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

2016 Annual Report

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CONTENT:

Translation Note:

This document set is a free translation of the original issued in the Portuguese language. In the event of discrepancies the original version prevails.

Management Report – 2016

Banco Best, established in 2001, offers the whole range of products and services of a universal bank, helping its customers to identify savings solutions and investment opportunities available at any time, as well as in all of their financial needs and day-to-day money management. With strong technological support and open architecture, Banco Best offers a set of services that allow customers to take advantage of the best of the new information technologies via the internet, namely faster and more efficient processes and transactions and access to innovative services that facilitate the relationship between the customers and the Bank.

Banco Best's business strategy is focused on serving the investment needs of one segment of private customers who require more sophisticated and diversified financial services, whilst at the same time meeting their financial needs for various purposes using standard banking services. Customers with other legal profiles, such as companies and foundations, can also be served by this business strategy with regard to meeting the above requirements. BEST, through its B2B activity, also makes its platform available to national and international Institutional Investors, in this manner enabling these entities to present their customers a more diversified and sophisticated offer.

Banco Best forms part of the NOVO BANCO Group, its share capital of EUR 63 million being, directly and indirectly, wholly owned by NOVO BANCO, as indicated in chapter III of this report.

Banco Best is based in Lisbon, at Praça Marquês de Pombal and does not have ordinary branches. Therefore, its financial products and services are provided via a large number of channels, such as:

- The internet, through its website (www.bancobest.pt) and mobile banking;
- Investment Centres located in Lisbon, Oporto, Braga, Aveiro, Leiria, Évora and Faro, that rely on a Relationship Managers (RMs) network;
- Contact Centre (telephonic banking).

In addition, Banco Best also has a network of promoters and bound agents, called Business Introducers (BIs) and Relationship Agents (RAs), respectively, that work as service providers in line with the relevant legal dispositions. Some of these Financial Advisors have their own offices known as 'RA Offices' where they develop their business activity as per the applicable legal dispositions.

I – Economic Overview

The year 2016 was marked by the results of two events of a political nature, which surprised the majority of investors, given their initial expectations. Namely, "Brexit" and Donald Trump's victory in the US Elections.

In this manner, on 23 June, the UK's Referendum on its permanence in the European Union ended with the 'Leave' victory and the Republican Party candidate, Donald Trump, made the victory speech in respect of the US Presidential Elections of 8 November.

The start of the year was marked by strong volatility in the global financial markets, stemming from fears of a slowdown of the Chinese economy, by the appearance of potential recession signs in the US economy which, coupled with the fall in commodity prices observed during the first quarter of 2016, worsened the deflationary scenarios. However, the recovery of commodity prices, the positive reaction of investors after Brexit (despite the huge volatility in the days immediately following the Referendum), the reversal of the 10-year downward trend in interest rates - a change initiated in July - of the major world economies, as well as the positive outlook for US economic growth and inflation following the results of the 8 November presidential election, enabled 2016 to close with moderately positive prospects for the following year.

According to the World Bank, the global economy is expected to have experienced an annual growth of 2.3%, a growth rate 0.4 percentage points lower than the figures for the previous year (2.7% world GDP growth in 2015).

The performance revealed by the US economy in the previous year translated into a strong contribution to the global economic slowdown. Amongst the main developed economies, the US economy was the one presenting the highest percentage deviation when compared to the previous year. According to the World Bank, in 2016, while Japan and the Eurozone are expected to have annual GDP growths of 1.0% (1.2% in 2015) and 1.6% (2.0% in 2015), respectively, the US's pace of annual GDP growth fell from 2.6% in 2015 to 1.6% in 2016.

The European Union (EU28), despite the occurrence of periods of increased vulnerability in some Member States, will have recorded an annual growth of 1.9% in 2016; a decrease of 0.3 percentage points compared to the growth of the previous year. In the Eurozone (EA19), economic activity should present a growth of 1.6%, which is lower than the 2.0% growth recorded in 2015. Since Brexit, the UK has been experiencing a deceleration in the growth of demand given the uncertainties regarding the future agreements with the European Union, which has led companies to postpone investment and hiring decisions, in addition to reducing costs, thereby producing negative effects in the Eurozone as well.

In the Emerging markets, one observes a significant improvement of external imbalances in most countries, which has resulted in a stabilisation of the financial flows. Monetary policy was the key to the stabilisation of global financial conditions, and the major success of the Central Banks was ending financial fragmentation and allowing States, businesses and households to passively restructure their debts. In this context, we witnessed the introduction of fiscal policy. The dynamics evidenced by these economies, and in particular the lower dynamism of China's economy that has been adjusting its model of economic growth, largely explain the slowdown in the global economy since the turn of the century.

Indeed, before the financial crisis of 2008, the group of economies considered to be emerging had expansion rates exceeding 7%, contrasting with the just over 4% of recent years. However, in the second half of the year there was a slight improvement in this group of countries - the World Bank expects their GDP to increase by 3.4% compared to the 3.5% in 2015 - in contrast to the group of developed countries, which are estimated to have suffered a greater deceleration: from 2.1% in 2015 to 1.6% in the year just ended. If the current scenario of recovery in the commodity market (mainly energy) and a process of stabilisation in some emerging economies of scale - namely, in China, Brazil with its exit from recession and growth in Russia - are confirmed, it is possible that one will verify a gradual acceleration in the exchange of international goods and services, signalling the acceleration of global growth.

With regard to Portugal, economic activity is expected to grow by 1.3% in 2016, down 0.3 percentage points from 2015. With a growth of 0.8%, over the second quarter of the year, the economic performance recorded the best result since the fourth quarter of 2013. The homologous monthly indicator for private consumption registered an increase of 2.2% in the last month of 2016, the best annual change, especially considering that the homologous indicator for December 2015 had grown by the same 2.2%. It was the contribution of the net external demand, reflecting the strong increase in the exports of goods and services, which turned out to be the largest contributor to the growth of the national economy in 2016.

With regard to the evolution of the financial markets in 2016, of note is the recovery of raw-material prices. The Bloomberg Commodity Index - which aggregates the main Food, Energy, Precious Metals and Industrial raw-materials - registered a recovery throughout the year, initiating a peak cycle in June, on appreciating 12% in 2016. In the matter of raw-materials, and given their collateral effects on inflation in the major world economies, the positive evolution of the oil price was particularly important. Following the oil price drops of 45% in 2014 and 30% in 2015, the year just ended saw an appreciation of more than 50% of the "black gold" prices on the international markets. On the other hand, the recovery of energy costs reduced the pressure over the risks of deflation, once again affording Central Banks greater scope for monetary policy implementation.

The Federal Reserve (Fed) has, over the last two years, assumed the interest rate cycle's normalisation, after recording historical minimums. The Fed Funds' rate, the main benchmark for the market, went from a nil mean of the variation range to the current 0.50% (two increases of 25 basis points split over the FOMC meetings of December 2015 and December 2016). Initially, a faster and more expressive evolution was expected. However, the Fed's fears that it was anticipating a hotter economy, involving risks, limited a more proactive action.

The year 2016 was also marked by the prolonging by the European Central Bank (ECB) of the public and private sector securities (PSPP and CSPP) purchase programme, commonly referred to as Quantitative Easing (QE), at least until December 2017. The quantitative easing programme was created at the beginning of 2015, and currently contemplates purchases of EUR 80 thousand million of public debt per month until March and, from April through December, a decrease to EUR 60 thousand million per month.

In parallel with the unconventional Quantitative Easing policy, in March, the ECB dropped its main repo rate to 0.0%, bringing down the rate on deposits to -0.40% and bringing the marginal loan rate to 0.25%. Through the reinforcement of these unconventional programmes, the ECB sought to reinforce the monetary stimulus in the Eurozone economies, looking to streamline access to cheaper funding for most economic agents, particularly for non-financial companies and households, mainly aiming to increase the inflation rate to around 2%.

In terms of the evolution of the 10-year Treasury Bonds issued by the Portuguese Republic, after starting the year trading with a yield close to 2.50%, in February 2016 the 10-year bonds managed to transact with an implicit yield in excess of 4.00% due to the volatility observed in the financial markets. Following the maximum value observed in February, the 10-year Portuguese public debt yield declined to the 2.70% verified in August 2016. At the end of the year, Portugal's benchmark interest rate was around 3.75%.

Despite the significant increase in the volatility of the stock and bond markets marking the start of the year 2016, the stock index which comprises the 50 largest market capitalisations in the Eurozone - the Euro Stoxx 50 – closed the year appreciating 0.70%. However, as occurred in 2015, the Eurozone stock market continued to reveal some divergence in geographical terms given that the increase in excess of 8% of the Dutch stock index – AEX 25 - and of 6.9% of the German stock index - DAX 30 - contrasted with the 11.9% devaluation of the Portuguese stock index - PSI 20.

In the United States, this was a year of historical maximums. The Standard & Poor's 500 index marked its highest gain since 2013, accumulating a gain of 9.43% in 2016. The NASDAQ index ended the year appreciating 7.5% and the Dow Jones industrial index 13.41%.

The S&P 500, which is considered the "benchmark" of the United States, performed better when compared to the Western European, Japanese and Chinese indices, supported mainly by the increase in energy securities in the second half of the year - driven by the crude oil price increase. In addition to energy, the election of Donald Trump as the new US president, backed strongly the markets on the other side of the Atlantic, with many sectors anticipating greater economic growth.

II – Operations in 2016

The independence and strength of Banco Best is expressed in its activity and in its name: BEST - Banco Electrónico de Serviço Total, SA, continuing the desire of turning the name into the very essence of the Bank and into its ever-present aspirational objective.

In 2016, Banco Best maintained a comfortable B/S liquidity ratio in spite of strong competition in the domestic banking market for stable customer resources. The combined effect of a 27% increase in the volume of customer deposits at the end of the year, together with a 13% decrease in the volume of credit granted implied a more favourable transformation of deposits into credit ratio of 31%, maintaining a level significantly below the average rates of the national banking sector.

In 2016, Banco Best maintained its leadership strategy to innovate its offer of financial products and services in Portugal. The highlight was the launch of the most complete banking app on the market for Apple Watch – Best Watch, through which customers have access in their smartphone to market quotations of securities, funds and indexes, and to their investment portfolio position, in addition to being able to check at any moment their balance, account movements, integrated net worth, credit card details, amongst others. With this release, Banco Best was internationally honoured at the W3 Awards with the Silver trophy in the Mobile Apps/Sites-Finance category.

This period also saw the launch of bond trading through the mobile channel, granting customers access through their smart phones to the largest offer of bonds in Portugal, including sovereign and corporate debt, both national and international.

In the investment funds area, the strategy to broaden and diversify the offer of management companies and investment funds was maintained. Indeed, Banco Best currently distributes over 3,000 investment funds of 59 management companies to the public in general, in addition to providing about 2,000 additional investment funds exclusively for the B2B institutional market. In 2016, another highlight was the introduction onto the Portuguese market of three new management companies: Alger, RAM and Syz Oyster. In the area of investment funds a further highlight was the launch of fund with a defined maturity and an objective return taking as the example the Oddo Hault Rendement 2021. Also of note in respect of investment funds were the seminars held in Lisbon and Oporto, for customers and non-customers, where some “All Terrain Investment Strategies” were presented.

In the moderately positive macroeconomic and financial scenario and with the low returns of the traditionally more conservative investments related to changes in interest rates, there was a natural shift in the more popular type of investment funds, with various investment strategies in shares, mixed funds (asset allocation) and alternative investment funds (such as Market Neutral or Long / Short) coming to the fore. Along this line, the world's largest asset manager’s strategic asset allocation funds were launched, being available for 3 risk typologies: the Defensive, Moderate and Growth BlackRock Managed Index Portfolios.

Regarding the marketing of insurance products, in 2016 Banco Best continued to offer solutions with and without guaranteed capital, registering a greater demand in the PPR component.

As in previous years, in 2016 the Bank maintained the policy of diversifying its business lines, with partnerships in the area of institutional customers that are the subject of a very specific offer of financial assets, including investment funds, having, however, registered a decrease of EUR 302 million in investment fund volumes of customers in the B2B business area due to the exit of the largest partner, which commenced in the second half of 2016 and will be finalised in 2017.

Banco Best was invited to integrate the Placement Syndicate of 4 Public Bond Offers realised in Portugal in 2016, namely:

- Bond loan ‘BENFICA SAD 2016-2019’
- Public Subscription Offer ‘OTRV MAIO 2021’
- Public Subscription Offer ‘OTRV AGOSTO 2021’
- Public Subscription Offer ‘OTRV NOVEMBRO 2021´

In the scope of these 4 primary market operations, the volume of the orders received amounted to EUR 50 million.

Regarding the trading activity, according to CMVM data, the volume of share orders received by Financial Intermediaries registered in Portugal, in 2016, fell by 29.7% compared to the previous year. It should be referred that in 2015, the annual volume of the share orders received fell 45.2%.

Talking into consideration the statistics report published by CMVM regarding order reception, in terms of execution markets, the largest drops in trading volumes occurred in national markets (-34%) whilst the international markets registered a drop in order volume of -16.3%.

At Banco Best, it was possible to observe a strengthening of the weight of the international markets when compared to the national market. Banco Best's market share of the online market segment of the spot market, in 2016, was 6.8% with trading volume exceeding EUR 484 million.

In the online derivatives segment, where BEST's activity stems from the partnership established with Saxo Bank A/S, in 2016, Banco Best strengthened its market share in this activity. According to the order reception statistics published by the CMVM, in 2016 Banco Best recorded a market share of 16.1% in orders received online for derivatives in the futures market, thus reinforcing its annual market share by 2 percentage points over 2015. According to the same report, whilst the online derivatives market in Portugal registered a 21.4% drop in volumes traded in 2016, trading volume at Banco Best presented a year-on-year change of -6.4%, in this manner recording a drop 15 percentage points below that of the market.

2016 was the year of the consolidation of the platforms made available to Customers for trading through a new access to the "Serviço Best Trading Pro", in order to facilitate the use and improve the performance, highlighting the following novelties and characteristics:

- Through a single access, ease of access to "Serviço Best Trading Pro" through PCs, MACs, tablets and smartphones with a total interaction between devices;
- New graphics tool, based on the latest technology.

2,500 new customers opened accounts with the Bank in 2016, to which contributed the complete offer in the areas of banking, investments and trading, together with a number of focused funding initiatives that relied on the use of promotional instruments and actions. The special funding offer – "Deposito a Prazo Novos Clientes" (New Customer Time Deposit) was maintained, a historical milestone in Banco Best's positioning in this area, and new offers were introduced aimed at boosting the technological innovations introduced at the level of the distribution channels, such as the Best Watch offer.

The volume of funds (accounts and deposits) reached EUR 442 million at the end of 2016, an increase of 30% over the previous year, to which contributed various elements. Reference should be made of the capacity to generate a net positive clearing, vis-à-vis the competition in general, to some seasonal preference being registered by some of the Customers in taking refuge in lower risk assets, and various funding actions vis-à-vis the current Customer base. This overall growth was achieved in parallel with a significant decrease in the funding cost, ending the year at historically low levels.

The payment activity maintained a high frequency, reinforcing the positioning of the Bank as the first bank of the customers, registering a 3% increase in the global number of transactions. The progressive adjustment of the offer, due to regulatory changes, was maintained and is expected to continue in 2017. As in previous years, several commercial actions focused on customer base equipment and technological upgrading / innovation.

With regard to Credit, a new declination of the product “Conta Margem” (Margin Account) was launched in its new Plus version, allowing for a new combination of more conservative hedging assets with a higher investment capacity, a product that registered a relevant demand, in particular in the second half of 2016, reflecting a 15% annual increase in this activity line. The Bank Guarantees’ service was also introduced, complementing the offer for the corporate segment, with a competitive pricing model and following a conservative coverage policy.

In 2016, Banco Best registered an increase in the number of internal training activities compared to 2015, with over 4.6 thousand hours of training being carried out compared to the 3.4 thousand hours carried out in 2015, representing an annual growth of 35%. This increase was partly due to the transversal E-Learning training carried out at the NOVO BANCO Group level (Common Reporting Standard - Feb/16, Safety and Health at Work - Oct/16, and Money Laundering and Financing of Terrorism - Dec/16) with a total volume of 1,290 hours of training.

