Fund ('SRF'), the Bank had to make an initial contribution in the amount of Euros 30,843 thousands. In accordance with the Intergovernmental Agreement on the transfer and mutualisation of contributions to the SRF, this amount was not transferred to the SRF but was used instead to partially cover for the disbursements made by the RF in respect of resolution measures prior to the date of application of this Agreement. This amount will have to be reinstated over a period of 8 years (starting in 2016) through the periodic contributions to the SRF. The total amount of the contribution, in 2018, attributable to the Bank was Euros 23,442 thousands, of which the Bank delivered Euros 19,926 thousands and the remaining was constituted as irrevocable payment commitment. The Single Resolution Fund does not cover undergoing situations with the National Resolution Fund as at 31 December 2015.

It is not possible, on this date, to assess the effects on the Resolution Fund due to: (i) the sale of the shareholding in Novo Banco in accordance with the communication of Banco de Portugal dated 18 October 2017; (ii) the application of the principle that no creditor of the credit institution under resolution may take on a loss greater than the one it would take if that institution did not go into liquidation; (iii) additional liabilities or contingencies for Novo Banco, S.A. which need to be neutralized by the Resolution Fund; (iv) legal proceedings against the Resolution Fund, including the legal proceeding filed by those who have been defrauded by BES; and (v) the guarantee provided to the bonds issued by Oitante, in this case, the referred trigger is not expectable in accordance to the most recent information communicated by the Resolution Fund in its annual accounts.

According to Article 5(e) of the Regulation of the Resolution Fund, approved by the Ministerial Order No. 420/2012, of 21 December, the Resolution Fund may submit to the Government a proposal for the implementation of special contributions to rebalance the financial condition of the Resolution Fund. According to public communications from both the Resolution Fund and from the Government, there is no indication that any such special contributions are foreseen. Eventual alterations regarding this matter may have relevant implications in future financial statements of the Bank.

9. An administrative proceedings initiated by Banco Comercial Português, S.A., Banco ActivoBank S.A. and Banco de Investimento Imobiliário, S.A., opposing to the resolution adopted by Banco de Portugal on 31 March 2017 to sell Novo Banco (NB), and, as a precaution, the resolution adopted by the Resolution Fund, on the same date, to execute that resolution in the extent that it foresees the sale of NB by resorting to a contingent capitalization mechanism, according to which the Resolution Fund commits to inject capital in Novo Banco up to Euros 3.9 billion, under determined circumstances. In the proceedings, the Claimants request the declaration of nullity or annulment of those acts.

The proceedings was filed based on the information contained in the Communication from Banco de Portugal dated 31 March 2017, of which the Claimants were not notified.

The proceedings was filed on 4 September 2017. Banco de Portugal and the Resolution Fund presented its arguments and only very recently Nani Holdings SGPS, S.A did the same since, by delay of the Court, this company was only very recently notified to act as a party in the proceedings.

Besides opposing to it, the Defendants invoke three objections (i) the illegitimacy of the Claimants, (ii) the argument that the act performed by Banco de Portugal cannot be challenged and (iii) the material incompetence of the Court. The opponent part invoked the issue of passive illegitimacy since Novo Banco was not notified as an opponent party.

The Claimants replied to the arguments presented by the Defendants and to the arguments presented by the opponent party. After the presentation of the arguments, Banco de Portugal attached to the proceedings what it called an evidence process (allegedly in compliance with the law) but the majority of the documents delivered were truncated in such a way that neither the Court nor the Claimants are able to get an adequate knowledge thereon. That issue was already raised in the proceedings (requesting the Court to order Banco de Portugal to deliver a true evidence process) but no decision thereon has been made yet.

Currently, the proceedings is prepared for confirmation of the decision accepting the formalities of right of action (with the making of a decision on the specific objections invoked). In case the judge considers that Novo Banco is an opponent party, the judge must start by issuing a pre-confirmation order to request the Claimants to identify it. Afterwards that Bank will be notified to presents its opposition arguments.

10. As announced, in 2012 the Bank issued subordinated debt securities in the amount of Euros 3,000 million, convertible into capital in contingency situations (CoCos), which were subscribed by the Portuguese State and which qualify as Tier I. If the amortization of this outstanding amount does not occur until 30 June 2017, the unamortized securities will be converted into (ordinary) shares, under conditions established by law. Also, under the context of timely published information in this respect, the restructuring plan approved by the European authorities provided for a set of commitments, including those relating to the repayment schedule of these instruments, which could require the Bank to adopt measures with adverse impact on its activity, financial condition and results of operations.

Until 31 December 2016, Euros 2,300 million of the CoCos were reimbursed and, on 9 February 2017, Banco Comercial Português, S.A., reimbursed the remaining Euros 700 million to the Portuguese State. This reimbursement, which marks the return to the normalization of BCP's activity, had previously been approved by the European Central Bank, subject to the success of the capital increase that BCP concluded on that date.

The commitments of the Restructuring Plan ceased on 31 December 2017 with the end of the transition period, following the full reimbursement of the CoCos in anticipation of the defined schedule, and the European Commission confirmed in March 2018 that the Restructuring Plan had been successfully completed and that the monitoring of the commitments contained therein had been closed.

11. On 31 December 2013, a Memorandum of Understanding was signed with the Trade Unions to implement a temporary adjustment process, which will allow BCP to reach the targets agreed by the EC with the Portuguese State to reduce staff costs. This agreement, which entered into force on 1 July 2014, in addition to reducing the remuneration, suspends the promotions, progressions and future diuturnities that should be paid by the end of 2017. This agreement also foresees that, as long as there are distributable profits and the General Meeting so decides, part of the profits to be attributed to employees as compensation for this. This compensation may occur in a phased manner and does not constitute an acquired right. In the current year, as the result of the proposal for the application of results, it will already be proposed to the General Meeting to allocate a budget for this purpose.

