

### **Amendment to IFRS 3: Reference to the conceptual framework (applicable for years beginning on or after 1 January 2022)**

This amendment aims to update IFRS 3 so that it corresponds to the conceptual framework of 2018, not occurring significant changes in the requirements of this standard.

### **Amendment to IAS 16: Property, Plant and Equipment - Proceeds before intended use (applicable for years beginning on or after 1 January 2022)**

This amendment prohibits an entity from deducting from the cost of a property, plant or equipment any proceeds arising from the sale of items produced while the entity prepares the asset to operate as intended, at the location and necessary conditions. The entity shall recognize any proceeds arising from those sales and the respective costs of production in the income statement.

### **Amendment to IAS 37: Onerous contracts - Cost of fulfilling a contract (applicable for years beginning on or after 1 January 2022)**

This amendment aims to clarify what costs an entity should consider as related to the fulfilling of a contract when assessing whether a contract is onerous. It also specifies that the costs of fulfilling a contract correspond only to the costs directly related to it, which may take the form of incremental costs or of an allocation of other costs directly related to the fulfilling of the contract.

### **Improvements to international financial reporting standards (cycle 2018-2020) (applicable for years beginning on or after 1 January 2022)**

These improvements comprise the clarification of some aspects related to: IFRS 1 - First-time adoption of International Financial Reporting Standards: allows a subsidiary that adopts IFRS for the first time to measure cumulative translation differences based on the amounts presented in the consolidated financial statements of its parent company, according to the transition date of the parent company to IFRS; IFRS 9 - Financial instruments: clarifies that, when assessing the derecognition of a financial liability, an entity should only consider fees paid or received between the entity and the lender, including fees paid or received by one on behalf of the other; IFRS 16 - Leases: amendment to illustrative example 13 presented in the standard, in order to avoid the emergence of doubts regarding the treatment of lease incentives; IAS 41 - Agriculture: removal of the requirement to exclude taxation cash flows when measuring the fair value of a biological asset, thus ensuring consistency with IFRS 13 - Fair value measurement.

## **59. Application of IFRS 16 - Leases**

As described in note 1 A. Basis of presentation and accounting policy 1 H, the Group 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 Group 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 Group 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 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 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 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.

For contracts in which a sublease is identified, 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 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 are taken into consideration;
- 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. 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 Group 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 Group's financial statements, namely:

- in the consolidated income statement:
  - (i) in 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 consolidated balance sheet:
  - (i) in Financial assets at amortised cost - Loans and advances to customers, the recognition of financial assets related to sublease operations measured in accordance with IFRS 9, as referred to in note 21. Loans and advances to customers, balance Finance leases;
  - (ii) in Other tangible assets, the recognition of right-of-use assets, as referred in note 28. Other tangible assets, balance Right of use; and
  - (iii) in Other liabilities, the record of the amount of recognised lease liabilities, as referred in note 39. 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 Decrease in other sundry liabilities and non-controlling interests includes amounts relating to payments of capital portions of lease liabilities, as detailed in the Consolidated 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 25,733,000. IFRS 16's adoption didn't cause an impact in the Group'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	2,753,839	–	2,753,839
Loans and advances to credit institutions repayable on demand	326,707	–	326,707
Financial assets at amortised cost			
Loans and advances to credit institutions	890,033	–	890,033
Loans and advances to customers	45,560,926	9,835	45,570,761
Debt securities	3,375,014	–	3,375,014
Financial assets at fair value through profit or loss			
Financial assets held for trading	870,454	–	870,454
Financial assets not held for trading mandatorily at fair value through profit or loss	1,404,684	–	1,404,684
Financial assets designated at fair value through profit or loss	33,034	–	33,034
Financial assets at fair value through other comprehensive income	13,845,625	–	13,845,625
Assets with repurchase agreement	58,252	–	58,252
Hedging derivatives	123,054	–	123,054
Investments in associated companies	405,082	–	405,082
Non-current assets held for sale	1,868,458	–	1,868,458
Investment property	11,058	–	11,058
Other tangible assets	461,276	249,416	710,692
Goodwill and intangible assets	174,395	–	174,395
Current tax assets	32,712	–	32,712
Deferred tax assets	2,916,630	–	2,916,630
Other assets	811,816	–	811,816
<b>TOTAL ASSETS</b>	<b>75,923,049</b>	<b>259,251</b>	<b>76,182,300</b>
<b>LIABILITIES</b>			
Financial liabilities at amortised cost			
Resources from credit institutions	7,752,796	–	7,752,796
Resources from customers	52,664,687	–	52,664,687
Non subordinated debt securities issued	1,686,087	–	1,686,087
Subordinated debt	1,072,105	–	1,072,105
Financial liabilities at fair value through profit or loss			
Financial liabilities held for trading	327,008	–	327,008
Financial liabilities at fair value through profit or loss	3,603,647	–	3,603,647
Hedging derivatives	177,900	–	177,900
Provisions	350,832	–	350,832
Current tax liabilities	18,547	–	18,547
Deferred tax liabilities	5,460	–	5,460
Other liabilities	1,300,074	259,251	1,559,325
<b>TOTAL LIABILITIES</b>	<b>68,959,143</b>	<b>259,251</b>	<b>69,218,394</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
Treasury shares	(74)	–	(74)
Reserves and retained earnings	470,481	–	470,481
Net income for the year attributable to Bank's Shareholders	301,065	–	301,065
<b>TOTAL EQUITY ATTRIBUTABLE TO BANK'S SHAREHOLDERS</b>	<b>5,780,473</b>	<b>–</b>	<b>5,780,473</b>
Non-controlling interests	1,183,433	–	1,183,433
<b>TOTAL EQUITY</b>	<b>6,963,906</b>	<b>–</b>	<b>6,963,906</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>75,923,049</b>	<b>259,251</b>	<b>76,182,300</b>