With regard to training programmes developed for internal employees, some external training programmes initiated in 2015 and finalised in 2016 were continued, such as a new training programme for the commercial area (Customer Orientation and Commercial Proactivity) covering a total of 80 employees and the continuation of the Proficiency in English course / level with 45 hours that covered a total of 36 employees. Short- and medium-duration courses were approved and held, targeted at individual employees and covering many different areas such as the Financial Markets and the IT and digital technologies areas.

The reduction in the number of BEST employees continued during the 2016 financial year, with the exit of 14 employees, almost all through voluntary termination by the employee and the admission of 4 employees and of two new assignments from NOVO BANCO, bringing the total at 31 December 2016 to 132 employees compared to the 140 of the previous year. It should be noted that this is a relatively young team, of whom only 22 are 45 or older, with a gender balance comprising 56% men and 44% women and possessing a high level of academic qualification, with 80% of the employees holding higher education, and there being no employees with a Basic Education level.

Banco Best follows the most advanced environmental policy measures applicable to the financial sector:

- ✓ in the choice of suppliers, with environmental factors being considered in the selection and adjudication process;
- ✓ through a rational consumption, restricted to the minimum necessary, of supplies and services of third parties, and with maximum energy efficiency and the reduction of paper consumption;
- ✓ via efficient waste management, including the recycling of paper and printer toners;
- ✓ with the opting for environmentally friendly products, namely with the consumption of treated drinking water in the water dispenser, avoiding the waste associated with the bottled water packaging;
- ✓ by replacing professional travelling with telematics contacts, or by using the most environmentally friendly means of transport;
- ✓ by the marketing of environmentally friendly financial products and services, through funds that invest in renewable energy and through ethical funds;

The activity risk management policies at Banco Best are governed by a set of principles and activities, as detailed below.

In relation to credit risk, a permanent management of loan portfolios is carried out, favouring interaction between the various teams involved in risk management through the successive stages of the loan process. This approach is complemented by the introduction of continuous improvements both in methodologies and tools for risk assessment and control, as well as at the level of the decision procedures and circuits. In this regard, the monitoring of the Bank's credit risk profile, namely with regard to the evolution of credit exposures and the monitoring of credit losses, is carried out regularly by the Risk Committee. Regular compliance with the approved credit limits and the correct operation of the mechanisms associated with credit line approvals are also regularly analysed within the scope of the current commercial activity. At the end of 2016 the amount of the gross loans' exposure and the impairment constituted was EUR 138.3 million and EUR 2.4 million, respectively.

Market risk management, which generally represents any loss resulting from an adverse change in the value of a financial instrument as a result of changes in interest rates, exchange rates and stock and commodity prices, is integrated with the balance sheet management through the ALCO (Asset and Liability Committee) structure constituted at the NOVO BANCO

Group level. This body is responsible for the definition of policies for the allocation and structuring of the balance sheet as well as for controlling the exposure to interest rate, currency and liquidity risks.

At the market risk level, the main risk measurement element is the estimation of potential losses under adverse market conditions, for which the Value at Risk (VaR) methodology is used. The Bank uses a VaR with recourse to the Monte Carlo simulation, with a confidence interval of 99% and an investment period of 10 days. Volatility and correlations are historical based on a one-year observation period. As a complement to the VaR, extreme scenarios (stress-testing) have been developed that allow for the evaluation of the impacts of potential losses higher than those considered in the VaR measurement. At the end of 2016, BEST had a VaR of EUR 149 million for its trading positions.

Following the recommendations of Basel II (Pillar 2) and Instruction 19/2005, of the Bank of Portugal, BEST calculates its exposure to balance sheet interest rate risk based on the methodology of the Bank of International Settlements (BIS), classifying all assets, liabilities and off-balance sheet items that do not belong to the trading portfolio, by repricing levels. The model used to calculate the sensitivity analysis of the interest rate risk of the banking portfolio is based on an approximation to the duration model, with parallel scenarios for the yield shift of 100 bp. in all interest rate levels and non-parallel yield curve shift scenarios, exceeding one year by 50 basis points, being made.

With regard to currency risk, the US dollar position represented 62.6% of the global exchange position at the end of 2016.

Liquidity risk, which represents the risk of an institution failing to honour its liabilities as they mature, without incurring in substantial losses, can be subdivided into the liquidity risk of the assets and the risk of financing. In order to assess the global exposure to liquidity risk, for prudential purposes, reports are drawn up on a regular basis to identify not only negative mismatches, but also the dynamic coverage of same.

Traditionally and in function of the characteristics of its business model, Banco Best has high levels of liquidity, with the Gap accumulated at one year reaching EUR 263 million at the end of 2016. In addition, and in accordance with Instruction no. 13/2009, of the Bank of Portugal, the liquidity gap is defined as (Net Assets - Volatile Liabilities) / (Assets - Net Assets) * 100 on each cumulative residual maturity scale, where net assets include treasury assets and liquid securities and volatile liabilities include treasury liabilities, the issues, the commitments assumed, the derivatives and other liabilities. This indicator, which allows for the characterisation of the institutions' wholesale risk liquidity position, was 194.7 at the end of 2016.

For operational risk management, which includes operational, information systems, compliance and reputation risks, a system has been developed and implemented to ensure the standardisation, systematisation and recurrence of the activities for the identification, monitoring, control and mitigation of this risk. This system is supported by an organisational structure, integrated in the Global Risk Department of NOVO BANCO exclusively dedicated to this task as well as Operational Risk Management Representatives designated by each of the departments and subsidiaries considered relevant, who are responsible for compliance with the established procedures and the day-to-day management of this risk in their areas of competence.

Lastly, regarding Capital Management and Solvency and Leverage Ratios, it should be noted that in prudential terms the Bank is subject to the supervision of the Bank of Portugal, which, based on the Community Capital Adequacy Directive, establishes the rules that should be observed at this level by the various institutions under its supervision. These rules determine a minimum ratio of total own funds to the requirements necessary for the risks assumed, which the institutions must comply with.

The European Parliament and the Council approved, on 26 June 2013, Directive 2013/36/EU and Regulation (EU) no. 575/2013, which now regulate in the European Union, respectively, the access to the activity of credit institutions and investment companies and the determination of prudential requirements to be observed by those same entities as from 1 January 2014. The Regulation also provides for the institutions to report their leverage ratio to the supervisor. These standards transpose into the European legal order the recommendations of the Basel Committee, normally referred to as Basel III.

Notice 6/2013, of 23 December, of the Bank of Portugal, regulated the transitional regime provided for in that Regulation. The Delegated Regulation (EU) 2015/62 determines the reporting obligation of the leverage ratio as from 1 January 2015.

Currently, in the new legal system of Basel III, the capital elements of BEST for the purpose of determining the solvency ratio, are divided into Common Equity Tier 1, Tier 1, Tier II and Total Own Funds, with the following composition:

- Common Equity Tier I: This category essentially includes realised share capital, share premiums, eligible reserves and the positive results for the financial year when audited. The deductions from Common Equity Tier I include the eligible amount of intangible assets, the negative actuarial deviations arising from post-employment responsibilities to employees, the excess value of deferred tax assets and shareholdings in financial companies and, where applicable, the negative results for the financial year.

- Tier I: In addition to Common Equity Tier I, this category includes, where applicable, preferred shares and hybrid capital instruments.
- Tier II: Mainly incorporates, where applicable, eligible subordinated debt issued.

The capital of BEST is exclusively composed of Common Equity Tier I elements, with the solvency ratio reaching the figure of 42.2% at the end of 2016, thus complying with the capital ratios imposed by the Bank of Portugal. The leverage ratio considers the level 1 own funds.

The risk management function, which is vital for the development of Banco Best's activity, aims at identifying, evaluating, monitoring and reporting all materially relevant risks to which the Bank is subject, both internally and externally, and performs its functions in a manner independent of the functional areas, providing risk management advice to the management body.

The Risk Management function created in November 2016 at Banco Best, is centralised in the Global Risk Office (GRG) and is independent of the business areas, operating with the functional support of the Global Risk Department of NOVO BANCO.

The functions of the Global Risk Office (GRG) include:

- Encourage and implement the methodologies for identifying and evaluating operational risk in the respective areas of responsibility;
- Participate in self-assessment exercises and ensure the reporting of information on sources of risk, events, near misses and indicators of operational risk;
- Ensure the identification and implementation of risk mitigation actions;
- Monitor customers with warning signs regarding credit risk;
- Overall analysis of the loan portfolio profile, namely regarding the evolution of credit exposure and monitoring of credit losses;
- Ensure articulation with the NOVO BANCO - Global Risk Department - Operational Risk, not only in the aforementioned aspects, but also in relation to the operational risk control and management performed daily in each of the respective areas of competence

Regarding the 2016 Financial Statements, it is relevant to highlighting the growth in total assets of 16.8% in the Bank's Balance Sheet. BEST closed the financial year with Net Assets of EUR 537.0 million. The growth of customers' deposits by +27% and of net equity by +0.8% were directly reflected in an increase in loans and advances to banks of EUR 81.2 million as well as in the Bonds Portfolio that closed the year at EUR 37.1 million.

The financial margin, totalling EUR 6.6 million, increased by 7.3% over the previous year, as a direct result of the increase in assets and liabilities intermediated by BEST in 2016 versus 2015, as referred to in the previous paragraph.

The reduction of 25% in Services Income and Commissions Received in relation to the previous year is the result of the aforementioned decrease in customer trading activity and in the placement of structured products. The capital gain recorded with the sale of Best's shareholding in Visa Europe LTD to Visa International, resulted in a capital gain that brought the Net gains / (losses) from available-for-sale financial assets to EUR 1.96 million.

The growth of net interest income of EUR +445 thousand and of the net gains / (losses) from available-for-sale financial assets of EUR +2.0 million were insufficient to compensate the decrease in commissions of EUR -4.8 million, in this manner causing a decrease in Operating income of 8% compared to 2015.

The reduction in total operating costs of 3.2% on 2015 was possible due to the reduction in the number of employees and other administrative expenses, and total operating costs were EUR 13.4 million resulting in a cost to income ratio 76.4% compared to 73% the previous year.

Banco Best reinforced the impairment and net provisions by EUR 893 thousand in the income statement compared to the EUR 281 thousand of the previous year, amounts that are consistently low given that Banco Best uses extremely cautious criteria in terms of the risks associated with the granting of credit. In terms of year end values, there is a coverage of 129% of overdue loans by provisions, with overdue loans representing 1.4% of total loans to customers.

In 2016, the share capital of Banco Best was reinforced due to the direct incorporation of 55% of the previous year's net results, with the Core Tier 1 ratio reaching a value of 42% in 2016, remaining, in this manner, at high levels when compared to National and International Bank levels.

The allocation of EUR 1 382 thousand to provisions for taxes on income, placed Banco Best's net income at EUR 2.7 million in 2016, 38% below that of the previous year.

As synthetic indicators of the financial results obtained by BEST in 2016, we highlight the Cost to Income of 76.4%, ROE at 3.9% and a positive Net income of EUR 2.75 million.

III - Shareholder Structure and Governing Bodies

In financial year 2016, the shareholder structure of Banco Best did not undergo changes, maintaining the following structure:

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%**

As at 31 December 2016, the Governing Bodies of BEST were as follows:

General Meeting

Patrícia Afonso Fonseca Moraes Bastos (Chair)

Pedro Moreira de Almeida Queiroz de Barros (Secretary)

Board of Directors

Isabel Maria Ferreira Possantes Rodrigues Cascão (Vice-Chair)

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

António Joaquim Andrade Gonçalves (Chair)

Fernando Jorge Henriques Bernardo (Member)

Isabel Maria Beja Gonçalves Novo (Member)

Joaquim Manuel da Silva Neves (Alternate Member)

Statutory Auditor

Effective: PricewaterhouseCoopers & Associados - Sociedade de Revisores Oficiais de Contas, Lda. - Statutory Auditor no. 183. Represented by Carlos José Figueiredo Rodrigues Statutory Auditor no.: 1737.

Alternate:

Aurélio Adriano Rangel Amado Statutory Auditor no.: 1074

Company Secretary

Pedro Moreira de Almeida Queiroz de Barros

José Alexandre Pereira Soares de Santo António (Alternate)

The governing bodies were elected at the General Meeting held on 29 April 2016 for a three year period (2016-2018), except for the Supervisory Board, with all its members being elected at the General Meeting of BEST of 21 December 2016 for the remainder of the mandate in force, and presently awaiting the Bank of Portugal's authorisation to begin exercising their functions.

In letters dated as of 7 July 2016, all the members of the Supervisory Board request their resignation from the mandate to which they had been elected on 29 April 2016:

- José Manuel Macedo Pereira (Chair)
- Luís Manuel Santos Botelho (Member)
- Elísio Armando da Cruz Cardoso (Member)
- Feliciano Pereira (Alternate Member)

In letter dated as of 20 October 2016 and with effect as from the end of November 2016, Mr José João Guilherme tendered his resignation from the post of Chair of the Board of Directors of Banco Best, post to which he had been elected at the General Meeting of 29 April 2016, but for which exercise he did not get the authorisation of the Bank of Portugal.

IV - Relevant facts after the close of the financial year

The Vice-Chair of the Board of Directors and President of the Executive Commission of BEST tendered her resignation from her functions at Banco Best in letter dated as of 30 December 2016 with effect as from the end of January 2017 due to having been nominated to the post of Executive Director of the Board of Directors of the shareholder NOVO BANCO, S.A..

V – Outlook

The change of shareholder at the level of the NOVO BANCO Group, which is expected in 2017, may be relevant for the future business strategy of Banco Best.

The macroeconomic prospects for 2017 point to signs of some volatility in financial markets, which have a direct impact on the valuation of financial products marketed by Banco Best, but without a significant impact on Banco Best's own activity. This is because it has a low risk level in its balance sheet and benefits from diversification as a result of an extensive range of financial products, both in terms of banking products such as deposits, cards and bank loans and in terms of financial products recorded off-balance sheet.

In terms of the national economy, the continuation of the relief in austerity and low growth rates are expected not only in Portugal but also across the Eurozone. Although there are some macroeconomic indicators showing improvement of the Portuguese economy, the outlook for 2017 still contains many challenges to be overcome, with the economic and financial impact being difficult to estimate. However, efforts for the fiscal balancing of the Portuguese State continue to focus significantly on revenue collection by increasing the tax burden, such that the potential negative impact on the savings capacity and the savings of the Portuguese represent a challenge for Banco Best in terms of the potential growth of the attracting of national customers' funds.

Despite the uncertainties and negative factors that continue to affect the Portuguese economy and by capitalising the type of core competencies on which its progression has been based, Banco Best projects the development of its business activity in 2017 along the following main lines:

- To deepen the diversification and independence of its financial offer, maintaining a wide range of Asset Management and Trading products and services aimed at satisfying the diversification needs of financial assets and currencies which allow customers to quickly take advantage of investment opportunities as they arise due to constant changes in function of the financial climate;
- To further develop communications between the Bank and its customers by simplifying and making customer relationships clearer and more intuitive, promoting a closer and more direct and simultaneously more personalised communication, with an even greater impact on the ease and availability of interaction via the mobile channel;
- To continuously monitor and follow up on the current economic and financial situation in order to adjust the offer of Asset Management and Trading products and services very

quickly to the best investment and savings application opportunities that are detected and present an interesting growth potential.

On the other hand, the task of cost cutting and control is to be maintained, aiming to improve the Bank's efficiency levels in a market with strong competition.

VI - Proposal for appropriation of results

Pursuant to Article 66(5)(f) of the Commercial Companies Code, the Board of Directors of Banco Best proposes for approval by the General Meeting of Shareholders that the net income for the financial year, positive in the amount of EUR 2 745 526.11 (two million, seven hundred and forty-five thousand five hundred and twenty-six Euros and eleven cents) be appropriated as follows:

- EUR 274 552.61 to the Legal Reserve;
- EUR 2 470 973.50 for the payment of dividends.

VII – Additional Information

In compliance with legal requirements, the Board of Directors expressly confirms that:

- The Bank neither holds treasury stock nor did it acquire or sell any;
- There were no transactions between the Bank and its Directors;
- The Bank has no overdue debts to the State, namely Social Security and the Tax Authorities;
- The Bank has no branches.

