Best – Banco Electrónico de Serviço Total, S.A.

Annual Report 2015

BEST – Banco Electrónico de Serviço Total, S.A.

Report and Accounts 2015

INDEX:

Management Report – 2015

Banco Best established in 2001, has a wide range of products and services of a universal bank, supporting its customers in the identification of savings solutions and available investment opportunities at each moment, as well as in all aspects related to their financing needs and management. With a strong technological nature relying on an open architecture, Banco Best also offers a set of services that allows customers to have the best of the new information technologies on internet, namely a faster and more efficient treatment of processes and transactions and the access to innovative services that smooth the relationship between the customer and the Bank.

The bank business strategy is therefore focused on serving the investment needs of private customer's market segment that have a need for a more sophisticated and diversified financial services, but at the same time covering their financial needs. Clients with legal natures other than the foregoing, such as companies and foundations, can also benefit from this business strategy.

The bank has a share capital of Euros 63 million and until 13 November 2015 was represented with a shareholder structure composed by NOVO BANCO, holding 75% of its share capital and Saxo Bank A/S, a Danish bank, holding the remaining 25%. In November, NOVO BANCO exchanged its shareholding position with Saxo Bank, with BEST now being 100% held by NOVO BANCO.

Banco Best is headquartered in Lisbon, Praça Marquês de Pombal and does not have ordinary branches, therefore its financial products and services are provided on a large number of channels such as:

- Internet, through *Website* (www.bancobest.pt) and *Mobile Banking*;
- Investment Centers located in Lisbon, Oporto, Braga, Aveiro, Leiria, Évora and Faro, that have a *Personal Financial Advisors (PFA)* network;
- Contact Center *(Phone Banking)*.

In addition, Banco Best also has a network of promoters and financial agents, called *Business Introducers* (BI's) and *Financial Advisors* (FA's), respectively, that work as service providers and according to the legal dispositions on the subject. Some of them have their own offices identified as "FA Offices" where they can develop their activity as per the suitable legal dispositions.

I – Economical Overview

According to World Bank, the world economy registered a growth of 2,4% in 2015, 0,2 pp below the previous year (GDP growth worldwide of 2.6% in 2014).

As it was observed in 2014, one conditioner of the world´s economy growth in 2015 was the fact that there is still a difference in the evolution process between developed and emerging economies.

Whilst developed economies revealed a moderate growth based on the recovery of the domestic demand and on the improvement of the financing conditions to companies and households, emerging economies and developing countries revealed growth rates below the ones observed in the previous year, reinforcing the downward trend observed over the past 5 years. Despite the fact that emerging markets have dominated the growth of the world economy in the first 7 years of the XXI century, after the financial crisis of 2008 and the subsequent Great Recession, one have witnessed a slowdown in many emerging economies. Moreover, one should highlight the fact that 2015 registered a slowdown in economic activity simultaneously in China, Russia, Brazil and South Africa. The continuous fall on commodity prices, particularly of oil, which declined by 30% in 2015 - after having fallen more than 50% in the 2nd half of 2014 - has conditioned the activity of emerging commodity exporting countries that, on average, stagnated in 2015.

In 2015, the United States were once again the engine of world growth, registering a growth of 2.4% in its activity (maintaining the same growth rate of 2014). The dynamism of the labour market in the US economy contributed positively to the strength of domestic consumption, and mitigated, in part, the negative impact of the slowdown in exports due to the 10% appreciation of the dollar against the currency basket of the major trading partners of the USA (according to the Trade Weighted US Dollar Index Broad).

The European Union (EU28), despite the occurrence of periods of increased vulnerability in some Member States, recorded an annual growth of 1.9% in 2015; an increase of 0.5 percentage points over that of the previous year. Considering the Eurozone (EA19), the economic activity showed a growth of 1.6% which, although modest, was higher than the 0.9% growth recorded in 2014. According to Eurostat, the Eurozone, in the last two quarters of the year revealed a slower pace in the quarter-on-quarter growth (only + 0.3% in each quarter), whilst in the first half of the year, the GDP quarter-on-quarter posted higher growth rates, in particular in the first and second quarter where growth rates were + 0.5% and + 0.4%, respectively.

Having registered the lowest growth rate of the past 25 years, China grew 6.9% in 2015, an increase, in absolute terms, of USD 700 billion in the Chinese Gross Domestic Product. Undergoing a sectorial rebalancing of its economy, China is going through a transition period in which the earlier exuberance of the manufacturing sector is tending to give way to dynamism in the services sector. In this sense, in 2015, the negative impacts resulting from the lower industry activity and the decrease in the construction sector, were offset by the expansion of household consumption and the increase in the Services activity. The Chinese economy's adjustment process will tend to reveal growth rates lower than those that have been observed in recent years, it being expected, according to market consensus that the economy will grow at the annual rate of 6.5% up till the end of 2017.

As for Portugal, economic activity expanded by 1.5% in 2015, 0.6 percentage points more than the figures recorded in 2014. Domestic demand was the main contributor to GDP growth in 2015, representing an increase of 2.5 percentage points (+0.3 percentage points compared to 2014), following the increase in private and public consumption. The growth of exports (+ 5.1% on 2014) and the lower impact of imports due to declining energy prices, has permitted an improvement in the contribution of Net External Demand to the GDP determination, representing a value of -1.0 pp.

Regarding developments in the financial markets in 2015, the continued decline in commodity prices is to be noted. The Bloomberg Commodity Index - which includes the main Food, Energy and Precious and Industrial Metals raw materials - recorded a new annual decrease, by devaluing 24% in 2015, and even presenting values similar to those of 1999. In the matter of raw materials, given the collateral side effects on inflation in the major economies, special attention should be paid to the evolution of oil, which, once again, recorded an annual devaluation. After having fallen 45% in the previous year, 2015 saw a further decline, of 30%, in the price of "black gold" on the international markets. In turn, the reduction of energy costs gave rise to concerns of deflation risk, placing, once again, the Central Banks at the centre of things.

The year 2015 was also marked by the beginning of the public debt purchase program (PSPP - public sector purchase program) of the European Central Bank, commonly referred to as Quantitative Easing (QE). Initially scheduled to run until September 2016 – subsequently extended to March 2017 - the government bond purchase program implemented by the Central Bank, joined the private sector asset purchase program (asset-backed securities purchase program - ABSPP - started at the end of 2014) and the covered bond purchase program (covered bond purchase program - CBPP3). By implementing these unconventional programs, the ECB sought to promote a monetary stimulus in the economies of the Eurozone, seeking to streamline the access to cheaper funding for most economic agents, particularly for non-financial companies and households, primarily aiming to increase the inflation rate to levels of around 2%.

In addition, in 2015 the ECB again cut deposit rates, having reduced by 0.10 percentage points the interest rate associated with the Deposit Facility, with this rate closing the year at the historical low of -0.3%.

Following the European Central Bank's efforts to promote unconventional expansionist monetary policies, the money market interest rates and the implicit internal rates of return on the government bonds of the large majority of the Member States of the Eurozone hit historic lows in 2015. In a first instance, one witnessed the decrease in the risk premium associated with Portuguese public debt, with the implicit interest rates on 10-year sovereign bonds (TBs maturing in 2025) reaching a historic low of 1.5% during the month of March. As early as April, it was the turn of the interest rates on 10-year German debt (Bund) to reach their lowest level ever, being traded in the secondary market with an implicit yield-to-maturity of 0.07%. Later, in a second instance, it was possible to observe negative interest rates in the money market for the first time in history, with the Euribor 6-months interest rates closing the year at -0.04% (a decrease of 0.21 pp from that observed at the end of 2014 for the Euribor 6-months).

The US Federal Reserve (FED) sought to resume normality in its monetary policy in 2015. After completing its Quantitative Easing program in October 2014, and in spite of the successive revisions of the expectations of market players, the FED finally increased its benchmark interest rate by 25 basis points. Thus, at the December 2015 meeting, for the first time since the financial crisis of 2008, the Federal Reserve raised interest rates. The dynamism of the US economic activity (annual GDP growth of 2.4%) and the substantial improvement in the labour market, where the unemployment rate reached 4.9%, enabled the Fed to signal the return of its monetary policy to normality, following the long periods of time of unprecedented liquidity injection into the American financial system.

In addition, the Bank of Japan continued its monetary expansion program - QQE, Quantitative and Qualitative Easing - reinforcing the downward trend of interest rates in the Japanese economy. In 2015, Japan's GDP grew by 0.53%, considering the increase in activity recorded in the first and third quarters.

Despite the significant increase in the volatility of the stock and bond markets throughout 2015, the stock index which comprises the 50 largest market capitalizations in the Eurozone - the Euro Stoxx 50 - recorded an annual appreciation of 3.85%. However, the Eurozone stock market revealed some divergence in geographical terms, with the 9.5% increase in the German stock index - the DAX 30 - contrasting with the 7.1% devaluation of the Spanish stock index - IBEX 35. It should be noted that the representative index of the Portuguese stock market - the PSI 20 - increased 10.7% in 2015.

The major US stock indexes closed the year with different performances. Whilst the Standard & Poor's 500 showed an annual devaluation of 0.7%, closing the year slightly negative, excluding the dividend component, the NASDAQ 100 index attained an appreciation in excess of 8% in 2015.

II – Operations in 2015

The annual results reveal a good performance in various business areas, such as the value of foreign investment funds deposited by Banco Best customers, which grew 15%, with the overall volume in investment funds exceeding Euros 1.15 billion. This dynamic highlights the independent character of the supply and the demand demonstrated by Customers for national risk uncorrelated assets in order to diversify their investment portfolios. In addition, Customer numbers increased by 3%, reaching 85,000. It should be pointed out that in the wholesale activity area (B2B), institutional Customers, namely international ones in which are included large banks, strengthened their relationship and activity, throughout the year 2015, in 16.8%, attaining a volume of Assets under custody of Banco Best of Euros 564 million.

The independence and solvency of Banco Best is evident from its activity and from the maintenance of its company name: BEST – Banco Eletrónico de Serviço Total, S.A., reinforcing the idea of turning the name into the very essence of the Bank and into its ubiquitous aspirational target.

Banco Best maintained, in 2015, a liquidity level in the balance sheet that is comfortable, despite a general environment of strong competition in the domestic banking market, by attracting stable customer funds. The combined effect of a 19% increase in the volume of customer deposits in terms of year-end figures, with an increase in the volume of credit (hereafter also “loans” or “loans and advances”) granted of 11%, resulted in an even more favourable transformation ratio of deposits to loans of 45%, maintaining the level controlled and substantially below the average values of the domestic banking sector.

In 2015, Banco Best maintained its leadership strategy in the innovative offering of financial products and services in Portugal. Of note was the launch of the 1st Mobile Banking App in Portugal with Touch ID, which allows Customers to log in with their fingerprints instead of using the traditional password. Besides this innovation, it launched the new app - Best Mobile, with multiple features, a totally new design, simplified and permitting an improved performance on all devices, providing a more dynamic and interactive experience.

During this period, it was also launched the Portfolio Selector, an interactive tool that makes it easy for Customers to make an autonomous choice of investment funds, selected from within different groups of categories and more commonly used themes.

Banco Best reinforced its policy of promoting financial literacy amongst investors, by realising various trading and asset management seminars. In addition, the Bank launched a new information space called Best Zoom, the result of an investment in the promotion of content considered relevant in function of the markets and financial issues in the spotlight. This new space, adapted to the new Internet trends, incorporates information access forms based on a multiplatform concept, focusing the narrative on the ability to observe, identify and address themes that may be more relevant in terms of investment alternatives.

In the investment funds area, the strategy to enlarge and diversify the offer of the management companies and investment funds was continued. Indeed, Banco Best currently handles the distribution of about 2,900 investment funds belonging to 57 management companies to the public in general, in addition to providing about 2,000 additional investment funds exclusively for the B2B institutional market. It should be highlighted that, in 2015, Portugal saw the launch of six new management companies, T. Rowe Price, Brown, Oddo, M&G, Aberdeen and Capital Group.

Also in the area of investment funds, we highlight the launch of the Portfolio Selector functionality, available on the Bank's website for customers and non-customers, aimed at simplifying the choice of investment fund portfolios by presenting three portfolios designed for three risk profiles, such portfolios being diversified over a number of assets and strategies that are embodied in various investment funds. Also of note are the presentations made in respect of investment funds at seminars conducted in Lisbon, Oporto and Coimbra, to customers and non-customers, which presented some investment ideas in the current market context. In a macroeconomic and financial environment that is moderately positive and presenting low returns on investments that are traditionally considered more conservative and that are linked to the evolution of interest rates, a natural migration was recorded in the type of investment funds that are more subscribed by customers, with various investment strategies in shares, mixed funds (asset allocation) and alternative management investment funds (such as, for example, Market Neutral or Long/Short) gaining a greater role.

In the component of insurance product marketing from an investment perspective, Banco Best recorded, in 2015, an increase of close to 40% in the volume of assets in capitalization insurance products, a growth essentially derived from the marketing of a new special series of fixed rate insurance products. In the component of unit linked type insurance, without guaranteed capital, the growth in asset volume exceeded 3%.

Regarding Portfolio Management Services, despite a context of some volatility, which marked the year 2015, a noteworthy and very significant positive performance in all five risk profiles was achieved. The good performances obtained from this Portfolio Management Services team, with more than 10 years, led to an increase in assets under management of around 19% in 2015.

As with the previous year, during 2015 the Bank also maintained the policy of the diversification of its business lines forming partnerships in the area of institutional customers, that are the object of a very specific offer of financial assets, namely investment funds, with a growth higher than 27% having been achieved in the volumes of investment funds of customers of the B2B area.

With regard to the Trading activity, despite the generally positive performance of the European stock markets, according to CMVM data, the volume of orders received for shares by the Financial Intermediaries registered in Portugal, in 2015, fell by 45% compared to the values transacted in 2014. In terms of execution markets, the steepest falls in trading volumes occurred on Euronext Lisbon (-50%), in the USA (-62%), Germany (-39%) and France (-46%). However, at Banco Best, given the higher comparative attractiveness revealed by Customers of investing in international markets, the stock trading volume, in 2015, exceeded Euros 794 million, with the annual decrease of 38% recorded being lower than the 45% decrease observed in the market, according to the Statistical Report on the activity of receiving orders on behalf of others, published by the CMVM for the year in question.

Also according to the above mentioned report, in 2015 the volume of orders received via the Internet (online segment) in the spot market recorded an annual decrease of 31.4%. In this business segment, Banco Best consolidated its market share above 8.0%. In terms of the Warrants market, Banco Best achieved a market share of over 15%, after a 19% growth in the volume of orders in this market segment in 2015.

In the online derivative segment, where Best’s activity derives from the partnerships established with Saxo Bank A/S, financial institution with registered office in Denmark and considered an entity of reference in this market segment, Banco Best recorded a market share of 14%, with Derivative trading volumes ascending to Euros 12.4 billion in 2015.

The Bank maintained the net growth trend of its Customer base, recording an increase of approximately 4 thousand new members. Of note for this performance, in addition to the differentiated offer of the Bank itself, were various promotional initiatives, ranging from the use of term deposits with more attractive rates, to the allocation of experience vouchers and partnerships with companies of reference and market leaders at the national level. The member-get-member recommendation actions, through which Bank Customers act as the organization's ambassadors to their contacts base, also contributed significantly to this growth.

The volume of Customers’ demand deposits attained Euros 264 million at the end of 2015, an increase of 14% over the previous year, to which contributed the good Customer raising rate as well as the absence of management and account maintenance fees. The Bank also recorded a notable surplus in the interbank clearing, achieving net earnings as opposed to most of its banking competitors. The policy of the non-remuneration of bank balances in demand deposit remained unchanged.

The volume of Customer time deposits amounted to Euros 82 million at the end of 2015, an increase of 37% over the previous year. Of note to this growth was the “Deposito a Prazo Já”, designed for New Customers and with interest being credited in advance, which also had a very significant growth in subscribers during 2015. The average remuneration rate of Term Deposits decreased over the last year, following, too, the evolution of the rates and market indexes, and closing the year with an average value of 1.2%.

The bank card activity recorded an overall turnover increase of 10%, its use having registered a progressive diversification between products and between brands (Visa and American Express). It should be noted that the Bank also maintained a regular supply of Customer awards programs, in miles and cashback, with the offering adjusted to cater for the new regulatory framework in terms of interchange fees. The commercial marketing actions continued, with periodic actions and campaigns for pre-approved cards, as did regular control and monitoring actions over the portfolio and ceilings attributed, maintaining the overall credit default rate at historically low levels. New security services were also introduced, particularly in purchases made in open environments, through the adoption of the 3D Secure protocols, guaranteeing Customers an ever increasing level of convenience and security for their purchases at a distance, features which complement the previously existing services in this area in the MBNet and SMS guardian services. In terms of partnerships, the program Best Card Club, in its second year of existence, also recorded a very important growth, exceeding 30 entities with which it has signed protocols and through which the Bank’s Customers can buy commercial products and services with preferential conditions by merely being Banco Best Customers. Best was also one of the financial entities supporting the launch of the MBWay service right from its inception, together with the rest of the banking community and SIBS, introducing new payment forms for its Customers, in this case using their personal cellular phones.

In terms of Credit, increases of 11% in global credit volume utilised and 13% in total credit contracts collateralised were recorded. The overall portfolio margin remained unchanged, with the average interest rate applied evolving in line with the evolution of the main market indexes. Of note, due to their growth, were the Conta Crédito Corrente (Current Credit Account) and the Conta Margem (Margin Account) solutions, which have gained a growing acceptance by the Customers, who benefit from the advantages that ownership of financial assets in the Bank provides in terms of credit line availability under preferential conditions. And that can be used for many different purposes, from business financing, to investment in real estate or even reinforcing positions in the financial markets. The Bank also maintained it role of liquidity generator for the NOVO BANCO Group.

Mention should also be made of the 3% increase in the volume of salary domiciliation, maintaining the growth trend of previous years, with the number of Customers using Best as their first Bank becoming increasingly relevant, both from a daily management perspective as well as in terms of their overall financial involvement.

In 2015, Banco Best recorded a general decrease in internal training activities, having nevertheless administered over 3.4 thousand hours of training, a value 61% lower than in 2014, given the significant slowdown in the number of legally bound agents recruited over the year, reduction reflected directly in the lower number of training sessions held for new collaborators.

Regarding the training programs developed for internal employees, some very important initiatives were, nevertheless, carried out, such as the start of a new training program in English (35 internal employees) and the development of an external training program of 28 hours for the commercial area (Customer Orientation and Commercial Proactivity) covering a total of 80 employees. Several courses were also approved and realised targeting individual employees, covering many different areas such as the legal (Money Laundering, Tax and Health and Safety at Work), IT (SPSS and Microsoft Excel) and Personal Development (Emotional Intelligence, Micro Expressions and "Story Telling" techniques) areas, as well as specialised training in Coaching (Coaching Management Seminar).

Regarding the 2015 Financial Statements, reference is made to the level of the Bank's Balance Sheet, with a 10.3% increase in total Assets over the previous year, with Best closing the year with Net Assets of Euros 461.0 million. The favourable growth of Customer Deposits (+ 18.8%) and Net Equity (+ 6.4%) were directly reflected in an increase in Loans and Advances to Customers, with an increase of 10.8% to Euros 159.1 million and in the Bond Portfolio volume, which closed the year with an amount of Euros 22.1 million.

As Financial Margin, totalling Euros 6.1 million, the highlight goes to the increase of 27.8% over the previous year, achieved through the combination of a 12.9% increase in the amount of interest income and a decrease in interest paid of 41.4%, a direct result of the decrease in the general level of interest rates and of the increase in assets and liabilities intermediated by Best in 2015 when compared to 2014, as referred to in the previous paragraph.

The decrease of 2.4% in Services Fees and Commissions Received compared to the previous year, results from the aforementioned decrease in customer trading activity. The significant decrease in the results of foreign exchange differences from the previous year to Euros 905 thousand in 2015, compared to Euros 7.5 million in 2014, resulted from the non-realization of intraday trading operations by the NOVO BANCO Group area responsible for the management of this type of foreign exchange positions for Best, this decrease being primarily responsible for the decrease in the total banking product of Best down to Euros 18.9 million, a 27.9% decrease below the previous year's amount.

The decrease in total operating costs of 16.5% was possible due to the reduction in the number of employees and other administrative expenses, with the total operating costs of Euros 13.5 million resulting in a cost-to-income ratio of 71.5%, compared to the 61.8% of the previous year.

Regarding the credit and impairment provisions, Best reinforced the provisions in Euros 281,000 in net terms in the income statement, compared to the Euros 426,000 provisioned the previous year, consistently low amounts given Best's use of extremely cautious criteria in terms of the assumption of risks in lending. In terms of the year-end amounts recorded, overdue credit has an 89.4% provision coverage, which represents 1.8% of total loans and advances to customers.

Best's net equity was strengthened in 2015 as a direct result of the full appropriation of the net income of the previous year, with the Core Tier 1 ratio attaining a value of 36.0% in 2015, in this manner remaining at high levels when compared to the level of National and International Banks.

The allocation of Euros 682 thousand to provisions for income taxes, reduced the result generated by Best in the 2015 financial year to Euros 4.4 million, 34.4% below the result of the previous year.

