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

2017 Annual Report

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Management Report – 2017

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 and streamline the relationship between the customers and the Bank.

Banco Best's business strategy is focused on serving the investment needs of one segment of Personal 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 other channels, such as:

- The internet, through its website (www.bancobest.pt) and mobile banking (App Best Mobile; App Best Trading and App Best Card Club);
- Investment Centers located in Lisbon, Oporto, Braga, Aveiro, Leiria 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

During 2017, there was a gradual acceleration of world economic activity, with the main economic indicators suggesting a synchronized cycle of activity expansion amongst the main world blocks, with, for the first time since the financial crisis, a positive development in advanced economies and in developing economies.

Hence, over the course of the year, the expectation regarding a phase of "reflation" of the world economy gained momentum, further boosted by the more positive discourse on the pace of the economy and inflation by several central banks, and by the promise of the implementation of an aggressive tax reduction and increased spending in the USA.

According to the World Bank's latest half-yearly report, the world economy grew by 3% last year and is expected to grow by 3.1% in 2018 (the previous estimate was for growth of 2.7%), sustained by investment, the industrial sector and trade whilst exporting countries will tend to benefit from a greater stability of commodity prices.

Given the momentum of the cyclical recovery of the global economy and the respective fading of deflationary risks, the main central banks began to give clear and progressive signals as to the intention to normalize the monetary policy in several economies. In the United States of America, in 2017, the Federal Reserve (Fed) increased the fed funds rate three times, setting it in the range of 1.25% to 1.50%. At the same time, the US central bank reiterated its intention to continue the cycle of interest rate hikes into 2018. Continuing with the normalization of monetary policy, the FED initiated the plan to reduce its balance sheet in the medium term - at the end of the third quarter of 2017, it totaled close to USD 4.5 billion, equivalent to 26% of the US GDP – that is to be implemented gradually, letting some of the securities in the portfolio expire at maturity and not reinvesting.

At a different stage when compared with the FED, the European Central Bank (ECB) extended the asset purchase plan until September 2018. Although the risks surrounding growth were considered to be less pronounced and there was a stronger cyclical upturn, the new monthly purchase of securities will consider a maximum amount of EUR 30 billion, which is lower than the previous EUR 60 billion observed in 2017.

In line with the expectations of most economic agents, in 2017, the ECB kept interest rates at - 0% for the central rate, -0.4% for the deposit rate and +0.25% for the rate of additional loans - in order to ensure favorable liquidity conditions and as a guide to a monetary policy in support of the European economy.

In the United Kingdom, after the Government actioned Article 50 of the Treaty of Lisbon, initiating the formal process of withdrawal from the European Union, there was an increase in the uncertainties triggered by the loss of the Conservative Party's majority in the British Parliament and a moderation of the economic activity, evident in the indicators of activity and confidence. The month of November was marked by a 25 basis points increase in the leading interest rate, with the latter being set at 0.50%, which translated into the first increase in interest rates in the United Kingdom in over a decade.

Amongst the 4 main world central banks (the USA, the Eurozone, the United Kingdom and Japan), the Bank of Japan was the only one that did not transmit any indication that in the short term it would change the parameters of its monetary policy to strengthen the economy and achieve a steady increase in prices of around 2%, in order to put an end to chronic deflation. Thus, the Japanese Central Bank maintained the interest rate for a fraction of the banks' surplus reserves at -0.1%, as well as the Japanese sovereign debt purchase policy of YEN 80 billion per year, in order to stabilize the 10-year interest rates on Japanese public debt at around 0%.

At the level of the other central banks, the successive interventions of the Central Bank of China are highlighted, aimed at raising money market rates slightly in order to stabilize the levels of credit granted - total new loans reached a record of Yuan 13.53 trillion in 2017, given that the crackdown on parallel lending forced banks to issue more loans to the real economy - as well as the initiatives geared to stabilizing the currency and safeguarding capital flows.

The effects of the combination of monetary stimuli and fiscal stimuli, the generality of the positive corporate results generated, the current level of commodity prices and the resilience of confidence levels to various political risks, underpin the current positive environment of activity expansion in the main world economies, with positive signs in terms of investment and international trade.

In the USA, following the announcement of a disappointing economic growth in first quarter of 2017, albeit classified by the FED as transitional, there was an improvement in economic indicators during the subsequent quarters. GDP grew 1.4% (annualized) in the 1st quarter, 3.1% in the 2nd quarter and, according to the latest estimate published by the Bureau of Economic Analysis (BEA), 3.2% in the 3rd quarter, in this case with the recovery being supported, on the demand side, by private consumption and, on the supply side, by industrial activity. The latest estimates released by the World Bank point to a 2.3% increase in the US economy, in the 12 months of the year, and an acceleration of 2.5%, in 2018.

In the Eurozone, economic activity also accelerated, supported by investment, private consumption and exports, with GDP growth registering 2.4% in 2017 (versus 1.8% in 2016) and with a slowdown to 2.1% in 2018, according to the World Bank's January forecast. Likewise with Japan, which after a 1.7% growth last year (versus 0.9% in 2016), will slow slightly to 1.3%.

Brazil and Russia, in 2017, resumed growth, with GDP rising by 1.7% and 1.0%, respectively. After a two-year recession, Brazil and Russia, in 2018, are expected to continue to recover their economic activity, with a GDP growth forecast of 2.0% in Russia, in 2018, being highlighted.

As for China, the largest Asian economy is expected to continue its "structural slowdown" with a growth rate of over 6%. According to the World Bank, China is expected to see growth of 6.4% in 2018 and 6.3% in 2019.

The Portuguese economy grew 2.7% in 2017, up 1.2 p.p. when compared with the GDP of 2016. The base of the growth of the economic activity in Portugal, in 2017, according to the National Institute of Statistics (INE), was the positive contribution of domestic demand, with the performance of investment being particularly noteworthy. The labor market in Portugal registered a significant improvement in 2017, with the unemployment rate standing at 8.1% in the 4th quarter of 2017, according to the INE. In terms of the employed population in Portugal, the INE estimates that these exceed 4.8 million people, registering an increase of 161.3 thousand people when compared with the last quarter of 2016.

In a misaligned manner with investors' core expectations, in September 2017 the rating agency Standard & Poor's revised the credit quality of the Portuguese public debt, granting it investment grade status by attributing the BBB- rating. At the end of the year, it was Fitch's turn to improve Portugal's rating by raising it in 2 notches from BB+ to BBB.

As a result of the positive sentiment of investors as regards Portugal, interest rates in Portugal fell sharply during the year. After reaching a value close to 4.30% in the 1st quarter of 2017, the yields associated with the ten-year Portuguese Republic bonds closed the year with a value close to 1.95%, after having dipped to an annual minimum of 1.76%.

According to the Bank of Portugal, it is estimated that Portuguese GDP will increase by 2.3% in 2018 and 1.9% in the following year.

In terms of financial markets, the world stock markets closed 2017 with an annual gain of 21.6% (MSCI AC World Index), which translates into the best result since 2009 for all countries, measured in US dollars. In 2016, the gain was 5.6%, after a drop of 4.3% in the previous year.

The great highlight of 2017 was the successive historical highs set by the US stock exchanges. The S&P 500 and Nasdaq gained 19.4% and 28.2%, respectively (performance in US dollars). Thus, the three major US indices set new record highs last year - the Dow Jones 30 approached 25,000 points, the S&P 500 that of 2,700 and Nasdaq surpassed the 7,000 point barrier.

In Europe, the Stoxx Europe 600 appreciated by 7.7%, partly due to the European economic growth (which exceeded initial expectations), increased investor confidence due to the non-materialization of the previously identified political risks, improved company profitability, which benefited from renewed local demand and the greater dynamism of the exporting segment. The Lisbon Stock Exchange Index (PSI20) rose by +15.2% in 2017. For the remaining single currency stock markets, the highlights were the increases in excess of 10% in Milan (+13.6%), Amsterdam (+12.7%), Frankfurt (+12.5%) and Brussels (+10.3%).

Also noteworthy was the appreciation of the emerging market stock exchanges, which, on average, gained 18% in Euros terms, albeit with somewhat different variations amongst same.

At the sector level, the main highlight was the strong appreciation of technology companies, with the Internet (+36.1%) and semiconductor (+23.6%) sectors leading the gains. The steel and iron sectors (+14.7%) and raw-materials in general (+14.2%) also benefited from the increase in demand as a result of the improvement in the global economic environment.

In turn, the rise in the price of oil in the second half of the year was not enough to prevent the sector from closing in the red - oil and gas companies led losses, down 8.4% - as the imbalance between supply and demand for “black gold” at the global level has not yet been corrected. Other sectors also penalized, were the sundry industrial sectors (-8.4%) and telecommunications (-7.7%), which devalued in 2017.

But, after a relatively quiet year in which some of the investors’ biggest fears - mostly political - did not materialize, 2018 brings opportunities, but also some risks. The rise, albeit gradual, of inflation is one of the main issues that could negatively affect the performance of the financial markets.

II – Operations in 2017

The activity of BEST – Banco Electronico de Serviço Total, SA reflects its digital based structure, the central axis of an omni-channel platform, and its culture of innovation and independence, supported by an investment platform that aggregates the best solutions worldwide, and in which Banco Best acts as distributor.

As regards the balance sheet, in 2017, Banco Best maintained a comfortable liquidity ratio, despite the decreased deposits in the system and an environment of strong competition in the domestic banking market for stable customer resources. The combined effect of a 12% increase in the volume of customer deposits (end of year figures), with a 17% increase in the volume of loans granted, placed the transformation ratio of deposits to loans at a very favorable figure of 32%, maintaining a level significantly below the average rates of the national banking sector, despite the increase of 1.6 p.p. in relation to last year.

In 2017, Banco Best maintained its leadership strategy in the innovation of the offer of financial products and services in Portugal, with the highlight, at the end of the year, being the launch of the bank account opened by video call, a process that is 100% digital and allows the Customer through his or her smartphone or computer to complete the bank account opening process without the need for his/her physical presence. Identification is made by video call through a certified system, the documents are electronically signed in a secure manner and the Customer decides when to start and end the process.

A number of new features and enhancements have also been released in the app Best Mobile, including:

- A broad set of improvements to the App’s home page;
- The login through face recognition – **Best Face**, using Apple's Face ID technology, it no longer being necessary to enter the traditional user access code and password;
- **Best Voice**, which allows Customers to navigate menu options through voice;
- The **Term Deposit Auctions**, with Customers bidding the fee and/or amount also through the app.