VIII - Concluding remarks

On concluding the Management Report for 2016, the Board of Directors wishes to express its recognition of the cooperation of all those who have contributed towards achieving the established goals, in the performance of their duties:

- The Monetary and Financial Authorities and supervisory bodies, notably the Bank of Portugal, Securities and Exchange Commission and Portuguese Insurance Institute for their permanent collaboration and support;
- Our Customers for their trust and preference;
- Our shareholders for their constant support and interest in the activity of the Bank;
- The General Meeting Board Members, the Supervisory Board, the Statutory Auditor and the Secretary of the Company for their permanently constructive involvement;

- Our Employees for their commitment, motivation, willingness and professional competence.

Lisbon, 16 March 2017

Board of Directors:

Marília Boavida Correia Cabral

Pedro Alexandre Lemos Cabral das Neves

Maria Madalena Monteiro da Mata Torres Pitta e Cunha

Jorge Daniel Lopes da Silva

ANNEX TO THE MANAGEMENT REPORT

1. In compliance with that laid down in Article 447 of the Commercial Companies Code, we declare that none of the members of the Management and Supervisory bodies is a holder of Company shares.

2. Shareholders of over one tenth of the share capital of the Company, as at 31 December 2016, in compliance with that laid down in Article 448 of the Commercial Companies Code, are:

Shareholders	No. shares	%
Novo Banco, SA	62.999.700	99,9995%

Lisbon, 16 March 2017

The Board of Directors:

Marília Boavida Correia Cabral

Pedro Alexandre Lemos Cabral das Neves

Maria Madalena Monteiro da Mata Torres Pitta e Cunha

Jorge Daniel Lopes da Silva

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

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

INCOME STATEMENT
FOR THE PERIODS ENDED 31 DECEMBER 2016 AND 2015

(thousands of Euros)

		31.12.2016	31.12.2015 a)
Interest and similar income	5	7 655	6 878
Interest expense and similar charges	5	1 102	770
Net interest income		**6 553**	**6 108**
Dividend income	15	109	29
Fee and commission income	6	14 476	19 273
Fee and commission expenses	6	(5 758)	(6 550)
Net gains / (losses) from financial assets and liabilities at fair value through profit or los	7	(339)	(677)
Net gains / (losses) from available-for-sale financial assets	7	1 955	-
Net gains / (losses) from foreign exchange differences	8	474	905
Net gains / (losses) on disposal of other financial assets		94	-
Other operating income	9	(74)	(170)
Operating income		**17 490**	**18 918**
Staff costs	10	4 911	5 395
General and administrative expenses	11	7 039	7 516
Depreciation and amortisation	19 & 20	519	621
Provisions, net of reversals	24	765	112
Impairment losses on loans and advances, net of reversals and recoveries	17	128	169
Operating expenses		**13 362**	**13 813**
Profit / (loss) before income tax		**4 128**	**5 105**
Income tax			
Current tax	25	1 265	713
Deferred tax	25	117	(32)
Net income for the period		**2 746**	**4 424**
Basic earnings per share (in Euros)	12	0.04	0.07
Diluted earnings per share (in Euros)	12	0.04	0.07

[a] Comparative amounts altered to incorporate the retrospective application of IFRS following the repeal of Bank of Portugal Notice no. 3/95 (see Note 2)

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 2016 AND 2015

(thousands of Euros)

	31.12.2016	31.12.2015 [a)]
Net income for the period	**2 746**	**4 424**
Other comprehensive income for the period		
Items that may be reclassified to the income statement		
Fair value adjustments, net of tax (see Note 28)	(195)	22
	(195)	**22**
Total comprehensive income for the period	**2 551**	**4 446**

[a)] Comparative amounts altered to incorporate the retrospective application of IFRS following the repeal of Bank of Portugal Notice no. 3/95 (see Note 2)

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

BALANCE SHEET AT 31 DECEMBER 2016 AND 2015

(thousands of Euros)

	Notes	31.12.2016	31.12.2015 [a)]	01.01.2015
Assets				
Deposits with banks	13	68 820	64 421	47 625
Financial assets held for trading	14	109	345	864
Available-for-sale financial assets	15	37 137	22 051	3 549
Loans and advances to banks	16	289 241	208 041	215 418
Loans and advances to customers	17	135 867	156 182	140 770
Non-current assets held for sale	18	-	14	14
Other tangible assets	19	629	938	1 341
Intangible assets	20	81	277	472
Current tax assets	25	-	157	1 059
Deferred tax assets	25	414	494	462
Other assets	21	4 659	6 856	5 102
Total Assets		**536 957**	**459 776**	**416 676**
Liabilities				
Financial liabilities held for trading	14	478	230	74
Deposits from banks	22	15 529	29 845	46 822
Due to customers	23	442 172	348 510	293 298
Provisions	24	1 549	385	273
Current tax liabilities	25	142	20	603
Deferred tax liabilities	25	36	68	60
Other liabilities	26	3 104	7 332	6 606
Total Liabilities		**463 010**	**386 390**	**347 736**
Equity				
Share capital	27	63 000	63 000	63 000
Reserves, Retained earnings and Other comprehensive income	28	8 201	5 962	5 940
Net income for the period		2 746	4 424	-
Total Equity		**73 947**	**73 386**	**68 940**
Total Liabilities and Equity		**536 957**	**459 776**	**416 676**

[a)] Comparative amounts altered to incorporate the retrospective application of IFRS following the repeal of Bank of Portugal Notice no. 3/95 (see Note 2)

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 2016 AND 2015

(thousands of Euros)

	Share capital	Fair value reserves	Other reserves and Retained earnings	Net income for the period	Total Equity
Balance at 1 January 2015 (NCA)	**63 000**	**121**	**(920)**	**6 739**	**68 940**
Impact of adoption of Bank of Portugal Notice No. 5/2015	-	-	-	-	-
Balance at 1 January 2015 (IAS)	**63 000**	**121**	**(920)**	**6 739**	**68 940**
Comprehensive income:					
Changes in fair value, net of tax (see Note 28)	-	22	-	-	22
Net income for the period	-	-	-	4 424	4 424
Total comprehensive income	**-**	**22**	**-**	**4 424**	**4 446**
Constitution of reserves (see Note 28)	-	-	6 739	(6 739)	-
Balance at 31 December 2015	**63 000**	**143**	**5 819**	**4 424**	**73 386**
Comprehensive income:					
Changes in fair value, net of tax (see Note 28)	-	(195)	-	-	(195)
Net income for the period	-	-	-	2 746	2 746
Total comprehensive income	**-**	**(195)**	**-**	**2 746**	**2 551**
Constitution of reserves (see Note 28)	-	-	4 424	(4 424)	-
Distribution of dividends (see Note 28) a)	-	-	(1 990)	-	(1 990)
Balance at 31 December 2016	**63 000**	**(52)**	**8 253**	**2 746**	**73 947**

a) Corresponds to a dividend of Euros 0.03 per share paid to shares in circulation

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 2016 AND 2015

(thousands of Euros)

	Notes	31.12.2016	31.12.2015
Cash flows from operating activities			
Interest and similar income received		5 437	5 799
Interest expense and similar charges paid		(1 444)	(1 187)
Fees and commissions received		14 476	19 273
Fees and commissions paid		(5 758)	(6 550)
Recovery of loans and advances		42	-
Cash payments to employees and suppliers		(11 917)	(12 911)
		836	**4 424**
Changes in operating assets and liabilities:			
Disposal of financial assets at fair value through profit or loss		145	(2)
Loans and advances to banks		(79 818)	7 672
Deposits from banks		(14 316)	(16 976)
Loans and advances to customers		21 745	(15 519)
Due to customers		93 561	55 237
Derivatives held for risk management purposes		-	-
Other operating assets and liabilities		(2 076)	(716)
Net cash flows from operating activities before income taxes		**20 077**	**34 120**
Income taxes paid		(1 254)	(483)
		18 823	**33 637**
Net cash flows from investing activities			
Dividends received		109	29
Acquisition of available-for-sale financial assets		(17 982)	(35 946)
Disposal of available-for-sale financial assets		4 052	17 875
Acquisition of tangible fixed assets		(13)	(22)
Acquisition of intangible assets		-	(1)
		(13 834)	**(18 065)**
Cash flows from financing activities			
Dividends paid on ordinary shares		(1 990)	-
Net cash flows from financing activities		**(1 990)**	**-**
Net changes in cash and cash equivalents		**2 999**	**15 572**
Cash and cash equivalents at beginning of period		61 216	44 739
Effect of foreign exchange rate changes on cash and cash equivalents		473	905
Net changes in cash and cash equivalents		2 999	15 572
Cash and cash equivalents at end of period		**64 688**	**61 216**
Cash and cash equivalents include:			
Cash		-	-
Deposits with banks	13	68 820	64 421
Mandatory deposits with Central Banks [(a)]		(4 132)	(3 205)
Total		**64 688**	**61 216**

[(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

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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

NOTE 1 – ACTIVITY

BEST – Banco Electrónico de Serviço Total, S.A. (Bank or BEST or Banco 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 functioning of the administrative and operational areas of BEST is assured 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 Group's consolidation perimeter.

The Bank forms part of the 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 Group now holds 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, of the European Council and Parliament, and Notice no. 5/2015, of 7 December, of the Bank of Portugal, the financial statements of BEST are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union and in force as at 31 December 2016.

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 bodies.

The accounting policies applied by the Bank in the preparation of its financial statements as at 31 December 2016, are consistent with those used in the preparation of the separate financial statements as at 31 December 2015, except as regards:

- **Repeal of the NCA - Impact on the adoption of Bank of Portugal Notice no. 5/2015**

In accordance with article 2 of Notice no. 5/2015 of the Bank of Portugal, as from 1 January 2016 entities subject to the supervision of the Bank of Portugal must prepare the financial statements on a separate basis in accordance with International Accounting Standards (IAS), as adopted, at any time, by a European Union Regulation and respecting the conceptual framework for the preparation and presentation of financial statements that conform to those standards, as was already previously required for the financial statements on a consolidated basis.

The amendment resulting from the repeal of the Adjusted Accounting Standards (NCA) and the preparation, as from 1 January 2016, of the financial statements on a separate basis in accordance with International Accounting Standards (IAS), in accordance with the provisions of IFRS 1, as at 31 December 2015, had an impact, namely, on the provisions for general credit risks that under the NCA were recognised in liabilities under the caption Provisions (see Note 24) and that were, in accordance with IAS, reclassified to the caption Impairment of loans and advances to customers (see Note 17).

It should be noted that as at 31 December 2015 and 2014, the impairment losses of the loan and advances portfolio of BEST, calculated in accordance with IAS 39, were higher than the amount of the provisions determined based on that laid down in Notice no. 3/95 of the Bank of Portugal.

Hence, and in accordance with that defined in Notice no. 1/2005, the Bank had recognised this higher impairment in its separate financial statements, since the overall amount of the specific and general provisions may not be lower than the impairment estimated based on the recoverable amount of the loan and advances portfolio, in accordance with IAS 39.

According to IAS 8, and for comparability purposes, the amounts recorded as general credit risk provisions for impairment were recognised and reclassified in the respective balance sheet and income statement lines, as presented below. These reclassifications did not have any impact at the Equity level on 1 January 2015. At the Cash Flow Statement level there were also no impacts.

However, as a result of the publication of Regulatory Decree no. 5/2016, of 18 November, which established the fiscal regime for impairment for 2016 (including a transition rule), the tax impacts were calculated as at 1 January 2016 and, for comparative purposes, as at 1 January 2015. These impacts relate, essentially, to the interpretation made by the Bank of Regulatory Decree no. 5/2016, according to which, as a result of the accounting change, the tax treatment of loan impairment should be based on an individual analysis (on a loan by loan basis) and not on an overall analysis, as had been in force until 31 December 2015.

It should be noted that, in the opening balance sheet as at 1 January 2015, no adjustments were made as a result of the application of the Regulatory Decree referred to above. BEST, given the immateriality of the amounts, opted to only restate as at 1 January 2016, with the total impact, as at that date, being recorded as a result for the 2015 financial year.

(thousands of Euros)

Balance Sheet	Notes	Balance at 01.01.2015 NCA	Changes on full implementation of IFRS	Balance on 01.01.2015 IAS
Assets				
Loans and advances to customers	17	141 939	(1 169)	140 770
Liabilities				
Provisions	24	1 442	(1 169)	273

(thousands of Euros)

Balance Sheet	Notes	Balance at 31.12.2015 NCA	Changes on full implementation of IFRS	Balance on 31.12.2015 IAS
Assets				
Loans and advances to customers	17	157 407	(1 225)	156 182
Deferred taxes	25	473	21	494
Liabilities				
Provisions	24	1 610	(1 225)	385
Current taxes	25	-	20	20

(thousands of Euros)

Income Statement	Notes	Balance at 31.12.2015 NCA	Changes on full implementation of IFRS	Balance on 31.12.2015 IAS
Provisions, net of reversals	24	168	(56)	112
Impairment of loans and advances, net of reversals	17	113	56	169
Current taxes	25	693	20	713
Deferred taxes	25	(11)	(21)	(32)

As described in Note 33, in the preparation of the financial statements at 31 December 2016, the Bank adopted the accounting standards issued by IASB and the IFRIC interpretations, effective since 1 January 2016. 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 2016 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 IAS 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 5 April 2017, and await the approval at the General Meeting of Shareholders that is to occur after the approval of the new Supervisory Board by the Bank of Portugal. However, it is the conviction of the Board of Directors that these will be approved without significant changes.

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 reserves.

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 on organised markets, including futures and some options contracts are recorded as derivatives 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 financial years 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.

At 31 December 2016 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 method, 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 (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.

As at 31 December 2015 and according to the NCA, loan amounts should be adjusted based on criteria of rigor and prudence in order to reflect, at all times, their realisable value. This impairment adjustment could not be lower than that determined under Notice no. 3/95, of the Bank of Portugal, which established the minimum reference values for general and specific provisions. On 7 December 2015, the Bank of Portugal issued Notice no. 5/2015, effective as from 1 January 2016 that established the adoption of the criteria defined in the International Accounting Standards (IAS), repealing Notice no. 3/95.

The loan write-off policy followed by the Bank is governed by the principles defined by the Bank of Portugal in its Communication of 2009/01/28 (Reference: 15/09/DSBDR). Accordingly, the loan write-off only occurs after (i) the full amount of the loans has been deemed overdue and has been demanded; (ii) it is considered that appropriate collection efforts have been undertaken; and (iii) the loans' recovery expectations are very low, leading to an extreme scenario of full impairment.

Having met this criteria, rules have been implemented for the selection of loans that may be written off, which are:

- Loans cannot have associated collateral;
- Loans must be deemed overdue in their entirety (recorded, in their entirety, in overdue loans, with no portion being recorded in maturing debt);

- Loans cannot be marked as renegotiated overdue, or integrate an active settlement agreement;

- The impairment loss has to cover at least 95% of the amount, except in respect of mortgage loans when the recovery is performed through the foreclosure of the real estate property, and for which the remaining amount of the loans and advances not so recovered are also 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.

- *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

Acquisitions and disposals 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 acquire or dispose of 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, based on 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 techniques 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 reclassifies 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 financial assets 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 reclassification are also recognised in the income statement, based on 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 objectively related 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 of available-for-sale financial assets has 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 deferred 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 sales.

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 mentioned 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 purchases 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. Assets received as payment in kind for loans and non-current assets held for sale

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 the Bank of 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 own loans, with the situations deriving therefrom being regularised within 2 years, period which may be extended by the Bank of Portugal, on conditions to be determined by same (article 114 of RGICSF).

Although the Bank's objective is to immediately dispose of all real estate property acquired as payment in kind for loans, during financial year 2016 the Bank altered the classification of this real estate property from Non-current assets held for sale to Other assets, due to the permanence of same in the portfolio exceeding one year and the consequent non-compliance with the conditions of IFRS 5 for their permanence in this category. However, the accounting method has not changed, with these being initially recognised at the lower of their fair value less costs to sell and the carrying value of the subjacent loans being recovered. Subsequently, this real estate property is measured at the lower of its initial carrying value and the corresponding fair value less costs to sell and is not depreciated. Unrealised losses on these assets, so determined, are recorded in the income statement.

The valuation of this real estate 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 real estate properties to the real estate property under valuation, obtained through market prospecting carried out in the area.

b) Income Method

Under this method, the real estate property is valued based on the capitalisation 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 real estate 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.