As synthetic indicators of the financial results obtained by Best in 2015, we highlight the cost-to-income ratio of 71.5%, a return on equity of 6.4% and the positive Net Income of Euros 4.4 million.

III – Shareholder and Corporate Bodies Composition

During financial 2015 the shareholder composition of Banco Best was subject to two changes, the first in August with the disposal of 100 shares held by Banco Espírito Santo de Investimento, SA to Novo Banco Servicios Corporativos, S.L., and the second on 13 November 2015 with the exchange of shareholdings between Saxo Bank and NOVO BANCO, with NB having exchanged the shareholding it held in Saxo Bank for the 25% shareholding Saxo Bank held in Best. In this manner, Novo Banco SA came to hold, directly or indirectly, the entire share capital of Banco Best, with the shareholder structure at 31 December 2015 being as follows:

Shareholders	No. of shares	%
Novo Banco, SA	62,999,700	99.9995%
Novo Banco Servicios Corporativos, S.L.	100	0.0002%
Novo Banco dos Açores, SA	100	0.0002%
GNB - Companhia de Seguros de Vida, SA	100	0.0002%
Total	**63,000,000**	**100.0000%**

The Corporate Bodies of Best at 31 December 2015 were as follows:

General Meeting Board

Pedro Moreira de Almeida Queiroz de Barros (Chairman)

Board of Directors

Francisco Ravara Cary (Chairman)

Isabel Maria Ferreira Possantes Rodrigues Cascão (Vice-Chairman)

Marília Boavida Correia Cabral (Member)

Pedro Alexandre Lemos Cabral das Neves (Member)
Maria Madalena Monteiro da Mata Torres Pitta e Cunha (Member)
Jorge Daniel Lopes da Silva (Member)

Supervisory Board
José Manuel Macedo Pereira (Chairman)
Luís Manuel Santos Botelho (Member)
Feliciano Pereira (Member)
Elísio Armando da Cruz Cardoso (Alternate Member)

Statutory Auditor
Effective: PricewaterhouseCoopers & Associados - Sociedade de Revisores Oficiais de Contas, Lda. - R.O.C. (Statutory Auditor) no. 183. Represented by José Manuel Henriques Bernardo R.O.C. no. 903 or Aurélio Adriano Rangel Amado R.O.C. no. 1074

Alternate:
Jorge Manuel Santos Costa R.O.C. no. 847

Company Secretary
Eugénio Fernando de Jesus Quintais Lopes

The corporate bodies were elected at the General Meeting of Best of 26 March 2013 for a triennium, with the exception of the Statutory Auditor PricewaterhouseCoopers & Associados - Sociedade de Revisores Oficiais de Contas, Lda. nominated on 29 December 2014 in substitution of KPMG on the latter's resignation request and for the remaining term of office.

In 2015, the following members of the corporate bodies also submitted their resignation:

- Member of the Board of Directors: Francisco José Valente Hipólito dos Santos, on 12-01-2015.
- Member of the Board of Directors: Rasmus Hagstad Lund, on 13-11-2015, as a result of the exit of Saxo Bank as shareholder of Banco Best.
- Member of the Board of Directors: Bjorn Krog Andersen, on 13-11-2015, who had been registered by Banco de Portugal on 10-11-2015, as a result of the exit of Saxo Bank as shareholder of Banco Best.
- Secretary of the General Meeting Board: Henrik Klaebel, on 13-11-2015, also as a result of the exit of Saxo Bank as shareholder of Banco Best.

IV – Relevant facts occurring after the closing of the financial period

Nothing to report.

V – Future prospects of the activity

The shareholder change at the NOVO BANCO Group level that may occur in 2016, may be relevant in terms of the definition of the future strategy of Banco Best.

The macroeconomic prospects for the year 2016 point to signs of high volatility in the financial markets, which have a direct impact on the valuation of the financial products marketed by Banco Best without having a significant impact on the activity itself of Banco Best, as it has a low level of risk in its Balance Sheet and benefits from the diversification that results from an extensive range of financial products, both in terms of banking products in the Balance Sheet such as deposits, cards and bank credit as well as in terms of off-balance sheet products.

At the level of the national economy, the prospects are for some relief in the climate of austerity and low growth rates, experienced not only in Portugal but also across the Eurozone. Although some macroeconomic indicators have been disclosed that appear to reveal improvements in the Portuguese economy, the outlook for the year 2016 still presents many challenges that need to be overcome which economic and financial impact is difficult to estimate; however, the fiscal rebalancing efforts of the Portuguese State continue to focus with particular significance on the revenue collection component, by increasing the tax burden, especially on individuals, meaning that the potential negative impacts on the savings capacity of the Portuguese represent a challenge for Banco Best in terms of the potential funding growth based on domestic customer funds.

Despite the uncertainties and negative factors that continue to affect the Portuguese economy, and capitalizing on the type of core competencies on which it has based its progression, Banco Best has projected the development of its activity in 2016 along the following main lines:

- Strengthening the diversification and independence of its financial offer, marketing a wide range of products and Asset Management and Trading services aimed at satisfying the need for diversified financial assets and currencies and allowing customers to quickly take advantage of investment opportunities that emerge due to a financial framework in constant evolution;
- Intensifying the reformulation of the form of communication between the bank and its Customers, by simplifying and making for a clearer and more intuitive relationship with Customers, promoting a closer and more direct communication that is simultaneously more personalised, with an even greater focus on the ease and availability of interaction via the mobile channel;
- Continuously monitoring and accompanying the economic and financial environment so as to permit a very rapid adjustment of the products and Asset Management and Trading services offer to the best investment and savings opportunities that are detected and that present an interesting capital appreciation potential.

On the other hand, and simultaneously, maintain the cost control and containment effort in order to improve the bank's efficiency levels in a market context that is expected to continue to be highly competitive.

VI – Proposal for the appropriation of the results

Under paragraph f) of no. 5 of article 66 of the Commercial Companies Code, the Board of Directors of Banco Best proposes for approval at the Shareholders General Meeting, that the net income for the period in the amount of Euros 4,422,966.40 (four million, four hundred and twenty-two thousand, nine hundred and sixty-six Euros and forty cents) be appropriated as follows:

- Euros 442,296.64 to Legal Reserve;
- Euros 1,990,334.88 to the Balance Sheet account “Other Reserves and Retained Earnings”;
- Euros 1,990,334.88 to be paid as dividends to shareholders.

VII – Final notes

On completing the Management Report on the activities carried out in 2015, the Board of Directors expresses its appreciation for the cooperation received, in the scope of their functions, from all those who contributed to the achievement of the established objectives, namely:

• The Monetary and Financial Authorities and the supervisory authorities, namely Banco de Portugal (Bank of Portugal), the Comissão do Mercado de Valores Mobiliários (CMVM) (Securities Market Commission) and the Autoridade de Supervisão de Seguros e Fundos de Pensões (Supervisory Authority for Insurance and Pension Funds) for the collaboration and support always manifested;

• To our Customers for the trust and preference shown;

• To the Shareholders for their continued support and interested monitoring of the activity of the Bank;

• The members of the General Meeting Board, the Supervisory Board, the Statutory Auditor and the Company Secretary for the participatory and constructive attitude always manifested; and

• To the Employees and Collaborators, for the commitment, motivation, availability and professional competence demonstrated.

Lisbon, 16 March 2016

The Board of Directors:

Francisco Ravara Cary

Isabel Maria Ferreira Possantes Rodrigues Cascão

Marília Boavida Correia Cabral

Pedro Alexandre Lemos Cabral das Neves

Maria Madalena Monteiro da Mata Torres Pitta e Cunha

Jorge Daniel Lopes da Silva

BALANCE SHEET AT 31 DECEMBER 2015

(thousands of Euros)

BALANCE SHEET	31 December 2015			31 December 2014
	AMOUNT BEFORE PROVISIONS, IMPAIRMENT & AMORTISATION / DEPRECIATION	PROVISIONS, IMPAIRMENT & AMORTISATION / DEPRECIATION	NET AMOUNT	
ASSETS				
1.Cash and Deposits with Central Banks	0	0	0	0
2.Deposits with banks	64,421	0	64,421	47,625
3.Financial assets held for trading	345	0	345	864
4.Other financial assets at fair value through profit or loss	0	0	0	0
5.Available-for-sale financial assets	22,218	167	22,051	3,549
6.Loans and advances to banks	208,041	0	208,041	215,418
7.Loans and advances to customers	159,078	1,671	157,407	141,938
8.Investments held to maturity	0	0	0	0
9.Assets with repurchase agreements	0	0	0	0
10.Hedging derivatives	0	0	0	0
11.Non-current assets held for sale	14	0	14	14
12.Investment properties	0	0	0	0
13.Other tangible assets	5,193	4,255	938	1,341
14.Intangible assets	11,693	11,416	277	472
15.Investments in subs., associated companies & jointly controlled entities	0	0	0	0
16.Current tax assets	157	0	157	1,059
17.Deferred tax assets	473	0	473	462
18.Other assets	6,856	0	6,856	5,103
TOTAL ASSETS	478,489	17,509	460,980	417,845
LIABILITIES				
1.Deposits from Central Banks	0	0	0	0
2.Financial liabilities held for trading	230	0	230	74
3.Other financial liabilities at fair value through profit or loss	0	0	0	0
4.Deposits from banks	29,845	0	29,845	46,822
5.Due to customers and other loans	348,510	0	348,510	293,298
6.Debt securities issued	0	0	0	0
7.Financial liabilities associated with assets transferred	0	0	0	0
8.Hedging derivatives	0	0	0	0
9.Non-current liabilities held for sale	0	0	0	0
10.Provisions	1,610	0	1,610	1,442
11.Current tax liabilities	0	0	0	603
12.Deferred tax liabilities	68	0	68	60
13.Equity instruments	0	0	0	0
14.Other subordinated debt	0	0	0	0
15.Other liabilities	7,332	0	7,332	6,606
TOTAL LIABILITIES	387,595	0	387,595	348,905
EQUITY				
16.Share capital	63,000	0	63,000	63,000
17.Share premium	-8	0	-8	-8
18.Other capital instruments	0	0	0	0
19.Treasury shares	0	0	0	0
20.Revaluation reserves	143	0	143	121
21.Other reserves and Retained earnings	5,827	0	5,827	-912
22.Net profit / (loss) for the period	4,423	0	4,423	6,739
23.Interim dividends	0	0	0	0
TOTAL EQUITY	73,385	0	73,385	68,940
TOTAL LIABILITIES + EQUITY	460,980	0	460,980	417,845

The Registered Accountant

The Board of Directors

BANCO ELECTRÓNICO DE SERVIÇO TOTAL

INCOME STATEMENT FOR THE PERIOD ENDED 31 DECEMBER 2015

(thousands of Euros)

INCOME STATEMENT	31 December 2015	31 December 2014
1. Interest and similar income.........	6,878	6,094
2. Interest expenses and similar charges.........	770	1,314
Net interest income	**6,108**	**4,780**
3. Dividend income.........	29	30
4. Fee and commission income.........	19,273	19,839
5. Fee and commission expenses.........	6,550	6,797
6. Net gains / (losses) from financial assets and liabilities at fair value through profit or loss.........	(677)	954
7. Net gains / (losses) from available-for-sale financial assets.........	0	26
8. Net gains /(losses) from foreign exchange differences.........	905	7,513
9. Net gains / (losses) on disposal of other assets.........	0	0
10. Other operating income and expenses.........	(170)	(121)
Operating income	**18,918**	**26,224**
11. Staff costs.........	5,395	6,595
12. General and administrative expenses.........	7,516	8,981
13. Depreciation and amortisation for the period.........	621	622
14. Provisions net of reversals and recoveries.........	168	622
15. Impairment losses on loans and advances to customers and on amounts receivable from other debtors (net of reversals and recoveries).........	113	(196)
16. Impairment of other financial assets net of reversals and recoveries.........	0	0
17. Impairment of other assets net of reversals and recoveries.........	0	0
Profit / (loss) before income taxes	**5,105**	**9,600**
Income taxes	682	2,861
18. Current.........	693	2,833
19. Deferred.........	(11)	28
Net profit / (loss) for the period	**4,423**	**6,739**
Of which: Net profit /(loss) from discontinued operations.........	0	0

The Registered Accountant

The Board of Directors

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

BEST - BANCO ELECTRÓNICO DE SERVIÇO TOTAL, S.A.

INCOME STATEMENT
FOR THE PERIODS ENDED 31 DECEMBER 2015 AND 2014

(thousands of Euros)

	Notes	31.12.2015	31.12.2014
Interest and similar income	5	6 878	6 094
Interest expense and similar charges	5	770	1 314
Net interest income		**6 108**	**4 780**
Income from equity instruments		29	30
Fee and commission income	6	19 273	19 839
Fee and commission expenses	6	(6 550)	(6 797)
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	7	(677)	954
Net gains / (losses) from available-for-sale financial assets		-	26
Net gains / (losses) from foreign exchange differences	8	905	7 513
Other operating income and expenses	9	(170)	(121)
Operating income		**18 918**	**26 224**
Staff costs	10	5 395	6 595
General and administrative expenses	11	7 516	8 981
Depreciation and amortisation	19 & 20	621	622
Provisions, net of reversals	24	168	622
Impairment losses on loans and advances, net of reversals and recoveries	17	113	(196)
Operating expenses		**13 813**	**16 624**
Profit / (loss) before income tax		**5 105**	**9 600**
Income tax			
Current tax	25	693	2 833
Deferred tax	25	(11)	28
Net profit / (loss) for the period		**4 423**	**6 739**
Basic earnings per share (in Euros)	12	0.07	0.11
Diluted earnings per share (in Euros)	12	0.07	0.11

The attached explanatory notes form an integral part of these financial statements

BEST - BANCO ELECTRÓNICO DE SERVIÇO TOTAL, S.A.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIODS ENDED 31 DECEMBER 2015 AND 2014

(thousands of Euros)

	31.12.2015	31.12.2014
Net profit / (loss) for the period	**4 423**	**6 739**
Other comprehensive income for the period		
Items that may be reclassified to the income statement		
Fair value adjustments, net of tax	22	(33)
	22	**(33)**
Total comprehensive income / (loss) for the period	**4 445**	**6 706**

The attached explanatory notes form an integral part of these financial statements

BEST - BANCO ELECTRÓNICO DE SERVIÇO TOTAL, S.A.

BALANCE SHEET AS AT 31 DECEMBER 2015 AND 2014

(thousand of Euros)

	Notes	31.12.2015	31.12.2014
Assets			
Deposits with banks	13	64 421	47 625
Financial assets held for trading	14	345	864
Available-for-sale financial assets	15	22 051	3 549
Loans and advances to banks	16	208 041	215 418
Loans and advances to customers	17	157 407	141 939
Non-current assets held for sale	18	14	14
Other tangible assets	19	938	1 341
Intangible assets	20	277	472
Current income tax assets	25	157	1 059
Deferred income tax assets	25	473	462
Other assets	21	6 856	5 102
Total Assets		**460 980**	**417 845**
Liabilities			
Financial liabilities held for trading	14	230	74
Deposits from banks	22	29 845	46 822
Due to customers	23	348 510	293 298
Provisions	24	1 610	1 442
Current tax liabilities	25	-	603
Deferred tax liabilities	25	68	60
Other liabilities	26	7 332	6 606
Total Liabilities		**387 595**	**348 905**
Equity			
Share capital	27	63 000	63 000
Fair value reserves	28	143	121
Other reserves and Retained earnings	28	5 819	(920)
Profit / (loss) for the period		4 423	6 739
Total Equity		**73 385**	**68 940**
Total Liabilities and Equity		**460 980**	**417 845**

The attached explanatory notes form an integral part of these financial statements

BEST - BANCO ELECTRÓNICO DE SERVIÇO TOTAL, S.A.

STATEMENT OF CHANGES IN EQUITY
FOR THE PERIODS ENDED 31 DECEMBER 2015 AND 2014

(thousands of Euros)

	Share capital	Fair value reserves	Other reserves and Retained earnings	Net profit / (loss) for the period	Total Equity
Balance at 31 December 2013	**63 000**	**154**	**(11 156)**	**10 236**	**62 234**
Comprehensive income:					
Changes in fair value (see Note 30)	-	(33)	-	-	(33)
Net profit / (loss) for the period	-	-	-	6 739	6 739
Total comprehensive income / (loss) for the period	-	(33)	-	6 739	6 706
Constitution of reserves	-	-	10 236	(10 236)	-
Balance at 31 December 2014	**63 000**	**121**	**(920)**	**6 739**	**68 940**
Comprehensive income:					
Changes in fair value (see Note 30)	-	22	-	-	22
Net profit / (loss) for the period	-	-	-	4 423	4 423
Total comprehensive income / (loss) for the period	-	22	-	4 423	4 445
Constitution of reserves	-	-	6 739	(6 739)	-
Balance at 31 December 2015	**63 000**	**143**	**5 819**	**4 423**	**73 385**

The attached explanatory notes form an integral part of these financial statements

BEST - BANCO ELECTRÓNICO DE SERVIÇO TOTAL, S.A.

CASH FLOW STATEMENT
FOR THE PERIODS ENDED 31 DECEMBER 2015 AND 2014

(thousands of Euros)

	Notes	31.12.2015	31.12.2014
Cash flows from operating activities			
Interest and similar income received		5 799	4 981
Interest expense and similar charges paid		(1 187)	(536)
Fees and commissions received		19 273	20 107
Fees and commissions paid		(6 550)	(6 797)
Cash payments to employees and suppliers		(12 911)	(15 559)
		4 424	**2 196**
Changes in operating assets and liabilities:			
Disposal of financial assets at fair value through profit or loss		(2)	-
Loans and advances to banks		7 672	(95 000)
Deposits from banks		(16 976)	33 065
Loans and advances to customers		(15 519)	17 590
Due to customers		55 237	16 366
Derivatives held for risk management purposes		-	1
Other operating assets and liabilities		(716)	(5 072)
Net cash from operating activities before income taxes		**34 120**	**(30 854)**
Income taxes paid		(483)	(218)
		33 637	**(31 072)**
Cash flows from investing activities			
Dividends received		29	30
Acquisition of available-for-sale financial assets		(35 946)	-
Disposal of available-for-sale financial assets		17 875	22 409
Acquisition of fixed assets		(23)	(1 053)
		(18 065)	**21 386**
Net changes in cash and cash equivalents		**15 572**	**(9 686)**
Cash and cash equivalents at beginning of period		44 739	46 912
Effect of foreign exchange rate changes on cash and cash equivalents		905	7 513
Net changes in cash and cash equivalents		15 572	(9 686)
Cash and cash equivalents at end of period		**61 216**	**44 739**
Cash and cash equivalents include:			
Cash		-	-
Deposits with banks	13	64 421	47 625
Mandatory deposits with Central Banks [a]		(3 205)	(2 886)
Total		**61 216**	**44 739**

[a] BEST constitutes its minimum reserves indirectly through Novo Banco, S.A (see Note 13)

The attached explanatory notes form an integral part of these financial statements

BEST – Banco Eletrónico de Serviço Total, S.A.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2015

(Amounts stated in thousands of Euros, except when otherwise indicated)

NOTE 1 – ACTIVITY

BEST – Banco Eletrónico de Serviço Total, S.A. (Bank or BEST) is a financial institution with its registered office in Portugal. For the purpose, it holds the necessary authorisations from the Portuguese authorities, the Bank of Portugal (i.e. the Central Bank – "Banco de Portugal") and other regulatory authorities to operate in Portugal.

BEST was incorporated by public deed of 9 May 2001, with a share capital of Euros 32 422 thousand, having begun its activity on 25 June of that year. In 2002 and 2003, BEST increased its share capital to Euros 43 000 thousand and Euros 55 000 thousand, respectively (see Note 27). In 2005, share capital was again increased to Euros 61 000 thousand and, in 2006, to Euros 63 000 thousand.

The Bank raises funds from third parties, in the form of deposits or other funds, which, together with its own resources, it invests in granting loans and advances to customers, in securities and in other assets; it also provides other banking services in Portugal.

The administrative and operational areas of BEST are handled by NOVO BANCO under a service agreement.

On 3 August 2014, following the Resolution Measure applied by the Bank of Portugal to Banco Espírito Santo, its majority shareholder, BEST was included in the NOVO BANCO´s Group consolidation perimeter.

The Bank forms part of NOVO BANCO Group and its financial statements are fully consolidated in those of NOVO BANCO, with registered office at Avenida da Liberdade, no. 195, in Lisbon. During 2015, a shareholding exchange was realised whereby the NOVO BANCO shareholding in Saxo Bank A/S was exchanged for the latter's 25% shareholding in BEST. With this securities exchange operation, the NOVO BANCO´s Group has now the entire share capital of BEST.

NOTE 2 – MAIN ACCOUNTING POLICIES

2.1. Bases of presentation

In accordance with Regulation (EC) no. 1606/2002, of 19 July 2002, of the European Council and Parliament, and its adoption into Portuguese Law through Decree-Law no. 35/2005, of 17 February 2005, and Notice no. 1/2005, of Banco de Portugal, BEST - Banco Electrónico de Serviço Total, S.A. is required to prepare its financial statements in accordance with the Adjusted Accounting Standards (NCA), as defined by Banco de Portugal at 31 December 2015.