In the investment funds' area, the strategy to widen and diversify the offer of management companies and investment funds was maintained. Indeed, Banco Best currently distributes over 3,200 investment funds of 60 management companies to the public in general, in addition to providing about 2,000 additional investment funds exclusively for the B2B institutional market. In 2017, of note, was the incorporation and launch in Portugal of the funds and ETFs of the management company Vanguard, leader in investment solutions in the area of passive management. Another significant highlight was the debut in Portugal of the German management company Acatis that enabled Banco Best to launch in the national market the first investment fund managed using Artificial Intelligence, in which it is the "machine" that analyses 232 parameters of circa 4,000 companies to propose a decision regarding the best 50 shares to comprise and in which mix, the fund's portfolio.

Still in the area of investment funds, and in the framework of the strategy developed during 2017 to promote technology-based issues, a Conference was held in partnership with Pictet (Swiss management company) where the Industry 4.0 thematic was discussed and the consequent impact of disruptive technologies, with special focus being placed on the Cybersecurity, Digital and Robotics areas. With this focus on the increasing importance and notoriety of technological themes, Banco Best made available, in 2017, on the national market, the fund managed by Allianz that is dedicated to investment in companies that are developing themes related to Artificial Intelligence, Big Data, Cloud Computing and Deep Learning.

In the moderately positive macroeconomic and financial scenario and with the low returns of the traditionally more conservative investments, related to the evolution of interest rates, there was a steeper growth in the investment funds focused on shares, mixed (asset allocation) and more flexible bonds, in detriment of more the conservative treasury and bond funds. Along this line, there was a reinforcement of the idea of strategic investment in the allocation of the world's largest management company's assets, available for 3 risk typologies: the Defensive, Moderate and Growth BlackRock Managed Index Portfolios. For investors wishing to diversify the low-risk funds component and, at the same time, concerned about the possibility of raising interest rates, the investment fund managed by TwentyFour – a boutique specializing in debt and credit management owned by the Swiss Vontobel - which, through a medium-term risk control methodology, seeks to generate higher returns than those generated by the traditional low-risk investment solutions, was assigned.

Regarding the marketing of insurance products, in 2017, Banco Best continued to offer solutions with and without guaranteed capital, recording a stabilization in the volumes of unit-linked and PPRs.

As in previous years, in 2017, the Bank maintained the policy of diversifying its business lines, with partnerships in the area of institutional customers, which are the subject of a very specific offer of financial assets, including investment funds, having, however, recorded a decrease of EUR 92 million in investment fund volumes of customers in the B2B business area due to the departure of an institutional customer motivated by a strategic reorientation of its positioning in these types of markets, that started in the 2nd half of the year and ended in 2017.

Banco Best was invited to integrate the Placement Syndicate of 4 Public Bond Offers realized in Portugal in 2017, namely:

- Bond loan 'BENFICA SAD 2017-2020'
- Public Subscription Offer 'OTRV ABRIL 2022'
- Public Subscription Offer 'OTRV AGOSTO 2022'
- Public Subscription Offer 'OTRV DEZEMBRO 2022´

In the scope of these 4 primary market operations, the volume placed exceeded EUR 59 million.

Regarding the Trading activity, according to CMVM data, the order volume received online by BEST, grew 18% compared with the previous year.

In terms of the market in general, taking into consideration the statistics report published by CMVM regarding order reception, the financial intermediaries registered an increase (+31.6%) in trading orders on Euronext Lisbon (national market) compared with the decrease (-10.6%) of the trading orders on international markets.

At Banco Best, it was also possible to observe a strengthening of the weight of the national market trading when compared with the international markets trading, considering the investors' greater interest in the Lisbon market, where PSI20 recorded an appreciation in excess of 15% in 2017.

Banco Best's market share of the online market segment of the spot market, in 2017, was 5%, with the trading volume exceeding EUR 573 million.

In the online derivatives segment, where BEST's activity stems from the partnership established with Saxo Bank A/S, in 2017, Banco Best, according to the order reception statistics published by the CMVM, recorded a market share of 12.8% in orders received online for derivatives in the futures market, with the trading volume attaining EUR 8.14 billion.

During 2017, the Bank continued to focus on the acquisition of value customers and on its positioning target, with the fundraising strategy remained essentially unchanged from the previous year, in order to promote and highlight differentiated product and service offerings, with special focus on the New Customers Time Deposit, an anchor and benchmark in the market due to its advance interest characteristics and high remuneration, always amongst the top market offers throughout the year.

In 2017, the balance sheet caption Due to customer closed with a total of EUR 494 million, representing an increase of EUR 52 million over 2016. Throughout the year, several initiatives to attract customers and resources are to be highlighted, namely actions which have produced a significant increase in the involvement of the subscribing customers. The year remained characterized by some prudence and limitation at the remuneration level, a consequence of the prevailing market conditions, where Euribor rates of the relevant periods remain negative.

In terms of loans and advances, the portfolio increased EUR 23 million to a total of EUR 162 million at the end of 2017, whilst the demand for credit solutions collateralized by financial assets continued to stand out, in particular the evolution of the product Margin Account, which, to some extent, accompanied the good performance of the financial markets, especially in the components most related to investment funds. Also contributing to the good growth of the Margin account portfolio were the high levels of renewal of the operations in force, a sign of interest and customer satisfaction with this product typology.

The year 2017 was characterized by a significant restructuring of the card offer, at the level of the commissioning and also of the offer made available by BEST to its customers. Decisively contributing to this realignment were the changes in the Community Regulation regarding the reduction / limitation of the Interchange fees, which have resulted in adjustments of the actual presence of the international payment brands in the Portuguese market, in particular, American Express. At the Banco Best level, the portfolio's claims levels remained low, as a result of the various ongoing measures to monitor the portfolio and the availability of the SMS Guardian service, which allows the customer to better control the use of the credit card, by sending an SMS immediately after each transaction, informing it of its execution.

In 2017, Banco Best registered a very significant increase in the number of in-house training actions compared with 2016, with more than 21.5 thousand training hours being given, a figure that compares with the 4.6 thousand hours of training given in 2016, representing an annual growth rate of 371.4%. To this increase contributed significantly the effort developed in the training actions for Certification as Information Providers, covering all employees in the commercial and part of those in the central areas, with pass levels of 100%. This specific training was carried out transversally at the level of the NOVO BANCO Group in the scope of the implementation of the new MiFID II Directive and this certification program will continue in the 1st quarter of 2018, with an update training of over 50 hours, to obtain the final Certification in the area of Investment Consulting (total of 130 hours of training for employee). Throughout the year and with the publication, in August, of the new Law no. 83/2017 that establishes measures to combat money laundering and terrorism financing, specific training actions were also carried out in e-learning format, aimed at conveying to the employees the new measures envisaged in the Law.

Regarding internal training programs, worthy of mention was the creation of an innovative 85 hour training action aimed at the development of interpersonal and intrapersonal skills (Best Personal Development). Three editions of this course were rolled out between May and November 2017, involving 30 selected employees of the Bank. The program is structured in nine weekly full-day workshops covering various topics of personal and professional development (Coaching, Assertiveness, Emotional Intelligence, etc.).

In the second half of the year, the internal "Repensar o BEST (Rethinking BEST)" initiative was launched, where internal work groups coordinated by high potential managers analyzed various aspects of the activity, business and income structure of Banco Best in order to detect short- and medium-term opportunities as well as to identify potential activities to be developed in the near future. It should be noted that the proposals subsequently approved began to be implemented by the end of 2017 and will continue in the first half of 2018.

In 2017, the Bank's staff numbers recorded a decrease of 19 employees, partially compensated by the admission of 18 new employees, some of whom from the NOVO BANCO Group. In this manner, BEST closed December 2017 with 131 employees compared with the 132 of the previous year. It should be pointed out that the employees are relatively young, of whom only 29 are 45 or older, with a gender balance comprising 55% men and 45% women and possessing a high level of academic qualification, with 79% of the employees holding higher education, and there being no employees at BEST 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 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 completely aligned with NOVO BANCO, as detailed below.

In relation to credit risk, a permanent management of loan portfolios is carried out, favoring interaction between the various teams involved in risk management throughout 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. Compliance with the approved credit limits and the correct operation of the mechanisms associated with credit line approvals are also regularly analyzed within the scope of the current commercial activity. At the end of 2017, the amount of the gross loans' exposure and the impairment constituted was EUR 161.8 million and EUR 2.1 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 share and commodity prices, is integrated with the balance sheet management through the Capital, Assets and Liabilities Committee (CALCO) 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, foreign exchange 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 2017, BEST had a VaR of EUR 20 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 balance sheet exposure to interest rate risk based on the methodology of the Bank of International Settlements (BIS), classifying all assets, liabilities and off-balance sheet elements 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 b.p. in all interest rate levels and for non-parallel yield curve shift scenarios exceeding one year of 50 b.p., being made.

With regard to foreign exchange risk, the US dollar position represented 53.4% of the global exchange position at the end of 2017.

Liquidity risk, which represents the risk of an institution failing to honor 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 not only to identify negative mismatches, but also to realize 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 308 million at the end of 2017. 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 residual maturity cumulative 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 characterization of institutions' wholesale risk liquidity position, was 159.2 at the end of 2017.

For operational risk management, which includes operational, information systems, compliance and reputational risks, a system has been developed and implemented to ensure the standardization, systematization and recurrence of the activities for the identification, monitoring, control and mitigation of this risk. This system is supported by an organizational 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 in relation to the mandatory requirements resulting from 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 the prudential requirements to be observed by those same entities as from 1 January 2014. The Regulation also provides for 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.

Currently, under the new legal order 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 realized 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 the amounts considered in Common Equity Tier I, this category includes, where applicable, preference 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 34.0% at the end of 2017, thus complying with the capital ratio 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 to identify, evaluate, monitor and report 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, is centralized in the Global Risk Office (GRO) 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 (GRO) 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;
- Globally analyze the loan portfolio profile, namely regarding the evolution of credit exposure and the monitoring of credit losses;
- Ensure articulation with the NOVO BANCO - Global Risk Department - Operational Risk, not only in the aspects mentioned, but also in relation to the operational risk control and management performed daily in each of the respective areas of competence

Regarding the 2017 Financial Statements, the 11% growth in total assets in the Bank's Balance Sheet is to be highlighted. BEST closed the financial year with Assets of EUR 596.9 million. The growth of Due to customers (+12%) and of Net equity (+2.3%) were directly reflected in an increase in the Bonds portfolio (+ EUR 44.5 million) as well as in the Gross loans and advances to customers portfolio (+ EUR 23.5 million).

Regarding the Income Statement, the Net interest income, totaling EUR 6.9 million, increased by 4.6% over the previous year, a direct result of the increase in assets and liabilities intermediated by BEST in 2017, as referred to in the previous paragraph. This increase in the Net interest income over the previous year, together with the increase of EUR 882 thousand in the Net fee and commission income in relation to the previous year were not, however, sufficient to compensate the amount of the capital gain recorded with the sale of BEST's shareholding in Visa Europe LTD to Visa International in 2016, that had resulted in Net gains / (losses) from available-for-sale financial assets attaining EUR 1.96 million.

