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.

Amendments to IFRS 15 - Revenue from contracts with customers

These amendments introduce several clarifications in the standard in order to eliminate the possibility of divergent interpretations of various topics.

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

IFRIC 22 - Foreign currency transactions and down payments

This interpretation establishes the date of the initial recognition of the advance or deferred income as the date of the transaction for the purpose of determining the exchange rate of the recognition of the revenue.

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

Amendments to IAS 40 - Transfers of investment property

These amendments clarify that a change in classification from or to investment property should only be made when there is evidence of a change in the use of the asset.

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

Amendments to IFRS 2 - Share-based payments

These amendments introduce various clarifications in the standard related to: (i) recording cash settled share-based payment transactions; (ii) recording changes in share-based payment transactions (from cash settled to settled with equity instruments); (iii) the classification of transactions with cleared securities.

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

Improvements to international financial reporting standards (cycle 2014-2016)

These improvements involve the clarification of some aspects related to: IFRS 1 - First-time adoption of international financial reporting standards: eliminates some short-term exemptions; IFRS 12 - Disclosure of interests in other entities: clarifies the scope of the standard for its application to interests classified as held for sale or held for distribution under IFRS 5; IAS 28 - Investments in associates and joint ventures: introduces clarifications on the fair value measurement by results of investments in associates or joint ventures held by venture capital companies or by investment funds.

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

2 - Standards, interpretations, amendments and revisions that will take effect in future exercises

The following standards, interpretations, amendments and revisions, with mandatory application in future financial years, have been endorsed by the European Union until the date of approval of these financial statements:

IFRIC 23 - Uncertainties in the treatment of income tax (applicable in the European Union for years beginning on or after 1 January 2019)

This interpretation provides guidance on the determination of taxable income, tax bases, tax losses to be reported, tax credits to be used and tax rates in scenarios of uncertainty regarding the treatment of income tax.

The Bank does not anticipate material impact on the application of this interpretation in its financial statements.

IFRS 16 - Leases (applicable in the European Union to annual periods beginning on or after 1 January 2019)

IFRS 16 was approved by EU in October 2017 and enters into force in the periods starting on or after 1 January 2019. Its early application is permitted through the fulfilment of certain requirements.

This standard replaces IAS 17 – Leases and establishes the new requirements regarding the scope, classification/recognition and measurement of leases. The Bank will apply the principles set out in IFRS 16 at the beginning of 2019 and, after a preliminary assessment, the following impacts are expected:

- from the lessor's perspective, leases will continue to be classified as finance leases or operating leases, not being expected substantial changes for the Bank compared to which was already defined in IAS 17;
- from the lessee's perspective, the standard defines a single model of accounting for lease contracts, which results in the recognition of a right-of-use asset and a lease liability for all leases, except for those which the lease term ends within 12 months or for those which the underlying asset is of low value and, in these cases, the lessee may opt for the exemption from recognition under IFRS 16, and shall recognise the lease payments associated with those leases as an expense.

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

Lease definition

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

Impacts from the lessee 's perspective

The Bank will recognise for all leases, except for those with a term under 12 months or for low value underlying asset leases:

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

Lease payments shall be discounted at the interest rate implicit in the lease, if that rate is easily determinable. If not, the lessee's incremental borrowing rate shall be used. Subsequently, lease payments will be measured as follows:

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

Impact from the lessor's perspective

In accordance with IFRS 16, lessors will continue to classify leases as finance or operational leases, which does not imply significant changes to what is defined in IAS 17. Thus, it is not expected that the lessor will make transition adjustments resulting from the adoption of IFRS 16. The Bank does not anticipate any impact on the application of this change in its financial statements.

Transition

On 1 January 2019, the Bank carried out a review of the existing contracts at this date and applied the practical expedient provided in IFRS 16, i.e., the standard was only applied to contracts previously identified as leases in accordance with IAS 17 – Leases and IFRIC 4.

As proposed in IFRS 16, the Bank will apply this standard retrospectively, with its transition impacts being recognised on 1 January 2019. This way, comparative information will not be restated.

By applying the practical expedient provided on the transition to IFRS 16, the Bank will recognise a lease liability at the present value of the remaining lease payments, discounted at an incremental interest rate at the date of initial application and the underlying assets' right-to-use by the lease liability amount.