The NCA comprise all the standards included in the International Financial Reporting Standards (IFRS) as adopted for use in the EU, with the exception of certain matters regulated by Bank of Portugal, such as loan impairment.

The IFRS comprise accounting standards issued by the International Accounting Standards Board (IASB) as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and its predecessor body.

The financial statements of BEST herein presented, relate to the period ended on 31 December 2015 and were prepared in accordance with the NCAs, which include the IFRS in force as adopted by the European Union until 31 December 2015.

The accounting policies applied by the Bank in the preparation of its financial statements at 31 December 2015 are consistent with those used in the preparation of the annual financial statements at and for the period ended 31 December 2014.

However, and as described in Note 33, in the preparation of the financial statements at 31 December 2015, the Bank adopted the accounting standards issued by IASB and IFRIC interpretations, effective since 1 January 2015. The accounting policies adopted by the Bank in the preparation of the financial statements are in accordance with those described in this note. The adoption of these new standards and interpretations in 2015 had no material impact on the Bank's financial statements.

The accounting standards and interpretations recently issued but not yet effective and that the Bank has not yet adopted in the preparation of its financial statements may also be analysed in Note 33.

These financial statements are expressed in thousands of Euros, rounded to the nearest thousand. They have been prepared under the historical cost convention, except for the assets and liabilities accounted for at fair value, namely derivative contracts, financial assets and liabilities at fair value through profit or loss, available-for-sale financial assets and hedged assets and liabilities, in respect of their hedged component.

The preparation of financial statements in conformity with the NCA requires the application of judgement and the use of estimates and assumptions by the Bank that affect both the process of applying the accounting policies and the reported amounts of income, expenses, assets and liabilities. Changes in such assumptions and differences between these and the reality in the future may impact these estimates and judgement applied. The areas involving a higher degree of judgement or complexity or where the assumptions and estimates used are significant to the financial statements are analysed in Note 3.

These financial statements were approved at the Board of Directors' meeting held on 23 February 2016.

2.2. Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the foreign exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Euros at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on this translation are recognised in the income statement.

Non-monetary assets and liabilities measured at historical cost, denominated in foreign currency, are translated using the foreign exchange rates prevailing at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated into Euros at the foreign exchange rates ruling at the date the fair value was determined. The resulting foreign exchange differences are accounted for in the income statement, except if related to equity instruments classified as available-for-sale, which are accounted for in equity, under fair value reserves.

Foreign exchange rate differences related to cash flow hedging relationships, and the hedging of net investments in foreign operational units, if any, are recognised in other comprehensive income.

2.3. Derivative financial instruments and hedge accounting

Classification

Derivatives held for risk management purposes include (i) hedging derivatives and (ii) derivatives acquired to manage the risk of certain financial assets and liabilities designated at fair value through profit or loss but that were not classified as hedging derivatives.

All other derivatives are classified as trading derivatives.

Recognition and measurement

Derivatives are initially recognised at fair value on the date the derivative contract is entered into (trade date). Subsequent to initial recognition, the fair value of derivative financial instruments is re-measured on a regular basis and the resulting gains or losses on re-measurement are recognised directly in the income statement, except for derivatives designated as hedging instruments. The recognition of the gains or losses resulting on the derivatives designated as hedging instruments depends on the nature of the risk being hedged and the hedge model used.

Fair values are obtained from quoted market prices, on active markets, if available or are determined using valuation techniques, including discounted cash flow models and options pricing models, as appropriate.

Derivatives traded in organised markets, including futures and some options contracts are recorded as derivative held for trading and are revalued through the income statement. Since the changes in fair value of these derivatives are settled daily through margin accounts held by the Bank, they have a nil carrying value. The margin accounts are recorded in Other assets (see Note 21) and include the minimum collateral required in respect of open positions.

Hedge accounting

- Classification criteria

Hedge accounting is used for derivative financial instruments designated as hedging instruments, provided the following criteria are cumulatively met:

(i) At the inception of the hedge, the hedging relationship is identified and documented, including the identification of the hedged item and of the hedging instrument and the evaluation of the effectiveness of the hedge;
(ii) The hedge is expected to be highly effective, both at the inception of the hedge and on an ongoing basis;
(iii) The effectiveness of the hedge can be reliably measured, both at the inception of the hedge and on an ongoing basis;
(iv) For cash flows hedges, the cash flows are highly probable of occurring.

- Fair value hedge

In a fair value hedge, the carrying value of the asset or liability, determined in accordance with the respective accounting policy, is adjusted to reflect the change in the fair value attributable to the hedged risk. Changes in the fair value of hedging derivatives are recognised in the income statement, together with the changes in fair value of the hedged assets or liabilities attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the derivative financial instrument is transferred to the trading portfolio and the hedge accounting is discontinued prospectively. If the asset or liability corresponds to a fixed income instrument, the re-measurement adjustment is amortised to maturity using the effective interest rate method.

- Cash flow hedge

When a derivative financial instrument is designated as a hedge against the variability in highly probable future cash flows (cash flow hedge), the effective portion of the changes in the fair value of the hedging derivative is recognised in reserves, being recycled to the income statement in the periods in which the hedged item affects the income statement. The gain or loss relating to the ineffective portion is immediately recognised in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in reserves is recycled to the income statement when the hedged transaction also affects the income statement. When a hedged transaction is no longer expected to occur, the cumulative gain or loss recorded in equity is immediately recognised in the income statement and the hedging instrument is transferred to the trading portfolio.

As at 31 December 2015, the Bank did not have any hedging operations classified as cash flow hedges.

Embedded derivatives

Derivatives that are embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss.

2.4. Loans and advances to customers

Loans and advances to customers include loans and advances originated by the Bank, which are not intended to be sold in the short-term and are recognised on the date cash is advanced to customers.

Loans and advances to customers are de-recognised from the balance sheet when (i) the contractual rights to receive their respective cash flows have expired, (ii) the Bank has transferred substantially all the risks and rewards of ownership, or (iii) although retaining some but not substantially all the risks and rewards of ownership, the Bank has transferred the control over the assets.

Loans and advances to customers are initially recorded at their fair value plus transaction costs and are subsequently measured at amortised cost, based on the effective interest rate, being reduced by impairment losses.

In accordance with the documented strategy for risk management, the Bank contracts derivative financial instruments to manage certain risks on part of the loan portfolio, without applying, however the provisions of hedge accounting mentioned in Note 2.3. In these situations, the initial recognition of these loans is measured at fair value through profit or loss, in order to eliminate the measurement inconsistency resulting from measuring the loans and the derivatives held for risk management purposes on different bases (i.e. the accounting mismatch). This procedure is in accordance with the accounting policy for classification, recognition and measurement of financial assets at fair value through profit or loss described in Note 2.5.

Impairment

The Bank assesses, at each balance sheet date, whether there is objective evidence of impairment in its loan portfolio. Impairment losses identified are recognised in the income statement and are subsequently reversed through the income statement if, in a subsequent period, the amount of the impairment losses decreases.

A loan or a loan portfolio, defined as a group of loans with similar credit risk characteristics, is impaired when: (i) there is objective evidence of impairment as a result of one or more events that occurred after its initial recognition and (ii) that event (or events) has an impact on the estimated future cash flows of the loan or of the loan portfolio, that can be reliably estimated.

The Bank first assesses whether objective evidence of impairment exists for each loan individually. In this individual assessment, the Bank uses the information that feeds the credit risk models implemented and takes into consideration the following factors:

- the aggregate exposure to the customer and the existence of non-performing loans;
- the viability of the customer's business model and its capacity to trade successfully and to generate sufficient cash flows to service its future debt obligations;
- the extent of other creditors' commitments ranking ahead of the Bank;
- the existence, nature and estimated realisable value of the collateral;
- the exposure of the customer within the financial sector;
- the amount and timing of expected recoveries.

Loans that have been individually assessed with no evidence of impairment having being identified are grouped together on the basis of similar credit risk characteristics (loan portfolio) for purposes of assessing impairment on a portfolio basis (collective assessment). Loans that are individually assessed and found to be impaired are not included in the collective assessment for impairment.

If an impairment loss is identified on an individual basis, the amount of the impairment loss to be recognised corresponds to the difference between the carrying value of the loan and the present value of the expected future cash flows (considering the recovery period), discounted at the contract's original effective interest rate. Loans and advances to customers are presented net of impairment losses. If a loan has a variable interest rate, the discount rate used for measuring the impairment loss is the current effective interest rate, determined under the rules of each contract.

The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from the foreclosure less costs inherent to the recovery and sale of the collateral.

For the purposes of the collective assessment of impairment, loans are grouped on the basis of similar credit risk characteristics, in function of the Bank's credit risk assessment process defined. Future cash flows from a group of loans that are collectively assessed for impairment are estimated on the basis of the contractual cash flows of the loans and the Bank's historical loss experience. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank so as to monitor the differences between the loss estimates and actual loss experience.

According to the NCA, loan values should be adjusted based criteria of rigor and prudence in order to reflect, at all times, their realisable value. This impairment adjustment may not be lower than that determined under Notice no. 3/95, of Banco de Portugal, which establishes the minimum reference values for general and specific provisions.

When a loan is considered uncollectible by the Bank and an impairment loss of 100% has been recognised, it is written off against the asset.

2.5. Other financial assets

Classification

The Bank classifies its other financial assets at initial recognition considering the intentions underlying their acquisition, under the following categories:

- *Financial assets at fair value through profit or loss*

This category includes: (i) financial assets held for trading, which are those acquired primarily for the purpose of resale in the short-term or that are owned as part of a portfolio of identified financial instruments that are managed as a whole and for which there is evidence of a recent pattern of short-term profit taking and (ii) financial assets that are designated at fair value through profit or loss at inception.

The Bank designates, at inception, certain financial assets at fair value through profit or loss when:

- such financial assets are managed, measured and their performance evaluated on a fair value basis;
- such financial assets are being hedged (on an economic basis), in order to eliminate an accounting mismatch; or
- such financial assets contain embedded derivatives.

The structured products acquired by the Bank corresponding to financial instruments containing one or more embedded derivatives meet at least one of the above mentioned conditions, and, accordingly, are classified under the fair value through profit or loss category.

- *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and defined maturities that the Bank has the positive intention and ability to hold to maturity and that are not classified, at inception, as at fair value through profit or loss or as available-for-sale.

Any reclassification or sale of financial assets recognised in this category that is not realised close to maturity or if not framed within the exceptions previewed in the rules, requires the Bank to reclassify this entire portfolio to available-for-sale assets and forbids the Bank, for 2 years, from classifying any financial asset in this category.

- *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets (i) the Bank intends to hold for an indefinite period of time, (ii) designated as available-for-sale at initial recognition, or (iii) that are not classified under the other categories referred to above.

Initial recognition and measurement and de-recognition

Purchases and sales of: (i) financial assets at fair value through profit or loss, (ii) held-to-maturity investments and (iii) available-for-sale financial assets are recognised on the trade date, that is, the date on which the Bank commits to purchase or sell the assets.

Financial assets are initially recognised at fair value plus transaction costs, except for financial assets at fair value through profit or loss, for which transaction costs are recognised directly in the income statement.

Financial assets are de-recognised when (i) the Bank's contractual rights to receive their cash flows have expired, (ii) the Bank has substantially transferred all the risks and rewards of ownership, or (iii) although retaining some but not substantially all the risks and rewards of ownership, the Bank has transferred the control over the assets.

Subsequent measurement

Financial assets at fair value through profit or loss are subsequently carried at fair value and gains and losses arising from changes in their fair value are recognised in the income statement.

Available-for-sale financial assets are also subsequently carried at fair value. However, gains and losses arising from changes in their fair value are recognised directly in reserves, until the financial assets are de-recognised or impaired, at which moment the cumulative gain or loss previously recognised in reserves is recycled to the income statement. Foreign exchange differences arising on shares or other equity instruments are also recognised in reserves, whilst foreign exchange differences arising on debt instruments are recognised in the income statement. Interest, calculated using the effective interest rate method, and dividends are recognised in the income statement.

Held-to-maturity investments are carried at amortised cost, using the effective interest rate method, net of any impairment losses recognised.

The fair values of investments quoted on active markets are determined based on their current bid price, the price of the last transaction realised or on the amount of the last bid known. For unlisted securities, the Bank establishes fair value using (i) valuation methodologies, including the use of recent arm's length transactions, discounted cash flow analysis and option pricing models customised to reflect the specificities and circumstances of the instruments and (ii) valuation assumptions based on market information.

Reclassifications between categories

The Bank only transfers non-derivative financial assets with fixed or determinable payments and fixed maturities, from the available-for-sale financial assets category to the held-to-maturity investments category, if it has the intention and ability to hold these financial assets to maturity.

Reclassifications between these categories are made at the fair value of the assets reclassified on the date of the reclassification. The difference between this fair value and the respective nominal value is recognised in the income statement over the period to maturity, based on the effective interest rate method. The fair value reserves existing at the date of the transfer are also recognised in the income statement, using the effective interest rate method.

After their initial recognition, financial assets cannot be reclassified to financial assets at fair value through profit or loss.

Impairment

The Bank regularly assesses whether there is objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is impaired whenever there is objective evidence of impairment as a result of one or more events that occurred after its initial recognition, such as: (i) for shares and other equity instruments, a significant or prolonged decline in their fair value below their acquisition cost, and (ii) for debt securities, when that event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets, that can be reliably estimated.

For held-to-maturity investments, the amount of the impairment loss is measured as the difference between the asset's carrying value and the present value of the estimated future cash flows (considering the recovery period) discounted at the financial asset's original effective interest rate and is recorded through the income statement. These assets are presented in the balance sheet net of impairment losses. If a held-to-maturity investment has a variable interest rate, the discount rate used for measuring any impairment loss is the current effective interest rate, determined under the rules of each contract. For held-to-maturity investments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through the income statement.

If there is objective evidence that an impairment loss on available-for-sale financial assets has been occurred, the potential cumulative loss recognised in reserves – measured as the difference between the acquisition cost and the current fair value, net of any impairment loss on that financial asset previously recognised in the income statement – is taken to the income statement. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is reversed through the income statement up to the acquisition cost, provided the increase is objectively related to an event occurring after the impairment loss was recognised, except in respect of shares and other equity instruments, in which case impairment losses may not be reversed and subsequent gains are recognised in reserves.

2.6. Sale and repurchase agreements, loaned securities and short sales

Securities sold subject to repurchase agreements (repos) at a fixed price or at sales price plus a return are not de-recognised. The corresponding liability is included in amounts due to banks or to customers, as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of the agreement, using the effective interest rate method.

Securities purchased under agreements to resell (reverse repos) at a fixed price or at purchase price plus a return are not recognised, with the purchase price paid being recorded as loans and advances to banks or customers, as appropriate. The difference between the purchase and resale price is treated as interest and accrued over the life of the agreement, using the effective interest rate method.

Securities loaned under loan agreements are not de-recognised, being classified and valued in accordance with the accounting policy described in Note 2.5. Securities received under loan agreements are not recognised in the balance sheet.

Short sales represent securities sold that are not included in the assets of the Bank. These are recorded as a financial liability held for trading, at the fair value of the assets to be returned under the reselling agreement. Gains and losses resulting from the respective change in fair value are recognised directly in the income statement.

2.7. Financial liabilities

An instrument is classified as a financial liability when it contains a contractual obligation to transfer cash or another financial asset, irrespective of its legal form. Financial liabilities are de-recognised when the underlying obligation expires or is cancelled.

Non-derivatives financial liabilities include deposits from banks and due to customers, loans, debt securities, other subordinated debt and short selling.

These financial liabilities are recognised (i) initially, at fair value less transaction costs and (ii) subsequently, at amortised cost, using the effective interest rate method, except for short sales and financial liabilities designated at fair value through profit or loss, which are measured at fair value.

The Bank designates, at inception, certain financial liabilities as at fair value through profit or loss when:

- such financial liabilities are being hedged (on an economic basis), in order to eliminate an accounting mismatch; or
- such financial liabilities contain embedded derivatives.

Structured products issued by the Bank, due to always meeting one of the above situations, follow the method of measuring financial liabilities at fair value through profit or loss.

The fair value of quoted financial liabilities is their current bid price. In the absence of a quoted price, the Bank establishes fair value using valuation techniques based on market information, including the issuer's own credit risk.

2.8. Financial guarantees

Financial guarantees are contracts that require the issuer to make payments to compensate the holder for losses incurred due to non-compliance of the contractual terms of debt instruments, including payments of the respective principal and / or interest.

The issued financial guarantees are initially recognised at fair value. Subsequently, these guarantees are measured at the higher of (i) the fair value initially recognised and (ii) the amount of any obligations arising under the guarantee contract, measured at the balance sheet date. Any variation of the amount of the obligation associated with issued financial guarantees is recognised in the income statement.

Financial guarantees issued by the Bank usually have a defined maturity and a periodic fee charged in advance, which varies depending on the counterparty risk, amount and contract period. On that basis, the fair value of the guarantees on the date of initial recognition is roughly equivalent to the initial commission amount received considering that the agreed conditions are market conditions. Thus, the amount recognised on the acquisition date equals the amount of the initial commission received, which is recognised in the income statement during the period to which it relates. Subsequent commissions are recognised in the income statement in the period to which they relate.

2.9. Equity instruments

An instrument is classified as an equity instrument when it does not contain a contractual obligation to deliver cash or another financial asset, irrespective of its legal form, but evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Transaction costs directly attributable to the issue of equity instruments are recognised under equity as a deduction from the proceeds. Amounts paid or received relating to acquisitions or sales of equity instruments are recognised in equity, net of transaction costs.

Distributions to holders of an equity instrument are debited directly against equity as dividends when declared.

2.10. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. The legally enforceable right may not be contingent on future events, and should be executable in the normal course of BEST's activity, as well as in the event of the default, bankruptcy or insolvency of the Bank or the counterparty.

2.11. Non-current assets held for sale

Non-current assets or disposal groups (groups of assets to be disposed of together, and related liabilities that include at least one non-current asset) are classified as held for sale when their carrying values are to be recovered mainly through a sale transaction (including those acquired exclusively with a view to their subsequent resale), the assets or disposal groups are available for immediate sale and the sale is highly probable.

Immediately before the initial classification of the asset (or disposal group) as held for sale, the measurement of the non-current assets (or of all the assets and liabilities in a disposal group) is brought up to date in accordance with the applicable IFRS. Subsequently, these assets or disposal groups are measured at the lower of their carrying value and fair value less costs to sell.

In the scope of its loan granting activity, the Bank incurs in the risk of the borrower failing to repay the full amount due. In the case of loans and advances with mortgage collateral, the Bank executes same, receiving the property or other assets held as collateral in settlement of the loans. Due to the provisions of the General Regime governing Credit Institutions and Financial Companies ("Regime Geral das Instituições de Crédito e Sociedades Financeiras" (RGICSF)), banks are prevented, unless authorised by Banco de Portugal, from acquiring property that is not essential to their installation and operation or the furtherance of their object (no. 1 of article 112 of RGICSF), being able to acquire, however, property in exchange for loans granted by the Group. This property must be sold within 2 years, period which may be extended by written authorization from Banco de Portugal and on conditions to be determined by this Authority (article 114 of RGICSF).

It is the Bank´s objective to dispose of all property acquired in exchange for loans immediately. This property is classified as non-current assets held-for-sale and is initially recognised at the lower of its fair value less costs to sell and the carrying value of the subjacent loans. Subsequently, this property is measured at the lower of its initial carrying value and the corresponding fair value less costs to sell and is not depreciated. For property recorded on the balance sheet, the value of its immediate sale is considered its respective fair value. Any subsequent write-down of the acquired property to fair value is recorded in the income statement.

The valuation of this property is performed in accordance with one of the following methodologies, applied depending on the specific situation of the asset:

a) Market Method

The Market Comparison Criteria takes as reference transaction values of similar and comparable properties to the property under valuation, obtained through market prospecting carried out in the area.

b) Income Method

Under this method, the property is valued based on the capitalization of its net income, discounted to the present using the discounted cash flow method.

c) Cost Method

This method aims to reflect the current amount that would be required to substitute the asset in its present condition, separating the value of the property into its fundamental components: Urban Ground Value and Urbanity Value; Construction Value; and Indirect Costs Value.

The valuations are performed by independent entities specialised in these services. The valuation reports are analysed internally through an assessment of parameter and process adequacy vis-à-vis market evolution, comparing the sales values with the revalued amounts of the assets.

2.12. Other tangible assets

Other tangible fixed assets of the Bank are measured at cost less accumulated depreciation and impairment losses. The cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying value or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Bank. All other repair and maintenance expenditure is charged to the income statement during the period in which it is incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method, applied over their estimated useful lives, as follows:

	Number of years
Buildings for own use	35 to 50
Improvements in leasehold property	10
Computer equipment	4 to 5
Furniture	4 to 10
Fixtures	5 to 10
Security equipment	4 to 10
Office equipment	4 to 10
Motor vehicles	4
Other equipment	5

When there is an indication that an asset may be impaired, IAS 36 requires that its recoverable amount be estimated and an impairment loss recognised when the carrying value of the asset exceeds its recoverable amount. Impairment losses are recognised in the income statement, being reversed in subsequent periods, when the reasons that led to the initial recognition cease. For this purpose, the new depreciated amount shall not exceed that which would be accounted for if impairment losses had not been recognised on the assets, but considering the depreciation that it would have undergone.