Consequently, the Operating income generated by BEST in 2017 was EUR 641 thousand lower than that generated in 2017; however, if one removes from this aggregate the amounts related to the Net gains / (losses) from available-for-sale financial assets, which, in 2016, included the non-recurring gain arising on the sale of the shareholding in Visa, the recurring Operating income, corrected for this effect, would present an increase, in 2017, of 8.4% over 2016.

As a result of a strong cost control practice, total operating costs fell 4.5% compared with the previous year, consequence of the combination of the decrease in the number of employees and other administrative expenses; total operating costs came in at EUR 11.9 million, permitting an improvement in the cost to income ratio: 70.7% compared with the 71.3% the previous year.

Banco Best, in 2017, reinforced impairment losses in the income statement in EUR 543 thousand compared with the EUR 893 thousand of the previous year, amounts that are consistently low and are justified by Banco Best's use of extremely cautious criteria in terms of risk assumption associated with the granting of credit. In terms of year end values, there is a coverage of 152% of past due loans by provisions, with past due loans representing 0.9% of total loans to customers; of note, with regard to both indicators, is the excellent performance compare with the banking sector and the positive evolution from the previous year.

Banco Best's Net equity was reinforced in 2017 with the incorporation of 10% of the previous year's net income, through the constitution of mandatory reserves, with the remaining 90% being distributed to the shareholders; the Core Tier 1 ratio maintained the figure of 34.0% in 2017, with this indicator presenting a very high level when compared with the remaining banks, both at the national and international level.

The allocation of EUR 1 383 thousand to provisions for taxes on income, placed Banco Best's Net income at EUR 3.0 million in 2017, 9.8% above that of the previous year.

As synthetic indicators of the financial results obtained by BEST in 2017, we highlight the Cost to Income of 70.7%, the ROE at 4.2% and the positive Net income of EUR 3.0 million.

III - Shareholder Structure and Governing Bodies

In financial year 2017, the shareholder structure of Banco Best did not undergo changes, maintaining the following distribution:

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 2017, 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

António Manuel Palma Ramalho (Chair)

Maria Madalena Monteiro da Mata Torres Pitta e Cunha (Member)

Marília Boavida Correia Cabral (Member)

Pedro Alexandre Lemos Cabral das Neves (Member)

Jorge Daniel Lopes da Silva (Member)

Carlos Manuel Portela Enes Epifânio (Member)

Luís Fernando Rocha dos Reis (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

José Alexandre Pereira Soares de Santo António

Pedro Moreira de Almeida Queiroz de Barros (Alternate)

The governing bodies were elected at the General Meeting held on 29 April 2016 for a three year mandate (2016-2018), with, however, the following changes occurring in 2017.

- With effect as from 31 January 2017, Ms. Isabel Maria Ferreira Possantes Rodrigues Cascão resigned from the position of Chair of the Executive Commission to take up functions in the Executive Commission of NOVO BANCO, S.A.;

- At the General Meeting of BEST of 25 September 2017, Mr. António Palma Ramalho was elected Chair of the Board of Directors of BEST, substituting Mr. José João Guilherme, who had tendered his resignation in a letter dated as of 20 October 2016. At this General Meeting Mr. Luís Fernando Rocha dos Reis was also elected Director.

- On 11 October 2017, the European Central Bank's authorization process was finalized in respect of the exercising of functions by the members of the corporate bodies of BEST, including the nomination of Ms. Maria Madalena Monteiro da Mata Torres Pitta e Cunha as Chair of the Executive Commission, with the exercising of functions having commenced on 12 October and for the remaining period of the mandate underway.

IV - Relevant facts after the close of the financial year

Ms. Marília Boavida Correira Cabral tendered her resignation from the position of Executive Director in a letter dated as of 1 March 2018.

V – Outlook

The shareholder change at the NOVO BANCO Group level that occurred at the end of 2017 will be relevant for the definition of the future business strategy of Banco Best.

The possible political and macroeconomic instability at the international level during 2018 may create some volatility in financial markets, which have a direct impact on the valuation of financial products marketed by Banco Best, but without a very 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, such as Investment Funds, Shares and Customer bonds.

In terms of the national economy, the continuation of the relief in the austerity climate and the improvement of growth rates, not only in Portugal but also across the Eurozone, is foreseen. The macroeconomic indicators showing significant improvement in the Portuguese economy, have been reflected in some euphoria in Portuguese consumers, with a direct negative impact on their savings capacity, which in and of itself represents a challenge for Banco Best in terms of the potential growth of the attracting of national customers' funds.

Despite the uncertainties that always hover over the global economy and that can potentially affect the Portuguese economy and capitalizing on the type of core competencies on which its progress has been based, Banco Best projects the development of its business activity in 2018 along the following main lines:

- To be a very innovative Bank, being able to offer a high quality service to all customers and future customers through the various channels, with a greater focus on the digital channels. An example of BEST's digital banking leadership and innovation in the offer of financial products and services in Portugal, was the implementation in 2017 of the opening of bank accounts by video call, face to face without going to the counter, through a 100% digital process requiring a mere smartphone or computer.
- To continue to deepen the relationship with Fintech and Regtech, as has occurred in practice with the provision of the setup of the account opening process by video call, in order to continue to offer the most innovative and convenient solutions, at the lowest cost and greatest speed;
- 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 need for the diversification of financial assets and currencies that allows customers to quickly take advantage of investment opportunities as they arise in function of the constant changes of the financial climate;

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 that is expected to remain strongly competitive.

VI - Proposal for the appropriation of results

Pursuant to Article 66(5)(f) of the Portuguese Company Code, the Board of Directors of Banco Best proposes for approval by the Shareholders' General Meeting that the net income for the period, positive in the amount of EUR 3 013 577.16 (three million thirteen thousand five hundred and seventy-seven Euros and sixteen Cents) be appropriated as follows:

- EUR 301 357.72 to the Legal reserve;
- EUR 2 712 219.44 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 past due 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 2017, the Board of Directors wishes to acknowledge the cooperation of all those who have contributed towards achieving the established goals, in the performance of their duties, namely:

- The Monetary and Financial Authorities and supervisory bodies, notably the Bank of Portugal, Securities and Exchange Commission and Portuguese Insurance Institute for their 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 and Supervisory Board members, 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 2018

Board of Directors:

António Manuel Palma Ramalho

Maria Madalena Monteiro da Mata Torres Pitta e Cunha

Pedro Alexandre Lemos Cabral das Neves

Jorge Daniel Lopes da Silva

Carlos Manuel Portela Enes Epifânio

Luís Fernando Rocha dos Reis

ANNEX TO THE MANAGEMENT REPORT

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

2. Shareholders holding more than one tenth of the share capital of the Company, as at 31 December 2017, in compliance with that laid down in Article 448 of the Portuguese Company Code, are:

Shareholders	No. shares	%
NOVO BANCO, SA	62,999,700	99.9995%

Lisbon, 16 March 2018

The Board of Directors:

António Manuel Palma Ramalho

Maria Madalena Monteiro da Mata Torres Pitta e Cunha

Pedro Alexandre Lemos Cabral das Neves

Jorge Daniel Lopes da Silva

Carlos Manuel Portela Enes Epifânio

Luís Fernando Rocha dos Reis

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

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

INCOME STATEMENT
FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2017 AND 2016

(thousands of Euros)

		31.12.2017	31.12.2016
Interest and similar income	5	7 887	7 655
Interest expense and similar charges	5	(1 032)	(1 102)
Net interest income		**6 855**	**6 553**
Dividend income	15	80	109
Fee and commission income	6	14 723	14 476
Fee and commission expenses	6	(5 123)	(5 758)
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	7	(88)	(339)
Net gains / (losses) from available-for-sale financial assets	7	6	1 955
Net gains / (losses) from foreign exchange differences	8	344	474
Net gains / (losses) on disposal of other financial assets		-	94
Other operating income	9	52	(74)
Operating income		**16 849**	**17 490**
Staff costs	10	(4 780)	(4 911)
General and administrative expenses	11	(6 756)	(7 039)
Depreciation and amortization	18 & 19	(373)	(519)
Provisions, net of reversals	23	(912)	(765)
Impairment losses on loans and advances, net of reversals and recoveries	17	371	(128)
Impairment losses of other assets, net of reversals and recoveries	20	(2)	-
Operating expenses		**(12 452)**	**(13 362)**
Profit / (loss) before income tax		**4 397**	**4 128**
Income tax			
Current tax	24	(1 218)	(1 265)
Deferred tax	24	(165)	(117)
Net income for the period		**3 014**	**2 746**
Basic earnings per share (in Euros)	12	0.05	0.04
Diluted earnings per share (in Euros)	12	0.05	0.04

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 FINANCIAL YEARS ENDED 31 DECEMBER 2017 AND 2016

(thousands of Euros)

	31.12.2017	31.12.2016
Net income for the period	**3 014**	**2 746**
Other comprehensive income for the period		
Items that may be reclassified to the income statement		
Fair value adjustments, net of tax (see Note 27)	1 123	(195)
	1 123	**(195)**
Total comprehensive income for the period	**4 137**	**2 551**

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

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

BALANCE SHEET AS AT 31 DECEMBER 2017 AND 2016

(thousands of Euros)

	Notes	31.12.2017	31.12.2016
Assets			
Deposits with banks	13	44 694	68 820
Financial assets held for trading	14	285	109
Available-for-sale financial assets	15	81 603	37 137
Loans and advances to banks	16	306 690	289 241
Loans and advances to customers	17	159 727	135 867
Other tangible assets	18	351	629
Intangible assets	19	-	81
Deferred tax assets	24	-	414
Other assets	20	3 540	4 659
Total Assets		**596 890**	**536 957**
Liabilities			
Financial liabilities held for trading	14	744	478
Deposits from banks	21	19 210	15 529
Due to customers	22	493 890	442 172
Provisions	23	2 461	1 549
Current tax liabilities	24	432	142
Deferred tax liabilities	24	182	36
Other liabilities	25	4 359	3 104
Total Liabilities		**521 278**	**463 010**
Equity			
Share capital	26	63 000	63 000
Reserves, Retained earnings and Other comprehensive income	27	9 598	8 201
Net income for the period		3 014	2 746
Total Equity		**75 612**	**73 947**
Total Liabilities and Equity		**596 890**	**536 957**

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 FINANCIAL YEARS ENDED 31 DECEMBER 2017 AND 2016

(thousands of Euros)