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 initial recognition value and fair value less costs to sell, with the unrealised losses so determined being recorded in the income statement.

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.

Depreciation of other assets is calculated using the straight-line method, applied over their estimated useful lives, as follows:

	Number of years
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 financial years, when the reasons that led to the initial recognition cease to exist. For this purpose, the new depreciated amount shall not exceed that which would be accounted for had impairment losses not been recognised on the assets, but considering the depreciation that these would have undergone.

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

2.13. Intangible assets

The costs incurred with the acquisition, production and development of software are capitalised, as are the 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.

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 (profit sharing)

The Bank recognises in costs the short-term benefits of the employees who rendered services in the respective accounting period, and as a liability, after deducting the amount already paid.

Profit-sharing and bonus plans

The Bank recognises the cost expected with profit-sharing pay-outs and bonuses when it has a present, legal or constructive, obligation to make such payments as a result of past events, and can make a reliable estimate of the obligation.

Obligations with holidays, holiday subsidy and Christmas subsidy

In accordance with the legislation in force in Portugal, employees are annually entitled to one month of holidays and one month of holiday subsidy, this being a right acquired in the year prior to their payment. In addition, employees are annually entitled to one month of Christmas subsidy, which right is acquired throughout the year and settled during the month of December of each calendar year. Hence, these liabilities are recorded in the period in which the employees acquire the right to same, regardless of the date of their respective payment.

The Bank has no defined benefit or defined contribution plan, and therefore there are no responsibilities for old age, disability or survival retirement pensions.

2.16. Income taxes

Income taxes for the period comprise current and deferred taxes. 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 income 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 timing differences reverse.

Deferred tax liabilities are recognised for all taxable timing differences including differences arising on the initial recognition of assets and liabilities that affect neither accounting nor taxable income, 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 income will be available against which the deductible timing differences can be deducted. Deferred tax liabilities are always recorded, regardless of BEST's performance.

2.17. Provisions and Contingent liabilities

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 the 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 same.

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.

If a future outflow of funds is not probable, this situation reflects a contingent liability. Contingent liabilities are always disclosed, except when the likelihood of their occurrence is remote.

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.

Interest on loans and advances to customers includes the interest for which impairment losses have been recognised.

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 stock.

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

Considering that the current accounting framework requires applying judgements and calculating estimates involving some degree of subjectivity, the use of different parameters or judgements based on different evidence may result in different estimates.

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.

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. The amount of the impairment of available-for-sale financial assets determined based on the above criteria is indicated in Note 15.

3.2. Fair value of derivative financial instruments

Fair values are based on listed market prices, when available; otherwise, fair value is determined based on the price of recent similar arm's length transactions, or valuation methodologies, 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 in conformity with the principles of IFRS 13 – Fair value measurement. These methodologies may require assumptions or judgements in estimating fair values.

Consequently, the use of different methodologies or the use of different assumptions or judgements in applying a particular model might have produced different measurements from those reported and summarised in Notes 14, 31 and 32.

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.

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.

The amount of the impairment of loans and advances to customers determined based on the above criteria is indicated in Note 17.

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. Different interpretations and estimates could result in a different level of income taxes, current and deferred, being recognised in the financial year and evidenced in Note 25.

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 financial year 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.

3.5. Provisions

The Bank is a party to a number of ongoing legal proceedings for which, based on the opinion of its legal counsel, it makes a judgment to determine whether such contingencies appear remote, possible or probable, disclosing a contingent liability or recording a provision, if these appear to be possible or probable, respectively.

NOTE 4 – SEGMENTAL REPORTING

Given that the Bank does not hold treasury stock 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)

	31.12.2016	31.12.2015
Interest and similar income		
Interest from available-for-sale financial assets	494	280
Interest from deposits with and loans and advances to banks	3 695	2 356
Interest from loans and advances to customers	3 463	4 230
Other interest and similar income	3	12
	7 655	6 878
Interest expense and similar charges		
Interest on amounts due to customers	1 093	714
Interest on deposits from Central Banks and banks	1	49
Other interest expense and similar charges	8	7
	1 102	770
	6 553	**6 108**

NOTE 6 – NET FEE AND COMMISSION INCOME

This caption comprises:

(thousands of Euros)

	31.12.2016	31.12.2015
Fee and commission income		
From guarantees provided	1 042	1
From banking services	9 482	11 265
From transactions of securities	2 217	6 276
Other fee and commission income	1 735	1 731
	14 476	**19 273**
Fee and commission expense		
With transactions of securities	209	272
With banking services rendered by third parties	884	965
Other fee and commission expenses	4 665	5 313
	5 758	**6 550**
	8 718	**12 723**

The increase in Fee and commission income from guarantees provided is due to the increase in the amount of bank guarantees provided in 2016 (see Note 29).

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

Net gains / (losses) from financial assets and liabilities at fair value through profit or loss have the following breakdown:

(thousands of Euros)

	31.12.2016			31.12.2015		
	Gains	**Losses**	**Total**	**Gains**	**Losses**	**Total**
Assets and liabilities held for trading						
Derivative financial instruments						
Foreign exchange rate contracts	280	533	(253)	421	1 098	(677)
Interest rate contracts	127	214	(87)	-	-	-
	471	**810**	**(339)**	**421**	**1 098**	**(677)**
	471	**810**	**(339)**	**421**	**1 098**	**(677)**

Net gains / (losses) from available-for-sale financial assets have the following breakdown:

(thousands of Euros)

	31.12.2016			31.12.2015		
	Gains	**Losses**	**Total**	**Gains**	**Losses**	**Total**
Shares	1 955	-	1 955	-	-	-
	1 955	**-**	**1 955**	**-**	**-**	**-**

The Euros 1 955 thousand gain relates to the sale of the Visa Europe shareholding to Visa International.

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

This caption comprises:

(thousands of Euros)

	31.12.2016			31.12.2015		
	Gains	**Losses**	**Total**	**Gains**	**Losses**	**Total**
Foreign exchange revaluation	6 760	6 286	474	12 790	11 885	905
	6 760	**6 286**	**474**	**12 790**	**11 885**	**905**

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)

	31.12.2016	31.12.2015
Other operating income		
Gains / (losses) from loan operations	42	41
Other	168	117
	210	**158**
Other operating expense		
Direct and indirect taxes	(26)	(35)
Contributions to the Deposits Guarantee Fund	-	(20)
Contributions to the Resolution Fund	(22)	(24)
Contributions to the Sole Resolution Fund (see Note 25)	(7)	(2)
Banking levy	(120)	(88)
Other	(109)	(159)
	(284)	**(328)**
Other operating income / (expense)	(74)	(170)

NOTE 10 – STAFF COSTS

Staff costs have the following breakdown:

(thousands of Euros)

	31.12.2016	31.12.2015
Wages and salaries	3 885	4 372
Mandatory social charges	887	998
Other costs	139	25
	4 911	**5 395**

The detail of the costs with salaries and other benefits attributed to the members of the Board of Directors and Supervisory Board of BEST is presented in Note 30.

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

	31.12.2016	31.12.2015
Top management functions	31	28
Middle management functions	20	18
Specific functions	65	77
Administrative functions	16	17
	132	**140**

NOTE 11 – GENERAL AND ADMINISTRATIVE EXPENSES

This caption comprises:

(thousands of Euros)

	31.12.2016	31.12.2015
Advertising	817	1 420
Communication	1 232	1 139
Rentals	1 072	1 227
Travel and entertainment	58	85
Consumables	45	35
Water, energy and fuel	35	47
Transport	29	40
Insurance	24	153
Maintenance and related services	40	35
Training	43	43
IT services	999	849
Legal costs	81	24
Studies and consultation	2	6
Electronic payment systems	175	164
Independent work	36	64
Consultants and auditors	82	49
Assignment of human resources	1 396	1 172
Other costs	873	964
	7 039	**7 516**

The fees invoiced during financial years 2016 and 2015 by the Statutory Audit Firm have the following breakdown:

(thousands of Euros)

	31.12.2016	31.12.2015
Statutory audit fees	44	26
Other services	4	4
Total amount of the services invoiced	**48**	**30**

As at 31 December 2016 and 2015, in addition to the statutory audit services, audit services include the issuance of the report on the safeguarding of customer assets (Articles 306 to 306D of the Securities Code) with reference to December and the issuance of the opinion on the internal control system with reference to April (Bank of Portugal Notice no. 5/2008 - Financial Reporting Component).

The other services refer to the revision of the free translation into English of the annual report and accounts.

NOTE 12 – EARNINGS PER SHARE

Basic earnings per share

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

(thousands of Euros)

	31.12.2016	31.12.2015
Net income attributable to the shareholders of the Bank	2 746	4 424
Weighted average number of ordinary shares (thousands)	63 000	63 000
Basic earnings per share attributable to the shareholders of the Bank (in Euros)	**0.04**	**0.07**

Diluted earnings per share

The diluted earnings per share is calculated considering the income 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 2016 and 2015, 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 2016 and 2015, this caption is analysed as follows:

(thousands of Euros)

	31.12.2016	31.12.2015
Deposits with banks in Portugal		
Demand deposits	43 761	42 617
	43 761	**42 617**
Deposits with banks abroad		
Other	25 059	21 804
	25 059	**21 804**
	68 820	**64 421**

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, the Bank of 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 2016, the balance of that account amounted to Euros 4 132 thousand (31 December 2015: Euros 3 205 thousand), and had earned interest at an average rate of 0.01% (31 December 2015: 0.05%).

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 2016 and 2015, this caption is analysed as follows:

(thousands of Euros)

	31.12.2016	31.12.2015
Financial assets held for trading		
Derivative financial instruments with a positive fair value	109	345
Financial liabilities held for trading		
Derivative financial instruments with a negative fair value	478	230

At 31 December 2016 and 2015, derivative financial instruments may be analysed as follows:

(thousands of Euros)

	31.12.2016			31.12.2015		
	Notional	Fair value		Notional	Fair value	
		Assets	Liabilities		Assets	Liabilities
Foreign exchange rate contracts						
Forwards						
- buy	15 810	-	108	40 265	294	145
- sell	15 873			40 058		
Currency Swaps						
- buy	23 849	45	75	36 953	51	85
- sell	23 785			37 064		
	79 317	45	183	154 340	345	230
Interest rate contracts						
Interest Rate Swaps						
- buy	3 800	-	107	-	-	-
- sell	3 800			-		
	7 600	-	107	-	-	-
Share/Equity contracts						
Equity/Index Options						
- buy	22 800	64	188	-	-	-
- sell	21 714			-		
	44 514	64	188	-	-	-
TOTAL	**131 431**	**109**	**478**	**154 340**	**345**	**230**

At 31 December 2016 and 2015, the analysis of trading derivatives by period to maturity is as follows:

(thousands of Euros)

	31.12.2016		31.12.2015	
	Notional	**Fair value**	**Notional**	**Fair value**
Up to 3 months	88 517	(138)	154 340	115
3 months to 1 year	5 638	-	-	-
1 to 5 years	37 276	(231)	-	-
	131 431	**(369)**	**154 340**	**115**

NOTE 15 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

At 31 December 2016 and 2015, 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	30 185	-	(207)	-	29 978
Issued by other entities	5 988	63	-	-	6 051
Shares	1 034	74	-	-	1 108
Other variable income securities	167	-	-	(167)	-
Balance at 31 December 2016	**37 374**	**137**	**(207)**	**(167)**	**37 137**
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**

[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.

In the financial years ended on 31 December 2016 and 2015, no changes were verified in the impairment losses of available-for-sale financial assets.

At 31 December 2016 and 2015, the analysis of available-for-sale financial assets by period to maturity is as follows:

(thousands of Euros)

	31.12.2016	31.12.2015
Up to 3 months	5 664	415
3 months to 1 year	1 054	1 643
1 to 5 years	27 887	18 401
More than 5 years	1 424	1 029
Undetermined	1 108	563
	37 137	**22 051**

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

(thousands of Euros)

	31.12.2016			31.12.2015		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Securities						
Bonds and other fixed income securities						
Issued by Government and public entities	29 978	-	29 978	20 471	-	20 471
Issued by other entities	-	6 051	6 051	-	1 017	1 017
Shares	-	1 108	1 108	-	563	563
	29 978	**7 159**	**37 137**	**20 471**	**1 580**	**22 051**

During the financial year ended on 31 December 2016, the Bank received dividends in the amount of Euros 109 thousand from its available-for-sale financial assets portfolio (financial year 2015: Euros 29 thousand).

NOTE 16 – LOANS AND ADVANCES TO BANKS

At 31 December 2016 and 2015, this caption is analysed as follows:

(thousands of Euros)

	31.12.2016	31.12.2015
Loans and advances to banks in Portugal		
Deposits	289 241	208 041
	289 241	**208 041**

At 31 December 2016, the main loans and advances to banks in Portugal bear interest at an average annual interest rate of 1.38% (31 December 2015: 1.20%).

At 31 December 2016 and 2015, the analysis of loans and advances to banks by period to maturity is as follows:

(thousands of Euros)

	31.12.2016	31.12.2015
Up to 3 months	37 442	30 372
3 months to 1 year	249 662	177 669
More than 5 years	2 137	-
	289 241	**208 041**

NOTE 17 – LOANS AND ADVANCES TO CUSTOMERS

At 31 December 2016 and 2015, this caption is analysed as follows:

(thousands of Euros)

	31.12.2016	31.12.2015
Domestic loans and advances		
Corporate		
Current account loans and advances	29 336	31 751
Overdrafts	13	34
Retail		
Consumer and other loans	94 830	109 556
	124 179	**141 341**
Foreign loans and advances		
Corporate		
Current account loans and advances	100	746
Retail		
Consumo e outros	12 143	13 752
	12 243	**14 498**
Overdue loans and advances and interest		
Up to 3 months	713	2 208
3 months to 1 year	314	136
1 to 3 years	330	286
More than 3 years	549	609
	1 906	**3 239**
	138 328	**159 078**
Impairment losses	**(2 461)**	**(2 896)**
	135 867	**156 182**

The fair value of the Loans and advances to customers' portfolio is evidenced in Note 31.