The recoverable amount is determined as the greater of its net selling price and value in use, the latter determined based on the net present value of the future cash flows arising from the continued use and ultimate disposal of the asset.

On the date of de-recognition of a tangible fixed asset, the gain or loss calculated by the difference between the net sales value and the carrying value is recognised in the income statement under "Other operating income / (expenses)".

2.13. Intangible assets

The costs incurred with the acquisition, production and development of software are capitalised, as are costs incurred to bring it into use. These costs are amortised using the straight-line method over their expected useful lives, which usually range between 3 and 6 years.

Costs that are directly associated with the development by the Bank of identifiable specific software, and that will probably generate economic benefits beyond one year, are recognised as intangible assets. All remaining costs associated with IT services are recognised as an expense as incurred.

2.14. Leases

The Bank classifies its lease operations as finance leases or operating leases taking into consideration the substance of the transaction rather than its legal form, in accordance with IAS 17 – Leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases are classified as operating leases.

Operating leases

Payments made by the Bank under operating leases are charged to the income statement in the period to which they relate.

Finance leases

- As lessee

Finance lease contracts are recorded at their inception date, both under assets and liabilities, at the cost of the leased asset, which is equivalent to the present value of the outstanding lease instalments. Instalments comprise (i) an interest charge, which is recognised in the income statement and (ii) the repayment of principal, which is deducted from liabilities. Financial charges are recognised as costs over the lease period, in order to produce a constant periodic rate of interest on the remaining balance of the liability in each period.

- As lessor

Assets leased out are recorded in the balance sheet as loans granted, in an amount equivalent to the net investment made in the leased assets.

Interest included in instalments charged to customers is recorded as interest income, whilst the repayments of principal, also included in the instalments, are deducted from the amount of the loans granted. The recognition of the interest reflects a constant periodic rate of return on the lessor's net outstanding investment.

2.15. Employee benefits

Variable remuneration paid to employees and management body members (bonuses)

In accordance with IAS 19 – Employee benefits, the variable remuneration (bonuses, awards and other) paid to employees and, eventually, to the executive members of the management bodies, are recognised in the income statement in the period to which they relate.

2.16. Income taxes

Income taxes for the period comprise current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is also recognised in equity. Income tax recognised directly in equity relating to the fair value re-measurement of available-for-sale financial assets is subsequently recognised in the income statement when the gains or losses giving rise to the income tax are also recognised in the income statement.

Current tax is the tax expected to be paid on the taxable profit for the period, calculated using tax rules and tax rates enacted or substantively enacted at the balance sheet date, in each jurisdiction.

Deferred tax is determined, using the balance sheet liability method, on timing differences arising between the carrying values of assets and liabilities for financial reporting purposes and their respective tax base, and is calculated using the tax rates enacted or substantively enacted at the balance sheet date, in each jurisdiction, that are expected to apply when the related deferred tax asset is realised or deferred tax liability is settled.

Deferred tax liabilities are recognised for all taxable timing differences; differences arising on the initial recognition of assets and liabilities that affect neither accounting nor taxable profit, that do not result from a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future and the Bank does not control the timing of the reversal of the timing differences. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible timing differences can be deducted. Deferred tax liabilities are always recorded, regardless of BEST's performance.

The Tax Authorities are entitled to review the calculation of the tax assessment made by the Bank for a period of four or twelve years, in the case of tax losses carried forward.

2.17. Provisions

Provisions are recognised when: (i) the Bank has a present, legal or constructive, obligation, (ii) it is probable that its settlement will be required in the future and (iii) a reliable estimate of the obligation can be made.

Where the discounting effect is material, the provision represents the present value of expected future payments discounted at a rate that considers the risk associated with the obligation.

Provisions are recognised for restructuring when the Bank has approved a detailed and formal restructuring plan and such restructuring has started or has been publicly announced.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable costs of meeting the obligations under the contract. This provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net costs of continuing the contract.

2.18. Recognition of interest income and expense

Interest income and expense are recognised in the income statement under interest and similar income and interest expense and similar charges, respectively, for all non-derivative financial instruments measured at amortised cost and for the available-for-sale financial assets, using the effective interest rate method. Interest income and expense arising from non-derivative financial assets and liabilities at fair value through profit or loss are also included under interest and similar income or interest expense and similar charges, respectively.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying value of the financial asset or liability. The effective interest rate is calculated at inception and it is not subsequently revised except with respect to financial assets and liabilities at a variable rate, which are re-estimated periodically considering the estimated future impact on cash flows resulting from the change in the reference interest rate.

When calculating the effective interest rate, the Bank estimates cash flows considering all the contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and commissions paid or received that are an integral part of the effective interest rate, transaction costs and all other directly related premiums or discounts.

For derivative financial instruments, excluding those classified as held for risk management purposes (see Note 2.3), the interest component of the changes in their fair value is not separated and is classified under the caption Net gains / (losses) from financial assets and liabilities at fair value through profit or loss. The interest component of the changes in the fair value of derivatives held for risk management purposes is recognised under the captions Interest and similar income or Interest expense and similar charges.

2.19. Recognition of fee and commission income

Fee and commission income is recognised as follows:

- Fees and commissions that are earned on the execution of a significant act, such as loan syndication fees, are recognised as income when the significant act has been completed;
- Fees and commissions earned over the period during which the services are provided are recognised as income in the period they are provided;
- Fees and commissions that are an integral part of the effective interest rate of a financial instrument are recognised as income using the effective interest rate method.

2.20. Recognition of dividend income

Dividend income is recognised when the right to receive the payment is established.

2.21. Segmental reporting

Since the Bank's equity or debt securities are not publicly traded, in light of paragraph 2 of IFRS 8 - Operating Segments, BEST does not disclose information on the segments.

2.22. Earnings per share

Basic earnings per share are calculated by dividing the net income available to the shareholders by the weighted average number of ordinary shares outstanding during the period, excluding the average number of ordinary shares purchased by the Bank and held as treasury shares.

For the diluted earnings per share calculation, the weighted average number of ordinary shares outstanding is adjusted to assume the conversion of all potential dilutive ordinary shares, such as convertible debt and share options granted to employees. The dilution effect reflects a decrease in the earnings per share and results from the assumption that all convertible debt is converted and that all the options granted are exercised.

2.23. Cash and cash equivalents

For cash flow statement purposes, cash and cash equivalents comprise balances with less than three months maturity from the inception date, including cash and deposits with Central Banks and with other credit institutions.

Cash and cash equivalents exclude restricted balances with Central Banks (which are constituted through NOVO BANCO, S.A.).

NOTA 3 – MAIN ESTIMATES AND JUDGEMENTS USED IN PREPARING THE FINANCIAL STATEMENTS

The NCA set forth a range of accounting treatments and require that the Board of Directors apply its judgement and make the necessary estimates in deciding which treatment is most appropriate. The most significant accounting estimates and judgements used are discussed in this note so as to increase the understanding of how their application affects the Bank's reported results and disclosure. A broader description of the accounting policies applied by the Bank is presented in Note 2 to the financial statements.

Since in many cases there are other alternatives to the accounting treatment adopted by the Board of Directors, the Bank's reported results could differ if a different treatment had been chosen. Management believes that the choices made are appropriate and that the financial statements present the Bank's financial position and results fairly in all material aspects.

3.1. Impairment of available-for-sale financial assets

The Bank determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decline in their fair value below their acquisition cost or when it has identified an event with an impact on the estimated future cash flows from the assets. This determination requires judgement, which the Bank determines based on all the available relevant information, including the normal volatility of the financial instruments' prices. Considering the high volatility of the markets, the Bank considers the following parameters as triggers of the existence of impairment:

(i) Equity securities: significant decline in market value in relation to the acquisition cost or market value below the acquisition cost, for a prolonged period;
(ii) Debt securities: objective evidence of events that have an impact on the estimated future cash flows from these assets.

Additionally, valuations are generally obtained through market quotations (mark to market) or valuation models (mark to model) that may require the use of certain assumptions or judgements in establishing estimates of fair value.

The use of alternative methodologies and different assumptions and estimates could result in a different level of impairment losses being recognised, with a consequent impact on the income statement of the Bank.

3.2. Fair value of derivative financial instruments

Fair values are based on listed market prices, when available; otherwise, fair value is determined either through dealer price quotations (both for that transaction or for similar instruments traded) or through pricing models, based on the net present value of estimated future cash flows which take into consideration the market conditions, time value, yield curve and volatility factors of the underlying instruments. These pricing models may require assumptions or judgements in estimating fair values.

Consequently, the use of a different model or the use of different assumptions or judgements in applying a particular model might have produced different financial results from those reported.

3.3. Impairment losses of loans and advances to customers

The Bank reviews its loan portfolio to assess impairment on a regular basis, as described in Note 2.4, in accordance with the minimum reference values for general and specific provisions defined by Notice no. 3/95, of Banco de Portugal.

The evaluation process applied to the loan portfolio in determining whether, or not, an impairment loss should be recorded in the income statement is subject to numerous estimates and judgements.

The frequency of default, risk ratings, loss recovery rates and the estimation of both the amount and timing of future cash flows, amongst other factors, are considered in this evaluation process.

The use of alternative methodologies and different assumptions and estimates could result in a different level of impairment losses being recognised, with a consequent impact on the income statement of the Bank.

3.4. Income taxes

The Bank is subject to taxes on its income. Significant interpretations and estimates are required in determining the global amount for income taxes. There are many transactions and calculations for which the ultimate tax amount determination is uncertain during the ordinary course of business.

Different interpretations and estimates could result in a different level of income taxes, current and deferred, being recognised in the period.

The Tax Authorities are entitled to review the Bank's self-assessed tax returns for a period of four years or during the period in which it is possible to deduct tax losses carried forward or tax credits (up to twelve years, depending on the period in which they were assessed). Hence, it is possible that additional taxes may be assessed, mainly as a result of differences in interpretation of tax law. However, the Board of Directors of the Bank is confident that there will be no material tax assessments within the context of the financial statements.

NOTE 4 – SEGMENT REPORTING

Given that the Bank does not hold treasury shares or debt securities that are publicly traded, in accordance with paragraph 2 of IFRS 8 - Operating Segments, it does not disclose segmental information.

NOTE 5 – NET INTEREST INCOME

This caption comprises:

(thousands of Euros)

	31.12.2015			31.12.2014		
	Assets / Liabilities at amortised cost and Available-for-sale financial assets	Assets / Liabilities at fair value through profit or loss	Total	Assets / Liabilities at amortised cost and Available-for-sale financial assets	Assets / Liabilities at fair value through profit or loss	Total
Interest and similar income						
Interest from available-for-sale financial assets	280	-	280	282	-	282
Interest from deposits with and loans and advances to banks	2 356	-	2 356	917	-	917
Interest from loans and advances to customers	4 230	-	4 230	4 895	-	4 895
Other interest and similar income	12	-	12	-	-	-
	6 878	-	6 878	6 094	-	6 094
Interest expense and similar charges						
Interest on amounts due to customers	714	-	714	1 170	-	1 170
Interest on deposits from Central Banks and banks	49	-	49	106	-	106
Interest on derivatives held for risk management purposes	-	-	-	-	38	38
Other interest expense and similar charges	7	-	7	-	-	-
	770	-	770	1 276	38	1 314
	6 108	**-**	**6 108**	**4 818**	**(38)**	**4 780**

The captions Interest income and Interest expense from derivatives held for risk management purposes include, in accordance with the accounting policy described in Note 2.3, interest both from hedging derivatives and from derivatives used to manage the risk of certain financial assets and liabilities designated at fair value through profit or loss, as per the accounting policies described in Notes 2.4, 2.5 and 2.7.

NOTE 6 – NET FEE AND COMMISSION INCOME

This caption comprises:

(thousands of Euros)

	31.12.2015	31.12.2014
Fee and commission income		
From guarantees provided	1	-
From banking services	11 257	12 066
From transactions of securities	8 004	7 701
From commitments to third parties	-	41
Other fee and commission income	11	31
	19 273	**19 839**
Fee and commission expense		
With transactions of securities	5 316	5 630
With banking services rendered by third parties	965	888
Other fee and commission expenses	269	279
	6 550	**6 797**
	12 723	**13 042**

NOTE 7 – NET GAINS / (LOSSES) FROM FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

This caption comprises:

(thousands of Euros)

	31.12.2015			31.12.2014		
	Gains	Losses	Total	Gains	Losses	Total
Assets and liabilities held for trading						
Derivative Financial Instruments						
Foreign exchange rate contracts	421	1 098	(677)	1 033	77	956
Interest rate contracts	-	-	-	36	3	33
	421	**1 098**	**(677)**	**1 069**	**80**	**989**
Financial assets and liabilities at fair value through profit and loss						
Financial assets (1)						
Loans and advances to customers	-	-	-	-	35	(35)
	-	-	-	-	35	(35)
	421	**1 098**	**(677)**	**1 069**	**115**	**954**

(1) Includes the fair value change of hedged assets / liabilities or fair value option

NOTE 8 – NET GAINS / (LOSSES) FROM FOREIGN EXCHANGE REVALUATION

This caption comprises:

(thousands of Euros)

	31.12.2015			31.12.2014		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange revaluation	12 790	11 885	905	11 037	3 524	7 513
	12 790	11 885	905	11 037	3 524	7 513

This caption includes the foreign exchange differences arising from the revaluation of monetary assets and liabilities in accordance with the accounting policy described in Note 2.2.

NOTE 9 – OTHER OPERATING INCOME AND EXPENSE

This caption comprises:

(thousands of Euros)

	31.12.2015	31.12.2014
Other operating income / (expense)		
Gains / (losses) from credit operations	41	22
Direct and indirect taxes	(35)	(50)
Contributions to the Deposits Guarantee Fund	(20)	(92)
Contributions to the Resolution Fund	(26)	(12)
Contribution applied on the banking sector	(88)	(46)
Other	(41)	57
	(170)	**(121)**

NOTE 10 – STAFF COSTS

Staff costs have the following breakdown:

(thousands of Euros)

	31.12.2015	31.12.2014
Wages and salaries	4 372	5 369
Mandatory social charges	998	1 129
Other costs	25	97
	5 395	**6 595**

The costs with salaries and other benefits attributed to the members of the Board of Directors and Supervisory Board of the Bank are presented as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Board of Directors		
Salaries and other short-term benefits	266	275
Post-employment benefits and other social charges	63	69
Variable remuneration	-	98
	329	**442**
Supervisory Board	10	10
	339	**452**

At 31 December 2015, loans and advances granted to the members of the Board of Directors and the Supervisory Board amounted to Euros 7 thousand.

The number of Bank employees, by professional category, is analysed as follows:

	31.12.2015	31.12.2014
Top management functions	28	31
Middle management functions	18	20
Specific functions	77	89
Administrative functions	17	19
	140	**159**

NOTE 11 – GENERAL AND ADMINISTRATIVE EXPENSES

This caption comprises:

(thousands of Euros)

	31.12.2015	31.12.2014
Advertising	1 420	1 890
Communication	1 139	965
Rentals	1 227	1 274
Travel and representation costs	85	115
Consumables	35	53
Water, energy and fuel	47	138
Transport	40	34
Insurance	153	215
Maintenance and related services	35	33
Training	43	61
IT services	849	1 392
Legal costs	24	16
Studies and consultation	6	101
Electronic payment systems	164	181
Independent work	64	93
Consultants and auditors	49	21
Assignment of human resources	1 172	1 207
Other costs	964	1 192
	7 516	**8 981**

The outstanding lease instalments relating to non-cancellable operating lease contracts are as follows:

	31.12.2015	31.12.2014
		(thousands of Euros)
Up to 1 year	51	35
1 to 5 years	335	467
	386	**502**

The fees invoiced during financial periods 2015 and 2014 by the Statutory Audit Company have the following breakdown:

(thousands of Euros)

	31.12.2015	31.12.2014
Statutory audit fees	17	17
Audit related fees	19	7
Other services	-	10
Total amount of the services invoiced	**36**	**34**

NOTE 12 – EARNINGS PER SHARE

Basic earnings per share

The basic earnings per share is calculated by dividing the net profit attributable to shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

(thousands of Euros)

	31.12.2015	31.12.2014
Net profit / (loss) attributable to the shareholders of the Bank	4 423	6 739
Weighted average number of ordinary shares (thousands)	63 000	63 000
Basic earnings per share attributable to the shareholders of the Bank (in Euros)	**0.07**	**0.11**

Diluted earnings per share

The diluted earnings per share is calculated considering the profit attributable to the shareholders of the Bank and the weighted average number of ordinary shares outstanding, adjusted for the effects of all potential dilutive ordinary shares.

At 31 December 2015 and 2014, the Bank had no potential dilutive ordinary shares, and so the diluted earnings per share is equal to the basic earnings per share.

NOTE 13 – DEPOSITS WITH BANKS

At 31 December 2015 and 2014, this caption is analysed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Deposits with banks in Portugal		
Repayable on demand	42 617	20 540
Uncollected cheques	-	1
	42 617	**20 541**
Deposits with banks abroad		
Other	21 804	27 084
	21 804	**27 084**
	64 421	**47 625**

In accordance with article 10 of Regulation no. 2818/98 of the European Central Bank, of 1 December, and through Circular Letter no. 204/DMRCF/DMC, of 5 June 2001, Banco de Portugal authorised BEST to constitute its minimum mandatory reserves indirectly, through NOVO BANCO, S.A.. Monthly, BEST settles through a deposit account with NOVO BANCO the amount relating to the minimum mandatory reserves to be constituted. At 31 December 2015, the balance of that account amounted to Euros 3 205 thousand (31 December 2014: Euros 2 886 thousand), and had earned interest at an average rate of 0.05% (31 December 2014: 0.16%).

Uncollected cheques relating to banks in Portugal were sent for collection during the first working days subsequent to the reference dates.

NOTE 14 – FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

At 31 December 2015 and 2014, this caption is analysed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Financial assets held for trading		
Derivative financial instruments with a positive fair value	345	864
Financial liabilities held for trading		
Derivative financial instruments with a negative fair value	230	74

At 31 December 2015 and 2014, derivative financial instruments may be analysed as follows:

(thousands of Euros)

	31.12.2015			31.12.2014		
	Notional	Fair value		Notional	Fair value	
		Assets	Liabilities		Assets	Liabilities
Foreign exchange rate contracts						
Forwards						
- buy	40 265	294	145	40 282	864	74
- sell	40 058			39 480		
Currency Swaps						
- buy	36 953	51	85	-	-	-
- sell	37 064			-		
TOTAL	**154 340**	**345**	**230**	**79 762**	**864**	**74**

At 31 December 2015 and 2014, the analysis of trading derivatives by period to maturity is as follows:

(thousands of Euros)

	31.12.2015		31.12.2014	
	Notional	Fair value	Notional	Fair value
Up to 3 months	154 340	115	79 762	790
	154 340	**115**	**79 762**	**790**

NOTE 15 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

At 31 December 2015 and 2014, this caption is analysed as follows:

(thousands of Euros)

	Cost [1]	Fair value reserves		Impairment losses	Carrying value
		Positive	Negative		
Bonds and other fixed income securities					
Issued by Government and public entities	20 305	232	(66)	-	20 471
Issued by other entities	991	26	-	-	1 017
Shares	561	2	-	-	563
Other variable income securities	167	-	-	(167)	-
Balance at 31 December 2015	**22 024**	**260**	**(66)**	**(167)**	**22 051**
Bonds and other fixed income securities					
Issued by Government and public entities	1 477	233	-	-	1 710
Issued by other entities	1 348	-	(69)	-	1 279
Shares	560	-	-	-	560
Other variable income securities	167	-	-	(167)	-
Balance at 31 December 2014	**3 552**	**233**	**(69)**	**(167)**	**3 549**

[1] Acquisition cost relating to shares and other equity instruments and amortised cost relating to debt securities

In accordance with the accounting policy described in Note 2.5, the Bank periodically assesses whether there is objective evidence of impairment of available-for-sale financial assets, applying the judgement criteria described in Note 3.1.

Securities pledged as collateral by the Bank are analysed in Note 29.

No changes were verified in the impairment losses of available-for-sale financial assets.

At 31 December 2015 and 2014, the analysis of available-for-sale financial assets by period to maturity is as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Up to 3 months	415	14
3 months to 1 year	1 643	354
1 to 5 years	18 401	2 621
More than 5 years	1 029	-
Undetermined	563	560
	22 051	**3 549**

The caption Available-for-sale financial assets, by quoted and unquoted securities, has the following breakdown:

(thousands of Euros)

	31.12.2015			31.12.2014		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Securities						
Bonds and other fixed income securities						
Issued by Government and public entities	20 471	-	20 471	1 710	-	1 710
Issued by other entities	-	1 017	1 017	-	1 279	1 279
Shares	-	563	563	-	560	560
	20 471	**1 580**	**22 051**	**1 710**	**1 839**	**3 549**

NOTE 16 – LOANS AND ADVANCES TO BANKS

At 31 December 2015 and 2014, this caption is analysed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Loans and advances to banks in Portugal		
Deposits with banks	208 041	215 418
	208 041	**215 418**

At 31 December 2015, the main loans and advances to banks in Portugal bear interest at an average annual interest rate of 1.20% (31 December 2014: 0.51%).