	Share capital	Reserves, Retained earnings and Other comprehensive income			Net income for the period	Total Equity
		Fair value reserves	Other reserves and Retained earnings	Total		
Balance at 31 December 2015	**63 000**	**143**	**5 819**	**5 962**	**4 424**	**73 386**
Comprehensive income:						
Changes in fair value, net of tax (see Note 27)	-	(195)	-	(195)	-	(195)
Net income for the period	-	-	-	-	2 746	2 746
Total comprehensive income	**-**	**(195)**	**-**	**(195)**	**2 746**	**2 551**
Constitution of reserves	-	-	4 423	4 423	(4 424)	(1)
Distribution of dividends (see Note 27) [a)]	-	-	(1 990)	(1 990)	-	(1 990)
Other movements	-	-	1	1	-	1
Balance at 31 December 2016	**63 000**	**(52)**	**8 253**	**8 201**	**2 746**	**73 947**
Comprehensive income:						
Changes in fair value, net of tax (see Note 27)	-	1 123	-	1 123	-	1 123
Net income for the period	-	-	-	-	3 014	3 014
Total comprehensive income	**-**	**1 123**	**-**	**1 123**	**3 014**	**4 137**
Constitution of reserves (see Note 27)	-	-	2 746	2 746	(2 746)	-
Distribution of dividends (see Note 27) [a)]	-	-	(2 471)	(2 471)	-	(2 471)
Other movements	-	-	(1)	(1)	-	(1)
Balance at 31 December 2017	**63 000**	**1 071**	**8 527**	**9 598**	**3 014**	**75 612**

a) Corresponds to a dividend of Euros 0.04 and Euros 0.03 per share paid to shares in circulation during 2017 and 2016, respectively

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 FINANCIAL YEARS ENDED 31 DECEMBER 2017 AND 2016

(thousands of Euros)

	Notes	31.12.2017	31.12.2016
Cash flows from operating activities			
Interest and similar income received		9 519	5 437
Interest expense and similar charges paid		(893)	(1 444)
Fees and commissions received		14 723	14 476
Fees and commissions paid		(5 123)	(5 758)
Recovery of loans and advances		75	42
Cash payments to employees and suppliers		(11 530)	(11 917)
		6 771	**836**
Changes in operating assets and liabilities:			
Disposal of financial assets at fair value through profit or loss		2	145
Loans and advances to banks		(18 517)	(79 818)
Deposits from banks		3 681	(14 316)
Loans and advances to customers		(23 477)	21 745
Due to customers		51 579	93 561
Other operating assets and liabilities		1 173	(2 076)
Net cash flows from operating activities before income taxes		**21 212**	**20 077**
Income taxes paid		(1 046)	(1 254)
		20 166	**18 823**
Net cash flows from investing activities			
Dividends received		80	109
Acquisition of available-for-sale financial assets		(106 569)	(17 982)
Disposal of available-for-sale financial assets		63 537	4 052
Acquisition of tangible fixed assets		(14)	(13)
Sale of tangible fixed assets		1	-
		(42 965)	**(13 834)**
Cash flows from financing activities			
Dividends paid on ordinary shares		(2 471)	(1 990)
Net cash flows from financing activities		**(2 471)**	**(1 990)**
Net changes in cash and cash equivalents		**(25 270)**	**2 999**
Cash and cash equivalents at beginning of period		64 688	61 216
Effect of foreign exchange rate changes on cash and cash equivalents		343	473
Net changes in cash and cash equivalents		(25 270)	2 999
Cash and cash equivalents at end of period		**39 761**	**64 688**
Cash and cash equivalents include:			
Cash		-	-
Deposits with banks	13	44 694	68 820
Mandatory deposits with Central Banks (a)		(4 933)	(4 132)
Total		**39 761**	**64 688**

(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 2017

(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 authorizations 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 26). In 2005, the 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 realized 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 (see Note 26).

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 2017.

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 their predecessor bodies.

The financial statements of BEST herein presented relate to 31 December 2017. The accounting policies applied by the Bank in the preparation of its financial statements as at 31 December 2017, are consistent with those used in the preparation of the financial statements as at 31 December 2016.

As described in Note 33, in the preparation of the financial statements as at 31 December 2017, the Bank adopted the accounting standards issued by IASB and the IFRIC interpretations, effective since 1 January 2017. 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 2017 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 analyzed in Notes 32 and 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 IFRS 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 analyzed in Note 3.

These financial statements were approved at the Board of Directors' meeting of 16 March 2018, and await approval at the Shareholders' General Meeting. 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 recognized 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 as 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 financial assets, 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 recognized 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 recognized 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 of derivative financial instruments correspond to 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 organized markets, namely 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 20) 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 formally 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; and
(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 recognized 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 hedge accounting is discontinued prospectively. If the asset or liability corresponds to a fixed income instrument, the re-measurement adjustment is amortized to maturity using the effective interest rate method.

- Cash flow hedge

When a derivative financial instrument is designated as a hedge against the variability of highly probable future cash flows (cash flow hedge), the effective portion of the changes in the fair value of the hedging derivative is recognized 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 recognized 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 recognized 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 recognized in the income statement and the hedging instrument is transferred to the trading portfolio.

As at 31 December 2017 and 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 recognized on the date cash is advanced to customers.

Loans and advances to customers are de-recognized 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 amortized 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 recognized 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.

For the exposures selected for individual assessment the existence of specific impairment is evaluated. For this evaluation and in the identification of loans and advances with impairment on an individual basis, 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 realizable 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 recognized 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 collateralized loan reflects the cash flows that may result from the recovery and sale of the collateral 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 defined credit risk assessment process. 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.

If, in a subsequent period, the amount of impairment losses decreases and this decrease can be objectively related to an event occurring after the recognition of the impairment, the impairment loss previously recognized is reversed through the income statement.

The loan write-off policy followed by the Bank is governed by the principles defined by the Bank of Portugal. Accordingly, the loan write-off only occurs after (i) the full amount of the loans has been deemed past due 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 past due in their entirety (recorded, in their entirety, in past due loans, with no portion being recorded in maturing debt);
- Loans cannot be marked as renegotiated past due, 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 recognized on the trade date, that is, the date on which the Bank commits to acquire or dispose of the assets.

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

Financial assets are de-recognized 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 recognized 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 recognized directly in reserves, until the financial assets are de-recognized or impaired, at which moment the cumulative gain or loss previously recognized in reserves is recycled to the income statement. Foreign exchange differences arising on shares or other equity instruments are also recognized in reserves, whilst foreign exchange differences arising on debt instruments are recognized in the income statement. Interest, calculated using the effective interest rate method, and dividends are recognized in the income statement.

Held-to-maturity investments are carried at amortized cost, based on the effective interest rate method, net of any impairment losses recognized.

The fair values of investments quoted on active markets are determined based on their current bid price, the price of the last transaction realized 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 customized 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 recognized 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 recognized 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 recognized, the previously recognized 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 cumulative potential loss recognized 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 recognized in the income statement – is taken to the income statement. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognized 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 recognized, except in respect of shares and other equity instruments, in which case impairment losses may not be reversed and subsequent gains are recognized 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-recognized. 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 deferred 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 recognized, 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-recognized, being classified and valued in accordance with the accounting policy described in Note 2.5. Securities received under loan agreements are not recognized 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 recognized directly in the income statement.

2.7. Financial liabilities

An instrument is classified as a financial liability when it contains a contractual obligation which settlement is to occur through the transfer of cash or another financial asset, irrespective of its legal form. Financial liabilities are de-recognized 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 recognized (i) initially, at fair value less transaction costs and (ii) subsequently, at amortized 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.

The fair value of quoted financial liabilities is their quoted 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.

Financial guarantees issued are initially recognized at fair value. Subsequently, these guarantees are measured at the higher of (i) the fair value initially recognized 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 financial guarantees issued is recognized 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 counterpart's 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 recognized on the acquisition date equals the amount of the initial commission received, which is recognized in the income statement during the period to which it relates. Subsequent commissions are recognized 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 recognized under equity as a deduction from the proceeds. Amounts paid or received relating to purchases or sales of equity instruments are recognized 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 of 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 recognized amounts and there is an intention to settle on a net basis, or to realize 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 counterpart.

2.11. 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 assets.

Subsequent costs are included in the asset's carrying value or are recognized 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 tangible 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 recognized when the carrying value of the asset exceeds its recoverable amount. Impairment losses are recognized 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 recognized 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.

2.12. Intangible assets

The costs incurred with the acquisition, production and development of software are capitalized, as are the costs incurred to bring it into use. These costs are amortized 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 recognized as intangible assets.

All remaining costs associated with IT services are recognized as an expense as incurred.

2.13. 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 acquisition 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 recognized in the income statement and (ii) the repayment of principal, which is deducted from liabilities. Financial charges are recognized 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.

2.14. Employee benefits

Variable remuneration paid to employees and management body members (profit sharing)

The Bank recognizes, in costs, the short-term benefits attributed to 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 recognizes 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.

2.15. Income taxes

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

2.16. Provisions and Contingent liabilities

Provisions are recognized 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 recognized 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 recognized 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.

2.17. Recognition of interest income and expense

Interest income and expense are recognized in the income statement under interest and similar income and interest expense and similar charges, respectively, for all non-derivative financial instruments measured at amortized cost and for the available-for-sale financial assets, using the effective interest rate method. Interest income and expense arising from 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 recognized.

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 recognized under the captions Interest and similar income or Interest expense and similar charges.

2.18. Recognition of fee and commission income

Fee and commission income is recognized as follows:

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

2.19. Recognition of dividend income

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

2.20. 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.

2.21. 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.

2.22. 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;
(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 recognized. 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 the 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 summarized in Notes 14, 30 and 31.

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 judgments. 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 recognized.

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 recognized in the financial year and evidenced in Note 24.

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 corrections 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)

	31.12.2017	31.12.2016
Interest and similar income		
Interest from available-for-sale financial assets	936	494
Interest from deposits with and loans and advances to banks	3 929	3 695
Interest from loans and advances to customers	3 019	3 463
Other interest and similar income	3	3
	7 887	7 655
Interest expense and similar charges		
Interest on amounts due to customers	1 030	1 093
Interest on deposits from Central Banks and banks	-	1
Other interest expense and similar charges	2	8
	1 032	1 102
	6 855	**6 553**

NOTE 6 – NET FEE AND COMMISSION INCOME

This caption comprises:

(thousands of Euros)

	31.12.2017	31.12.2016
Fee and commission income		
From guarantees provided	2 309	1 042
From banking services	9 443	9 482
From transactions of securities	1 976	2 217
Other fee and commission income	995	1 735
	14 723	**14 476**
Fee and commission expenses		
With transactions of securities	214	209
With banking services rendered by third parties	648	884
Other fee and commission expenses	4 261	4 665
	5 123	**5 758**
	9 600	**8 718**

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)

	31.12.2017			31.12.2016		
	Gains	Losses	Total	Gains	Losses	Total
Assets and liabilities held for trading						
Derivative financial instruments						
Foreign exchange rate contracts	299	564	(265)	280	533	(253)
Interest rate contracts	50	42	8	127	214	(87)
Equity / Index contracts	206	37	169	64	63	1
	555	**643**	**(88)**	**471**	**810**	**(339)**
	555	**643**	**(88)**	**471**	**810**	**(339)**

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

(thousands of Euros)

	31.12.2017			31.12.2016		
	Gains	Losses	Total	Gains	Losses	Total
Shares	6	-	6	1 955	-	1 955
	6	**-**	**6**	**1 955**	**-**	**1 955**

The Euros 1 955 thousand gain registered in the 2016 financial year relates to the sale of the shareholding the Bank held in Visa Europe to Visa International.