At 31 December 2016 and 2015, the analysis of loans and advances to customers by period to maturity is as follows:

(thousands of Euros)

	31.12.2016	31.12.2015
Up to 3 months	50 836	54 827
3 months to 1 year	57 372	70 477
1 to 5 years	19 086	28 095
More than 5 years	9 128	2 440
Undetermined	1 906	3 239
	138 328	**159 078**

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)

	31.12.2016			31.12.2015		
	Corporate	Retail - Other	**Total**	Corporate	Retail - Other	**Total**
Balance at beginning of period	327	2 569	2 896	620	2 136	2 756
Allocations / (reversals) for period	1 225	(1 097)	128	(764)	933	169
Utilisation during period	-	(157)	(157)	(34)	-	(34)
Transfers **(a)**	(406)	-	(406)	-	-	-
Foreign exchange differences and other	(772)	772	-	505	(500)	5
Balance at end of period	**374**	**2 087**	**2 461**	**327**	**2 569**	**2 896**

a) Provision for guarantees transferred to the caption Other provisions

Loans and advances to customers distributed by rate typology are as follows:

(thousands of Euros)

	31.12.2016	31.12.2015
Fixed rate	61 074	-
Variable rate	77 254	159 078
	138 328	**159 078**

NOTE 18 – NON-CURRENT ASSETS HELD FOR SALE

At 31 December 2016 and 2015, this caption is analysed as follows:

(thousands of Euros)

	31.12.2016	31.12.2015
Real estate property	-	14
	-	**14**

The movement in non-current assets held for sale during the 2016 and 2015 financial years was as follows:

(thousands of Euros)

	31.12.2016	31.12.2015
Balance at beginning of period	**14**	**14**
Sales	(14)	-
Balance at end of period	**-**	**14**

NOTE 19 – OTHER TANGIBLE FIXED ASSETS

At 31 December 2016 and 2015, this caption is analysed as follows:

(thousands of Euros)

	31.12.2016	31.12.2015
Real estate property		
Improvements in leasehold property	1 077	1 076
	1 077	**1 076**
Equipment		
Computer equipment	1 883	1 937
Furniture	1 508	1 503
Office equipment	110	110
Fixtures	508	508
Security equipment	60	58
Other	1	1
	4 070	**4 117**
Tangible fixed assets in progress	**1**	**-**
	5 148	**5 193**
Accumulated depreciation	(4 519)	(4 255)
	629	**938**

The movements in this caption were as follows:

(thousands of Euros)

	Real estate property	Equipment	Fixed assets in progress	Total
Acquisition cost				
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**
Acquisitions	-	6	7	13
Disposals / write-offs	-	(59)	-	(59)
Transfers	1	5	(6)	-
Other	-	1	-	1
Balance at 31 December 2016	**1 077**	**4 070**	**1**	**5 148**
Depreciações				
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**
Depreciation for the period	89	234	-	323
Disposals / write-offs	-	(59)	-	(59)
Balance at 31 December 2016	**863**	**3 656**	**-**	**4 519**
Carrying value at 31 December 2016	**214**	**414**	**1**	**629**
Carrying value at 31 December 2015	**302**	**636**	**-**	**938**

NOTE 20 – INTANGIBLE ASSETS

At 31 December 2016 and 2015, this caption is analysed as follows:

(thousands of Euros)

	31.12.2016	31.12.2015
Acquired from third parties		
Software - Automatic data processing system	**11 693**	**11 693**
Accumulated amortisation	**(11 612)**	**(11 416)**
	81	**277**

The movements in this caption were as follows:

(thousands of Euros)

	Intangible assets Software - Automatic data processing system
Acquisition cost	
Balance at 31 December 2014	**11 692**
Acquisitions:	
Acquired from third parties	1
Other	-
Balance at 31 December 2015	**11 693**
Acquisitions:	
Acquired from third parties	-
Other	-
Balance at 31 December 2016	**11 693**
Amortisation	
Balance at 31 December 2014	**11 220**
Amortisation for the period	196
Other	-
Balance at 31 December 2015	**11 416**
Amortisation for the period	196
Other	-
Balance at 31 December 2016	**11 612**
Carrying value at 31 December 2016	**81**
Carrying value at 31 December 2015	**277**

NOTE 21 – OTHER ASSETS

At 31 December 2016 and 2015, the caption Other assets is analysed as follows:

(thousands of Euros)

	31.12.2016	31.12.2015
Security deposit accounts	2	3 027
Public sector administration	54	74
Other debtors	1 287	1 170
Accrued income [(i)]	3 114	2 457
Prepayments	20	54
Other transactions pending settlement	168	60
Other assets	14	14
	4 659	**6 856**

[(i)] Commissions receivable from Fund Managing Companies

The Security deposit accounts refer to the margin accounts in respect of derivative product operations contracted on organised markets in the name of the Bank's customers. The amounts relating to these operations are initially advanced by the customers, being recorded in the caption Other liabilities - Creditors for futures and options contracts (Note 26). As at 31 December 2016, operations of this nature were residual.

NOTE 22 – DEPOSITS FROM BANKS

At 31 December 2016 and 2015, the caption Deposits from banks is presented as follows

(thousands of Euros)

	31.12.2016	31.12.2015
Domestic		
Deposits	875	982
Other funds	3	7
	878	**989**
International		
Deposits	3 523	15 738
Other funds	11 128	13 118
	14 651	**28 856**
	15 529	**29 845**

At 31 December 2016 and 2015, the analysis of deposits from banks by period to maturity is as follows:

(thousands of Euros)

	31.12.2016	31.12.2015
Up to 3 months	15 529	29 845
	15 529	**29 845**

NOTE 23 – DEPOSITS FROM CUSTOMERS

At 31 December 2016 and 2015, the caption Deposits from customers, by nature, has the following breakdown:

(thousands of Euros)

	31.12.2016	31.12.2015
Demand deposits	326 576	263 955
Time deposits	112 577	81 950
Savings accounts	813	639
Other funds	2 206	1 966
	442 172	**348 510**

At 31 December 2016 and 2015, the analysis of amounts due to customers by period to maturity is as follows:

(thousands of Euros)

	31.12.2016	31.12.2015
Repayable on demand	**326 576**	**263 955**
With agreed maturity		
Up to 3 months	95 233	76 032
3 months to 1 year	16 712	5 196
1 to 5 years	3 651	152
More than 5 years	-	3 175
	115 596	**84 555**
	442 172	**348 510**

NOTE 24 – PROVISIONS

At 31 December 2016 and 2015, the caption Provisions has the following breakdown:

(thousands of Euros)

	Provisions for guarantees	Other provisions	Total
Balance at 31 December 2014	**-**	**273**	**273**
Allocations / (write-backs) for period	-	112	112
Balance at 31 December 2015	**-**	**385**	**385**
Allocations / (write-backs) for period	(384)	1 149	765
Utilisation for period	-	(8)	(8)
Transfers [a)]	406	-	406
Other	-	1	1
Balance at 31 December 2016	**22**	**1 527**	**1 549**

a) Provisions for guarantees transferred from the caption Loans and advances to customers

Other provisions include provisions for ongoing legal proceedings in an amount of Euros 1 491 thousand. The amount of these provisions results from a prudent evaluation carried out by the Bank with reference to the balance sheet date, considering the latest developments in the processes.

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 income for the period.

The current income tax for the financial years ended 31 December 2016 and 2015 was determined based on an aggregate nominal IRC tax rate plus Municipal Surcharge of 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 inter-municipal entities), increased by an additional charge of 3% and 5% of State Surcharge ("Derrama Estadual") levied on taxable income between Euros 1.5 million and Euros 7.5 million or exceeding Euros 7.5 million, respectively.

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 2016 and 2015 financial years, the deferred tax calculation was broadly calculated based on an aggregate rate of 26%, resulting from the sum of the corporate income 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 2016 and 2015 may be analysed as follows:

(thousands of Euros)

	Assets		Liabilities		Net	
	31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**
Financial instruments	54	17	36	68	18	(51)
Impairment losses on loans and advances to customers	354	477	-	-	354	477
Provisions	6	-	-	-	6	-
Net deferred tax assets / (liabilities)	**414**	**494**	**36**	**68**	**378**	**426**

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

(thousands of Euros)

	31.12.2016		31.12.2015	
	Recognised in the income statement	**Recognised in reserves**	**Recognised in the income statement**	**Recognised in reserves**
Available-for-sale financial assets	-	(69)	-	8
Impairment losses on loans and advances to customers	123		(32)	-
Provisions	(6)	-	-	-
Deferred taxes	117	(69)	(32)	8
Current taxes	1 265	-	713	-
Total tax recognised	**1 382**	**(69)**	**681**	**8**

Current tax assets and liabilities recognised in the balance sheet at 31 December 2016 and 2015 may be analysed as follows:

(thousands of Euros)

	31.12.2016	31.12.2015
Assets		
Corporate income tax recoverable	-	157
	-	157
Liabilities		
Corporate income tax payable	142	-
	142	-

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

(thousands of Euros)

	31.12.2016		31.12.2015	
	%	Amount	%	Amount
Profit / (loss) before taxes		**4 128**		**5 105**
Banking Levy (see Note 9)		120		88
		4 248		**5 193**
Tax rate	26.0		26.0	
Income tax calculated based on tax rate		1 104		1 350
Non-deductible costs	0.5	19	0.6	26
Changes in the estimates	0.0	-	(17.3)	(716)
Other	6.3	259	0.5	21
Effective tax rate / Corporate income tax	**33.5**	**1 382**	**13.3**	**681**

Following the enactment of Law no. 55-A/2010, of 31 December, a Banking Levy ("Contribuição sobre o Sector Bancário"), is levied on the average annual liability calculated based on the balance sheet, net of own funds and deposits covered by the guarantee of the Deposits Guarantee Fund and on the notional value of derivative financial instruments. The Banking Levy is not eligible as a tax cost, and its 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, Law no. 82-B/2014, of 31 December, Law no. 159-C/2015, of 30 December and by Law no. 7-A/2016, of 30 March. As at 31 December 2016, the Bank recognised the amount of Euros 120 thousand (2015: Euros 88 thousand) as a cost related to the Banking Levy. The cost recognised as at 31 December 2016 was calculated and paid based on the maximum rate of 0.110% that is levied on the average annual liability calculated based on the balance sheet, net of own funds and deposits covered by the guarantee of the Deposits Guarantee Fund, approved by Law no. 7-A/2016, of 30 March and by Ordinance no. 165-A/2016, of 14 June.

NOTE 26 – OTHER LIABILITIES

At 31 December 2016 and 2015, the caption Other liabilities is analysed as follows:

(thousands of Euros)

	31.12.2016	31.12.2015
Public sector administration	711	1 187
Suppliers	729	1 023
Creditors for futures and options contracts	2	3 027
Captive bank accounts	326	281
Other creditors	89	56
Staff costs	632	678
Other accrued expenses	166	563
Deferred income	138	190
Other transactions pending settlement	311	327
	3 104	**7 332**

NOTE 27 – SHARE CAPITAL

Ordinary shares

At 31 December 2016 and 2015, 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 undertook 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	
	31.12.2016	31.12.2015
NOVO BANCO, S.A.	100.00%	100.00%
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 year 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 net profit for the period be transferred to the legal reserve until it equals share capital, or the sum of the free reserves constituted plus the retained earnings, if higher.

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 financial year / previous financial years. The amount of this reserve is presented in the balance sheet, net of deferred taxes.

The movements in these captions during the 2016 and 2015 financial years 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 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**
Changes in fair value	(264)	69	(195)	-	-	-
Distribution of dividends (*)	-	-	-	-	(1 990)	(1 990)
Constitution of reserves (*)	-	-	-	443	3 981	4 424
Balance at 31 December 2016	**(70)**	**18**	**(52)**	**5 159**	**3 094**	**8 253**

(*) As per approval of General Meeting

The fair value reserves are analysed as follows:

(thousands of Euros)

	31.12.2016	31.12.2015
Amortised cost of available-for-sale financial assets	37 374	22 024
Accumulated impairment losses recognised	(167)	(167)
Amortised cost of available-for-sale financial assets, net of impairment losses	37 207	21 857
Fair value of available-for-sale financial assets	37 137	22 051
Unrealised gains / (losses) recognised in fair value reserves	(70)	194
Deferred taxes	18	(51)
Unrealised gains / (losses) recognised in fair value reserves, net of taxes	**(52)**	**143**

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

(thousands of Euros)

	31.12.2016	31.12.2015
Balance at beginning of period	**143**	**121**
Changes in fair value	(266)	30
Disposals during period	2	-
Deferred taxes recognised in reserves during period	69	(8)
Balance at end of period	**(52)**	**143**

NOTE 29 – CONTINGENT LIABILITIES AND COMMITMENTS

In addition to derivative financial instruments, at 31 December 2016 and 2015, the off-balance sheet elements included the following:

(thousands of Euros)

	31.12.2016	31.12.2015
Contingent liabilities		
Guarantees and standby letters	108 540	380
Assets pledged as collateral	1 424	1 649
	109 964	**2 029**
Commitments		
Revocable commitments	76 135	73 524
Irrevocable commitments	1 668	1 915
	77 803	**75 439**
	187 767	**77 468**

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

At 31 December 2016, 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 949 thousand (31 December 2015: Euros 1 029 thousand);
- Securities pledged as collateral to the Deposits Guarantee Fund ("Fundo de Garantia de Depósitos" (FGD)) in the amount of Euros 475 thousand (31 December 2015: Euros 620 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 that 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 securities 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)

	31.12.2016	31.12.2015
Responsibilities related with banking services		
Deposit and custodianship of securities	451 178	503 111
Other responsibilities related with banking services	174 624	191 513
	625 802	**694 624**

In Other responsibilities related with banking services are considered the amounts relating to customers' assets invested in funds.

Fundo de Resolução

a) Fundo de Resolução is a public legal entity with administrative and financial autonomy, which is governed by the General Regime governing Credit Institutions and Financial Companies ("RGICSF") and by its regulation and which objective is to intervene financially in financial institutions in difficulties, implementing the measures determined by the Bank of Portugal. In this context, and as defined in the RGICSF, the sources of financing of the Resolution Fund are: (i) revenue from the banking levy; (ii) initial contributions from the participating institutions; (iii) periodic contributions from the participating institutions; (iv) proceeds of loans obtained; (v) income from investment of funds; (vi) donations; and (vii) any other income, revenue or amounts derived from its activity or that are assigned it by law or contract, including amounts received from the credit institution subject to the resolution or from the transition institution.

   The Bank, as with the generality of financial institutions operating in Portugal, is one of the institutions participating in the Resolution Fund, making contributions that result from the application of a rate defined annually by the Bank of Portugal based, essentially, on the amount of the liabilities. In 2016, the periodic contribution made by the Bank amounted to Euros 22 thousand, with the contribution for the current financial year having been fully recognised in April 2016, in accordance with IFRIC 21 (31 December 2015: Euros 24 thousand).

b) As part of its responsibility as the supervisory and resolution authority of the Portuguese financial sector, the Bank of Portugal decided to apply, on 3 August 2014, a resolution measure to Banco Espírito Santo, S.A. ("BES"), under no. 5 of article 145-G of the General Regime governing Credit Institutions and Financial Companies ("RGICSF"), which consisted of the transfer of most of its activity to a transition bank, called NOVO BANCO, S.A. (NOVO BANCO), created specifically for this purpose.

To realise the share capital of NOVO BANCO, Fundo de Resolução made available Euros 4 900 million. Of this amount, Euros 377 million are own funds of Fundo de Resolução. A loan was also granted by a banking syndicate to Fundo de Resolução, amounting to Euros 700 million, with the share of each credit institution having been weighted depending on various factors, including its respective size. The remaining amount (Euros 3 823 million) came from a loan granted by the Portuguese Republic, which will be reimbursed and remunerated by Fundo de Resolução.

On 29 December 2015, the Bank of Portugal, whilst resolution authority, determined to retransmit from NOVO BANCO to BES the responsibility for five non-subordinated debt instrument issues by same, made a final adjustment to the perimeter of the assets, liabilities, off-balance sheet elements and assets under management transferred to NOVO BANCO, having also clarified that it is the responsibility of Fundo de Resolução to neutralise, by compensating NOVO BANCO, the possible negative effects of future judicial decisions arising from the resolution process, resulting in liabilities or contingencies.

c) Still during the month of December 2015, the national authorities decided to sell most of the assets and liabilities associated with the activity of Banif - Banco Internacional do Funchal, SA ("Banif") to Banco Santander Totta, for Euros 150 million, in the scope of the application of a resolution measure. According to information made public by the Bank of Portugal, this operation involved an estimated Euros 2 255 million of public funding, aimed at covering future contingencies, financed in Euros 489 million by Fundo de Resolução and in Euros 1 766 million directly by the Portuguese Republic, as a result of the options agreed to between the Portuguese authorities, the European authorities and Banco Santander Totta, for the delimitation of the perimeter of the assets and liabilities to be sold. In the context of this resolution measure, the assets of Banif identified as problematic were transferred to an asset management vehicle, created for the purpose – Oitante, S.A., with Fundo de Resolução being its sole shareholder, through the issue of debt securities of that vehicle, in the amount of Euros 746 million, guaranteed by Fundo de Resolução and counter-guaranteed by the Portuguese Republic. A restricted set of assets, as well as shareholders', subordinated creditors' and related parties' positions will remain in Banif, which will be the subject of a future liquidation.

As provided for in Decree-Law no. 31-A/2012, Fundo de Resolução funds derive from the payment of contributions due from the institutions participating in the Fund and from the banking sector levy. In addition, it is also envisaged that, whenever such funds reveal themselves insufficient to meet its obligations, other means of financing may be used, namely: (i) special contributions from credit institutions; and (ii) amounts obtained through loans.

d) As a result of the deliberations referred to above, the risk of litigation involving Fundo de Resolução is significant, as is the risk of an insufficiency of funds to ensure its compliance with its responsibilities, namely the short-term repayment of the loans contracted.

In this context, in the second half of 2016, the Portuguese Government reached an agreement with the European Commission to change the terms of the financing granted by the Portuguese Republic and by the banks participating in Fundo de Resolução in order to preserve its financial stability, through the promotion of conditions that endow predictability and stability to the contributory efforts to Fundo de Resolução. To this end, an addendum to the loan agreements with Fundo de Resolução has been recently formalised, which introduces a number of changes to the repayment schedule, remuneration rates and other terms and conditions associated with said loans such that these are adjusted to Fundo de Resolução's ability to fully meet its obligations based on its regular revenues, that is, without the need to charge the banks participating in Fundo de Resolução for special contributions or any other extraordinary contribution.

