

In March 2019, BCP appealed the sentence to the Tribunal da Relação de Lisboa (Lisbon Court of Appeal) requesting that the same is revoked and replaced by a decision accepting all the requests presented by the Bank. The Bank considers that the court decided incorrectly regarding evidence and 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 article 402, no.2, of the Commercial Companies Code (CCC), going against all court decisions issued by superior courts and most of all the prior doctrine on these issues.

On 5 March 2020, Lisbon Court of Appeal abrogated the court of first instance's decision, upholding the Bank's legal action and declaring the non-existence of the right of the Defendant Mr. Jardim Gonçalves to receive the retirement supplements paid by Ocidental Vida, condemning the Defendant to return to the Bank the amounts received monthly in excess of the limits provided for in Article 402 (2) of the Commercial Companies Code, as from the date of retirement; as well as enacted the partial nullity of the insurance contracts titled by the capitalisation and lifelong pension policy, sentencing Ocidental Vida to return to the Bank the amounts paid by the latter to support the retirement supplements of Mr. Jardim Gonçalves. Finally, the court dismissed the counterclaim, acquitting the Bank of the request. There may be an appeal to the Supreme Court of Justice for this last decision.

57. Recently issued accounting standards

1- Recently issued accounting standards and interpretations that came into force in 2019

At the date of approval of these financial statements, the following accounting standards, interpretations, amendments and revisions were endorsed by the European Union (EU) with mandatory application for the financial year of the Group started on 1 January 2019:

Amendment to IFRS 9: Prepayment features with negative clearing

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 Group applied IFRS 9 and early adopted the amendment to IFRS 9 in the period beginning on 1 January 2018, as note 58.

IFRIC 23 – Uncertainties in the treatment of income tax

This interpretation clarifies what are the recognition and measurement requirements that must be adopted in scenarios of uncertainty regarding the treatment of income tax in accordance with IAS 12. It is applicable to all the inherent aspects of the treatment of income tax, such as the determination of taxable income, tax losses to be reported, tax bases, tax credits to be used and tax rates.

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

IFRS 16 – Leases

IFRS 16 was approved by the EU in October 2017 and entered 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 Group applied the principles set out in IFRS 16 at the beginning of 2019 with the following impacts:

- from the lessor's perspective, leases continue to be classified as finance leases or operating leases, with no substantial changes for the Group 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 Group chose not to apply this standard to short-term lease contracts, i.e., contracts with a term shorter than or equal to one year, and to lease contracts in which the underlying asset's value is below Euros 5,000. Additionally, this standard was not applied to leases of intangible assets.

Lease definition

The new lease definition focusses on the control of the identified asset, establishing that a contract constitutes or contains a lease if it carries the right to control the use of an identified asset, i.e., the right to obtain substantially all 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 Group will recognise for all leases, except for those with a term under 12 months or for leases of low-value assets:

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

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

Subsequently, lease payments are measured as follows:

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

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

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

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

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

The implementation of this standard implies changes in the Group's financial statements, as referred in note 59, namely:

- in the consolidated income statement:
 - (i) recording in "Interest Income" the interest expenses related to lease liabilities;
 - (ii) recording in "Other administrative costs" the amounts related to short-term lease contracts and to lease contracts of low-value assets; and,
 - (iii) recording in "Amortisations and depreciations" the depreciation expenses related to right-to-use assets.
- in the consolidated balance sheet:
 - (i) recording in "Financial assets at amortised cost – Loans and advances to customers" the recognition of financial assets related to sublease operations measured accordingly to IFRS 9;
 - (ii) recording in "Other tangible assets" the recognition of right-to-use assets; and,
 - (iii) recording in "Other liabilities" the amount of recognised lease liabilities.
- in the consolidated statement of cash flows, the balance "Cash flows arising from operating activities – Payments (cash) to suppliers and employees" includes amounts related to short-term lease contracts and to lease contracts of low-value assets, and the balance "Cash flows arising from financing activities – Decrease in other sundry liabilities and non-controlling interests" includes amounts related to payments of lease liabilities' capital portions, as detailed in the consolidated statement of cash flows.

Impact from the lessor's perspective

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

Transition

On 1 January 2019, the Group 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 Group applied this standard retrospectively, with its transition impacts being recognised on 1 January 2019. This way, comparative information was not restated.

By applying the practical expedient provided on the transition to IFRS 16, the Group recognised 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 Group'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 Group identified that the main lease contracts covered by this standard were contracts on real estate (branches and central buildings) and on a residual number of vehicles, with the impacts arising from the implementation of IFRS 16 with reference to 1 January 2019 detailed in note 59. These changes did not result in material impacts in the Income statements.

Amendment to IAS 28: Long-term interests in associates and joint arrangements

This amendment clarifies that IFRS 9 (including its respective requirements related to impairment) is applicable for long-term interests in associates and joint arrangements that are part of the existing net investment in an associate or joint venture, but to which the equity method is not applied in their measurement.

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

Improvements to international financial reporting standards (cycle 2015-2017)

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.

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

Amendment to IAS 19: Plan amendment, curtailment or settlement

This amendment defines that, if an amendment, curtailment or settlement of the defined benefit plan occurs, it is mandatory to use the assumptions assumed on the moment of the remeasurement to determine the current service cost and the net interest for the remaining period after the remeasurement. In addition, this amendment includes changes to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding asset ceiling.

There were no material impacts on the application of this amendment in the Group's financial 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.

The Group does not anticipate material impact on the application of this amendment in its 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:

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.

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.

These standards, although endorsed by the European Union, were not adopted by the Group in 2019, as their application is not mandatory yet.

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

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, have not been applied by the Group:

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.

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 IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture (applicable for years beginning on or after 1 January 2016)

These amendments clarify a conflict between the requirements in IAS 28 and those in IFRS 10, being the aim of its implementation that, in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. This way, these amendments define that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not) and, on the other hand, a partial gain or loss is recognized when a transaction involves assets that do not constitute a business (even if these assets are housed in a subsidiary).

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest rate benchmark reform (applicable for years beginning on or after 1 January 2020)

Corresponds to amendments to IFRS 9, IAS 39 and IFRS 7 relative to the interest rate benchmark reform (known as 'IBOR reform'), with the purpose of diminishing the potential impact of reference interest rate changes in financial reporting, namely in hedge accounting.

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