In the last week of 2016, the negotiation that had been held since October 2016 with some labour unions was completed with the objective of reviewing the Collective Labour Agreement ("CLA"), whose main objective was the Bank's ability to maintain adequately the evolution of short-term staff costs with the lowest possible impact on employees' lives. This revision of the CLA, which has been in force since February 2017, covered several matters, among which the most relevant are (i) the commitment to anticipate, by July 2017, the salary replacement that was scheduled for January 2018 and (ii) to raise the retirement age in order to bring it into line with that of Social Security, which will make it possible to strengthen the sustainability of pension funds.

With the implementation of the Restructuring Plan, the Bank was able to anticipate the full repayment of public funding in February 2017 and for this reason, the Board of Directors decided to bring forward by the end of the transitional period of the wage adjustment to July 2017.

12. The Bank was subject to tax inspections for the years up to 2015. As a result of the inspections in question, corrections were made by the tax authorities, arising from the different interpretation of some tax rules. The main impact of these corrections occurred in the case of IRC in terms of the tax loss carry forwards and, in the case of VAT, in the calculation of the tax deduction pro rata used for the purpose of determining the amount of deductible VAT. The additional liquidations / corrections made by the tax administration were mostly object of contestation by administrative and / or judicial.

The Bank recorded provisions or deferred tax liabilities at the amount considered adequate to offset the tax or tax loss carry forwards, as well as the contingencies related to the fiscal years not yet reviewed by the tax administration.

13. Banco Comercial Português, S.A. filed in 2013 a lawsuit against Mr. Jorge Jardim Gonçalves, his wife and Ocidental – Companhia de Seguros de Vida, S.A., requesting mainly that the following be recognized: (a) that the amount of the retirement instalments of the former director, to be paid by the Bank, cannot exceed the highest fixed remuneration earned by the directors exercising functions in the Bank at any moment; (b) that the former director cannot maintain, at the Bank's expenses, the benefits he had when still in active functions; and (c) that the wife of the former director cannot benefit from a survival lifelong pension paid by the Bank in case of death of the former director, under conditions different from the ones foreseen for the majority of the Bank's employees.

After several procedural extraordinary events, on 27 January 2019, the Court issued a new sentence - which fully reproduces the previous one issued on 25 May 2018 - considering: (i) rejected the request made by the Bank consisting in the reduction of the pensions paid and to be paid to the first defendant Mr. Jorge Jardim Gonçalves, (ii) rejected the request for the nullity of the eventual future survival pension of the second defendant; (iii) partially accepted the counter-claim made by the defendant Mr. Jorge Jardim Gonçalves, sentencing the Bank to pay him the amount of Euros 2,124,923.97, as reimbursement of the expenses regarding the use of a car with driver and private security until June 2016, and also those that, on this regard, he paid since that date or pays in the future, in the amount that comes to be settled, expenses which would be part of his retirement regime, plus default interests accounted at the legal rate of 4% per year since the date of the reimbursement request up to their effective and full payment.

BCP appealed the sentence to the Tribunal da Relação de Lisboa (Appellate Court) requesting that the same be revoked and replaced by a decision accepting all the requests presented by the Bank. The Bank considers that the Court decided incorrectly in what regards evidence, namely regarding the relevant legal issues, and that the appeal has good chances of success, namely because, concerning the amounts received by the former director, the sentence upholds an original interpretation of the limit of nr. 2 of article 402 of the Companies Code (CC), going against all court decisions issued by superior courts and most of all the prior doctrine on these issues.

51. Recently issued accounting standards

1- The recently issued accounting standards and interpretations that came into force in 2018 are as follows:

At the date of approval of these financial statements, the following accounting standards, interpretations, amendments and revisions were endorsed by the European Union with mandatory application for the financial year of the Bank started on 1 January 2018:

IFRS 9 - Financial instruments

This standard is included in the draft revision of IAS 39 and establishes the new requirements regarding the classification and measurement of financial assets and liabilities, the methodology for calculating impairment and for the application of hedge accounting rules.

IFRS 9 - Financial Instruments was endorsed by EU in November 2016 and come into force for periods beginning on or after 1 January 2018. IFRS 9 replace IAS 39 - Financial Instruments: Recognition and Measurement and provide new requirements in accounting for financial instruments with significant changes specifically regarding impairment requirements.

The requirements presented by IFRS 9 are generally applied retrospectively by adjusting the opening balance sheet at the date of initial application (1 January 2018), as detailed in note 52.

Amendment to IFRS 9: Prepayment features with negative clearing (applicable in the European Union for years beginning on or after 1 January 2019):

This amendment allows financial assets with contractual conditions which, in their early amortization, allow the payment of a considerable amount by the creditor, can be measured at amortized cost or at fair value through reserves (depending on the business model), since that: (i) on the date of the initial recognition of the asset, the fair value of the early amortization component is insignificant; and (ii) the possibility of negative compensation in the early amortization is the only reason for the asset in question not to be considered as an instrument that only includes payments of principal and interest.

The Bank applied IFRS 9 and early adopted the amendment to IFRS 9 in the period beginning on 1 January 2018, as note 52.

IFRS 15 - Revenue from contracts with customers

This standard introduces a principles-based revenue recognition framework based on a model to be applied to all contracts entered into with clients, replacing IAS 18 - Revenue, IAS 11 - Construction contracts; IFRIC 13 - Loyalty programs; IFRIC 15 - Agreements for the construction of real estate; IFRIC 18 - Transfers of Assets from Customers and SIC 31 - Revenue - Barter transactions involving advertising services.

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