In this context, based on the information currently available, it is the understanding of the Board of Directors that the risks that may result in additional charges for the Bank, in respect of the responsibilities explained above and that fall on Fundo de Resolução, are reduced.

NOTE 30 – RELATED PARTY TRANSACTIONS

At 31 December 2016 and 2015, the Bank's transactions with related parties, as well as the respective expense and income recognised during the financial years, are summarised as follows:

(thousands of Euros)

	31.12.2016				31.12.2015			
	Assets	Liabilities	Income	Expense	Assets	Liabilities	Income	Expense
Shareholder								
NOVO BANCO	328 528	780	4 080	690	240 768	4 053	2 390	299
Subsidiaries / Associated companies								
NOVO BANCO AÇORES	293	-	-	-	3 070	-	-	-
GNB GA	82	-	-	370	50	-	1	364
GNB VIDA	185	20 847	1 603	410	429	25 679	1 482	1
GNB SEGUROS	-	253	-	-	-	220	-	-
PRAÇA MARQUÊS	-	-	-	615	-	-	-	-
SAXO BANK [a]	-	-	-	-	-	-	1 507	-
	329 088	**21 880**	**5 683**	**2 085**	**244 317**	**29 952**	**5 380**	**664**
Other								
CONSULJUR UNIPESSOAL LDA	-	1	-	-	-	-	-	-
Other [b]	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**-**

[a] Ceased being shareholder of BEST in Nov/15 following the share exchange
[b] Companies directly or indirectly dominated by members of the governing bodies

Interest generating assets and liabilities contracted with NOVO BANCO Group entities present interest rates between 1.16% and 2.74% and between 0% and 0.05%, respectively.

The costs with remuneration and other benefits attributed to the Board of Directors and Supervisory Board of BEST are presented as follows:

(thousands of Euros)

	31.12.2016	31.12.2015
Board of Directors		
Shot-term employment benefits	331	329
Supervisory Board *	4	10
	335	**339**

* The amount presented in respect of 2016 relates exclusively to the Supervisory Board that was in office until 7 July 2016; the new Supervisory Board awaits the Bank of Portugal's authorisation to start functions

As at 31 December 2016 the amount of the loans and advances granted to the members of the Board of Directors of BEST (according to the scope defined in IAS 24) was Euros 3.9 thousand (31 December 2015: Euros 6.9 thousand). The Supervisory Board of BEST had no loan responsibilities.

NOTE 31 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

(thousands of Euros)

	At fair value			
	Quoted Market Prices (Level 1)	Valuation models based on observable market information (Level 2)	Valuation models based on non-observable market information (Level 3)	Fair value
31 December 2016				
Financial assets held for trading	-	109	-	109
Available-for-sale financial assets	30 535	1 054	4 998	36 587
Financial assets	**30 535**	**1 163**	**4 998**	**36 696**
Financial liabilities held for trading	-	478	-	478
Financial liabilities	**-**	**478**	**-**	**478**
31 December 2015				
Financial assets held for trading	-	345	-	345
Available-for-sale financial assets	20 471	1 017	11	21 499
Financial assets	**20 471**	**1 362**	**11**	**21 844**
Financial liabilities held for trading	-	230	-	230
Financial liabilities	**-**	**230**	**-**	**230**

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

Quoted market prices (level 1) – 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 (level 2) – 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. Additionally, the Bank also uses as observable market variables, those that result from transactions with similar instruments and that are observed with a certain regularity on the market.

Valuation models based on non-observable market information (level 3) – 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 bases and assumptions of the calculation of fair value are in accordance with IFRS 13.

The movement in financial assets valued based on non-observable market information as at 31 December 2016 and 2015, may be analysed as follows:

(thousands of Euros)

	31.12.2016	31.12.2015
Balance at beginning of period	**11**	**11**
Acquisitions	4 994	-
Withdrawals	(11)	-
Changes in value	4	-
Balance at end of period	**4 998**	**11**

The main assumptions and inputs used in the valuation models, during financial years 2016 and 2015, are as follows:

The acquisitions in financial year 2015 related to the acquisition of Commercial paper. Given its nature and because, typically, it is a short-term product, no sensitivity analysis was carried out.

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:

(%)

	31.12.2016			31.12.2015		
	EUR	USD	GBP	EUR	USD	GBP
Overnight	-0.4000	0.6100	0.1500	-0.3500	0.4100	0.3200
1 month	-0.3680	0.7750	0.2900	-0.2050	0.6050	0.5750
3 months	-0.3190	1.0500	0.4300	-0.1310	0.7550	0.6700
6 months	-0.2210	1.2500	0.5500	-0.0400	0.9400	0.8250
9 months	-0.1390	1.4500	0.6800	-0.0480	1.1200	0.9750
1 year	-0.2040	1.1810	0.4064	-0.0569	0.8470	0.7261
3 years	-0.1005	1.6640	0.6881	0.0590	1.3849	1.3026
5 years	0.0750	1.9450	0.8657	0.3280	1.7010	1.5920
7 years	0.3150	2.1350	1.0347	0.6210	1.9310	1.7990
10 years	0.6680	2.3160	1.2325	1.0000	2.1615	1.9931
15 years	1.0340	2.4750	1.4147	1.3990	2.3930	2.1606
20 years	1.1810	2.5380	1.4607	1.5670	2.5020	2.2010
25 years	1.2230	2.5600	1.4498	1.6040	2.6320	2.1800
30 years	1.2410	2.5650	1.4297	1.6100	2.5900	2.1550

Interest rate volatility

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

(%)

	31.12.2016			31.12.2015		
	EUR	USD	GBP	EUR	USD	GBP
1 year	14.14	24.43	80.81	31.65	50.93	44.44
3 years	31.24	37.50	-	58.65	46.06	53.36
5 years	47.41	40.88	97.10	78.45	46.29	54.11
7 years	58.53	39.98	90.36	83.60	43.95	51.72
10 years	66.68	37.66	-	84.47	39.50	47.70
15 years	69.39	-	-	80.90	-	42.18

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:

			Volatility (%)				
Foreign exchange rate pair	31.12.2016	31.12.2015	1 month	3 months	6 months	9 months	1 year
EUR/USD	1.0541	1.0887	10.45	10.58	10.83	10.65	10.55
EUR/GBP	0.8562	0.7340	9.91	10.35	10.93	10.80	10.80
EUR/CHF	1.0739	1.0835	5.30	6.15	7.30	7.43	7.59
EUR/NOK	9.0863	9.6030	7.30	7.91	8.39	8.48	8.60
EUR/PLN	4.4103	4.2639	6.78	7.10	7.55	7.60	7.75
EUR/RUB	64.3000	80.6736	15.20	16.20	17.25	17.22	18.15
USD/BRL [a)]	3.2544	3.9604	16.23	16.36	16.40	16.43	16.46
USD/TRY [b)]	3.5169	2.9177	15.38	15.75	15.60	15.95	15.90

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

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

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

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
	31.12.2016	31.12.2015	% change	1 month	3 months	
DJ Euro Stoxx 50	3 291	3 268	0.70	10.87	13.25	16.43
PSI 20	4 679	5 313	-11.93	11.45	13.71	17.46
IBEX 35	9 352	9 544	-2.01	13.54	14.99	-
FTSE 100	7 143	6 242	14.43	8.48	11.89	11.82
DAX	11 481	10 743	6.87	11.22	13.32	16.09
S&P 500	2 239	2 044	9.54	7.60	10.23	11.51
BOVESPA	60 227	43 350	38.93	25.02	23.92	23.62

The Bank 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:

(thousands of Euros)

	Assets / liabilities recorded at amortised cost	Fair value			
		Quoted Market Prices (Level 1)	Valuation models based on observable market information (Level 2)	Valuation models based on non-observable market information (Level 3)	Total fair value
31 December 2016					
Deposits with banks	68 820	-	68 820	-	68 820
Available-for-sale financial assets (shares) **a)**	550	-	-	550	550
Loans and advances to banks	289 241	-	289 241	-	289 241
Loans and advances to customers	135 867	-	-	134 582	134 582
Financial assets	**494 478**	**-**	**358 061**	**135 132**	**493 193**
Deposits from banks	15 529	-	15 529	-	15 529
Due to customers	442 172	-	-	442 172	442 172
Financial liabilities	**457 701**	**-**	**15 529**	**442 172**	**457 701**

a) Assets at acquisition cost, net of impairment. These assets refer to equity instruments issued by unquoted entities for which no recent transactions were identified on the market nor is it possible to reliably estimate their fair value

(thousands of Euros)

	Assets / liabilities recorded at amortised cost	Fair value			
		Quoted Market Prices (Level 1)	Valuation models based on observable market information (Level 2)	Valuation models based on non-observable market information (Level 3)	Total fair value
31 December 2015					
Deposits with banks	64 421	-	64 421	-	64 421
Available-for-sale financial assets (shares) **a)**	552	-	-	1 486	1 486
Loans and advances to banks	208 041	-	208 041	-	208 041
Loans and advances to customers	156 182	-	-	160 261	160 261
Financial assets	**429 196**	**-**	**272 462**	**161 747**	**434 209**
Deposits from banks	29 845	-	29 845	-	29 845
Due to customers	348 510	-	-	348 510	348 510
Financial liabilities	**378 355**	**-**	**29 845**	**348 510**	**378 355**

a) Assets at acquisition cost, net of impairment. These assets refer to equity instruments issued by unquoted entities for which no recent transactions were identified on the market nor is it possible to reliably estimate their fair value

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.

Due to customers and other loans

The fair value of the demand deposits corresponds to the nominal amount of same. The fair value of the term deposits and other funds not at sight 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 therefore 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 loan portfolio management is an ongoing process that requires interaction between the various teams responsible for risk management throughout the consecutive stages of the loan 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 the 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 maximum credit risk exposure is analysed as follows:

(thousands of Euros)

	31.12.2016	31.12.2015
Deposits with and loans and advances to banks	358 061	272 462
Available-for-sale financial assets	36 029	21 488
Loans and advances to customers	135 867	156 182
Other assets	4 401	3 627
Guarantees and standby letters	108 540	380
Irrevocable commitments	1 668	1 915
	644 566	**456 054**

For financial assets recognised in the balance sheet, the maximum exposure to credit risk is represented by the carrying value net of impairment. For the off-balance sheet elements, the maximum exposure of the guarantees is the maximum amount that the Bank would have to pay if the guarantees were executed. For loan commitments and other credit-related commitments of an irrevocable nature, the maximum exposure is the total amount of the commitments assumed.

The Bank calculates impairment on an individual basis for all financial assets that are overdue. If the value of the collateral, net of haircuts, equals or exceeds the exposure, the impairment may be nil.

At 31 December 2016 and 2015, the breakdown of gross loans and advances to customers and impairment recognised by segment was as follows:

(thousands of Euros)

Segment	31.12.2016													
	Loans and advances not at risk						Loans and advances at risk						Total Loans and advances	
	Without indications of impairment		With indications of impairment		Total		Days overdue <= 90 days*		Days overdue >90 days		Total			
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	24 268	200	5 188	173	29 456	373	-	-	2	1	2	1	29 458	374
Retail	93 479	316	13 520	288	106 999	604	528	230	1 343	1 253	1 871	1 483	108 870	2 087
Total	**117 747**	**516**	**18 708**	**461**	**136 455**	**977**	**528**	**230**	**1 345**	**1 254**	**1 873**	**1 484**	**138 328**	**2 461**

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

At 31 December 2016 and 2015, the breakdown of the loans and advances to customers' portfolio and year of production was as follows:

(thousands of Euros)

Year of production	31.12.2016								
	Corporate			Retail			Total		
	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2004 and prior	-	-	-	1 024	891	81	1 024	891	81
2005	-	-	-	655	535	26	655	535	26
2006	-	-	-	806	513	12	806	513	12
2007	1	-	-	699	1 233	111	700	1 233	111
2008	2	-	-	600	541	188	602	541	188
2009	3	2	-	550	1 896	110	553	1 898	110
2010	3	305	7	1 208	3 224	195	1 211	3 529	202
2011	5	234	12	2 064	9 713	264	2 069	9 947	276
2012	22	9 470	159	1 759	14 016	442	1 781	23 486	601
2013	21	3 462	59	1 856	14 440	151	1 877	17 902	210
2014	30	5 194	54	1 373	21 524	180	1 403	26 718	234
2015	42	6 650	50	1 079	15 825	108	1 121	22 475	158
2016	61	4 141	33	680	24 519	219	741	28 660	252
Total	**190**	**29 458**	**374**	**14 353**	**108 870**	**2 087**	**14 543**	**138 328**	**2 461**

(thousands of Euros)

Year of production	31.12.2015								
	Corporate			Retail			Total		
	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
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	9 654	64	1 333	26 373	172	1 395	36 027	236
Total	**177**	**34 219**	**327**	**15 264**	**124 859**	**2 569**	**15 441**	**159 078**	**2 896**

At 31 December 2016 and 2015, the breakdown of gross loans and advances to customers and impairment assessed individually and collectively, by segment, was as follows:

(thousands of Euros)

	31.12.2016					
	Individual Assessment (1)		Collective Assessment (2)		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	-	-	29 458	374	29 458	374
Retail	623	611	108 247	1 476	108 870	2 087
Total	**623**	**611**	**137 705**	**1 850**	**138 328**	**2 461**

(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)

	31.12.2015					
	Individual Assessment (1)		Collective Assessment (2)		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	-	-	34 219	327	34 219	327
Retail	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

Loans 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 credit risk exposure by sector of activity, at 31 December 2016 and 2015, may be presented as follows:

(thousands of Euros)

	31.12.2016					
	Loans and advances to customers		Financial assets held for trading	Available-for-sale financial assets		Guarantees granted
	Gross amount	Impairment		Gross amount	Impairment	
Agriculture, Forestry and Fishery	428	(11)	-	-	-	-
Food, Beverages and Tobacco	261	(2)	-	-	-	-
Textiles and Clothing	4 006	(48)	-	-	-	-
Paper and Printing Industry	61	-	-	-	-	-
Chemicals and Rubber	338	(3)	-	-	-	-
Non-metallic Minerals	135	(2)	-	-	-	-
Production of Machinery, Equipment and Electrical Device	113	(1)	-	-	-	-
Construction and Public Works	217	(3)	-	4 996	-	-
Wholesale and Retail Trade	5 275	(88)	-	-	-	-
Tourism	1 131	(9)	-	-	-	-
Financial Activities	8	-	109	2 329	(167)	108 540
Real Estate Activities	8 293	(107)	-	-	-	-
Services Provided to Companies	4 837	(56)	-	-	-	-
Public Administration and Services	2 160	(19)	-	29 979	-	-
Other community service activities	2 109	(25)	-	-	-	-
Consumer Loans	108 870	(2 087)	-	-	-	-
Other	86	-	-	-	-	-
TOTAL	**138 328**	**(2 461)**	**109**	**37 304**	**(167)**	**108 540**

(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		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**

With regard to restructured loans and advances to customers due to financial difficulties of the customer, as defined by Instruction no. 32/2013, of the Bank of Portugal, the amounts involved at 31 December 2016 and 2015 are as follows:

(thousands of Euros)

	31.12.2016	31.12.2015
Corporate	2 639	3 102
Retail	2 164	3 360
Total	**4 803**	**6 462**

Below are the details of the restructuring measures applied to restructured loans and advances until 31 December 2016 and 2015:

(thousands of Euros)

Measure	31.12.2016								
	Loans and advances not at risk			Loans and advances at risk			Total		
	No. transactions	Exposure	Impairment	No. transactions	Exposure	Impairment	No. transactions	Exposure	Impairment
New loan in total or partial payment of existing loan	8	27	4	1	2	2	9	29	6
Extension of repayment period	4	17	2	11	20	18	15	37	20
Change of the lease payment plan	1	5	1	-	-	-	1	5	1
Other	28	4 614	142	31	118	99	59	4 732	241
Total	**41**	**4 663**	**149**	**43**	**140**	**119**	**84**	**4 803**	**268**

(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
New loan in total or partial payment of existing loan	2	3	-	-	-	-	2	3	-
Extension of repayment period	3	13	2	-	-	-	3	13	2
Other	53	6 332	92	17	114	77	70	6 446	169
Total	**58**	**6 348**	**94**	**17**	**114**	**77**	**75**	**6 462**	**171**

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)

	31.12.2016				31.12.2015			
	December	Period average	Maximum	Minimum	December	Period average	Maximum	Minimum
Exchange risk	149.04	69.26	149.04	21.49	28.35	69.07	247.98	20.70
Interest rate risk	0.05	0.03	0.07	0.02	0.02	0.05	0.13	0.04
Diversification effect	-0.04	-0.03	-0.00	-0.06	-0.02	-0.04	-0.14	-0.05
Total	**149.05**	**69.27**	**149.10**	**21.45**	**28.35**	**69.08**	**247.97**	**20.68**

At 31 December 2016, BEST has a VaR of Euros 149 thousand (31 December 2015: Euros 28 thousand) for its trading positions.