The following assumptions considered in the implementation of this standard were:

- lease term: this component was evaluated by categories of contracts, being each contract enforceable;
- discount rate: it was used the lessee 's incremental rate, which incorporates the risk-free yield curve (swap curve), plus Bank's risk spread, applied over the weighted average term of each lease contract;
- non-application of the standard to lease contracts with a term under 12 months, neither to leases of low value assets (up to Euros 5,000).

Given the conditions mentioned above, the Bank identified that the main lease contracts that will be covered by this standard are contracts on real estate (branches and central buildings) and on a residual number of vehicles. According to the preliminary analysis made, the Bank estimates that, by applying this new standard in January 2019, its total assets and liabilities will have an increased amount of Euros 160 million, approximately. The adoption of IFRS 16 will result in changes in the Amortisations and depreciations, Other administrative costs and Interest expense, but, on a net basis, these changes will not result in material impacts in the Income statements.

Amendment to IFRS 4: application of IFRS 9 - Financial instruments with IFRS 4 - Insurance contracts

This amendment provides guidance on the application of IFRS 4 together with IFRS 9. IFRS 4 will be replaced with the entry into force of IFRS 17.

Amendment to IAS 28: Long-term investments in associates and joint arrangements (applicable in the European Union for years beginning on or after 1 January 2019)

This amendment clarifies that IFRS 9 should be applied (including related impairment requirements) to investments in associates and joint arrangements when the equity method is not applied in their measurement.

Improvements to international financial reporting standards (cycle 2015-2017) - (applicable in the European Union for years beginning on or after 1 January 2019)

These improvements involve the clarification of some aspects related to: IFRS 3 - Concentration of business activities: it requires re-measurement of interests previously held when an entity obtains control over a subsidiary on which previously had joint control; IFRS 11 - Joint ventures: clarifies that there should be no remeasurement of interests previously held when an entity obtains joint control over a joint transaction; IAS 12 - Income Tax: clarifies that all tax consequences of dividends should be recorded in profit or loss, regardless of how the tax arises; IAS 23 - Borrowing costs: clarifies that the part of the loan directly related to the acquisition/construction of an asset, outstanding after the corresponding asset has gotten ready for the intended use, is, for the purpose of determining the capitalization rate, considered an integral part of the entity's general financing.

Amendment to IAS 19: Plan Amendment, Curtailment or Settlement (applicable in the European Union for years beginning on or after 1 January 2019)

If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

These standards, although endorsed by the European Union, were not adopted by the Bank in 2018, as their application is not yet mandatory.

3 - Standards, interpretations, amendments and revisions not yet adopted by the European Union

The following standards, interpretations, amendments and revisions, with mandatory application in future financial years, have not been endorsed by the European Union until the date of approval of these financial statements, and therefore not applied by the Bank:

IFRS 17 - Insurance Contracts (applicable for years beginning on or after 1 January 2021)

This standard establishes, for insurance contracts within its scope, the principles for their recognition, measurement, presentation and disclosure. This standard replaces IFRS 4 - Insurance Contracts.

Amendments to References to the Conceptual Framework in IFRS Standards (applicable for years beginning on or after 1 January 2020)

Corresponds to amendments in several standards (IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC 32) related to references to the Conceptual Framework revised in March 2018. The revised Conceptual Framework includes revised definitions of an asset and liability and new guidance on measurement, derecognition, presentation and disclosure.

Amendment to IFRS 3: Definition of a Business (applicable for years beginning on or after 1 January 2020)

Corresponds to amendments in the definition of a business and clarifies the identification of the acquisition of a business or an acquired set of activities and assets. The revised definition also clarifies the definition of a business output by focusing on goods and services provided to customers. The changes also add guidance and illustrative examples to help entities assess an acquisition of a business.

Amendments to IAS 1 and IAS 8: Definition of material (applicable for years beginning on or after 1 January 2020)

Corresponds to amendments to clarify the definition of material in IAS 1. The definition of material in IAS 8 now refers to IAS 1. The amendment changes the definition of material in other standards to ensure consistency. The information is material if its omission, distortion or concealment is reasonably expected to influence the decisions of the primary users of the financial statements based on the financial statements.

Regarding these standards and interpretations, issued by the IASB but not yet endorsed by the European Union, it is not estimated that their adoption will result in significant impacts on the Bank’s accompanying financial statements.