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

This caption comprises:

(thousands of Euros)

	31.12.2017			31.12.2016		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange revaluation	5 829	(5 485)	344	6 760	(6 286)	474
	5 829	**(5 485)**	**344**	**6 760**	**(6 286)**	**474**

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 EXPENSES

This caption comprises:

(thousands of Euros)

	31.12.2017	31.12.2016
Other operating income		
Gains / (losses) from loan operations	75	42
Other	248	168
	323	**210**
Other operating expenses		
Direct and indirect taxes	(27)	(26)
Contributions to the Resolution Fund	(30)	(22)
Contributions to the Sole Resolution Fund	(8)	(7)
Banking levy (see Note 24)	(118)	(120)
Other	(88)	(109)
	(271)	**(284)**
Other operating income / (expenses)	**52**	**(74)**

NOTE 10 – STAFF COSTS

Staff costs have the following breakdown:

(thousands of Euros)

	31.12.2017	31.12.2016
Wages and salaries	3 756	3 885
Mandatory social charges	861	887
Other costs	163	139
	4 780	**4 911**

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 29.

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

	31.12.2017	31.12.2016
Top management functions	33	31
Middle management functions	17	20
Specific functions	68	65
Administrative functions	13	16
	131	**132**

NOTE 11 – GENERAL AND ADMINISTRATIVE EXPENSES

This caption comprises:

	31.12.2017	31.12.2016
Advertising	984	817
Communication	1 168	1 232
Rentals	1 040	1 072
Travel and entertainment	66	58
Consumables	35	45
Water, energy and fuel	32	35
Transport	4	29
Insurance	85	24
Maintenance and related services	16	40
Training	12	43
IT services	712	999
Legal costs	97	81
Studies and consultation	6	2
Electronic payment systems	197	175
Independent work	51	36
Consultants and auditors	74	82
Assignment of human resources	1 283	1 396
Other costs	894	873
	6 756	**7 039**

(thousands of Euros)

The fees invoiced during financial years 2017 and 2016 by the Statutory Audit Firm have the following breakdown:

(thousands of Euros)

	31.12.2017	31.12.2016
Statutory audit fees	36	44
Other services	-	4
Total amount of the services invoiced	**36**	**48**

As at 31 December 2017 and 2016, 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 rendered in 2016 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)

	31.12.2017	31.12.2016
Net income attributable to the shareholders of the Bank	3 014	2 746
Weighted average number of ordinary shares (thousands)	63 000	63 000
Basic earnings per share attributable to the shareholders of the Bank (in Euros)	**0.05**	**0.04**

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.

As at 31 December 2017 and 2016, 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

As at 31 December 2017 and 2016, this caption is analyzed as follows:

(thousands of Euros)

	31.12.2017	31.12.2016
Deposits with banks in Portugal		
Demand deposits	20 425	43 761
	20 425	**43 761**
Deposits with banks abroad		
Other deposits	24 269	25 059
	24 269	**25 059**
	44 694	**68 820**

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 authorized BEST to constitute its minimum mandatory reserves indirectly, through NOVO BANCO, S.A.. Quarterly, BEST settles through a deposit account with NOVO BANCO the amount related to the minimum mandatory reserves to be constituted. As at 31 December 2017, the balance of that account amounted to Euros 4 933 thousand (31 December 2016: Euros 4 132 thousand), and had earned interest at an average rate of 0.00% (31 December 2016: 0.01%).

NOTE 14 – FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

As at 31 December 2017 and 2016, this caption is analyzed as follows:

(thousands of Euros)

	31.12.2017	31.12.2016
Financial assets held for trading		
Derivative financial instruments with a positive fair value	285	109
Financial liabilities held for trading		
Derivative financial instruments with a negative fair value	744	478

As at 31 December 2017 and 2016, derivative financial instruments may be analyzed as follows:

(thousands of Euros)

	31.12.2017			31.12.2016		
	Notional	Fair value		Notional	Fair value	
		Assets	Liabilities		Assets	Liabilities
Foreign exchange rate contracts						
Forwards						
- buy	28 350	-	337	15 810	-	108
- sell	28 554			15 873		
Currency Swaps						
- buy	28 556	110	176	23 849	45	75
- sell	28 350			23 785		
		110	513		45	183
Interest rate contracts						
Interest Rate Swaps						
- buy	3 800	-	59	3 800	-	107
- sell	3 800			3 800		
		-	59		-	107
Equity / Index contracts						
Equity / Index Options						
- buy	15 200	175	172	22 800	64	188
- sell	14 476			21 714		
		175	172		64	188
TOTAL		**285**	**744**		**109**	**478**

As at 31 December 2017 and 2016, the analysis of trading derivatives by period to maturity is as follows:

(thousands of Euros)

	31.12.2017			31.12.2016		
	Notional		Net fair value	Notional		Net fair value
	Buy	Sell		Buy	Sell	
Up to 3 months	56 906	56 904	(403)	44 259	44 258	(138)
3 months to 1 year	7 600	7 238	2	3 000	2 638	-
1 to 5 years	11 400	11 038	(58)	19 000	18 276	(231)
	75 906	**75 180**	**(459)**	**66 259**	**65 172**	**(369)**

NOTE 15 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

As at 31 December 2017 and 2016, this caption is analyzed 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	39 992	1 195	-	-	41 187
Issued by other entities	39 130	18	-	-	39 148
Shares	1 034	263	(29)	-	1 268
Other variable income securities	167	-	-	(167)	-
Balance at 31 December 2017	**80 323**	**1 476**	**(29)**	**(167)**	**81 603**
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**

[1] Acquisition cost relating to shares and other equity instruments and amortized 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 judgment criteria described in Note 3.1.

Securities pledged as collateral by the Bank are detailed in Note 28.

During the financial years ended 31 December 2017 and 2016, no changes were verified in the impairment losses of available-for-sale financial assets.

As at 31 December 2017 and 2016, the analysis of available-for-sale financial assets by period to maturity is as follows:

(thousands of Euros)

	31.12.2017	31.12.2016
Up to 3 months	40 210	5 664
3 months to 1 year	-	1 054
1 to 5 years	28 299	27 887
More than 5 years	11 826	1 424
Undetermined	1 268	1 108
	81 603	**37 137**

This caption, by quoted and unquoted securities, has the following breakdown:

(thousands of Euros)

	31.12.2017			31.12.2016		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Securities						
Bonds and other fixed income securities						
Issued by Government and public entities	41 187	-	41 187	29 978	-	29 978
Issued by other entities	-	39 148	39 148	-	6 051	6 051
Shares	-	1 268	1 268	-	1 108	1 108
	41 187	**40 416**	**81 603**	**29 978**	**7 159**	**37 137**

During the financial year ended 31 December 2017, the Bank received dividends in the amount of Euros 80 thousand from its available-for-sale financial assets portfolio (financial year 2016: Euros 109 thousand).

NOTE 16 – LOANS AND ADVANCES TO BANKS

As at 31 December 2017 and 2016, this caption is analyzed as follows:

(thousands of Euros)

	31.12.2017	31.12.2016
Loans and advances to banks in Portugal		
Deposits	306 690	289 241
	306 690	**289 241**

As at 31 December 2017, the main loans and advances to banks in Portugal bear interest at an average annual interest rate of 1.21% (31 December 2016: 1.38%).

As at 31 December 2017 and 2016, the analysis of loans and advances to banks by period to maturity is as follows:

(thousands of Euros)

	31.12.2017	31.12.2016
Up to 3 months	66 470	37 442
3 months to 1 year	232 006	249 662
1 to 5 years	7 755	-
More than 5 years	459	2 137
	306 690	**289 241**

NOTE 17 – LOANS AND ADVANCES TO CUSTOMERS

As at 31 December 2017 and 2016, this caption is analyzed as follows:

(thousands of Euros)

	31.12.2017	31.12.2016
Domestic loans and advances		
Corporate		
Current account loans and advances	30 351	29 336
Overdrafts	23	13
Retail		
Consumer and other loans	119 236	94 830
	149 610	**124 179**
Foreign loans and advances		
Corporate		
Current account loans and advances	99	100
Retail		
Consumer and other loans	10 731	12 143
	10 830	**12 243**
Past due loans and advances and interest		
Up to 3 months	9	713
3 months to 1 year	67	314
1 to 3 years	555	330
More than 3 years	745	549
	1 376	**1 906**
	161 816	**138 328**
Impairment losses	**(2 089)**	**(2 461)**
	159 727	**135 867**

The fair value of the Loans and advances to customers' portfolio is evidenced in Note 30.

As at 31 December 2017 and 2016, the analysis of loans and advances to customers by period to maturity is as follows:

(thousands of Euros)

	31.12.2017	31.12.2016
Up to 3 months	63 531	50 836
3 months to 1 year	74 311	57 372
1 to 5 years	14 781	19 086
More than 5 years	7 817	9 128
Undetermined	1 376	1 906
	161 816	**138 328**

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)

	31.12.2017			31.12.2016		
	Corporate	Retail - Other	**Total**	Corporate	Retail - Other	**Total**
Balance at beginning of period	374	2 087	2 461	327	2 569	2 896
Allocations / (reversals) for period	(610)	239	(371)	1 225	(1 097)	128
Utilization during period	-	-	-	-	(157)	(157)
Transfers	-	-	-	(406)	-	(406)
Foreign exchange differences and other	484	(485)	(1)	(772)	772	-
Balance at end of period	**248**	**1 841**	**2 089**	**374**	**2 087**	**2 461**

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

(thousands of Euros)

	31.12.2017	31.12.2016
Fixed rate	85 101	61 074
Variable rate	76 715	77 254
	161 816	**138 328**

NOTE 18 – OTHER TANGIBLE FIXED ASSETS

As at 31 December 2017 and 2016, this caption is analyzed as follows:

(thousands of Euros)

	31.12.2017	31.12.2016
Real estate property		
Improvements in leasehold property	1 077	1 077
	1 077	**1 077**
Equipment		
Computer equipment	1 883	1 883
Furniture	1 518	1 508
Office equipment	110	110
Fixtures	508	508
Security equipment	65	60
Other	1	1
	4 085	**4 070**
Tangible fixed assets in progress	**-**	**1**
	5 162	**5 148**
Accumulated depreciation	(4 811)	(4 519)
	351	**629**