Following the issues of the Basel II (Pillar 2) recommendations and Instruction no. 19/2005, of the Bank of 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)

	31.12.2016						
	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 to and deposits with banks	355 967	-	88 821	147 846	100 000	19 300	-
Loans and advances to customers	137 783	-	74 431	41 548	14 448	6 932	424
Securities	36 469	1 108	4 996	-	1 054	27 887	1 424
Total			**168 248**	**189 394**	**115 502**	**54 119**	**1 848**
Deposits from banks	15 529	-	15 529	-	-	-	-
Due to customers	439 788	-	229 024	31 160	37 061	142 543	-
Total			**244 553**	**31 160**	**37 061**	**142 543**	**-**
Balance sheet GAP (Assets - Liabilities)	73 794		(76 305)	158 234	78 441	(88 424)	1 848
Off-Balance sheet	-		-	-	-	-	-
Structural GAP	**73 794**		**(76 305)**	**158 234**	**78 441**	**(88 424)**	**1 848**
Accumulated GAP			**(76 305)**	**81 929**	**160 370**	**71 946**	**73 794**

(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 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	-	-	-	-
Due to 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**

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)

	31.12.2016				31.12.2015			
	Parallel increase of 100 bp	Parallel decrease of 100 bp	Increase after 1 year of 50 bp	Decrease after 1 year of 50 bp	Parallel increase of 100 bp	Parallel decrease of 100 bp	Increase after 1 year of 50 bp	Decrease after 1 year of 50 bp
At 31 December	(144)	144	623	(623)	305	(305)	571	(571)
Average for period	(28)	28	545	(545)	460	(460)	671	(671)
Maximum for period	(189)	189	623	(623)	717	(717)	799	(799)
Minimum for period	68	(68)	424	(424)	270	(270)	527	(527)

The following table presents the average balances, interest charges and average interest rates for the Bank's major financial assets and liabilities categories, for the financial years ended 31 December 2016 and 2015:

(thousands of Euros)

	31.12.2016			31.12.2015		
	Average balance for period	Interest for period	Average interest rate	Average balance for period	Interest for period	Average interest rate
Monetary assets	309 615	3 699	1.18%	233 628	2 365	1.01%
Loans and advances to customers	141 904	3 462	2.40%	161 261	4 232	2.62%
Securities and other	30 711	494	1.58%	9 904	281	2.84%
Differential applications	-	-	-	-	-	-
Financial assets	**482 230**	**7 655**	**1.56%**	**404 793**	**6 878**	**1.70%**
Monetary liabilities	22 512	1	0.00%	27 827	47	0.17%
Due to customers	394 981	1 101	0.27%	314 936	723	0.23%
Differential liabilities	64 737	-	-	62 030	-	-
Financial liabilities	**482 230**	**1 102**	**0.22%**	**404 793**	**770**	**0.19%**
Net interest income		**6 553**	**1.34%**		**6 108**	**1.51%**

Regarding foreign exchange risk, the breakdown of assets and liabilities by currency, at 31 of December of 2016 and 2015, is analysed as follows:

(thousands of Euros)

		31.12.2016			31.12.2015		
		Spot	Forward	Net exposure	Spot	Forward	Net exposure
USD	UNITED STATES DOLLAR	3 130	49	3 179	2 405	(3 215)	(810)
GBP	GREAT BRITAIN POUND	327	-	327	78	-	78
DKK	DANISH KRONE	126	-	126	121	-	121
JPY	JAPANESE YEN	431	-	431	322	-	322
CHF	SWISS FRANC	230	-	230	182	-	182
SEK	SWEDISH KRONE	105	-	105	198	-	198
NOK	NORWEGIAN KRONE	82	-	82	119	-	119
CAD	CANADIAN DOLLAR	263	-	263	11	-	11
AUD	AUSTRALIAN DOLLAR	133	-	133	49	-	49
PLN	POLISH ZLOTY	23	-	23	23	-	23
TRY	TURKISH LIRA	8	-	8	28	-	28
	OTHER	171	-	171	157	-	157
		5 029	**49**	**5 078**	**3 693**	**(3 215)**	**478**

Note: asset / (liability)

Liquidity risk

Liquidity risk derives from the potential inability to fund assets whilst satisfying commitments on due their 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 involves transforming maturities (long-term lenders and short-term depositors), with a prudent management of liquidity risk being, therefore, critical.

With the objective of evaluating the global exposure to liquidity risk, for prudential purposes, specific reports are prepared that allow for the identification of negative mismatches, permitting their dynamic coverage.

(millions of Euros)

	31.12.2016						
	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							
Deposits with and loans and advances to banks and Central Banks	356	69	-	20	148	100	19
Loans and advances to customers	136	-	-	2	2	2	129
Securities	35	-	-	-	-	1	34
Other net assets	-	-	-	-	-	-	-
Off-balance sheet (Commitments and Derivatives)	-	-	-	-	-	-	-
Total		**69**	**-**	**22**	**150**	**103**	**182**
LIABILITIES							
Deposits from banks, Central Banks and Other loans	16	16	-	-	-	-	-
Due to customers	440	46	4	8	2	-	380
Other short-term liabilities	6	6	-	-	-	-	-
Off-balance sheet (Commitments and Derivatives)	76	-	-	-	-	-	76
Total		**68**	**4**	**8**	**2**	**-**	**456**
GAP (Assets - Liabilities)		**1**	**(4)**	**15**	**148**	**103**	
Accumulated GAP		**1**	**(2)**	**12**	**161**	**263**	
Net Assets Buffer > 12 months							**25**

				31.12.2015			(millions of Euros)
	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							
Deposits with and loans and advances to 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 net assets	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**

The one year cumulative gap went from Euros 194 222 thousand on 31 December 2015 to Euros 263 147 thousand on 31 December 2016, 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 the Bank of 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 characterisation of the wholesale risk of institutions.

At 31 December 2016, BEST's one year liquidity gap was 194.7, which compares with 146.4 at 31 December 2015. 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, and human 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 as well as Operational Risk Management Representatives designated by each of the relevant departments and subsidiaries, whose responsibility it is to comply with the procedures established and the day-to-day management of this Risk in their areas of competency.

Capital Management and Solvency and Leverage Ratios

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.

In prudential terms, the Bank is subject to the Bank of 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, and that the institutions have to comply with.

The European Parliament and Council approved, on 26 June 2013, Directive 2013/36/EU and Regulation (EU) no. 575/2013 that now 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. The Regulation also foresees the need for institutions to report to the supervisor their leverage ratio. 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 the Bank of Portugal, regulates the transitory regime foreseen in that Regulation. Delegated Regulation (EU) 2015/62 determines the mandatory reporting of the leverage ratio as from 1 January 2015.

Currently, under the new Basel lll legal order, the equity elements of BEST, for the purpose of determining the solvency ratio, are divided into: Core Own Funds (Common Equity Tier I), Level 1 Own Funds (or Tier I), Level 2 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 income for the period appropriated, when audited. The following balance sheet amounts are deductible from Common Equity Tier I: eligible intangible assets, negative actuarial deviations arising on liabilities with post-employment benefits to employees, the surplus value of deferred tax assets and of shareholdings in financial entities and, when applicable, the net loss for the period.

- Tier I: In addition to the amounts considered as Common Equity Tier I, this category includes, when applicable, preference shares and hybrid capital instruments.
- Tier II: Incorporates, essentially, when applicable, subordinated eligible debt.

BEST's equity is essentially composed of Common Equity Tier I elements. The leverage ratio considers the amount of level 1 own funds.

The following table presents a summary of the calculations of the capital adequacy and ratio requirements of BEST at 31 December 2016 and 2015:

(thousands of Euros)

		31.12.2016 *	31.12.2015
A - Own Funds			
Realised ordinary share capital, Share premiums, Treasury stock		62 992	62 992
Eligible Reserves and Results (excluding fair value reserves)		8 259	5 827
Intangible assets		(49)	(111)
Actuarial deviations with post employment responsibilities with a prudential impact		-	-
Fair value reserves with a prudential impact		(31)	8
Other		(151)	(280)
Common Equity Tier I / Core Tier I	**(A1)**	**71 020**	**68 436**
Preference and Hybrid shares		-	-
Other		-	-
Tier I	**(A2)**	**71 020**	**68 436**
Eligible subordinated debt		-	-
		-	-
TIER II		**71 020**	**68 436**
Deductions		**-**	**-**
Eligible Own Funds	**(A3)**	**71 020**	**68 436**
B- Risk Weighted Assets	**(B)**	**168 243**	**190 089**
C- Prudential Ratios			
Common Equity Tier I / Core Tier 1	**(A1 / B)**	**42.2%**	**36.0%**
Tier 1	**(A2 / B)**	**42.2%**	**36.0%**
Solvency	**(A3 / B)**	**42.2%**	**36.0%**
D- Leveraging ratio		**12.6%**	**14.9%**

* Provisional figures

During financial years 2016 and 2015, the Bank complied with the capital ratios imposed by the Bank of Portugal.

NOTE 33 – RECENTLY ISSUED ACCOUNTING STANDARDS AND INTERPRETATIONS

a) Impact of the adoption of standards and interpretations that became effective on 1 January 2016:

Standards

Improvements to standards 2010 - 2012. This cycle of improvements affects the following standards: IFRS 3, IFRS 8, IFRS 13, IAS 16 and 38 and IAS 24.

IFRS 2 'Share-based payments'. The improvement amends the definitions of vesting conditions that foresee 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.

IFRS 3 'Business combinations'. 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.

IFRS 8 'Operating segments'. The improvement amends IFRS 8 to require disclosure of the judgments made by Management in the aggregation of operating segments and the reconciliation of segment assets with the entity´s total assets in the financial statements, when this information is reported.

IFRS 13 'Fair value: mensuration and disclosure'. 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.

IAS 16 'Tangible fixed assets' and IAS 38 'Intangible assets'. The improvement clarifies how the gross carrying value and the accumulated depreciation / amortisation are treated, when an entity uses the revaluation model for subsequent measurement of tangible fixed assets and intangible assets, foreseeing two models. This clarification is significant when useful lives or depreciation / amortisation methods are reviewed during the revaluation period.

IAS 24 'Related party disclosure'. 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.

IAS 19 ‘Defined benefit plans – Employee contributions’. 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.

IAS 1 ‘Revision of disclosures’. 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 by the equity method.

IAS 16 and IAS 38 ‘Accepted methods of calculating amortisation and depreciation’. 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.

IAS 27 'Equity method in the separate financial statements'. 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.

IFRS 11 'Accounting for the acquisition of an interest in a joint operation'. 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 the principles of IFRS 3 – ‘Business combinations’.

Improvements to standards 2012 - 2014. This cycle of improvements affects the following standards: IFRS 5, IFRS 7, IAS 19 and IAS 34.

IFRS 5 ‘non-current assets held for sale and discontinued operational units’. The improvement clarifies that when an asset (or disposal group) has been reclassified from "held for sale" to "held for trading" or vice-versa, this does not constitute a change in the plan to sell or trade.

IFRS 7 ‘Financial instruments: disclosure’. 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.

IAS 19 ‘Employee benefits’. The improvement clarifies that in determining the discount rate of liabilities for post-employment defined benefit plans, it must meet the requirements of high quality securities in the same currency in which the liabilities are calculated.

IAS 34 'Interim reporting'. 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.

b) The standards and interpretations already published that are presented below, are mandatory for annual periods beginning on or after 1 January 2016; however, the European Union has not yet endorsed same:

Standards

IFRS 10, 12 and IAS 28 (amendments) '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.

c) The standards and interpretations already published that are presented below, are mandatory for annual periods beginning on or after 1 January 2017; however, the European Union has not yet endorsed same:

Standards

IAS 7 (amendment), 'Revision of disclosures' (to be applied as from the annual periods beginning on or after 1 January 2017). This amendment is still subject to endorsement by the European Union. This amendment introduces an additional disclosure about variations in financing liabilities, broken down between the transactions that gave rise to cash movements and those that did not, and how this information reconciles with the cash flows from financing activities in the Cash Flow Statement. Material impacts on the financial statements of the Bank are not expected with the adoption of this amendment.

IAS 12 (amendment), 'Income tax – Recognition of deferred tax assets on potential losses' (to be applied as from the annual periods beginning on or after 1 January 2017). This amendment is still subject to endorsement by the European Union. This amendment clarifies how to account for deferred tax assets related to assets measured at fair value, how to estimate future taxable income when there are deductible timing differences and how to evaluate the recoverability of deferred tax assets when there are restrictions in the tax legislation. Material impacts on the financial statements of the Bank are not expected with the adoption of this amendment.

IFRS 2 (amendment), 'Classification and measurement of share-based payment transactions' (to be applied as from the annual periods beginning on or after 1 January 2018). This amendment is still subject to endorsement by the European Union. This amendment clarifies the measurement basis for cash-settled share-based payment transactions and the accounting for changes to a share-based plan that alter its classification from cash-settled to equity-settled. In addition, it introduces an exception to the principles of IFRS 2, which requires that a share-based payment plan be treated as if it were fully equity-settled, when the employer is required to withhold an amount of tax from the employee and pay said amount over to the tax authority. 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 loans and advances (through the expected credit loss model); and (iii) the requirements for the recognition and classification of hedge accounting. The Bank is evaluating the impacts of the adoption of this standard.

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 methodology". Material impacts on the financial statements of the Bank are not expected with the adoption of this standard.

IFRS 15 (amendment), 'Revenue from contracts with customers' (to be applied as from the annual periods beginning on or after 1 January 2018). This amendment is still subject to endorsement by the European Union. These changes refer to the additional steps to be follow to determine the performance obligations of a contract, at the time of the revenue recognition of an intellectual property license, to the review of the indicators for the classification of the principal versus agent relationship, and to the new regimes foreseen to simplify the transition. Material impacts on the financial statements of the Bank are not expected with the adoption of this amendment.

IFRS 16 (new) ‘Leases’ (to be applied as from the annual periods beginning on or after 1 January 2019). This standard is still subject to endorsement by the European Union. This new standard replaces IAS 17, with a significant impact on the accounting by lessees that are now obliged to recognise future lease liabilities reflecting lease payments and an asset for "right of use" for all leases, except certain short-term and low-value asset leases. The definition of a lease was also changed, being now based on the "right to control the use of an identified asset". Material impacts on the financial statements of the Bank are not expected with the adoption of this standard.

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)

The Bank of 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.

The Bank of 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 the Bank of Portugal using references to the information presented, either in the Management Report, or in the Notes to the Financial Statements for the 2016 financial year.

I. BUSINESS MODEL

1. Description of the business model

In the introduction and in chapter “II – Operations in 2016” 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 – Operations in 2016” and “V – Outlook” of the Management Report. The Bank neither realised any debt securities issue nor any securitisation operation until 31 December 2016.

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

In chapter “II – Operations in 2016” 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 32 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 financial years. In 2015 and 2016, this situation was stabilised, with Portugal having exited the assistance programme.

12. Breakdown 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 Note 7 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 32 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 year 2016.

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

16. Nominal and fair value of the exposures

Notes 14, 15 and 16 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 between 2014 and 2016.

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 2016, of Euros 29.3 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 negative fair value reserve totalling Euros 208 thousand in December 2016.

19. Movements in the exposures between financial years

Notes 14, 15, 16, 31 and 32 disclose relevant information on the Bank's exposures, comparing the market exposures as well as the results with reference both to 31 December 2016 and 2015. The information therein contained is considered sufficient, considering the detail and quantification presented and the fact that no events of material relevance occurred in 2016.