At 31 December 2015 and 2014, the analysis of loans and advances to banks by period to maturity is as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Up to 3 months	30 372	60 228
3 months to 1 year	177 669	135 189
1 to 5 years	-	20 001
	208 041	**215 418**

NOTE 17 – LOANS AND ADVANCES TO CUSTOMERS

At 31 December 2015 and 2014, this caption is analysed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Domestic loans and advances		
Corporate		
Commercial lines of credit	31 759	26 456
Overdrafts	34	44
Retail		
Consumer and other loans	109 556	102 367
	141 341	**128 867**
Foreign loans and advances		
Corporate		
Current account loans	746	-
Retail		
Consumer and other loans	13 752	11 189
	14 498	**11 189**
Overdue loans and advances and interest		
Up to 3 months	2 208	2 536
3 months to 1 year	136	184
1 to 3 years	286	311
More than 3 years	609	439
	3 239	**3 470**
	159 078	**143 526**
Impairment losses	**(1 671)**	**(1 587)**
	157 407	**141 939**

At 31 December 2015 and 2014, the analysis of loans and advances to customers by period to maturity is as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Up to 3 months	54 827	8 390
3 months to 1 year	70 477	72 569
1 to 5 years	28 095	52 148
More than 5 years	2 440	6 949
Undetermined	3 239	3 470
	159 078	**143 526**

The movements occurring in impairment losses of loans and advances to customers, shown as an adjustment to the asset amount, were as follows:

		(thousands of Euros)
	31.12.2015	**31.12.2014**
Balance at beginning of period	1 587	3 158
Increase for the period	1 022	938
Utilisation during period	(34)	(1 374)
Write-back for the period	(909)	(1 134)
Foreign exchange differences and other	5	(1)
Balance at end of period	**1 671**	**1 587**

Additionally, at 31 December 2015, the Bank has a provision for general banking risks amounting to Euros 1 225 thousand (31 December 2014: Euros 1 169 thousand), which, in accordance with the NCA, is presented as a liability (see Note 24).

All the loans and advances to customers of BEST have a variable interest rate.

NOTE 18 – NON-CURRENT ASSETS HELD FOR SALE

At 31 December 2015 and 2014, this caption is analysed as follows:

		(thousands of Euros)
	31.12.2015	**31.12.2014**
Property	14	14
	14	**14**
	14	**14**

The amount presented relates to property, recorded on the date of its acquisition through foreclosure at its market value considering an immediate sale scenario. Subsequently, it is revalued periodically with impairment losses being reinforced as appropriate.

NOTE 19 – OTHER TANGIBLE FIXED ASSETS

At 31 December 2015 and 2014, this caption is analysed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Property		
Improvements in leasehold property	1 076	1 194
	1 076	**1 194**
Equipment		
Computer equipment	1 937	1 931
Furniture	1 503	1 510
Office equipment	110	110
Fixtures	508	531
Security equipment	58	58
Other	1	1
	4 117	**4 141**
	5 193	**5 335**
Accumulated depreciation	(4 255)	(3 994)
	938	**1 341**

The movements in this caption were as follows:

(thousands of Euros)

	Property	Equipment	Fixed assets in progress	Total
Acquisition cost				
Balance at 31 December 2013	**1 178**	**3 655**	**33**	**4 866**
Acquisitions	-	431	38	469
Transfers	16	55	(71)	-
Balance at 31 December 2014	**1 194**	**4 141**	**-**	**5 335**
Acquisitions	-	6	16	22
Disposals / write-offs	(125)	(39)	-	(164)
Transfers	7	9	(16)	-
Balance at 31 December 2015	**1 076**	**4 117**	**-**	**5 193**
Accumulated depreciation				
Balance at 31 December 2013	**685**	**2 803**	**-**	**3 488**
Depreciation for the period	124	382	-	506
Disposals / write-offs	-	-	-	-
Balance at 31 December 2014	**809**	**3 185**	**-**	**3 994**
Depreciation for the period	90	335	-	425
Disposals / write-offs	(125)	(39)	-	(164)
Balance at 31 December 2015	**774**	**3 481**	**-**	**4 255**
Carrying value at 31 December 2015	**302**	**636**	**-**	**938**
Carrying value at 31 December 2014	**385**	**956**	**-**	**1 341**

NOTE 20 – INTANGIBLE ASSETS

At 31 December 2015 and 2014, this caption is analysed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Acquired from third parties		
Software - Automatic data processing system	**11 693**	**11 692**
Accumulated amortisation	**(11 416)**	**(11 220)**
	277	**472**

The movements in this caption were as follows:

(thousands of Euros)

	Software	Other	Total
Acquisition cost			
Balance at 31 December 2013	**11 108**	**-**	**11 108**
Acquisitions:			
Acquired from third parties	584	-	584
Balance at 31 December 2014	**11 692**	**-**	**11 692**
Acquisitions:			
Acquired from third parties	1	-	1
Balance at 31 December 2015	**11 693**	**-**	**11 693**
Accumulated amortisation			
Balance at 31 December 2013	**11 103**	**-**	**11 103**
Amortisation for the period	116	-	116
Other movements	1	-	1
Balance at 31 December 2014	**11 220**	**-**	**11 220**
Amortisation for the period	196	-	196
Balance at 31 December 2015	**11 416**	**-**	**11 416**
Carrying value at 31 December 2015	**277**	**-**	**277**
Carrying value at 31 December 2014	**472**	**-**	**472**

NOTE 21 – OTHER ASSETS

At 31 December 2015 and 2014, the caption Other assets is analysed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Security deposit accounts	3 027	2 212
Public sector administration	74	59
Other debtors	1 170	603
Accrued income	2 457	2 136
Deferred costs	54	24
Other transactions pending settlement	60	54
Other assets	14	14
	6 856	**5 102**

NOTE 22 – DEPOSITS FROM BANKS

At 31 December 2015 and 2014, the caption Deposits from banks is presented as follows

(thousands of Euros)

	31.12.2015	31.12.2014
Domestic		
Deposits	982	31 326
Other funds	7	-
	989	**31 326**
International		
Deposits	15 738	4 604
Other funds	13 118	10 892
	28 856	**15 496**
	29 845	**46 822**

At 31 December 2015 and 2014, the analysis of deposits from banks by period to maturity is as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Up to 3 months	29 845	42 266
3 months to 1 year	-	4 556
	29 845	**46 822**

NOTE 23 – DEPOSITS FROM CUSTOMERS

At 31 December 2015 and 2014, the caption Deposits from customers, by nature, has the following breakdown:

(thousands of Euros)

	31.12.2015	31.12.2014
Demand deposits	263 955	231 100
Time deposits	81 950	59 920
Savings accounts	639	835
Other funds	1 966	1 443
	348 510	**293 298**

At 31 December 2015 and 2014, the analysis of amounts due to customers by period to maturity is as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Repayable on demand	**263 955**	**231 100**
With agreed maturity		
Up to 3 months	76 032	49 845
3 months to 1 year	5 196	8 398
1 to 5 years	152	1 404
More than 5 years	3 175	2 551
	84 555	**62 198**
	348 510	**293 298**

NOTE 24 – PROVISIONS

At 31 December 2015 and 2014, the caption Provisions has the following breakdown:

(thousands of Euros)

	Provision for general credit risks	Other provisions	Total
Balance at 31 December 2013	**699**	**121**	820
Increase / (write-backs) for the period	470	152	622
Balance at 31 December 2014	**1 169**	**273**	**1 442**
Increase / (write-backs) for the period	56	112	168
Balance at 31 December 2015	**1 225**	**385**	**1 610**

NOTE 25 – INCOME TAXES

The Bank is subject to taxation under the Corporate Income Tax Code ("Imposto sobre o Rendimento das Pessoas Coletivas" (IRC)) and the corresponding Surcharges ("Derrama").

Income taxes (current or deferred) are recognised in the income statement except in cases where the underlying transactions have been reflected in other equity captions. In these situations, the corresponding tax is also charged to equity, not affecting the net profit for the period.

The Bank determined its current income tax for the period ended 31 December 2014 on the basis of a nominal IRC tax rate plus Municipal Surcharge totalling 24.5%, in accordance with Law no. 2/2014, of 16 January (which approved the IRC Reform), and Law no. 73/2013, of 3 September (that established the Financial Regime of the local municipalities and intermunicipal entities), increased by an additional charge of up to 5% of State Surcharge ("Derrama Estadual") levied on taxable income exceeding Euros 7.5 million.

Current income tax for the period ended 31 December 2015 was determined on the basis of a nominal IRC tax rate plus Municipal Surcharge totalling 22.5%, in accordance with Law no. 82-B/2014, of 31 December (State Budget for 2015), and Law no. 73/2013, of 3 September (that established the Financial Regime of the local municipalities and intermunicipal entities), increased by an additional charge of up to 5% of State Surcharge ("Derrama Estadual") levied on taxable income exceeding Euros 7.5 million.

Deferred taxes are calculated based on tax rates anticipated to be in force at the date of the reversal of the timing differences, which correspond to the rates enacted or substantively enacted at the balance sheet date. On this basis, for the 2014 and 2015 financial periods, the deferred tax calculation was broadly calculated based on an aggregate rate of 26%, resulting from the sum of the corporate tax rate (21%), approved by Law no. 82-B/2014, of 31 December, the Municipal Surcharge rate (1.5%) and an average estimated rate of 3.5% for the State Surcharge.

The Portuguese Tax Authorities are entitled to review the annual tax returns of the Bank for a period of four years. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of tax law. However, Management is confident that there will be no material differences arising from tax assessments within the context of these financial statements.

Deferred tax assets and liabilities recognised in the balance sheet at 31 December 2015 and 2014 may be analysed as follows:

(thousands of Euros)

	Assets		Liabilities		Net	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Financial instruments	17	18	68	60	(51)	(42)
Impairment losses on loans and advances to customers	456	444	-	-	456	444
Net deferred tax assets / (liabilities)	**473**	**462**	**68**	**60**	**405**	**402**

The movements in the deferred tax balance sheet captions affected the following accounts:

(thousands of Euros)

	31.12.2015		31.12.2014	
	Recognised in the income statement	Recognised in reserves	Recognised in the income statement	Recognised in reserves
Available-for-sale financial assets	-	8	-	43
Impairment losses on loans and advances to customers	(11)	-	28	-
Deferred taxes	(11)	8	28	43
Current taxes	693	-	2 833	
Total tax recognised	**682**	**8**	**2 861**	**43**

Current tax assets and liabilities recognised in the balance sheet at 31 December 2015 and 2014 may be analysed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Assets		
Corporate tax recoverable	158	1 059
Other	-	-
	158	1 059
Liabilities		
Corporate tax payable	-	603
Other	-	-
	-	603

The reconciliation of the tax rate may be analysed as follows:

(thousands of Euros)

	31.12.2015		31.12.2014	
	%	Amount	%	Amount
Profit / (loss) before taxes		**5 105**		**9 600**
Banking Levy		88		46
		5 193		**9 646**
Tax rate	26.0		28.0	
Income tax calculated based on tax rate		1 350		2 701
Non-deductible costs		26	0.6	53
Changes in the estimates		(716)	-	-
Rate and tax base changes due to IRC Reform	-	-	0.3	31
Other	0.4	22	0.8	76
	13.4	**682**	**29.8**	**2 861**

Following the enactment of Law no. 55-A/2010, of 31 December, a Banking Levy ("Contribuição sobre o Sector Bancário"), which is not eligible as a tax cost, was established and this regime was extended by Law no. 64-B/2011, of 30 December, Law no. 66-B/2012, of 31 December, Law no. 83-C/2013, of 31 December and Law no. 82-B/2014, of 31 December. At 31 December 2015, the Bank recognised a cost for the period of Euros 87 thousand (31 December 2014: Euros 46 thousand), which was included in Other operating income and expense – Direct and indirect taxes.

NOTE 26 – OTHER LIABILITIES

At 31 December 2015 and 2014, the caption Other liabilities is analysed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Public sector	1 187	1 230
Suppliers	1 023	637
Creditors for futures and options contracts	3 027	2 212
Captive bank accounts	281	695
Other creditors	56	56
Staff costs	678	792
Other accrued expenses	563	840
Deferred income	190	129
Other transactions pending settlement	327	15
	7 332	**6 606**

NOTE 27 – SHARE CAPITAL

Ordinary shares

At 31 December 2015 and 2014, the Bank's share capital, amounting to Euros 63 000 thousand, is represented by 63 million shares, with a nominal value of Euro 1 each, was fully subscribed and realised in cash.

In 2002, the Bank increased its share capital from Euros 32 422 thousand to Euros 43 000 thousand through the issuance of 10 578 thousand ordinary shares with a nominal value of Euro 1 each, which were fully subscribed and realised in cash. In February 2003, the Bank underwent a new share capital increase through the issuance of 12 million ordinary shares with a nominal value of Euro 1 each. In 2005, share capital was again increased through the issuance of 6 million ordinary shares and, in 2006, once again, through the issuance of a further 2 million ordinary shares.

The Bank's shareholder structure is as follows:

	% Share Capital	
	31.12.2015	31.12.2014
NOVO BANCO, S.A.	100.00%	75.00%
Saxo Bank, A/S	-	25.00%
Banco Espírito Santo de Investimento, S.A.	-	0.00%
GNB - Companhia de Seguros Vida, S.A. [(a)]	0.00%	0.00%
NOVO BANCO dos Açores, S.A. [(a)]	0.00%	0.00%
Novo Banco Servicios Corporativos, S.L. [(a)]	0.00%	0.00%
	100.00%	**100.00%**

[(a)] hold 100 shares

As referred to in Note 1, the Bank integrates the NOVO BANCO Group, as a result of which its financial statements are fully consolidated by NOVO BANCO, with registered office at Avenida da Liberdade, no. 195, in Lisbon. During financial 2015, the shareholding position held by NOVO BANCO in Saxo Bank A/S was exchanged for the latter's 25% shareholding in BEST. With this share exchange operation, NOVO BANCO Group came to hold the entire share capital of BEST.

NOTE 28 – FAIR VALUE RESERVES, OTHER RESERVES AND RETAINED EARNINGS

Legal reserve

The legal reserve can only be used to absorb accumulated losses or to increase share capital. Portuguese legislation applicable to the banking sector (Article 97 of Decree-Law no. 298/92, of 31 December) requires that 10% of the profit for the period be transferred to the legal reserve until it equals share capital.

Fair value reserves

The fair value reserves represent the amounts of unrealised gains and losses arising on the available-for-sale investments portfolio, net of impairment losses recognised in the income statement in the period / previous periods.

The movements in these captions during the 2015 and 2014 financial periods were as follows:

(thousands of Euros)

	Fair value reserves			Other reserves and Retained earnings		
	Available-for-sale financial assets	Deferred tax reserves	Total Fair value reserves	Legal reserve	Other reserves and Retained earnings	Total Other reserves and Retained earnings
Balance at 31 December 2013	**154**	**-**	**154**	**3 019**	**(14 175)**	**(11 156)**
Changes in fair value	10	(43)	(33)	-	-	-
Constitution of reserves	-	-	-	1 023	9 213	10 236
Balance at 31 December 2014	**164**	**(43)**	**121**	**4 042**	**(4 962)**	**(920)**
Changes in fair value	30	(8)	22	-	-	-
Constitution of reserves	-	-	-	674	6 065	6 739
Balance at 31 December 2015	**194**	**(51)**	**143**	**4 716**	**1 103**	**5 819**

The fair value reserves are analysed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Amortised cost of available-for-sale financial assets	22 024	3 552
Accumulated impairment losses recognised	(167)	(167)
Amortised cost of available-for-sale financial assets, net of impairment losses	21 857	3 385
Fair value of available-for-sale financial assets	22 051	3 549
Unrealised gains / (losses) recognised in fair value reserves	194	164
Deferred taxes	(51)	(43)
Unrealised gains / (losses) recognised in fair value reserves, net of tax	**143**	**121**

The movements in fair value reserves, net of deferred taxes, may be analysed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Balance at beginning of period	**121**	**154**
Changes in fair value	30	36
Disposals during period	-	(26)
Deferred taxes recognised in reserves during period	(8)	(43)
Balance at end of period	**143**	**121**

NOTE 29 – CONTINGENT LIABILITIES AND COMMITMENTS

In addition to derivative financial instruments, at 31 December 2015 and 2014, the off-balance sheet elements included the following:

(thousands of Euros)	31.12.2015	31.12.2014
Contingent liabilities		
Guarantees and standby letters	380	380
Assets pledged as collateral	1 649	1 696
	2 029	**2 076**
Commitments		
Revocable commitments	73 524	72 385
Irrevocable commitments	1 915	243
	75 439	**72 628**
	77 468	**74 704**

Guarantees and standby letters are banking operations that do not imply an outflow by the Bank.

At 31 December 2015, the caption Assets pledged as collateral includes:

- Securities pledged as collateral to the Securities and Exchange Commission ("Comissão do Mercado de Valores Mobiliários") in the scope of the Investors Indemnity System ("Sistema de Indemnização aos Investidores" (SII)) in the amount of Euros 1 029 thousand (31 December 2014: Euros 1 056 thousand);

- Securities pledged as collateral to the Deposits Guarantee Fund ("Fundo de Garantia de Depósitos" (FGD)) in the amount of Euros 620 thousand (31 December 2014: Euros 640 thousand).

The commitments, revocable and irrevocable, represent contractual agreements for credit concession entered into with the Bank's customers (ex. unused credit lines) which, in general, are contracted for fixed periods or with other expiry requirements and, normally, imply the payment of a commission. Practically all credit concession commitments in force require customers to abide by certain requirements, which are already verified at the moment of the respective formalisation.

Notwithstanding the particular characteristics of these contingent liabilities and commitments, the analysis of these operations follows the same basic principles applied to any other commercial operation, namely that of the solvency of the underlying customer and business, with the Bank requiring such operations to be adequately covered by collateral, when necessary. Since it is expected that the majority of these contingent liabilities and commitments will expire without having being used, the amounts indicated do not necessarily represent future cash flow needs.

The above mentioned securities pledged as collateral are recorded in the available-for-sale portfolio and can be executed in the event the Bank does not fulfil its obligations under the terms and conditions of the contracts celebrated.

Additionally, the liabilities accounted for off-balance sheet relating to banking services provided are as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Responsibilities related with banking services		
Deposit and custodianship of securities and other items for customers	503 111	627 437
Other responsibilities related with banking services	191 513	167 886
	694 624	**795 323**

NOTE 30 – RELATED PARTY TRANSACTIONS

At 31 December 2015 and 2014, the Bank's transactions with related parties, as well as the respective expense and income recognised during the periods, are summarised as follows:

(thousands of Euros)

	31.12.2015				31.12.2014			
	Assets	Liabilities	Income	Expense	Assets	Liabilities	Income	Expense
NOVO BANCO	240 768	4 053	2 390	299	230 628	31 226	935	178
NOVO BANCO AÇORES	3 070	-	-	-	2 878	-	-	-
BESI [a)]	-	-	-	-	-	-	2 739	-
GNB GA	50	-	1	364	129	-	636	223
GNB VIDA	429	25 679	1 482	1	925	28 915	5	-
GNB SEGUROS	-	220	-	-	-	177	-	-
UNICRE	-	-	-	-	-	2	-	-
SAXO BANK [b)]	-	-	1 507	-	20 535	11 231	3 265	-
	244 317	**29 952**	**5 380**	**664**	**255 095**	**71 551**	**7 580**	**401**

[a)] Entity excluded from the perimeter of Novo Banco Group in Sept./15

[b)] Ceased to be shareholder of BEST in Nov./15 due to the shareholding position exchange operation

NOTE 31 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILTIES

The fair value of financial assets and liabilities, for the Bank, is as follows:

(thousands of Euros)

	Amortised Cost	At fair value: Quoted Market Prices	At fair value: Valuation models based on observable market information	At fair value: Valuation models based on non-observable market information	Carrying value	Fair value
31 December 2015						
Deposits with banks	64 421	-	-	-	64 421	64 421
Financial assets held for trading	-	-	-	345	345	345
Available-for-sale financial assets	552	20 471	1 017	11	22 051	22 051
Loans and advances to banks	208 041	-	-	-	208 041	208 041
Loans and advances to customers	157 407	-	-	-	157 407	161 486
Financial assets	**430 421**	**20 471**	**1 017**	**356**	**452 265**	**456 344**
Financial liabilities held for trading	-	-	230	-	230	230
Deposits from banks	29 845	-	-	-	29 845	29 845
Deposits from customers	348 510	-	-	-	348 510	348 510
Financial Liabilities	**378 355**	**-**	**230**	**-**	**378 585**	**378 585**
31 December 2014						
Deposits with banks	47 625	-	-	-	47 625	47 625
Financial assets held for trading	-	-	-	864	864	864
Available-for-sale financial assets	549	1 710	1 279	11	3 549	3 549
Loans and advances to banks	215 418	-	-	-	215 418	215 418
Loans and advances to customers	141 939	-	-	-	141 939	141 802
Financial assets	**405 531**	**1 710**	**1 279**	**875**	**409 395**	**409 258**
Financial liabilities held for trading	-	-	74	-	74	74
Deposits from banks	46 822	-	-	-	46 822	46 822
Due to customers and other loans	293 298	-	-	-	293 298	293 298
Financial Liabilities	**340 120**	**-**	**74**	**-**	**340 194**	**340 194**

BEST determines the fair value of its financial assets and liabilities in accordance with the following hierarchy:

Quoted market prices – this category includes financial assets with quoted market prices available on official markets and with dealer price quotations provided by entities that usually provide transaction prices for these assets / liabilities traded on active markets.

