

## 52. Application of IFRS 16 - Leases

As described in note 1 A. Basis of presentation and accounting policy 1 H, the Bank adopted IFRS 16 - Lease transactions on 1 January 2019, replacing IAS 17 - Lease transactions, which was in force until 31 December 2018. IFRS 16 was approved by EU in October 2017. The Bank did not adopt any of the requirements of IFRS 16 in prior periods.

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

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

The Bank choose 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, the option not to apply this standard to leases of intangible assets was also used.

### 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 applied this standard retrospectively, with its transition impacts recognised on 1 January 2019. This way, comparative information has not been restated.

By applying the practical expedient provided on the transition to IFRS 16, the Bank 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.

For contracts in which a sublease is identified, the Bank 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 a financial asset related to the sublease.

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. In the evaluation of the enforceability, the particular clauses of the contracts as well as the current legislation regarding the urban lease (Arrendamento Urbano) are taken into consideration;
- 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. Regardless of the type of asset, the discount rate was calculated in the same way;
- 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 covered by this standard are contracts on real estate (branches and central buildings) and on a residual number of vehicles.

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

- in income statement:
  - (i) in the net interest income, the record of interest expenses related to lease liabilities, as referred to in note 2. Net interest income, balance Interest and similar charges - Interest on leases;
  - (ii) in Other Administrative Expenses, the record of the amounts relating to short-term lease contracts and low value assets lease contracts, as referred to in note 8. Other administrative expenses, balance Rents and leases; and
  - (iii) in Amortisations, the record of depreciation costs of right-of-use assets, as referred in note 9. Amortisations and depreciations, balance item Right-of-use.
- in the balance sheet:
  - (i) in Other tangible assets, the recognition of right-of-use assets, as referred in note 25. Other tangible assets, balance Right of use; and
  - (ii) in Other liabilities, the record of the amount of recognised lease liabilities, as referred in note 36. Other liabilities, balance Rents to pay.

- In the cash flow statement, Cash flows arising from operating activities - Payments (cash) to suppliers and employees includes amounts related to short-term leases and to leases of low-value assets. The balance Increase / (Decrease) in other sundry liabilities includes amounts relating to payments of capital portions of lease liabilities, as detailed in the Separate statement of cash flows.

Until 31 December 2018, and according to IAS 17, every payment of operating leases was presented as Cash flows arising from operating activities. Following the IFRS 16's adoption, Cash flows arising from operating activities changed to Cash flows arising from financing activities in the amount of Euros 9,381,000. IFRS 16's adoption didn't cause an impact in the Bank's net cash flows.

The reconciliation between the balance sheets of 31 December 2018 and 1 January 2019, according to IFRS 16, is detailed as following:

	(Thousands of euros)		
	IAS 17 31 Dec 2018	Impact of IFRS 16	IFRS 16 1 Jan 2019
<b>ASSETS</b>			
Cash and deposits at Central Banks	1,682,922	–	1,682,922
Loans and advances to credit institutions repayable on demand	186,477	–	186,477
Financial assets at amortised cost			
Loans and advances to credit institutions	2,044,730	–	2,044,730
Loans and advances to customers	30,988,338	–	30,988,338
Debt securities	2,641,291	–	2,641,291
Financial assets at fair value through profit or loss			
Financial assets held for trading	695,752	–	695,752
Financial assets not held for trading mandatorily at fair value through profit or loss	1,589,899	–	1,589,899
Financial assets designated at fair value through profit or loss	33,034	–	33,034
Financial assets at fair value through other comprehensive income	6,996,892	–	6,996,892
Hedging derivatives	92,891	–	92,891
Investments in associated companies	3,147,973	–	3,147,973
Non-current assets held for sale	1,252,654	–	1,252,654
Other tangible assets	220,171	160,644	380,815
Intangible assets	29,683	–	29,683
Current tax assets	18,375	–	18,375
Deferred tax assets	2,782,536	–	2,782,536
Other assets	946,549	–	946,549
<b>TOTAL ASSETS</b>	<b>55,350,167</b>	<b>160,644</b>	<b>55,510,811</b>
<b>LIABILITIES</b>			
Financial liabilities at amortised cost			
Resources from credit institutions	8,372,537	–	8,372,537
Resources from customers	34,217,917	–	34,217,917
Non subordinated debt securities issued	1,198,767	–	1,198,767
Subordinated debt	825,624	–	825,624
Financial liabilities at fair value through profit or loss			
Financial liabilities held for trading	295,695	–	295,695
Financial liabilities at fair value through profit or loss	3,603,647	–	3,603,647
Hedging derivatives	68,486	–	68,486
Provisions	313,868	–	313,868
Current tax liabilities	1,620	–	1,620
Other liabilities	860,843	160,644	1,021,487
<b>TOTAL LIABILITIES</b>	<b>49,759,004</b>	<b>160,644</b>	<b>49,919,648</b>
<b>EQUITY</b>			
Share capital	4,725,000	–	4,725,000
Share premium	16,471	–	16,471
Other equity instruments	2,922	–	2,922
Legal and statutory reserves	264,608	–	264,608
Reserves and retained earnings	522,895	–	522,895
Net income for the year	59,267	–	59,267
<b>TOTAL EQUITY</b>	<b>5,591,163</b>	<b>–</b>	<b>5,591,163</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>55,350,167</b>	<b>160,644</b>	<b>55,510,811</b>