20. Exposures that have not been consolidated

Not applicable.

21. Exposure to mono-line insurance companies and quality of the assets insured

The Bank has no exposure to mono-line 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 until 31 December 2016.

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 regulating 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 International Accountings Standards (IAS) which confers a high degree of transparency on the information disclosed as well as comparability.

APPENDIX

Remuneration policy of the members of the governing bodies of BEST

Considering

1. The transitional nature of the shareholder NOVO BANCO and the limitations derived from that situation, particularly those relating to the recent commitments vis-à-vis the European Commission;
2. The restructuring plan that the shareholder NOVO BANCO is obliged to implement and that includes the need to reduce staff and costs (significantly), 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 governing bodies as well as to the executive managers of the NOVO BANCO Group Companies, amongst which BEST – Banco Electrónico de Serviço Total, S.A., since the establishment of NOVO BANCO (3 August 2014);

NOVO BANCO proposes:

a) The revocation of the Remuneration policy of the members of the governing bodies of BEST approved at the General Meeting of 30 April 2015;
b) That in 2017 no variable remuneration be paid to the members of the governing bodies both with reference to this year or deferred from previous years;
c) The re-appreciation of all of these items be made at next year's Annual General Meeting.

1. Payments made in 2016 to the members of the governing bodies, including amounts paid, for any reason, to companies in a group relationship:

a) Board of Directors (Executive members)

The members of the Board of Directors did not receive any variable remuneration in 2016. The remuneration of the members of the Executive Committee in financial year 2016 includes the fixed remuneration, paid in 14 instalments, and the complements that are granted to all employees of Banco Best, such as seniority or other subsidies. Ms Isabel Maria Ferreira Possantes Rodrigues Cascão (CEO) earned a remuneration of EUR 255,219. Ms Marília Boavida Correia Cabral earned a remuneration of EUR 140,198. Mr Pedro Alexandre Lemos Cabral das Neves earned a remuneration of EUR 127,752.

b) Supervisory Board

The members of the Supervisory Board did not receive any variable remuneration in 2016. Mr José Manuel Macedo Pereira received a fixed remuneration in attendance fees of Euros 2,000, Mr Luís Manuel Santos Botelho received a fixed remuneration in attendance fees of Euros1,600, Mr Feliciano Pereira received a fixed remuneration in attendance fees of Euros 800 and Mr Elísio Armando da Cruz Cardoso received a fixed remuneration in attendance fees of Euros 800.

ANNEX

Remuneration policy of the Executive Managers

I. Introduction

Banco Best's remuneration policy of the Executive Managers and employees in a control position as stated in Bank of Portugal Notice no. 5/2008 is ground on a strong fixed component, and therefore is more independent of the institution's results, with the variable component being relatively smaller.

II. Scope and Fundamental principles

This remuneration policy applies to all employees integrating the top management levels of the institution, directly responsible for the Directorates / Departments that comprise the Bank's organisational chart, as well as all employees in a control position, as foreseen in Bank of Portugal Notice no. 5/2008.

III. Remuneration Policy for Executive Managers of BEST

1. Remuneration policy approval process

Approval: the remuneration policy of the employees considered here is approved by the Board of Directors of Banco Best, 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's Executive Managers is to be established by the Board of Directors, within the scope of its staff and incentive 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: 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. Employees integrating the top management levels

a) Remuneration components: the remuneration consists of a fixed component and a variable component; consequently, the Total Annual Remuneration ("TAR") is composed of the Annual Fixed Remuneration ("AFR") plus the Annual Variable Remuneration ("AVR"). The remuneration policy is revised annually by the Board of Directors, by the end of May. Therefore, the fixed remuneration may be revised every year depending on several indicators, with a variable component also being defined.

b) Remuneration limits: the variable component shall have its limit set by the Board of Directors and shall represent, on average, a maximum of 23% of the TAR. The AVR payment is not due in the event of a structural degradation of the Bank, as referred below. The AFR is composed of the base salary and by other complements granted to all BEST employees, such as seniority and other subsidies.

c) Balance in the remuneration: the AVR shall have the limits set by the Board of Directors and shall represent, on average, a maximum of 23% of the TAR. The exact amount of the AVR will vary each year depending on the level of achievement of the main annual goals, both individual (quantitative and qualitative) and those of the respective unit the Executive Manager integrates, according to the performance evaluation model of Banco Best, as approved by the Board of Directors.

d) Criteria for the definition of the variable component: the AVR limits shall be set at the beginning of each year by the Board of Directors and shall be based on the Incentives and Goals System associated to each business area and according to the attainment level of the main goals approved by the Board. The AVR, if it exists, shall be paid in cash in the financial year following that of the results, following the approval of the accounts for the financial year in question. There are no AVR components deferred or paid through financial instruments, given that Banco Best has a controlled policy regarding risk assumption that prevents a material impact on the Bank's risk profile. In addition, it should be referred that the AVR represents an ATR component that, on average, is limited to a maximum of 23%; that none of the dimension indicators stated in Bank of Portugal Notice no. 10/2011, art. 7, no. 1, are exceeded; that the Bank's main activity is essentially practiced in the Portuguese market, with a business strategy focused mainly on the market segment of affluent private customers working as an 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 composing Banco Best's share capital are not listed on any regulated market and are exclusively held by companies belonging to the parent company.

e) Limitation Mechanisms of the Variable Remuneration: the exact amount of the AVR will vary each year depending on the performance evaluation and the level of 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 the event there is a structural performance degradation of the Bank. It is the duty of the Shareholders General Meeting to verify and determine the existence of a structural degradation, namely in the event the results are negative.

f) Criteria for the performance evaluation: the evaluation of the Executive Managers of the commercial business areas is based on qualitative criteria regarding personal, technical and management skills for the performance of the function, and on quantitative criteria according to the following indicators: i) Results, which includes a number of other indicators that translate the business area's results vis-à-vis the goals set; ii) Operating Income, which measures the contribution to the Bank's results; iii) Quality, which includes measurement indicators that assess the quality of the service rendered to the internal and external customers; iv) Cost-to-Income, the ratio between the operational costs and total operating income that reflects the Bank's operations and measures its capability to generate income in light of the operating costs incurred. The evaluation of the Executive Managers of the central business area is based on qualitative criteria regarding personal, technical and management skills for the performance of the function, and on quantitative criteria according to the following indicators: i) Activity, which includes a number of other indicators that demonstrate the results of the employee's areas of operation; ii) Risk, which includes the relevant risk indicators for each area; iii) Quality, which includes measurement indicators that assess the quality of the service rendered to the internal and external customers. The evaluation of employees in control positions within the Bank (Bank of Portugal Notice no.5/2008) is based on qualitative criteria relating to personal, technical and management skills.

g) Main parameters and fundamentals of any annual bonus system and of any other benefits given to the Executive Managers: besides the fixed and variable remuneration described herein, there are no other relevant benefits.

h) Main characteristics of the complementary pension systems attributed to the Executive Managers: Banco Best has no complementary pension or early retirement systems.

6. Amounts paid to the Executive Managers of BEST in 2016

The remuneration paid to the Executive Managers and to employees in control positions in respect of financial year 2016 includes the fixed remuneration, paid in 14 instalments, the benefits paid to all BEST employees, such as seniority and other subsidies, and the variable remuneration attributed and already paid regarding previous financial years. Executive Managers and employees in control positions received a global fixed remuneration of Euros 818,621 and a variable remuneration of zero. Detailing by main business areas, the three Executive Managers of the commercial areas received a global fixed remuneration of Euros 218,090. The nine Executive Managers allocated to the central services' areas and employees in control positions received a global fixed remuneration of Euros 600,531.

Statutory Audit Report

Report on the audit of the financial statements

Opinion

We have audited the financial statements of BEST- Banco Electrónico de Serviço Total, S.A. (the Bank), which comprise the statement of financial position as at 31 December 2016 (which shows total assets of Euros 536,957 thousand and total shareholders' equity of Euros 73,947 thousand, including a net income of Euros 2,746 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 notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly in all material respects, the financial position of BEST- Banco Electrónico de Serviço Total, S.A. as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Our responsibilities under those standards are described in the "Auditor's responsibilities for the audit of the financial statements" section below. In accordance with the law we are independent of the Bank and we have fulfilled our other ethical responsibilities in accordance with the ethics code of the Institute of Statutory Auditors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	*Summary of the audit approach*
Impairment losses of loans and advances to customers ***Disclosure related to impairment losses of loans and advances to customers presented in notes 2.4, 3.3, 17 and 32 of the Bank's financial statements*** The calculation of the impairment losses of loans and advances to customers requires the application of a set of complex assumptions and judgments by the Board of Directors of the Bank regarding both the identification of the moment of the recognition as well as the corresponding amount, justifying that this constituted a key matter for the purposes of our audit. As at 31 December 2016, the gross amount of the caption Loans and advances to customers ascends to Euros 138,328 thousand (2015: Euros 159,078 thousand) and the respective impairment losses as at that date amount to Euros 2,461 thousand (2015: Euros 2,896 thousand). Impairment losses of loans and advances to customers are calculated on an individual basis for individually significant operations, with, for the remainder of the portfolio, impairment being calculated on a collective basis. • The Bank undertakes a process of individual analysis of the customers presenting more significant exposures, evaluated in terms of the amount of their liabilities, the existence of indications of default and of their monitoring classification under the terms of the criteria defined for internal purposes by the Bank. In these cases, the impairment	The audit procedures developed included the review of the controls established by the Bank in relation to the approval, recording and monitoring of loans and advances granted to customers, as well as the appraisal of the methodologies, data and assumptions adopted by Management in calculating the corresponding impairment losses. These procedures covered, amongst others, the testing of the credit risk management controls and procedures of the Bank, with particular emphasis on the internal controls underlying the timely identification, recording and correct measurement of impairment losses. In this scope, we tested the design and operational effectiveness of the key controls instituted by the Bank to identify customers with indications of impairment or in default and to calculate the corresponding impairment losses. The procedures and controls tested covered those related to: (i) the timely identification of customers with indications of impairment or in default; (ii) the actual calculations of the impairment model defined by the Bank, including the inputs and assumptions of Management; (iii) the estimate of the recoverable value of the collateral, when applicable; and (iv) the internal governance associated with the process of calculating and approving impairment losses. Additionally, on a sample basis, we analysed a number of customers so as to obtain our own judgment regarding the existence of indications of impairment, and to assess how the impairment losses were identified on a timely basis and recognised by Management. As regards the customers individually

Key audit matters	*Summary of the audit approach*
amount is calculated through a detailed analysis of the economic and financial position of each individual customer, with reference to (i) the estimate of the cash flows that the customer may generate in the future to fulfil its liabilities or (ii) the valuation of the collateral received in connection with the granting of the loan, whenever its recovery is anticipated as being through the delivery / execution of said collateral. When from the individual analysis no impairment loss has been calculated, said exposures are considered in the collective analysis and are imputed an IBNR ("incurred but not reported") impairment loss. • For the exposures not covered by the individual analysis, the Bank applies a collective analysis model to calculate the impairment losses. When a group of financial assets is valued on a collective basis, the future cash flows of said group are estimated based on the contractual flows of those assets and the historical data related to losses on assets with similar credit risk characteristics. Whenever the Bank considers necessary, the historical information is updated based on observable current data, so as to reflect the effects of the current conditions.	analysed by the Bank, for a representative sample of the loans and advances to customers portfolio as at 31 December 2016, the procedures carried out consisted of: (i) reviewing the documentation associated with the loans and advances granting process; (ii) analysing the contractual support and the most relevant collateral and confirming the registration of said collateral in favour of the Bank; (iii) questioning the valuations of the collateral available; (iv) appraising the evolution of the exposures; and (v) challenging the view of those responsible for the Bank as regards the economic and financial situation of the customers, as to the predictability of the cash flows expected from their respective businesses, as well as to the prospects regarding the collectability of the loans and advances. Whenever we concluded as to the need to revise some of the inputs and assumptions used by Management, we recalculated the estimated amount of the impairment and compared the results in order to assess the existence of possible discrepancies. For the portfolio which impairment is calculated via a collective analysis, we undertook a specific set of procedures with the objective of evaluating how the assumptions considered by Management, for impairment model purposes, contemplate the macroeconomic conditions to which each customer is exposed, based on our knowledge of current practices in the sector. The procedures undertaken were: (i) we assessed the information contained in the loans and advances to customers portfolio as at 31 December 2016; (ii) we reviewed and tested the classification of the loans and advances as regards the existence of indications of impairment or default; (iii) we reviewed the adequacy of the risk parameters used in the impairment calculation; (iv) we challenged the main assumptions and sources of information used for the future recoveries incorporated in the calculation of the risk parameters (using sampling); and (v) we reviewed and tested the historical recoveries incorporated in the determination of the risk parameters (using sampling).

Other matters

The previous members of the Bank's Supervisory Board tendered their resignation with effect as from 7 July 2016, with the new Supervisory Board having been elected at the Shareholders General Meeting realised on 21 December 2016. As provided for in Article 30-B of the General Regime governing Credit Institutions and Financial Companies, the bank requested the Bank of Portugal's authorisation for the start of functions of the new members of the Supervisory Board; however, up to the date of this Statutory Audit Report no reply has been received to that request. In the circumstances, we point out that our duties to communicate and report information to the Supervisory Board in the scope of the examination of the financial statements of the Bank for the financial year ended on 31 December 2016 were complied with vis-à-vis the new members proposed for the Supervisory Board.

Responsibilities of the management and the supervisory bodies for the financial statements

The management body is responsible for:

a) the preparation of financial statements, which present fairly the financial position, the financial performance and the cash flows of the Bank in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union;
b) the preparation of the Management report in accordance with the applicable laws and regulations;
c) the creation and maintenance of an appropriate system of internal control to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
d) the adoption of appropriate accounting policies and criteria under the circumstances; and
e) the evaluation of the Bank's capacity to maintain its continuity, disclosing, when applicable, the matters that may raise significant doubts as to the continuity of its activities.

The supervisory body is responsible for overseeing the process of preparation and disclosure of the Bank's financial information.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit and also:

a) identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management body;

d) conclude on the appropriateness of the use, by the management body, of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;

e) evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

f) communicate with those charged with governance, including the supervisory body, regarding, amongst other matters, the planned scope and timing of the audit and the significant audit findings, including any significant weaknesses in internal control that we identify during our audit;

g) regarding the matters we have communicated to those charged with governance, including the supervisory body, we determine which of these were the most important in the audit of the financial statements of the current year, these being the key audit matters. We describe these matters in our report, except when the law or regulation prohibits their public disclosure;

h) confirm to the supervisory body that we comply with the relevant ethical requirements regarding independence and communicate all relationships and other matters that may be perceived as threats to our independence and, where applicable, the respective safeguards.

Our responsibility also includes verifying that the information included in the Management report is consistent with the financial statements.

Report on other legal and regulatory requirements

Management report

In compliance with paragraph 3 e) of article no. 451 of the Portuguese Company Code, it is our understanding that the Management report has been prepared in accordance with applicable requirements of the law and regulations, that the information included in the Management report is consistent with the audited financial statements and, taking into account the knowledge and assessment of the Bank, no material misstatements were identified.

Additional information required in article no. 10 of the Regulation (EU) 537/2014

In accordance with article no. 10 of the Regulation (EU) 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters referred to above, we also provide the following information:

a) We were first appointed auditors of the Bank at the Shareholders General Meeting of 29 December 2014 for the mandate that ended in 2015. Our last appointment was at the Shareholders General Meeting of 29 April 2016 for the mandate 2016 through 2018.

b) Management has confirmed to us it has no knowledge of any allegation of fraud or suspicion of fraud with material effect on the financial statements. We have maintained professional scepticism throughout the audit and determined overall responses to address the risk of material misstatement due to fraud in the financial statements. Based on the work performed, we have not identified any material misstatement in the financial statements due to fraud.

c) We confirm that our audit opinion is consistent with the additional report that was prepared by us and issued to the Bank's supervisory body on 8 June 2017.

d) We declare that we did not provide any prohibited non-audit services referred to in paragraph 8 of article no. 77 of the by-laws of the Institute of Statutory Auditors ("Estatutos da Ordem dos Revisores Oficiais de Contas") and that we remained independent of the Bank in conducting our audit.

8 June 2017

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

Carlos José Figueiredo Rodrigues, R.O.C.