Valuation models based on observable market information – consists of the use of internal valuation techniques, namely discounted cash flow models and option pricing models, which imply the use of estimates and require judgements that vary in accordance with the complexity of the financial instruments. Notwithstanding, the Bank uses as inputs in its models observable market data such as interest rate curves, credit spreads, volatility and market indexes. These also include instruments with dealer price quotations but which are not traded on active markets.

Valuation models based on non-observable market information – consists of the use of internal valuation models or quotations provided by third parties but which imply the use of non-observable market information.

The main assumptions and inputs used in the valuation models, during financial periods 2015 and 2014, are as follows:

Interest rate curves

The short-term rates presented reflect benchmark interest rates for the money market, whilst for the long-term the values presented represent the swap interest rates for the respective periods:

(%)

	31.12.2015			31.12.2014		
	EUR	**USD**	**GBP**	**EUR**	**USD**	**GBP**
Overnight	-0.3500	0.4100	0.3200	0.0100	0.1750	0.4500
1 month	-0.2050	0.6050	0.5750	0.0180	0.3100	0.5250
3 months	-0.1310	0.7550	0.6700	0.0780	0.1900	0.6000
6 months	-0.0400	0.9400	0.8250	0.1710	0.5000	0.7400
9 months	-0.0480	1.1200	0.9750	0.1662	0.6000	0.7393
1 year	-0.0569	0.8470	0.7261	0.1635	0.4325	0.6476
3 years	0.0590	1.3849	1.3026	0.2240	1.2610	1.1400
5 years	0.3280	1.7010	1.5920	0.3600	1.7900	1.4490
7 years	0.6210	1.9310	1.7990	0.5320	2.0390	1.6450
10 years	1.0000	2.1615	1.9931	0.8195	2.2790	1.8430
15 years	1.3990	2.3930	2.1606	1.1528	2.5020	2.0673
20 years	1.5670	2.5020	2.2010	1.3268	2.6160	2.1838
25 years	1.6040	2.6320	2.1800	1.4169	2.6660	2.2211
30 years	1.6100	2.5900	2.1550	1.4718	2.6910	2.2320

Interest rate volatility

The values presented below refer to the implied volatilities (at the money) used for the valuation of interest rate options:

(%)

	31.12.2015			31.12.2014		
	EUR	**USD**	**GBP**	**EUR**	**USD**	**GBP**
1 year	31.65	50.93	44.44	283.60	69.94	49.46
3 years	58.65	46.06	53.36	102.30	57.67	61.19
5 years	78.45	46.29	54.11	94.22	49.13	59.26
7 years	83.60	43.95	51.72	84.35	44.41	55.17
10 years	84.47	39.50	47.70	67.52	40.68	49.61
15 years	80.90	-	42.18	53.72	35.58	41.94

Foreign exchange rates and volatility

The foreign exchange rates (European Central Bank) at the balance sheet date and the implied volatilities (at the money) for the main foreign currency pairs used in the derivatives' valuation are presented next:

Foreign exchange rate pair	31.12.2015	31.12.2014	Volatility (%) 1 month	3 months	6 months	9 months	1 year
EUR/USD	1.0887	1.2141	9.68	9.95	9.95	10.03	10.05
EUR/GBP	0.7340	0.7789	8.75	9.13	9.81	10.30	10.50
EUR/CHF	1.0835	1.2024	6.15	6.80	7.20	7.50	7.70
EUR/NOK	9.6030	9.0420	10.85	10.85	10.73	10.70	10.70
EUR/PLN	4.2639	4.2732	6.75	6.73	6.88	7.00	7.08
EUR/RUB	80.6736	72.3370	21.22	22.26	22.67	22.77	22.86
USD/BRL a)	3.9604	2.6527	23.59	22.81	21.78	21.53	21.29
USD/TRY b)	2.9177	2.3326	12.34	13.24	13.99	14.47	14.90

[a] Calculated based on the EUR/USD and EUR/BRL rates

[b] Calculated based on the EUR/USD and EUR/TRY rates

Equity indexes

The table below presents the evolution of the main market equity indexes and the respective volatilities used for the valuation of equity derivatives:

	Quotation			Historical volatility		Implicit volatility
	31.12.2015	31.12.2014	% change	1 month	3 months	
DJ Euro Stoxx 50	3 268	3 146	3.85	23.39	23.14	22.72
PSI 20	5 313	4 799	10.71	16.81	21.40	-
IBEX 35	9 544	10 280	-7.15	22.88	22.20	-
FTSE 100	6 242	6 566	-4.93	17.98	20.34	16.08
DAX	10 743	9 806	9.56	25.48	24.38	21.79
S&P 500	2 044	2 059	-0.73	16.33	18.56	15.58
BOVESPA	43 350	50 007	-13.31	25.68	27.27	25.38

BEST uses in its valuation models the spot rate observed in the market at the moment of the valuation.

The main methods and assumptions used in estimating the fair values of financial assets and liabilities measured at amortised cost in the balance sheet, are analysed as follows:

Cash and deposits with Central Banks, Deposits with banks and Loans and advances to banks

Considering the short-term nature of these financial instruments, their carrying value is a reasonable estimate of their fair value.

Loans and advances to customers

The fair value of loans and advances to customers is estimated based on the discounting of the expected future cash flows of capital and interest, assuming that the instalments are paid on the dates contractually defined. The expected future cash flows of loans with similar credit risk characteristics, such as, for example, home mortgages, are estimated on a portfolio basis. The discount rates used by the Bank are the current interest rates used in loans with similar characteristics at the balance sheet date.

Deposits from Central Banks and Deposits from banks

Considering the short-term nature of these financial instruments, their carrying value is a reasonable estimate of their fair value.

Deposits from customers and other loans

The fair value of these financial instruments is estimated based on the discounting of the expected future cash flows of capital and interest, assuming that the instalments are paid on the dates contractually defined. The discount rates used by the Bank are the current interest rates used in instruments with similar characteristics at the balance sheet date. Considering that the interest rates applicable to these instruments are renewed for periods substantially inferior to one year, the differences between fair value and carrying value are not material.

NOTE 32 – ACTIVITY RISK MANAGEMENT

BEST takes advantages of the synergies inherent to its shareholding structure, maintaining a lightweight operational structure and subcontracting to NOVO BANCO Group a number of services and other back-office functions whenever economies of scale can be achieved through the use of shared services. In this sense, NOVO BANCO and / or Group companies are the leading providers of outsourcing services to BEST.

The Risk Management function integrates the Global Risk Department of NOVO BANCO and aims to ensure an effective implementation of the risk management system through the continuous monitoring of its adequacy and effectiveness, seeking to identify, assess, monitor and control all material risks to which the Bank is exposed, both internally and externally. In this context, BEST participates in the various relevant risk committees, namely the Risk Committee and the Assets and Liabilities Management Committee.

The Bank is exposed to the following risks arising from the use of financial instruments:

- Credit risk;

- Market risk;
- Liquidity risk;
- Operational risk.

Credit risk

Credit risk represents the potential financial loss arising from the failure of a borrower or counterpart to honour its contractual obligations established with the Bank in the scope of its lending activity. Credit risk is essentially present in traditional banking products – loans, guarantees granted and other contingent liabilities – and in trading products – swaps, forwards and options (counterpart risk).

The credit portfolio management is an ongoing process that requires interaction between the various teams responsible for risk management throughout the consecutive stages of the credit process. This approach is complemented with the continuous introduction of improvements in the methodologies and in the risk assessment and control tools, as well as in procedures and in the decision-making processes.

The risk profile of the Bank is analysed on a regular basis by the Risk Committee, especially as regards the evolution of credit exposure and credit losses. The observance of approved credit limits and the correct application of the mechanisms associated with the approval of credit lines during the current activity of the commercial structure are also subject to periodic analysis.

BEST's credit risk exposure is analysed as follows:

(thousands of Euros)

	31.12.2015	**31.12.2014**
Deposits with and loans and advances to banks	272 462	263 043
Available-for-sale financial assets	21 488	2 989
Loans and advances to customers	157 407	141 939
Other assets	3 627	2 739
Guarantees and standby letters of credit	380	380
Irrevocable commitments	1 915	243
	457 279	**411 333**

At 31 December 2015 and 2014, the breakdown of gross loans and advances to customers and impairment recognised by segment was as follows:

(thousands of Euros)

Segment	31.12.2015													
	Loans and advances not at risk						Loans and advances at risk						Total Loans and advances	
	Without impairment triggers		With impairment triggers		Total		Days overdue				Total			
							<= 90 days *		>90 days					
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	-	-	2	1	2	1	28 736	239	5 481	87	34 217	326	34 219	327
Mortgage loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Consumer loans	216	59	1 246	1 140	1 462	1 199	107 350	346	16 047	1 024	123 397	1 370	124 859	2 569
Total	**216**	**59**	**1 248**	**1 141**	**1 464**	**1 200**	**136 086**	**585**	**21 528**	**1 111**	**157 614**	**1 696**	**159 078**	**2 896**

* Loans and advances with principal and / or interest overdue under 90 days, but for which there are indications that justify their classification as loans and advances at risk, the bankruptcy or liquidation of the debtor amongst these

(thousands of Euros)

Segment	31.12.2014													
	Loans and advances not at risk						Loans and advances at risk						Total Loans and advances	
	Without impairment triggers		With impairment triggers		Total		Days overdue				Total			
							<= 90 days *		>90 days					
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	132	-	94	30	226	30	25 504	169	2 932	421	28 436	590	28 662	620
Mortgage loans	-	-	-	-	-	-		-	-	-	-	-	-	-
Consumer loans	98	33	1 144	970	1 242	1 003	106 382	246	7 240	887	113 622	1 133	114 864	2 136
Total	**230**	**33**	**1 238**	**1 000**	**1 468**	**1 033**	**131 886**	**415**	**10 172**	**1 308**	**142 058**	**1 723**	**143 526**	**2 756**

* Loans and advances with principal and / or interest overdue under 90 days, but for which there are indications that justify their classification as loans and advances at risk, the bankruptcy or liquidation of the debtor amongst these

At 31 December 2015 and 2014, the breakdown of the loans and advances to customers' portfolio and year of production was as follows:

(thousands of Euros)

Year of production	31.12.2015											
	Corporate			Mortgage loans			Consumer loans			Total		
	No. transactions	Amount	Impairment constituted	No. transactions	Amount	Impairment constituted	No. transactions	Amount	Impairment constituted	No. transactions	Amount	Impairment constituted
2004 and prior	1	1	-	-	-	-	1 148	1 233	73	1 149	1 234	73
2005	-	-	-	-	-	-	729	602	27	729	602	27
2006	-	-	-	-	-	-	889	732	14	889	732	14
2007	2	1	-	-	-	-	812	1 685	164	814	1 686	164
2008	4	10	-	-	-	-	650	799	284	654	809	284
2009	3	1	-	-	-	-	638	2 710	113	641	2 711	113
2010	2	610	3	-	-	-	1 327	4 545	204	1 329	5 155	207
2011	8	2 574	13	-	-	-	2 136	14 121	935	2 144	16 695	948
2012	26	9 908	102	-	-	-	1 883	17 724	256	1 909	27 632	358
2013	27	4 610	69	-	-	-	2 073	19 184	127	2 100	23 794	196
2014	42	6 850	76	-	-	-	1 646	35 151	200	1 688	42 001	276
2015	62	9 653	62	-	-	-	1 333	26 374	174	1 395	36 027	236
Total	**177**	**34 218**	**325**	**-**	**-**	**-**	**15 264**	**124 860**	**2 571**	**15 441**	**159 078**	**2 896**

(thousands of Euros)

Year of production	Corporate			Mortgage loans			Consumer loans			Total		
	31.12.2014											
	No. transactions	Amount	Impairment constituted	No. transactions	Amount	Impairment constituted	No. transactions	Amount	Impairment constituted	No. transactions	Amount	Impairment constituted
2004 and prior	1	1	-	-	-	-	1 226	2 653	90	1 227	2 654	90
2005	-	-	-	-	-	-	820	955	33	820	955	33
2006	-	-	-	-	-	-	950	786	12	950	786	12
2007	2	2	-	-	-	-	797	1 936	171	799	1 938	171
2008	-	-	-	-	-	-	730	1 056	302	730	1 056	302
2009	3	-	-	-	-	-	662	2 685	117	665	2 685	117
2010	6	933	4	-	-	-	1 378	7 665	121	1 384	8 598	125
2011	8	2 595	401	-	-	-	2 212	13 752	915	2 220	16 347	1 316
2012	34	10 707	112	-	-	-	2 041	22 844	173	2 075	33 551	285
2013	36	5 027	39	-	-	-	2 179	21 637	90	2 215	26 664	129
2014	55	9 396	63	-	-	-	1 617	38 896	113	1 672	48 292	176
Total	**145**	**28 661**	**619**	**-**	**-**	**-**	**14 612**	**114 865**	**2 137**	**14 757**	**143 526**	**2 756**

At 31 December 2015 and 2014, the breakdown of gross loans and advances to customers and impairment assessed individually and collectively, by segment, was as follows:

(thousands of Euros)

	31.12.2015					
	Individual Assessment (1)		Collective Assessment (2)		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	-	-	34 219	327	34 219	327
Mortgage loans	-	-	-	-	-	-
Consumer loans	3 388	1 137	121 471	1 432	124 859	2 569
Total	**3 388**	**1 137**	**155 690**	**1 759**	**159 078**	**2 896**

(1) Loans and advances for which the final impairment was determined and approved by the Impairment Committee
(2) Loans and advances for which the final impairment was determined automatically by the Impairment model

(thousands of Euros)

	31.12.2014					
	Individual Assessment (1)		Collective Assessment (2)		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	-	-	28 662	620	28 662	620
Mortgage loans	-	-	-	-	-	-
Consumer loans	3 258	1 016	111 606	1 120	114 864	2 136
Total	**3 258**	**1 016**	**140 268**	**1 740**	**143 526**	**2 756**

(1) Loans and advances for which the final impairment was determined and approved by the Impairment Committee
(2) Loans and advances for which the final impairment was determined automatically by the Impairment model

Credits analysed by the Impairment Committee for which the impairment determined automatically by the impairment model has not been changed, are included and presented in the "Collective Assessment".

The analysis of the risk exposure by sector of activity, at 31 December 2015 and 2014, may be presented as follows:

(thousands of Euros)

	31.12.2015					
	Loans and advances to customers		Financial assets held for trading	Available-for-sale financial assets		Guarantees granted
	Gross amount	Impairment [(a)]		Gross amount	Impairment	
Agriculture, Forestry and Fishery	865	(45)	-	-	-	-
Food, Beverages and Tobacco	351	(3)	-	-	-	-
Textiles and Clothing	4 013	(48)	-	-	-	-
Wood and Cork	152	(2)	-	-	-	-
Paper and Printing Industry	1 077	(9)	-	-	-	-
Chemicals and Rubber	731	(7)	-	-	-	-
Non-metallic Minerals	230	(2)	-	-	-	-
Metallurgical Industries and Metallic Products	325	(4)	-	-	-	-
Production of Machinery, Equipment and Electrical I	113	(1)	-	-	-	-
Production of Transport Material	82	(1)	-	-	-	-
Other Transforming Industries	20	-	-	-	-	-
Construction and Public Works	385	(11)	-	-	-	-
Wholesale and Retail Trade	5 870	(61)	-	-	-	-
Tourism	196	(1)	-	-	-	-
Financial Activities	654	(1)	345	1 736	(167)	-
Real Estate Activities	8 642	(52)	-	-	-	-
Services Provided to Companies	7 560	(47)	-	11	-	-
Public Administration and Services	1 575	(13)	-	20 471	-	-
Other community service activities	1 367	(16)	-	-	-	-
Consumer Loans	124 859	(2 569)	-	-	-	-
Other	11	(3)	-	-	-	380
TOTAL	**159 078**	**(2 896)**	**345**	**22 218**	**(167)**	**380**

[(a)] includes an impairment provision of Euros 1 671 thousand (see Note 17) and a provision for general credit risks of Euros 1 225 thousand (see Note 24)

(thousands of Euros)

	31.12.2014					
	Loans and advances to customers		Financial assets held for trading	Available-for-sale financial assets		Guarantees granted
	Gross amount	Impairment (a)		Gross amount	Impairment	
Agriculture, Forestry and Fishery	541	(4)	-	-	-	-
Food, Beverages and Tobacco	704	(5)	-	-	-	-
Textiles and Clothing	3 656	(36)	-	-	-	-
Wood and Cork	95	(1)	-	-	-	-
Paper and Printing Industry	959	(6)	-	-	-	-
Chemicals and Rubber	302	(2)	-	-	-	-
Non-metallic Minerals	215	(2)	-	-	-	-
Metallurgical Industries and Metallic Products	183	(2)	-	-	-	-
Construction and Public Works	378	(7)	-	-	-	-
Wholesale and Retail Trade	4 454	(48)	-	-	-	-
Tourism	92	-	-	-	-	-
Financial Activities	280	(1)	864	1 995	(167)	-
Real Estate Activities	4 037	(14)	-	-	-	-
Services Provided to Companies	11 362	(480)	-	11	-	-
Public Administration and Services	918	(6)	-	1 710	-	-
Other community service activities	486	(5)	-	-	-	-
Consumer Loans	114 864	(2 136)	-	-	-	-
Other	-	(1)	-	-	-	380
TOTAL	**143 526**	**(2 756)**	**864**	**3 716**	**(167)**	**380**

[(a)] includes an impairment provision of Euros 1 587 thousand (see Note 17) and a provision for general credit risks of Euros 1 169 thousand (see Note 24)

With regard to restructured loans and advances to customers due to financial difficulties of the customer, as defined by the Instruction no. 32/2013, of Banco de Portugal, the amounts involved at 31 December 2015 and 2014 are as follows:

(thousands of Euros)	31.12.2015	31.12.2014
Corporate	3 102	200
Mortgage loans	-	-
Consumer loans	3 360	1 102
Non-resident loans	-	52
Total	**6 462**	**1 354**

Below are the details of the restructuring measures applied to restructured loans and advances until 31 December 2015 and 2014:

(thousands of Euros)

Measure	31.12.2015								
	Loans and advances not at risk			Loans and advances at risk			Total		
	No. transactions	Exposure	Impairment	No. transactions	Exposure	Impairment	No. transactions	Exposure	Impairment
Principal or interest pardon	-	-	-	-	-	-	-	-	-
Capitalisation of interest	-	-	-	-	-	-	-	-	-
New loan in total or partial payment of existing loan	2	3	-	-	-	-	2	3	-
Extension of repayment period	3	13	2	-	-	-	3	13	2
Introduction of a grace period of principal or interest	-	-	-	-	-	-	-	-	-
Decrease in the interest rates	-	-	-	-	-	-	-	-	-
Change of the lease payment plan	-	-	-	-	-	-	-	-	-
Change in the interest payment periods	-	-	-	-	-	-	-	-	-
Other	53	6 332	92	17	114	77	70	6 446	169
Total	**58**	**6 348**	**94**	**17**	**114**	**77**	**75**	**6 462**	**171**

(thousands of Euros)

Measure	31.12.2014								
	Loans and advances not at risk			Loans and advances at risk			Total		
	No. transactions	Exposure	Impairment	No. transactions	Exposure	Impairment	No. transactions	Exposure	Impairment
Principal or interest pardon	-	-	-	-	-	-	-	-	-
Capitalisation of interest	-	-	-	-	-	-	-	-	-
New loan in total or partial payment of existing loan	1	3	-	-	-	-	1	3	-
Extension of repayment period	1	4	1	-	-	-	1	4	1
Introduction of a grace period of principal or interest	-	-	-	-	-	-	-	-	-
Decrease in the interest rates	-	-	-	-	-	-	-	-	-
Change of the lease payment plan	-	-	-	-	-	-	-	-	-
Change in the interest payment periods	-	-	-	-	-	-	-	-	-
Other	25	1 335	31	12	13	9	37	1 348	40
Total	**27**	**1 342**	**32**	**12**	**13**	**9**	**39**	**1 355**	**41**

Market risk

Market risk represents the possible loss resulting from an adverse change in the value of financial instruments due to fluctuations in interest rates, foreign exchange rates, share prices and commodity prices.

Market risk management is integrated within balance sheet management through the Asset and Liability Committee (ALCO), constituted at top management level. This committee is responsible for defining policies for the structuring and composition of the balance sheet, and for controlling exposure to interest rate, foreign exchange rate and liquidity risk.

The main measure of market risk is the assessment of potential losses under adverse market conditions, for which the Value at Risk (VaR) valuation methodology is used. The Bank's VaR model uses the Monte Carlo simulation, based on a confidence level of 99% and an investment period of 10 days. Volatilities and correlations are historical, based on an observation period of one year. As a complement to VaR, stress testing has been developed, permitting an evaluation of the impact of potential losses higher than those considered by VaR.