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 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**
Acquisitions	-	6	8	14
Disposals / write-offs	-	(1)	-	(1)
Transfers	-	9	(9)	-
Other	-	1	-	1
Balance at 31 December 2017	**1 077**	**4 085**	**-**	**5 162**
Accumulated depreciation				
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**
Depreciation for the period	89	203	-	292
Balance at 31 December 2017	**952**	**3 859**	**-**	**4 811**
Carrying value at 31 December 2017	**125**	**226**	**-**	**351**
Carrying value at 31 December 2016	**214**	**414**	**1**	**629**

NOTE 19 – INTANGIBLE ASSETS

As at 31 December 2017 and 2016, this caption is analyzed as follows:

(thousands of Euros)

	31.12.2017	31.12.2016
Acquired from third parties		
Software - Automatic data processing system	3 768	11 693
Accumulated amortization	(3 768)	(11 612)
	-	81

The movements in this caption were as follows:

(thousands of Euros)

	Intangible assets Software - Automatic data processing system	Total
Acquisition cost		
Balance at 31 December 2015	11 693	11 693
Balance at 31 December 2016	11 693	11 693
Write-offs / sales	(7 925)	(7 925)
Balance at 31 December 2017	3 768	3 768
Accumulated amortization		
Balance at 31 December 2015	11 416	11 416
Amortization for the period	196	196
Balance at 31 December 2016	11 612	11 612
Amortization for the period	81	81
Write-offs / sales	(7 925)	(7 925)
Balance at 31 December 2017	3 768	3 768
Carrying value at 31 December 2017	-	-
Carrying value at 31 December 2016	81	81

NOTE 20 – OTHER ASSETS

As at 31 December 2017 and 2016, the caption Other assets is analyzed as follows:

(thousands of Euros)	31.12.2017	31.12.2016
Security deposit accounts	-	2
Public sector administration	66	54
Other debtors	523	1 287
Accrued income [(i)]	2 142	3 114
Prepayments	327	20
Other transactions pending settlement	440	168
Other assets	44	14
	3 542	**4 659**
Impairment losses	**(2)**	**-**
	3 540	**4 659**

[(i)] Commissions receivable from Fund Managing Companies

The Security deposit accounts refer to the margin accounts in respect of derivative product operations contracted on organized 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 25). As at 31 December 2017, operations of this nature were residual.

The movements in impairment losses were as follows:

(thousands of Euros)	31.12.2017	31.12.2016
Balance at beginning of period	-	-
Allocations for period	2	-
Balance at end of period	**2**	**-**

NOTE 21 – DEPOSITS FROM BANKS

The caption Deposits from banks is presented as follows

	(thousands of Euros)	
	31.12.2017	**31.12.2016**
Domestic		
Deposits	1 344	875
Other funds	-	3
	1 344	**878**
International		
Deposits	2 940	3 523
Other funds	14 926	11 128
	17 866	**14 651**
	19 210	**15 529**

As at 31 December 2017 and 2016, the analysis of deposits from banks by period to maturity is as follows:

	(thousands of Euros)	
	31.12.2017	**31.12.2016**
Up to 3 months	19 210	15 529
	19 210	**15 529**

NOTE 22 – DEPOSITS FROM CUSTOMERS

The caption Deposits from customers, by nature, has the following breakdown:

	(thousands of Euros)	
	31.12.2017	**31.12.2016**
Demand deposits	319 506	326 576
Time deposits	168 472	112 577
Savings accounts	672	813
Other funds	5 240	2 206
	493 890	**442 172**

As at 31 December 2017 and 2016, the analysis of amounts due to customers by period to maturity is as follows:

		(thousands of Euros)
	31.12.2017	**31.12.2016**
Repayable on demand	**319 506**	**326 576**
With agreed maturity		
Up to 3 months	142 396	95 233
3 months to 1 year	22 796	16 712
1 to 5 years	9 192	3 651
	174 384	**115 596**
	493 890	**442 172**

NOTE 23 – PROVISIONS

As at 31 December 2017 and 2016, the caption Provisions has the following breakdown:

(thousands of Euros)

	Provisions for guarantees	Other provisions	Total
Balance at 31 December 2015	**-**	**385**	**385**
Allocations / (reversals) for period	(384)	1 149	765
Utilization during period	-	(8)	(8)
Transfers	406	-	406
Other	-	1	1
Balance at 31 December 2016	**22**	**1 527**	**1 549**
Allocations / (reversals) for period	(4)	916	912
Other	1	(1)	-
Balance at 31 December 2017	**19**	**2 442**	**2 461**

Other provisions include provisions for ongoing legal proceedings in the amount of Euros 2 251 thousand (31 December 2016: 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 24 – 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 ("Derramas").

Income taxes (current or deferred) are recognized 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 2017 and 2016 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 financial years ended 31 December 2017 and 2016, 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.

In financial year 2017, Regulatory Decree no. 11/2017, of 28 December, was applied to reproduce the tax regime that was in force on 31 December 2016, extending, to 2017, the tax regime of impairment losses for credit risk applicable in 2016 and in previous years. In this manner, the framework resulting from Notice no. 3/95 of the Bank of Portugal was extended for tax purposes.

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 additional tax assessments within the context of these financial statements.

Deferred tax assets and liabilities recognized in the balance sheet as at 31 December 2017 and 2016, may be analyzed as follows:

(thousands of Euros)

	Assets		Liabilities		Net	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Financial instruments	8	54	(384)	(36)	(376)	18
Impairment losses of loans and advances to customers	189	354	-	-	189	354
Provisions	5	6	-	-	5	6
Deferred tax assets / (liabilities)	**202**	**414**	**(384)**	**(36)**	**(182)**	**378**
Offsetting of deferred tax assets / liabilities	(202)	-	202	-	-	-
Net deferred tax assets / (liabilities)	**-**	**414**	**(182)**	**(36)**	**(182)**	**378**

The tax recognized in the income statement and reserves during financial years 2017 and 2016 had the following origins:

(thousands of Euros)

	31.12.2017		31.12.2016	
	Recognized in the income statement	Recognized in reserves	Recognized in the income statement	Recognized in reserves
Available-for-sale financial assets	-	394	-	(69)
Impairment losses of loans and advances to customers	164	-	123	-
Provisions	1	-	(6)	-
Deferred taxes	165	394	117	(69)
Current taxes	1 218	-	1 265	-
Total tax recognized	**1 383**	**394**	**1 382**	**(69)**

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

(thousands of Euros)

	31.12.2017	31.12.2016
Balance at beginning of period	**378**	**426**
Deferred tax recognized in		
Income statement	(165)	(117)
Fair value reserves	(394)	69
Other reserves	(1)	-
Balance at end of period - Asset / (Liability)	**(182)**	**378**

Current tax liabilities recognized in the balance sheet as at 31 December 2017 and 2016, may be analyzed as follows:

(thousands of Euros)

	31.12.2017	31.12.2016
Liabilities		
Corporate income tax payable	432	142
	432	142

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

(thousands of Euros)

	31.12.2017		31.12.2016	
	%	Amount	%	Amount
Profit / (loss) before income tax		**4 397**		**4 128**
Banking levy (see Note 9)		118		120
		4 515		**4 248**
Tax rate	26.0		26.0	
Income tax calculated based on tax rate		1 174		1 104
Non-deductible costs	0.7	32	0.4	19
Autonomous taxation	0.8	37	1.3	55
Other	3.2	140	4.6	204
Effective tax rate / Corporate income tax	**31.5**	**1 383**	**33.5**	**1 382**

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, by Law no. 7-A/2016, of 30 March, and by Law no. 42/2016, of 28 December. In 2017, the Bank recognized the amount of Euros 118 thousand (2016: Euros 120 thousand) as a cost related to the Banking Levy. The cost recognized 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 25 – OTHER LIABILITIES

As at 31 December 2017 and 2016, the caption Other liabilities is analyzed as follows:

(thousands of Euros)

	31.12.2017	31.12.2016
Public sector administration	606	711
Suppliers	961	729
Creditors for futures and options contracts	-	2
Captive bank accounts	407	326
Other creditors	95	89
Staff costs	625	632
Other accrued expenses	1 006	166
Deferred income	282	138
Other transactions pending settlement	377	311
	4 359	**3 104**

The increase in the average payment terms for business-to-business partners of Banco Best and the contract for the redistribution of international investment funds signed with NOVO BANCO in the second half of 2016 justifies the increase in the amount of Other accrued expenses.

NOTE 26 – SHARE CAPITAL

Ordinary shares

As at 31 December 2017 and 2016, the Bank's share capital, amounting to Euros 63 000 thousand, is represented by 63 million shares, with a nominal value of Euros 1 each, was fully subscribed and realized 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 Euros 1 each, which were fully subscribed and realized 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 Euros 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	
	31.12.2017	31.12.2016
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.

NOTE 27 – 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 unrealized gains and losses arising on the available-for-sale investments portfolio, net of impairment losses recognized 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 financial years ended 31 December 2017 and 2016, 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 2015	**194**	**(51)**	**143**	**4 716**	**1 103**	**5 819**
Changes in fair value	(264)	69	(195)	-	-	-
Distribution of dividends **(a)**	-	-	-	-	(1 990)	(1 990)
Constitution of reserves	-	-	-	443	3 980	4 423
Other	-	-	-	-	1	1
Balance at 31 December 2016	**(70)**	**18**	**(52)**	**5 159**	**3 094**	**8 253**
Changes in fair value	1 517	(394)	1 123	-	-	-
Distribution of dividends	-	-	-	-	(2 471)	(2 471)
Constitution of reserves **(a)**	-	-	-	274	2 472	2 746
Other	-	-	-	-	(1)	(1)
Balance at 31 December 2017	**1 447**	**(376)**	**1 071**	**5 433**	**3 094**	**8 527**

(a) As per approval of General Meeting

The fair value reserves are analyzed as follows:

(thousands of Euros)

	31.12.2017	31.12.2016
Amortized cost of available-for-sale financial assets	80 323	37 374
Accumulated impairment losses recognized	(167)	(167)
Amortized cost of available-for-sale financial assets, net of impairment losses	80 156	37 207
Fair value of available-for-sale financial assets	81 603	37 137
Unrealized gains / (losses) recognized in fair value reserves	1 447	(70)
Deferred taxes	(376)	18
Unrealized gains / (losses) recognized in fair value reserves, net of taxes	**1 071**	**(52)**

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

(thousands of Euros)

	31.12.2017	31.12.2016
Balance at beginning of period	**(52)**	**143**
Changes in fair value	1 517	(266)
Disposals during period	-	2
Deferred taxes recognized in reserves during period	(394)	69
Balance at end of period	**1 071**	**(52)**

NOTE 28 – CONTINGENT LIABILITIES AND COMMITMENTS

In addition to derivative financial instruments, as at 31 December 2017 and 2016, the off-balance sheet elements included the following:

(thousands of Euros)

	31.12.2017	31.12.2016
Contingent liabilities and guarantees		
Guarantees and standby letters	169 264	108 540
Assets pledged as collateral	1 653	1 424
	170 917	**109 964**
Commitments		
Revocable commitments	59 717	76 135
Irrevocable commitments	1 406	1 668
	61 123	**77 803**
	232 040	**187 767**

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

As at 31 December 2017, the caption Assets pledged as collateral includes:

- Securities pledged as collateral to the Securities and Exchange Commission ("Comissão do Mercado de Valores Mobiliários") in the scope of the Investors Indemnity System ("Sistema de Indemnização aos Investidores" (SII)) in the amount of Euros 1 102 thousand (31 December 2016: Euros 949 thousand);
- Securities pledged as collateral to the Deposits Guarantee Fund ("Fundo de Garantia de Depósitos" (FGD)) in the amount of Euros 551 thousand (31 December 2016: Euros 475 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 formalization.

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)

	31.12.2017	31.12.2016
Responsibilities related to banking services		
Deposit and custodianship of securities	447 687	451 178
Other responsibilities related to banking services	16 248	174 624
	463 935	**625 802**

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

Fundo de Resolução

Fundo de Resolução is a public legal entity with administrative and financial autonomy, created by Decree-law no. 31-A/2012, of 10 February, which is governed by the General Regime governing Credit Institutions and Financial Companies ("RGICSF") and by its regulation and which mission it is to provide financial support for the resolution measures implemented by the Bank of Portugal, whilst national resolution authority, and to perform all other functions provided by law in the implementation of such measures.

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 its liabilities. In 2017, the periodic contribution made by the Bank amounted to Euros 30 thousand (31 December 2016: Euros 22 thousand).

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 paragraph 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 realize the share capital of NOVO BANCO, Fundo de Resolução made available Euros 4 900 million, of which Euros 377 million corresponded to own funds. 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 reimbursable loan granted by the Portuguese Republic.

In 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, S.A. ("Santander Totta"), for Euros 150 million, also in the scope of the application of a resolution measure. 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. 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.

The resolution measures applied in 2014 to BES (process giving rise to the creation of NOVO BANCO) and in 2015 to Banif, created uncertainties related to the risk of litigation involving Fundo de Resolução, which is significant, as well as the risk of an insufficiency of funds to ensure its compliance with its responsibilities, namely the short-term repayment of the loans contracted.

It was in this context, in the second half of 2016, that 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 financing agreements with Fundo de Resolução was formalized, which introduced 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.

According to the announcement of 31 March 2017 made by Fundo de Resolução, the revision of the terms of the financing granted by the Portuguese State and by the participant banks was aimed at ensuring the sustainability and financial equilibrium of Fundo de Resolução, based on a stable, predictable and affordable charge for the banking sector. Based on this revision, Fundo de Resolução assumed that the full payment of its liabilities, as well as its respective remuneration, is assured, without the need for recourse to special contributions or any other type of extraordinary contributions by the banking sector.

Also on 31 March 2017, the Bank of Portugal announced that it had selected Loan Star Funds for the acquisition of NOVO BANCO, which was completed on 17 October 2017, through the injection, by the new shareholder, of Euros 750 million, followed by a new capital injection of Euros 250 million, realized on 21 December 2017. Loan Star Funds came to hold 75% the share capital of NOVO BANCO and Fundo de Resolução the remaining 25%. In addition, the approved conditions include a contingent capitalization mechanism, under which Fundo de Resolução, whilst shareholder, may be called upon to make capital injections in the event of the materialization of certain cumulative conditions, related to: i) the performance of a restricted set of assets of NOVO BANCO and ii) the evolution of its capitalization levels, namely the planned issue on the market of Euros 400 million in Tier 2 capital instruments. The possible capital injections to be realized under this contingent mechanism are subject to an absolute maximum limit.

Notwithstanding the possibility provided for in the applicable legislation for the collection of special contributions, in view of the renegotiation of the conditions of the loans granted to Fundo de Resolução by the Portuguese State and by a banking syndicate in which the Bank is included, and of the public announcements made by Fundo de Resolução and the Office of the Finance Minister stating that this possibility will not be used, the present financial statements reflect the expectation of the Board of Directors that the Bank will not be required to make special contributions or any other type of extraordinary contributions to finance the resolution measures applied to BES and Banif, as well as the contingent capitalization mechanism referred to in the previous paragraph. Any changes in this regard may have relevant implications on the financial statements of the Bank.

NOTE 29 – RELATED PARTY TRANSACTIONS

As at 31 December 2017 and 2016, the Bank's transactions with related parties, as well as the respective expense and income recognized during the financial years, are summarized as follows:

(thousands of Euros)

	31.12.2017 Assets	Liabilities	Guarantees	Income	Expense	31.12.2016 Assets	Liabilities	Guarantees	Income	Expense
Shareholder										
NOVO BANCO	323 316	1 519	168 434	5 209	777	328 528	780	-	4 080	690
Related companies										
NOVO BANCO AÇORES	735	-	-	-	-	293	-	-	-	-
GNB GA	27	-	-	-	-	82	-	-	-	370
GNB VIDA	92	27 056	-	905	353	185	20 847	-	1 603	410
GNB SEGUROS	-	27	-	-	-	-	253	-	-	-
PRAÇA MARQUÊS	-	-	-	-	410	-	-	-	-	615
BES VÉNÉTIE	-	-	-	723	-	-	-	-	-	-
	324 170	**28 602**	**168 434**	**6 837**	**1 540**	**329 088**	**21 880**	**-**	**5 683**	**2 085**
Other										
CONSULJUR UNIPESSOAL LDA	-	-	-	-	-	-	1	-	-	-
Other [a)]	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**-**

[a)] 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 0.62% and 3.29% and between 0% and 0.75%, respectively.

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

(thousands of Euros)

	31.12.2017	31.12.2016
Board of Directors		
Remuneration and other short-term employment benefits	328	268
Post-employment benefits and other social charges	71	63
	399	**331**
Supervisory Board*	15	4
	414	**335**

* The amount presented in respect of 2016 relates exclusively to the Supervisory Board that was in office until 7 July 2016

As at 31 December 2017 (in accordance with the scope defined in IAS 24) the amount of the loans and advances granted to the members of the Board of Directors of BEST was Euros 8.6 thousand (31 December 2016: Euros 3.9 thousand). The Supervisory Board of BEST had no loan responsibilities.

NOTE 30 – 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 2017				
Financial assets held for trading	-	285	-	285
Available-for-sale financial assets	41 904	-	39 150	81 054
Financial assets	**41 904**	**285**	**39 150**	**81 339**
Financial liabilities held for trading	-	744	-	744
Financial liabilities	**-**	**744**	**-**	**744**
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**

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 2017 and 2016, may be analyzed as follows:

(thousands of Euros)

	31.12.2017	31.12.2016
Balance at beginning of period	**4 998**	**11**
Acquisitions	96 227	4 994
Sales / Reimbursements	(62 536)	(11)
Changes in value	461	4
Balance at end of period	**39 150**	**4 998**

The acquisitions in the 2017 financial year relate to the acquisition of commercial paper.

The table below shows, for assets included in level 3 of the fair value hierarchy, the main valuation methods used and the impact of the change in the main variables used in the respective valuation, when applicable:

(thousands of Euros)

Assets classified under Level 3	31.12.2017						
	Valuation model	Variable analyzed	Carrying book value	Unfavorable scenario		Favorable scenario	
				Change	Impact	Change	Impact
Available-for-sale financial assets			**39 150**		**(1 524)**		**737**
Bonds issued by other entities / commercial paper	*Discounted cash flow model*	*Probability of default*	*39 150*	*2 levels*	*(1 524)*	*2 levels*	*737*
Total			**39 150**		**(1 524)**		**737**

(thousands of Euros)

Assets classified under Level 3	31.12.2016						
	Valuation model	Variable analyzed	Carrying book value	Unfavorable scenario		Favorable scenario	
				Change	Impact	Change	Impact
Available-for-sale financial assets			**4 998**		**(162)**		**78**
Bonds issued by other entities / commercial paper	*Discounted cash flow model*	*Probability of default*	*4 998*	*2 levels*	*(162)*	*2 levels*	*78*
Total			**4 998**		**(162)**		**78**

The main assumptions and inputs used in the valuation models, during the financial years ended 31 December 2017 and 2016, are as follows:

Interest rate curves

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

(%)

	31.12.2017			31.12.2016		
	EUR	USD	GBP	EUR	USD	GBP
Overnight	-0.4100	1.4500	0.6450	-0.4000	0.6100	0.1500
1 month	-0.3680	1.6500	0.5000	-0.3680	0.7750	0.2900
3 months	-0.3290	1.7600	0.7500	-0.3190	1.0500	0.4300
6 months	-0.2710	1.9100	0.8400	-0.2210	1.2500	0.5500
9 months	-0.2170	2.0600	0.7900	-0.1390	1.4500	0.6800
1 year	-0.2550	1.8790	0.6060	-0.2040	1.1810	0.4064
3 years	0.0110	2.1440	0.8837	-0.1005	1.6640	0.6881
5 years	0.3150	2.2380	1.0325	0.0750	1.9450	0.8657
7 years	0.5660	2.3000	1.1430	0.3150	2.1350	1.0347
10 years	0.8860	2.3850	1.2735	0.6680	2.3160	1.2325
15 years	1.2480	2.4750	1.4052	1.0340	2.4750	1.4147
20 years	1.4180	2.5170	1.4530	1.1810	2.5380	1.4607
25 years	1.4950	2.5275	1.4447	1.2230	2.5600	1.4498
30 years	1.5010	2.5250	1.4250	1.2410	2.5650	1.4297

Interest rate volatility

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

(%)

	31.12.2017			31.12.2016		
	EUR	USD	GBP	EUR	USD	GBP
1 year	12.26	15.31	52.35	14.14	24.43	80.81
3 years	31.32	22.10	-	31.24	37.50	-
5 years	46.25	28.62	58.67	47.41	40.88	97.10
7 years	54.61	30.07	63.27	58.53	39.98	90.36
10 years	61.27	28.18	-	66.68	37.66	-
15 years	64.25	-	-	69.39	-	-

Foreign exchange rates and volatility

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

Foreign exchange rate pair	31.12.2017	31.12.2016	Volatility (%) 1 month	3 months	6 months	9 months	1 year
EUR/USD	1.1993	1.0541	6.55	7.39	7.41	7.35	7.50
EUR/GBP	0.8872	0.8562	6.49	7.44	7.62	7.65	7.95
EUR/CHF	1.1702	1.0739	5.61	6.25	6.24	6.13	6.23
EUR/NOK	9.8403	9.0863	7.78	7.94	7.74	7.60	7.58
EUR/PLN	4.1770	4.4103	4.38	4.95	5.49	5.88	6.20
EUR/RUB	69.3920	64.3000	9.42	11.12	12.07	12.74	13.10
USD/BRL [a)]	3.3127	3.2544	12.14	12.70	13.54	14.27	15.00
USD/TRY [b)]	3.7909	3.5169	11.76	12.81	13.50	13.86	14.28