(thousands of Euros)

	31.12.2015				31.12.2014			
	December	Period average	Maximum	Minimum	December	Period average	Maximum	Minimum
Foreign exchange rate risk	28	69	248	21	144	77	153	42
Total	**28**	**69**	**248**	**21**	**144**	**77**	**153**	**42**

At 31 December 2015, BEST has a VaR of Euros 28 thousand (31 December 2014: Euros 144 thousand) for its trading positions.

Following the issues of the Basel II (Pillar 2) recommendations and Instruction no. 19/2005, of Banco de Portugal, BEST calculates its exposure to interest rate risk based on the methodology set by the Bank of International Settlement (BIS), classifying all balance and off-balance captions which are not part of the trading portfolio, by re-pricing intervals.

(thousands of Euros)

	31.12.2015						
	Eligible amounts	Not sensitive	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years
Loans and advances to and deposits with banks	271 748	-	94 748	120 000	57 000	-	-
Loans and advances to customers	158 436	-	83 337	56 031	9 375	9 565	128
Securities	21 636	563	-	-	1 643	18 401	1 029
Total			**178 085**	**176 031**	**68 018**	**27 966**	**1 157**
Deposits from Banks	29 846	-	29 846	-	-	-	-
Deposits from customers	346 466	-	177 841	18 351	31 499	118 775	-
Total			**207 687**	**18 351**	**31 499**	**118 775**	**-**
Balance sheet GAP (Assets - Liabilities)	74 945		(29 602)	157 680	36 519	(90 809)	1 157
Off-Balance sheet	-		-	-	-	-	-
Structural GAP	**74 945**		**(29 602)**	**157 680**	**36 519**	**(90 809)**	**1 157**
Accumulated GAP			**(29 602)**	**128 078**	**164 597**	**73 788**	**74 945**

(thousands of Euros)

	31.12.2014						
	Eligible amounts	Not sensitive	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years
Loans and advances to and deposits with banks	262 625	1	107 624	60 000	95 000	-	-
Loans and advances to customers	142 902	-	92 189	33 037	4 911	12 492	273
Securities	3 535	560	-	-	354	2 621	-
Total			**199 813**	**93 037**	**100 265**	**15 113**	**273**
Deposits from Banks	40 590	-	40 590	-	-	-	-
Deposits from customers	297 984	-	146 016	17 359	27 608	107 001	-
Total			**186 606**	**17 359**	**27 608**	**107 001**	**-**
Balance sheet GAP (Assets - Liabilities)	69 927		13 207	75 678	72 657	(91 888)	273
Off-Balance sheet	-		-	-	-	-	-
Structural GAP	**69 927**		**13 207**	**75 678**	**72 657**	**(91 888)**	**273**
Accumulated GAP			**13 207**	**88 885**	**161 542**	**69 654**	**69 927**

The model used to monitor the sensitivity of BEST's banking portfolio to interest rate risk is based on the duration model and considers a scenario of a 100 basis points parallel shift in the interest rate curve for all maturities and non-parallel scenarios of changes in the yield curve above 1 year of 50b.p..

(thousands of Euros)

	31.12.2015				31.12.2014			
	Parallel increase of 100 bp	Parallel decrease of 100 bp	Increase of 50 bp after 1 year	Decrease of 50 bp after 1 year	Parallel increase of 100 bp	Parallel decrease of 100 bp	Increase of 50 bp after 1 year	Decrease of 50 bp after 1 year
At end of period	305	(305)	571	(571)	712	(712)	777	(777)
Average for the period	460	(460)	671	(671)	1 026	(1 026)	787	(787)
Maximum for the period	717	(717)	799	(799)	1 262	(1 262)	808	(808)
Minimum for the period	270	(270)	527	(527)	712	(712)	777	(777)

The following table presents the average balances, interest charges and interest rates in relation to the Bank's major financial assets and liabilities categories, for the periods ended 31 December 2015 and 2014:

(thousands of Euros)

	31.12.2015			31.12.2014		
	Average balance for period	**Interest for period**	**Average interest rate**	**Average balance for period**	**Interest for period**	**Average interest rate**
Monetary assets	233 628	2 365	1,01%	217 530	916	0.42%
Loans and advances to custom	161 261	4 232	2,62%	160 395	4 896	3.05%
Securities	9 904	281	2,84%	6 577	282	4.29%
Differential applications	-	-	-	-	-	-
Financial assets	**404 793**	**6 878**	**1,70%**	**384 502**	**6 094**	**1.58%**
Monetary Liabilities	27 827	47	0,17%	26 580	144	0.54%
Due to customers	314 936	723	0,23%	296 570	1 170	0.39%
Differential liabilities	62 030	-	-	61 352	-	-
Financial liabilities	**404 793**	**770**	**0,19%**	**384 502**	**1 314**	**0.34%**
Net interest income		**6 108**	**1,51%**		**4 780**	**1.24%**

Regarding foreign exchange risk, the breakdown of assets and liabilities by currency, at 31 of December of 2015 and 2014, is analysed as follows:

(thousands of Euros)

		31.12.2015			31.12.2014		
		Spot	**Forward**	**Net exposure**	**Spot**	**Forward**	**Net exposure**
USD	UNITED STATES DOLLAR	2 405	(3 215)	(810)	(26 191)	28 164	1 973
GBP	GREAT BRITISH POUND	78	-	78	(3 016)	3 920	904
DKK	DANISH KRONE	121	-	121	110	-	110
JPY	JAPANESE YEN	322	-	322	49	336	385
CHF	SWISS FRANC	182	-	182	496	-	496
SEK	SWEDISH KRONE	198	-	198	50	-	50
NOK	NORWEGIAN KRONE	119	-	119	142	-	142
CAD	CANADIAN DOLLAR	11	-	11	515	-	515
AUD	AUSTRALIAN DOLLAR	49	-	49	578	-	578
PLN	POLISH ZLOTY	23	-	23	23	-	23
TRL	TURKISH LIRA	28	-	28	114	-	114
	OTHER	157	-	157	29	-	29
		3 693	**(3 215)**	**478**	**(27 101)**	**32 420**	**5 319**

Note: asset / (liability)

Liquidity risk

Liquidity risk derives from the potential inability to fund assets whilst satisfying commitments on due dates without incurring in excessive losses.

Liquidity risk can be divided into two types:

• Asset liquidity (market liquidity risk) – consists of the inability to sell a particular asset due to lack of liquidity on the market, which results in extending the bid / offer spread or in the application of a haircut to the market value.

• Funding liquidity (funding liquidity risk) – consists of the inability to, within the desired timeframe and currency, fund assets on the market and / or refinance debt falling due. This inability can be reflected in a significant increase in the financing cost or the demand for collateral to obtain funds. Difficulty in (re)financing can lead to asset sales, even if incurring in significant losses. The risk of (re)financing should be minimised through an adequate diversification of funding sources and maturities.

Banks are subject to liquidity risk as an inherent part of their business is transforming maturities (long-term lenders and short-term depositors), a prudent management of liquidity risk being, therefore, critical.

The Bank prepares specific reports that allow for the identification of negative mismatches, permitting their dynamic coverage.

(millions of Euros)

	31.12.2015						
	Eligible amounts	Up to 7 days	7 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	More than 1 year
ASSETS							
Loans and advances to and deposits with banks and Central Banks	272	64	20	11	120	57	-
Loans and advances to customers	155	-	1	2	2	2	149
Securities	20	-	-	-	-	1	19
Other assets, net	3	3	-	-	-	-	-
Off-balance sheet (Commitments and Derivatives)	-	-	-	-	-	-	-
Total		**67**	**21**	**13**	**122**	**60**	**168**
LIABILITIES							
Deposits from banks, Central Banks and Other loans	30	30	-	-	-	-	-
Due to customers	346	36	4	10	-	-	296
Other short-term liabilities	8	8	-	-	-	-	-
Off-balance sheet (Commitments and Derivatives)	74	-	-	-	-	-	74
Total		**74**	**4**	**10**	**-**	**-**	**370**
GAP (Assets - Liabilities)		**(6)**	**16**	**3**	**122**	**59**	
Accumulated GAP		**(6)**	**10**	**13**	**135**	**194**	
Net Assets Buffer > 12 months							**16**

(millions of Euros)

	31.12.2014						
	Eligible amounts	Up to 7 days	7 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	More than 1 year
ASSETS							
Loans and advances to and deposits with banks and Central Banks	263	-	53	40	15	60	95
Loans and advances to customers	140	-	-	-	1	3	2
Securities	3	-	-	-	-	-	-
Total		**-**	**56**	**40**	**17**	**63**	**97**
LIABILITIES							
Deposits from banks, Central Banks and Other loans	41	-	36	-	5	-	-
Due to customers	298	-	27	3	7	-	-
Other short-term liabilities	7	-	7	-	-	-	-
Off-balance sheet (Commitments and Derivatives)	72	-	-	-	1	1	1
Total		**-**	**70**	**3**	**13**	**1**	**1**
GAP (Assets - Liabilities)		**(14)**	**37**	**5**	**61**	**96**	
Accumulated GAP		**(14)**	**22**	**27**	**89**	**185**	
Net Assets Buffer > 12 months							**1**

The one year cumulative gap went from Euros 185 314 thousand on 31 December 2014 to Euros 194 222 thousand on 31 December 2015, remaining at a very positive amount and reflecting the liquidity of the Bank’s assets.

Additionally, and in accordance with Instruction no. 13/2009, of Banco de Portugal, the liquidity gap is defined as [(Net Assets - Volatile Liabilities) / (Assets - Net Assets) * 100] at each cumulative residual maturity level, where net assets include cash and net securities and volatile liabilities include cash, issuances, commitments, derivatives and other liabilities. This indicator permits a characterization of the wholesale risk of institutions.

At 31 December 2015, BEST’s one year liquidity gap was 146.4, which compares with 138.6 at 31 December 2014. This ratio continues frankly positive, reflecting the stability of the liabilities and the liquidity of the Bank’s assets.

Operational risk

Operational risk represents the risk of losses resulting from failures or weaknesses in internal procedures, information systems, people behaviour or caused by external events, including legal risks. Operational risk is therefore understood to be the sum of the following risks: operational, information systems, compliance and reputational.

To manage operational risk, a system was developed and implemented standardising, systematising and regulating the frequency of actions with the objective of identifying, monitoring, controlling and mitigating said risk. The system is supported at organisational level by a unit within the Global Risk Department, exclusively dedicated to this task, and by representatives designated by each of the relevant departments and subsidiaries.

Capital Management and Solvency Ratio

The main objectives of capital management are to ensure compliance with the Bank's strategic objectives in matters pertaining to capital adequacy, respecting and complying with the own funds minimum requirements defined by the supervisory entities.

The definition of the strategy in terms of capital adequacy is made by the Executive Committee and is integrated in the global definition of the Bank's goals.

The Bank is subject to Banco de Portugal's supervision, which, under the Capital Adequacy Directive of the EU, establishes the prudential rules to be observed by the institutions under its supervision. These rules define the minimum own funds to capital ratio (solvency ratio) in relation to the risks assumed, that the institutions have to comply with.

The European Parliament and Council approved, on 26 June 2013, EU Directive 2013/36/EU and EU Regulation no. 75/2013 that regulate, in the European Union, the access to the credit institution and investment company activity and determine the prudential requirements to be observed by those entities as from 1 January 2014, respectively. This legislation transposes into the European legal order the recommendations of the Basel Committee, generally designated Basel III.

Notice no. 6/2013, of 23 December, of Banco de Portugal, regulates the transitory regime foreseen in that Regulation in matters pertaining to own funds and establishes capital preservation measures.

Currently, under the new Basel III legal order, the equity elements of BEST, for the purpose of determining the solvency ratio, are divided into: Common Equity Tier I (or Core Tier I), Basic Own Funds (or Tier I), Complementary Own Funds (or Tier II) and Total Own Funds, as follows:

- Common Equity Tier I: This category includes, essentially, realised share capital, share premiums, eligible reserves and the net profit for the period appropriated, when audited. The following balance sheet amounts are deductible from Core Tier I: intangible assets, negative actuarial deviations arising on liabilities with post-employment benefits to employees, the surplus value of deferred tax assets and shareholdings in financial entities and, when applicable, the net loss for the period.
- Basic Own Funds (BOF) (Tier I): In addition to the amounts considered as Core Tier I, this category includes, when applicable, preference shares and hybrid capital instruments.
- Complementary Own Funds (COF) (Tier II): Incorporates, essentially, when applicable, subordinated eligible debt.

BEST's equity is essentially composed of Common Equity Tier I elements.

The capital adequacy of BEST at 31 December 2015 and 2014 is presented as follows:

(thousands of Euros)

		31.12.2015	31.12.2014
A - Accounting Equity			
Realised Ordinary share capital, Shares premium and Treasury shares		62 992	62 992
Eligible Reserves and Retained earnings (excluding fair value reserves)		5 827	(912)
Intangible assets		(111)	(94)
Actuarial deviations with post-employment liabilities having a prudential impact		-	-
Fair value reserves having a prudential impact		8	(10)
Other effects		(280)	(622)
Common Equity Tier I / Core Tier I	**(A1)**	**68 436**	**61 354**
Preference and Hybrid shares		-	-
Other effects		-	-
Tier I	**(A2)**	**68 436**	**61 354**
Eligible Subordinated debt		-	-
Other effects		-	-
TIER II		**68 436**	**61 354**
Deductions		**-**	**-**
Eligible Own Funds	**(A3)**	**68 436**	**61 354**
B- Risk Weighted Assets	**(B)**	**190 089**	**201 981**
C- Prudential ratios			
Common Equity Tier I / Core Tier 1	**(A1 / B)**	**36.0%**	**30.4%**
Tier 1	**(A2 / B)**	**36.0%**	**30.4%**
Solvency	**(A3 / B)**	**36.0%**	**30.4%**

NOTE 33 – RECENTLY ISSUED ACCOUNTING STANDARDS AND INTERPRETATIONS

Impact of the adoption of standards and interpretations that became effective on 1 January 2015:

Standards

IFRS 1 (amendment), 'First-time adoption of IFRS'. This improvement to IFRS 1 clarifies that a First time adopter use either the old version or the new version of a standard that is not yet mandatory but is available for early adoption. The adoption of this amendment had no impact on the financial statements of the Bank.

IFRS 3 (amendment), 'Business combinations'. This Improvement clarifies that IFRS 3 does not apply to the accounting for the formation of any joint arrangement under IFRS 11, in the financial statements of the joint arrangement itself. The adoption of this amendment had no impact on the financial statements of the Bank.

IFRS 13 (amendment), 'Fair value: mensuration and disclosure'. This improvement clarifies that IFRS 13´s portfolio exception for the measurement at fair value on a net basis applies to all contracts (including non-financial contracts) within the scope of IAS 39. The adoption of this amendment had no impact on the financial statements of the Bank.

IAS 40 (amendment), 'Investment properties' (to be applied in the European Union in the annual periods beginning on or after 1 January 2015). This improvement clarifies that IAS 40 and IFRS 3 are not mutually exclusive. It is necessary to refer IFRS 3 when an investment property is acquired, to determine if it is a business combination. The adoption of this amendment had no impact on the financial statements of the Bank.

Interpretations

IFRIC 21 (new), 'Levies'. Interpretation of IAS 37 and the recognition of a liability, clarifying that the obligation event that gives rise to a liability to pay a levy or tax (other than corporate income tax - IRC) is the activity described in the relevant legislation that triggers the payment. The adoption of these changes had no impact on the financial statements of the Bank.

<u>Standards, amendments to existing standards that have already been published and which application is mandatory for annual periods starting on or after 1 February 2015, or at a later date, and which the Bank decided not to early adopt:</u>

Standards

IFRS 2 (amendment), 'Share based payments' (to be applied as from the annual periods beginning on or after 1 February 2015). The improvement amends the definitions of vesting conditions that only two types of conditions, "conditions of service" and "performance conditions". The new definition of "performance conditions" foresees that only conditions attached to the entity are considered. Material impacts on the financial statements of the Bank are not expected with the adoption of this amendment.

IFRS 3 (amendment), 'Business combinations' (to be applied as from the annual periods beginning on or after 1 February 2015). The improvement clarifies that an obligation to pay contingent consideration is classified, in accordance with IAS 32, as a liability, or if it meets the definition of financial instrument, as an equity instrument. The contingent considerations that are classified as liabilities shall be measured at fair value through profit or loss. Material impacts on the financial statements of the Bank are not expected with the adoption of this amendment.

IFRS 8 (amendment), ‘Operating segments’ (to be applied as from the annual periods beginning on or after 1 February 2015). The improvement amends IFRS 8 to require disclosure of the judgments made by the management in the aggregation of operating segments and the reconciliation of segment assets with the entity´s total assets in the financial statements when the information is reported. Material impacts on the financial statements of the Bank are not expected with the adoption of this amendment.

IFRS 13 (amendment), ‘Fair value: mensuration and disclosure’ (to be applied as from the annual periods beginning on or after 1 February 2015). The Improvement clarifies that the ability to measure short-term receivables and payables at the invoiced amounts where the impact of not discounting is immaterial, was not removed by IFRS 13. Material impacts on the financial statements of the Bank are not expected with the adoption of this amendment.

IAS 16 (amendment), ‘Tangible fixed assets’ and IAS 38 ‘Intangible assets’ (to be applied as from the annual periods beginning on or after 1 February 2015). The improvement clarifies how the gross carrying amount and the accumulated depreciation/amortisation are treated, when an entity uses the revaluation model for subsequent measurement of PP&E and intangible assets, foreseeing two models. This clarification is significant when useful lives or depreciation / amortisation methods are reviewed during the revaluation period. Material impacts on the financial statements of the Bank are not expected with the adoption of this amendment.

IAS 24 (amendment), ‘Related party disclosure’ (to be applied as from the annual periods beginning on or after 1 February 2015). The improvement amends IAS 24 to include as a related party an entity that provides key management personnel services to the reporting entity or the parent of the reporting entity. Material impacts on the financial statements of the Bank are not expected with the adoption of this amendment.

IAS 19 (amendment), ‘Defined benefit plans – Employee contributions’ (to be applied as from the annual periods beginning on or after 1 February 2015). The amendment to IAS 19 applies to contributions from employees or third parties to defined benefit plans and aims to simplify their accounting when the contributions are not associated with the number of years of service. Material impacts on the financial statements of the Bank are not expected with the adoption of this amendment.

IAS 1 (amendment), ‘Revision of disclosures’ (to be applied as from the annual periods beginning on or after 1 January 2016). The amendment provides guidance on materiality and aggregation, the presentation of subtotals, the structure of the financial statements, the disclosure of accounting policies and the presentation of items of other comprehensive income arising from investments measured at equity method. Material impacts on the financial statements of the Bank are not expected with the adoption of this amendment.

IAS 16 and **IAS 38** (amendment), ‘Accepted methods of calculating amortisation and depreciation’ (to be applied as from the annual periods beginning on or after 1 January 2016). The amendment clarifies that the use of methods of calculating depreciation/amortisation of assets based on revenue earned, are not, as a rule, considered suitable for the measurement of the consumption pattern of the economic benefits associated with the asset. The amendment has prospective application. Material impacts on the financial statements of the Bank are not expected with the adoption of this amendment.

IAS 27 (amendment), 'Equity method in the separate financial statements' (to be applied as from the annual periods beginning on or after 1 January 2016). The amendment allows entities to apply equity methods to measure investments in subsidiaries, joint ventures and associated companies in the separate financial statements. This amendment applies retrospectively. Material impacts on the financial statements of the Bank are not expected with the adoption of this amendment.

IFRS 10, 12 and **IAS 28** (amendment), 'Investment Entities: application of the exemption from the obligation to consolidate' (to be applied as from the annual periods beginning on or after 1 January 2016). The amendment is still subject to endorsement by the European Union. This amendment clarifies that the exemption from the obligation to prepare consolidated financial statements by investment entities applies to an intermediate which is a subsidiary of an investment entity. In addition, the option of applying the equity method under IAS 28 is extended to an entity which is not an investment entity, but has an interest in an associated company or joint venture, which is an "Investment Entity”. Material impacts on the financial statements of the Bank are not expected with the adoption of this amendment.

IFRS 11 (Amendment), 'Accounting for the acquisition of an interest in a joint operation' (to be applied as from the annual periods beginning on or after 1 January 2016). This amendment provides guidance on the accounting for the acquisition of an interest in a joint operation that qualifies as a business, through the application of IFRS 3´s principles - concentrations of business activities. Material impacts on the financial statements of the Bank are not expected with the adoption of this amendment.

IFRS 5 (amendment), ‘non-current assets held for sale and discontinued operational units’ (to be applied as from the annual periods beginning on or after 1 January 2016). The improvement clarifies that when an asset (or disposal group) has been reclassified from "held for sale" to "held for distribution" or vice-versa, this does not constitute a change in the plan to sell or distribute. Material impacts on the financial statements of the Bank are not expected with the adoption of this amendment.

IFRS 7 (amendment), ‘Financial instruments: disclosure’ (to be applied as from the annual periods beginning on or after 1 January 2016). The improvement includes additional information about the meaning of continuing involvement in the transfer (de-recognition) of financial assets for the purpose of the compliance with the disclosure obligations. Material impacts on the financial statements of the Bank are not expected with the adoption of this amendment.

IAS 19 (amendment), ‘Employee benefits’ (to be applied as from the annual periods beginning on or after 1 January 2016). The improvement clarifies that in determining the discount rate of liabilities with post-employment defined benefit plans, it must meet the requirements of high quality securities in the same currency in which the liabilities are calculated. Material impacts on the financial statements of the Bank are not expected with the adoption of this amendment.

IAS 34 (amendment), ‘Interim reporting’ (to be applied as from the annual periods beginning on or after 1 January 2016). The improvement clarifies the meaning of "information disclosed in another area of the interim financial statements”, and requires the inclusion of cross-references to this information. Material impacts on the financial statements of the Bank are not expected with the adoption of this amendment.

IFRS 9 (new), ‘Financial instruments’ (to be applied as from the annual periods beginning on or after 1 January 2018). This standard is still subject to endorsement by the European Union. IFRS 9 replaces the guidance of IAS 39 in respect of: (i) the classification and measurement of financial assets and liabilities; (Ii) the recognition of impairment of credit impairment (through the expected credit losses model); and (iii) the requirements for the recognition and classification of hedge accounting. Material impacts on the financial statements of the Bank are not expected with the adoption of this amendment.

IFRS 15 (new), ‘Revenue from contracts with customers’ (to be applied as from the annual periods beginning on or after 1 January 2018). This standard is still subject to endorsement by the European Union. This new standard applies only to contracts for the delivery of products or services, and requires an entity to recognise revenue when the contractual obligation to deliver assets or services is satisfied and in an amount that reflects the consideration to which the entity has the right, as provided for in "the five steps approach". Material impacts on the financial statements of the Bank are not expected with the adoption of this amendment.

NOTE 34 – SUBSEQUENT EVENTS

In accordance with Article 2 of Notice No 5/2015, of Banco de Portugal, dated 7 December, as from 1 January 2016 the entities subject to the supervision of Banco de Portugal, are to prepare the financial statements on a separate basis, according to International Accounting standards (IAS), as adopted, at any time, by Regulation of the European Union and respecting the conceptual framework for the preparation and presentation of financial statements that meet those standards, as was already previously required for financial statements prepared on a consolidated basis, where applicable. The Bank's management believes that the application of IAS as from 1 January 2016 in its financial statements on a separate basis will not result in significant impacts.

APPENDIX

Adoption of the Financial Stability Forum (FSF) and Committee of European Banking Supervisors (CEBS) Recommendations relating to the Transparency of Information and the Valuation of Assets

(Circular Letter no. 97/2008/DSB, of 3 December and Circular Letter no. 58/2009/DSB, of 5 August)

Banco de Portugal, through Circular Letter no. 58/2009/DSB, of 5 August 2009, reiterated "the need for institutions to continue to assure adequate compliance with the Financial Stability Forum (FSF) recommendations and the recommendations of the Committee of European Banking Supervisors (CEBS), with regard to the transparency of information and valuation of assets, taking into account the proportionality principle" contained in Circular Letters nos. 46/2008/DSB, of 15 July 2008, and 97/2008/DSB, of 3 December 2008.

Banco de Portugal recommended the preparation of a chapter or specific annex on accountability in the financial statements, exclusively dedicated to the aspects mentioned in the respective recommendations of the CEBS and FSF.

In this chapter, we seek to comply with the recommendation of Banco de Portugal using references to the information presented, either in the Management Report, or in the Notes to the Financial Statements for the 2014 and 2015 financial periods.

I. BUSINESS MODEL

1. Description of the business model

In the introduction and in chapter “II – Activity carried out” of the Management Report, a description is made of the business model of the Bank.

2. Strategies and objectives

The Bank’s strategies and objectives are also disclosed in chapters “II – Activity carried out” and “V – Future prospects of the activity” of the Management Report. The Bank neither realised any debt securities issue nor any securitisation operation up till 31 December 2015.

3., 4. and 5. Activities carried out and contribution to the business

In chapter “II – Activity carried out” of the Management Report information is presented on the activities carried out and their contribution to the business.

II. RISK AND RISK MANAGEMENT

6. and 7. Description and nature of the risks incurred

Note 34 to the Financial Statements contains diverse information that allows the market to perceive the risks incurred by the Bank and the management mechanisms implemented for its monitoring and control.

III. IMPACT OF THE FINANCIAL TURBULENCE PERIOD ON THE RESULTS

8., 9., 10 and 11. Qualitative and quantitative description of the results

During the quadrennial 2010-2014, following the increase in sovereign risk, a substantial widening of the risk premiums occurred with no material impact on the activity and results attributable to the respective periods. In 2015, this situation was stabilised, with Portugal having exited the assistance program.

12. Decomposition of the write-downs between realised and unrealised

Income and expenses related to assets and liabilities held for trading and assets and liabilities at fair value through profit or loss and available-for-sale financial assets are broken down by financial instrument in Notes 7 and 8 to the financial statements.

13. Financial turbulence in the Bank's share price quotation

The Bank's shares are not quoted on any regulated market, rendering this point not applicable.

14. Maximum risk of loss

Note 34 to the financial statements discloses information on the losses susceptible of occurring in market stress situations.

15. Debt securities issued and results

Not applicable due to the Bank not having issued debt securities during financial 2015.

IV. LEVELS AND TYPES OF EXPOSURES AFFECTED BY THE TURBULENCE PERIOD

16. Nominal and fair value of the exposures

Notes 16 and 30 to the financial statements disclose relevant information on the amount of the Bank's exposures.

17. Credit risk mitigating factors

Not applicable.

18. Information on the Bank's exposures

The turbulence that resulted from the worsening of the sovereign risk of the peripheral countries of the Eurozone in 2010 and 2011 has stabilised and improved significantly in 2012 and 2013, reaching a point of stability in 2014 and 2015.

Banco Best's exposure to public debt of the affected countries (Portugal, Spain, Greece and Ireland) was limited solely to Portugal, in an amount, at 31 December 2015, of Euros 20.5 million to guarantee the Bank's liabilities in respect of the FGD and SII and the maintenance of the LCR ratio at the regulatory level. These securities had an associated positive fair value reserve totalling Euros 166 thousand in December 2015.

19. Movements in the exposures between periods

Notes 15, 16, 30 and 34 disclose relevant information on the Bank's exposures, comparing the market exposures as well as the results with reference both to 31 December 2015 and 2014. The information therein contained is considered sufficient, considering the detail and quantification presented and the fact that no events of material relevance occurred in 2015.

20. Exposures that have not been consolidated

Not applicable.

21. Exposure to monoline insurance companies and quality of the assets insured

The Bank has no exposure to monoline insurance companies.

V. ACCOUNTING POLICIES AND MENSURATION METHODS

22. Structured products

These situations are covered in Note 2 – Main Accounting Policies to the financial statements.

23. Special Purpose Entities (SPE) and consolidation

The Bank neither realised any debt securities issue nor any securitisation operation up till 31 December 2015.

24. and 25. Fair value of financial instruments

Note 2 to the financial statements refers to the conditions subjacent to the use of the fair value option, as well as the techniques used to value the financial instruments.

VI. OTHER RELEVANT DISCLOSURE ASPECTS

26. Description of the disclosure policies and principles

The Bank, in the context of its disclosure policy regarding information of an accounting and financial nature, aims to satisfy all the requirements of a regulatory nature, be they dictated by the accounting standards or by the supervisory and market regulation authorities. At the same time, it seeks to align its disclosures with best market practices in view, on the one hand, of the cost of obtaining the relevant information and, on the other, the benefits that this provides to the various users.

From amongst the information made available to the shareholders, customers, employees, supervisory entities and the public in general, we highlight the Management Report and the Financial Statements and respective Notes to the Financial Statements. The financial statements are prepared based on the Adjusted Accounting Standards (NCA) which confer a high degree of transparency on the information disclosed as well as comparability.

APPENDIX

Remuneration policy of the members of the corporate bodies of BEST

Considering

1. The transitional nature of NOVO BANCO shareholder and the limitations derived from that situation, particularly the recent engagements with the European Commission;
2. The restructuring plan NOVO BANCO shareholder is obliged to implement and that includes the need to reduce the staff and the costs in general, both in NOVO BANCO as well as in the subsidiaries and companies held by the NOVO BANCO Group.
3. The fact that no variable remuneration was paid to the members of the corporate bodies as well as to the managers of NOVO BANCO Group Companies (including Banco Best), since the establishment of NOVO BANCO (August the 1st 2014);

NOVO BANCO Proposes:

a) The end of the Remuneration policy of the members of the corporate bodies of BEST approved in the Shareholders Meeting of April 30th 2015;
b) That in 2016 no variable remuneration is to be paid to the members of the corporate bodies referring to this year or deferred from previous years;
c) The reapreciation of all of these items is to be made in next year's Shareholders Meeting.

1. Payments made in 2015 to the members of the Corporate Bodies, including amount paid, for any reason, to companies in a group relationship:

a) Executive Committee

The remuneration of the members of the Executive Committee in 2014 includes the fixed remunerations paid in 14 parcels, the complements that are granted to all workers of Banco Best. No variable remuneration was paid in 2015. Ms. Isabel Maria Ferreira Rodrigues Cascão (CEO) earned, Eur 254,182. Ms. Marília Boavida Correia Cabral earned a remuneration of Eur 139,358. Mr Pedro Neves earned a remuneration of Eur 126 991.

b) Supervisory Body

The total fixed remuneration paid to the Chairperson of the Supervisory Body Mr. José Manuel Macedo Pereira was € 4 000 and no variable remuneration was paid. The fixed remuneration paid to the member of the Supervisory Body, Mr. Luís Manuel Santos Botelho, was € 3 200 and no variable remuneration was paid. The fixed remuneration paid to the member of the Supervisory Body, Mr. Feliciano Pereira, was € 2 400 and no variable remuneration was paid.

ANNEX

Managers' remuneration policy

I. Introduction

Banco Best's remuneration policy of the Corporate Bodies and employees that have a position of control as stated in Bank of Portugal Notice no. 5/2008 is set more on a strong fixed component, and for that more independent of the bank's results, than on a variable one that is relatively lesser.

II. Scope and Fundamental Principles

This remuneration policy applies to all employees of the management body of the institution, those responsible for the departments that compose the bank's organization chart, as well as all employees that have a position of control as stated in Bank of Portugal Notice no. 5/2008.

III. Remuneration Policy for BEST Corporate Bodies

1. Remuneration Policy approval process

Approval: to be approved by the Board of Directors, as per Bank of Portugal Notice no. 10/2011, art. 5.

2. Mandate of the Board of Directors

By Law and the Articles of Association, the fixed remuneration of BEST Corporate Bodies is to be established by the Board of Directors within the scope of its staff and incentives policies management, and taking in consideration the strategic goals of the Bank.

3. Members of the Board of Directors

The current Members of the Board of Directors are: Francisco Ravara Cary (Chairman) Isabel Maria Ferreira Possantes Rodrigues Cascão (Vice-Chairman), Maria Madalena Monteiro da Mata Torres Pitta e Cunha (Member), Jorge Daniel Lopes da Silva (Member), Marília Boavida Correia Cabral (Member) and Pedro Alexandre Lemos Cabral das Neves (Member).

4. External consultants

The Board of Directors did not hire external consultants.

5. Executive Managers

a) Remuneration components: the remuneration consists of a fixed part and a variable part; the Total Annual Remuneration ("TAR") is composed of the Annual Fixed Remuneration ("AFR") plus the Annual Variable Remuneration ("AVR"). The remuneration policy is annually revised by the Board of Directors until the end of May. As a consequence, the fixed remuneration can be revised every year depending on several indicators, also influencing the variable part.

b) Limits of remuneration: the variable part will have its limit set by the Board of Directors and it will be, in average, 23% of the TAR. The AVR payment is not due in case of structural degradation of the bank, as referred below. The AFR is composed of the Managers salary and of other aids granted to all BEST employees.

c) Balance in the remuneration: the AVR will have the limits set by the Board of Directors and will represent, in average, 23% of the TAR. The exact amount of the AVR will vary each year depending on the achievement of the main annual goals, the individual ones (quantitative and qualitative) and those of the department/business area under the Director's management according to the performance evaluation model of Banco Best, as approved by the Board of Directors.

d) Criteria for the definition of the variable part: the AVR limits will be set at the beginning of each year by the Board of Directors and based on the Incentives and Goals System associated to each business area and according to the fulfilment level of the main goals approved by the Board. The AVR will be paid in cash in the following fiscal year after the results approval. There aren't any AVR deferred or paid through financial instruments since Banco Best has a controlled policy regarding risk assumption preventing a material impact on the bank's risk profile. In addition, it should be referred that the AVR represents an ATR component that, in average, reaches a maximum of 23%; that none of the dimension indicators stated in Bank of Portugal Notice no. 10/2011, art. No. 7, no. 1, are overcome; that the bank's main activity is essentially practiced in the Portuguese market with a business strategy mainly focused on the market segment of affluent private customers and working as intermediary of financial products and services of other banks, insurance companies, management companies and brokers, not managing complex financial products of its own; and that the shares of Banco Best share capital are not listed in any regulated market and are exclusively held by companies belonging to the parent company.

e) Means of Limitation of the Variable Remuneration: the exact amount of the AVR will vary each year depending on the performance evaluation and the achievement of the main annual goals, defined in the annual budget, as approved by the Board of Directors. Nevertheless, even if the evaluation is positive, the AVR may not be paid in case there is a performance structural degradation of the bank. It is the Shareholders General Meeting duty to verify and determine the existence of a structural degradation, namely in case the results are negative.

f) Criteria for the performance evaluation: the evaluation of executive managers of the commercial business area is based on qualitative criteria regarding personal, technical and management skills for the job performance, and based on quantitative criteria according to the following indicators: i) Results, which include other indicators that demonstrate the business area results compared with the goals set; ii) Net Income, which measures the contribution to the bank results; iii) Quality, which include indicators with metrics that assess the quality of the service rendered to the internal and external customers; iv) Cost-to-Income, a ratio between the operational costs and the total net income showing the bank's operations and measuring its capability to generate income. The evaluation of executive managers of the central business area is based on qualitative criteria regarding personal, technical and management skills for the job performance, and based on quantitative criteria according to the following indicators: i) Activity, which includes other indicators that demonstrate the results of the employee's operation area; ii) Risk, which includes risk indicators relevant for each area; iii) Quality, which includes indicators with metrics that assess the quality of the service rendered to the internal and external customers. The evaluation of the employees in control positions within the bank (Bank of Portugal Notice no.5/2008) is based on qualitative criteria referent to personal, technical and management skills.

g) Main parameters and fundamentals of any annual rewards system and any other benefits given to the executive managers: besides the fixed and variable remuneration here described there aren't any other relevant benefits.

h) Main characteristics of the complementary pension systems given to the executive managers: Banco Best has no complementary pension or early retirement systems.

6. Amounts paid to Executive Managers in 2015

The remuneration paid to the Executive Managers and the employees in control positions regarding 2015 fiscal year include the fixed remunerations received and paid in 14 payments, the benefits paid to all BEST employees, like seniority and subsidies, and the variable remunerations already paid regarding previous years. The Executive Managers and employees in control positions received a global fixed remuneration of Euro 837.691 and a variable remuneration of zero. Detailing by the main business areas, the three managers of the commercial area received a global fixed remuneration of Euro 212.068. The nine managers and employees in control positions of the central services area received a global fixed remuneration of Euro 625.623.

Statutory Audit Report

(Free translation from the original in Portuguese)

Introduction

1 We have audited the financial statements of BEST – Banco Eletrónico de Serviço Total, SA, comprising the balance sheet as at 31 December 2015, (which shows total assets of Euros 460,980 thousand and total shareholder's equity of Euros 73,385 thousand, including a net profit of Euros 4,423 thousand), the statement of income, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the corresponding notes to the accounts. These financial statements were prepared in accordance with the Adjusted Accounting Rules (NCA) defined in the Bank of Portugal Regulation n° 1/2005, which are based on the International Financial Reporting Standards ("IFRS") in force, as adopted by the European Union, with the exceptions defined in the Bank of Portugal Regulations n° 1/2005, n° 4/2005 and n° 7/2008.

Responsibilities

2 It is the responsibility of the Board of Directors to prepare the Directors' Report and the financial statements which present fairly, in all material respects, the financial position of the bank, the results and the comprehensive income of its operations, the changes in equity and the cash flows, as well as to adopt appropriate accounting policies and criteria and to maintain an appropriate system of internal control.

3 Our responsibility is to express an independent and professional opinion on these financial statements based on our audit.

Scope

4 We conducted our audit in accordance with the Standards and Technical Recommendations issued by the Institute of Statutory Auditors which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Accordingly, our audit included: (i) verification, on a sample basis, of the evidence supporting the amounts and disclosures in the financial statements and assessing the reasonableness of the estimates, based on the judgements and criteria of the Board of Directors used in the preparation of the financial statements; (ii) assessing the appropriateness of the accounting principles used and their disclosure, as applicable; (iii) assessing the applicability of the going concern basis of accounting; and (iv) assessing the overall presentation of the financial statements.

5 Our audit also covered the verification that the financial information included in the Directors' Report is consistent with the financial statements.

6 We believe that our audit provides a reasonable basis for our opinion.

Opinion

7 In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of BEST – Banco Eletrónico de Serviço Total, SA as at 31 December 2015, the results and the comprehensive income of its operations, the changes in equity and the cash flows for the year then ended, in accordance with the Adjusted Accounting Rules (NCA) defined by the Bank of Portugal.

Report on other legal requirements

8 It is also our opinion that the financial information included in the Directors' Report is consistent with the financial statements for the year.

22 March 2016

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda
represented by:

José Manuel Henriques Bernardo, R.O.C.

BANCO ELECTRÓNICO DE SERVIÇO TOTAL, S.A.

Report And Opinion Of The Supervisory Board

(Free translation from the original in Portuguese)

To the Shareholders of Banco Electrónico de Serviço Total, S.A.

In accordance with the law, we herewith present the report on the supervisory activity carried out by the Supervisory Board over the Management Report, the financial statements and the proposed appropriation of results, as presented by the Board of Directors of Banco Electrónico de Serviço Total, SA (hereafter, BEST) with respect to the year ended 31 December 2015.

The Supervisory Board accompanied, within the scope of its attributions, and in accordance with the law and BEST's articles of association, the evolution of BEST's management and activity, namely:

i. it appraised the adequacy and effectiveness of the risk management, internal control and internal audit systems;
ii. it participated in the Board of Director Meetings whenever called to same;
iii. it analysed the management information documentation presented by the Board of Directors;
iv. it accompanied the verification of the accounting records and underlying supporting documentation;
v. it evaluated the accounting policies and valuation methods adopted by BEST; and
vi. it had meetings, whenever necessary, to appraise the accounting policies and the valuation methods adopted by BEST, with the person responsible for the financial department, who always provided us with the relevant information and to whom the Supervisory Board extends its thanks.

The Management Report prepared by the Board of Directors was also analysed and it is the opinion of the Supervisory Board that it complies with both the legal and articles of association requirements and is elucidative of the main aspects that circumscribed the activity of BEST during the 2015 financial period.

The Management Report describes the activity carried out during 2015 by the Bank that kept a comfortable liquidity level in spite of the strong competition in the Portuguese market for retail deposits.

The Supervisory Board acknowledges the 2015 result before taxes of 5.1 million Euros a net decrease of 47% compared to the 2014 value, while the net result of Eur 4,4 millions shows a 34% decrease from the previous year.

To refer that the difference comparing with 2014 results, comes from the strong reduction on Proprietary Trading and FX positions due to the BES resolution that affected this service, that is provided under an outsourcing contract and is nowadays under the responsibility of NOVO BANCO.

The net result of Eur 4,423 thousand was mainly derived from commercial activity that makes it more significant.

The Supervisory Board acknowledges the increase on the Banks own funds in 2015 due to the non distribution of dividends in 2014 with the core tier 1 ratio of 36% in 2015 maintaining a strong value when compared to other national and international Banks.

The Supervisory Board acknowledges that in 2015 there was 2 changes in the shareholder's structure, the 1st in August with the sale os 100 shares owned by Banco Espírito Santo de Investimento, S.A. to Novo Banco Servicios Corporativos, S.L., and the 2nd one in 2015 November 13th with the exchange of shares between Saxo Bank and NOVO BANCO with NOVO BANCO exchanging the capital it owned in Saxo Bank, by the 25% capital held by Saxo Bank in Banco Best. With this exchange, NOVO BANCO S.A. became directly and indirectly the only owner of Banco Best.

The Supervisory Board also appraised, in accordance with the law, the Audit Report prepared by the Statutory Auditor, having also considered the Statutory Auditor Report issued on said financial statements, in respect of the 2015 financial period, with which conclusions it concurs. The Audit Report prepared by a reputable international audit firm was also analysed.

In light of the foregoing, this Supervisory Board is of the opinion that:

a) The Management Report and financial statements for the financial period ended on 31 December 2015 be approved;

b) The proposed distribution of results presented by the Board of Directors be approved;

c) A vote of praise be approved vis-à-vis the Board of Directors for the effective manner in which they conducted the business of the Bank.

Lisbon, 29 March 2016

The Supervisory Board

José Manuel Macedo Pereira
(Chairman)

Luís Manuel Santos Botelho

Feliciano José Policarpo Pereira