[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 on 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
	31.12.2017	31.12.2016	% change	1 month	3 months	
DJ Euro Stoxx 50	3 504	3 291	6.49	10.17	8.49	11.43
PSI 20	5 388	4 679	15.15	7.32	8.45	12.06
IBEX 35	10 044	9 352	7.40	10.63	13.51	-
FTSE 100	7 688	7 143	7.63	8.75	7.99	7.49
DAX	12 918	11 481	12.51	11.33	9.75	12.70
S&P 500	2 674	2 239	19.42	6.27	5.55	7.72
BOVESPA	76 402	60 227	26.86	16.46	17.02	17.25

The Bank uses in its valuation models the spot rate observed on 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 amortized cost in the balance sheet, are analyzed as follows:

(thousands of Euros)

	Assets / liabilities recorded at amortized cost	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)	Total fair value
31 December 2017					
Deposits with banks	44 694	-	44 694	-	44 694
Available-for-sale financial assets (shares) **a)**	549	-	-	549	549
Loans and advances to banks	306 690	-	306 690	-	306 690
Loans and advances to customers	159 727	-	-	155 587	155 587
Financial assets	**511 660**	**-**	**351 384**	**156 136**	**507 520**
Deposits from banks	19 210	-	19 210	-	19 210
Due to customers	493 890	-	-	493 890	493 890
Financial liabilities	**513 100**	**-**	**19 210**	**493 890**	**513 100**

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 amortized cost	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)	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

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 31 – ACTIVITY RISK MANAGEMENT

Banco 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 outsourced 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 honor 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 analyzed 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 analyzed as follows:

(thousands of Euros)

	31.12.2017	**31.12.2016**
Deposits with and loans and advances to banks	351 384	358 061
Available-for-sale financial assets	80 335	36 029
Loans and advances to customers	159 727	135 867
Other assets	2 663	4 401
Guarantees and standby letters	169 245	108 518
Irrevocable commitments	1 406	1 668
	764 760	**644 544**

For financial assets recognized 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 past due. If the value of the collateral, net of haircuts equals or exceeds the exposure, the impairment may be nil.

As at 31 December 2017 and 2016, the breakdown by class of financial asset based on the respective credit quality is presented as follows:

(thousands of Euros)

	31.12.2017					
	Neither past due nor impaired	Past due but not impaired	Impaired	Total exposure	Impairment	Net exposure
Deposits with and loans and advances to banks	351 384	-	-	351 384	-	351 384
Available-for-sale financial assets	80 335	-	-	80 335	-	80 335
Bonds issued by government and other public entities	*41 187*	-	-	41 187	-	41 187
Bonds issued by other entities	*39 148*	-	-	39 148	-	39 148
Loans and advances to customers	160 351	16	1 449	161 816	(2 089)	159 727

(thousands of Euros)

	31.12.2016					
	Neither past due nor impaired	Past due but not impaired	Impaired	Total exposure	Impairment	Net exposure
Deposits with and loans and advances to banks	358 061	-	-	358 061	-	358 061
Available-for-sale financial assets	36 029	-	-	36 029	-	36 029
Bonds issued by government and other public entities	*29 978*	-	-	29 978	-	29 978
Bonds issued by other entities	*6 051*	-	-	6 051	-	6 051
Loans and advances to customers	135 834	618	1 876	138 328	(2 461)	135 867

The following table shows the assets that are impaired or past due without impairment, disaggregated by the respective maturity or seniority (if they are past due):

(thousands of Euros)

	31.12.2017					
	Available-for-sale financial assets - debt instruments		Deposits with and loans and advances to banks		Loans and advances to customers	
	Past due but not impaired	Impaired	Past due but not impaired	Impaired	Past due but not impaired	Impaired
Past due						
Up to 3 months	-	-	-	-	14	7
3 months to 1 year	-	-	-	-	1	66
1 to 3 years	-	-	-	-	1	554
3 to 5 years	-	-	-	-	-	273
More than 5 years	-	-	-	-	-	460
	-	**-**	**-**	**-**	**16**	**1 360**
Due						
3 months to 1 year	-	-	-	-		3
1 to 3 years	-	-	-	-	-	19
3 to 5 years	-	-	-	-	-	41
More than 5 years	-	-	-	-	-	26
	-	**-**	**-**	**-**	**-**	**89**
	-	**-**	**-**	**-**	**16**	**1 449**

(thousands of Euros)

	31.12.2016					
	Available-for-sale financial assets - debt instruments		Deposits with and loans and advances to banks		Loans and advances to customers	
	Past due but not impaired	Impaired	Past due but not impaired	Impaired	Past due but not impaired	Impaired
Past due						
Up to 3 months	-	-	-	-	616	110
3 months to 1 year	-	-	-	-	1	311
1 to 3 years	-	-	-	-	1	331
3 to 5 years	-	-	-	-	-	224
More than 5 years	-	-	-	-	-	312
	-	**-**	**-**	**-**	**618**	**1 288**
Due						
3 months to 1 year	-	-	-	-	-	104
1 to 3 years	-	-	-	-	-	383
3 to 5 years	-	-	-	-	-	89
More than 5 years	-	-	-	-	-	12
	-	**-**	**-**	**-**	**-**	**588**
	-	**-**	**-**	**-**	**618**	**1 876**

In relation to assets that are not past due or impaired, the distribution by rating level is presented below. For debt instruments, the rating attributed by the Rating agencies are considered, for loans and advances to customers and for cash and cash equivalents and investments in credit institutions the internal rating and scoring models are used, based on which a risk rating is attributed that is reviewed periodically. For the purpose of presenting the information, the ratings were aggregated into five large risk groups, with the last group including unrated exposures.

(thousands of Euros)

	31.12.2017					
	Prime + High grade	Upper Medium grade	Lower Medium grade	Non-investment Grade Speculative + Highly speculative	Remaining	Total
Deposits with and loans and advances to banks	-	-	-	-	351 384	351 384
Available-for-sale financial assets	-	-	41 187	-	39 148	80 335
Bonds issued by government and other public entities	-	-	41 187	-	-	41 187
Bonds issued by other entities	-	-	-	-	39 148	39 148
Loans and advances to customers	490	83 018	25 536	13 261	38 046	160 351

(thousands of Euros)

	31.12.2016					
	Prime + High grade	Upper Medium grade	Lower Medium grade	Non-investment Grade Speculative + Highly speculative	Remaining	Total
Deposits with and loans and advances to banks	-	-	-	-	358 061	358 061
Available-for-sale financial assets	-	-	-	29 978	6 051	36 029
Bonds issued by government and other public entities	-	-	-	29 978	-	29 978
Bonds issued by other entities	-	-	-	-	6 051	6 051
Loans and advances to customers	329	67 249	16 499	8 903	42 854	135 834

As at 31 December 2017 and 2016, the detail of gross loans and advances to customers and impairment recognized by segment was as follows:

(thousands of Euros)

Segment	31.12.2017													
	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 past due <= 90 days*		Days past due >90 days		Total			
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	25 487	134	4 992	112	30 479	246	-	-	2	2	2	2	30 481	248
Retail	118 741	312	11 139	151	129 880	463	15	9	1 440	1 369	1 455	1 378	131 335	1 841
Total	**144 228**	**446**	**16 131**	**263**	**160 359**	**709**	**15**	**9**	**1 442**	**1 371**	**1 457**	**1 380**	**161 816**	**2 089**

* Loans and advances with principal and/or interest past due 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	31.12.2016													
	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 past due <= 90 days*		Days past due >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 past due 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

As at 31 December 2017 and 2016, the breakdown of the loans and advances to customers portfolio and year of production was as follows:

(thousands of Euros)

Year of production	31.12.2017 Corporate			Retail			Total		
	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2004 and prior	-	-	-	944	955	71	944	955	71
2005	-	-	-	591	440	23	591	440	23
2006	-	-	-	759	488	12	759	488	12
2007	-	-	-	646	1 042	105	646	1 042	105
2008	1	-	-	491	806	188	492	806	188
2009	2	3	-	490	1 186	111	492	1 189	111
2010	2	313	8	998	2 699	194	1 000	3 012	202
2011	5	15	-	1 672	8 962	258	1 677	8 977	258
2012	12	5 134	24	1 131	11 796	424	1 143	16 930	448
2013	12	1 312	5	1 304	10 151	92	1 316	11 463	97
2014	21	2 055	7	929	17 865	84	950	19 920	91
2015	33	5 982	53	837	13 373	56	870	19 355	109
2016	20	4 506	83	647	25 687	94	667	30 193	177
2017	39	11 161	68	594	35 885	129	633	47 046	197
Total	**147**	**30 481**	**248**	**12 033**	**131 335**	**1 841**	**12 180**	**161 816**	**2 089**

(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**

As at 31 December 2017 and 2016, the breakdown of gross loans and advances to customers and impairment assessed individually and collectively, by segment, was as follows:

(thousands of Euros)

	31.12.2017					
	Individual Assessment [1]		Collective Assessment [2]		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	2	2	30 479	246	30 481	248
Retail	1 107	1 095	130 228	746	131 335	1 841
Total	**1 109**	**1 097**	**160 707**	**992**	**161 816**	**2 089**

[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)

	31.12.2016					
	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

Loans analyzed 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 by sector of activity, as at 31 December 2017 and 2016, may be presented as follows:

(thousands of Euros)

	31.12.2017						
	Loans and advances to customers		Financial assets held for trading	Available-for-sale financial assets		Guarantees granted	
	Gross amount	Impairment		Gross amount	Impairment	Gross amount	Impairment
Agriculture, Forestry and Fishery	544	(6)	-	-	-	-	-
Food, Beverages and Tobacco	261	(1)	-	-	-	-	-
Textiles and Clothing	3 998	(4)	-	-	-	-	-
Paper and Printing Industry	61	-	-	-	-	-	-
Chemicals and Rubber	335	-	-	-	-	-	-
Non-metallic Minerals	502	(1)	-	-	-	-	-
Production of Transport Material	75	-	-	-	-	-	-
Construction and Public Works	78	(2)	-	14 978	-	-	-
Wholesale and Retail Trade	3 860	(19)	-	9 225	-	814	(2)
Tourism	2 098	(7)	-	-	-	-	-
Financial Activities	73	-	285	1 435	(167)	168 434	(17)
Real Estate Activities	11 017	(170)	-	-	-	-	-
Services Provided to Companies	5 370	(11)	-	14 944	-	-	-
Public Administration and Services	1 977	(18)	-	41 188	-	-	-
Other community service activities	144	(9)	-	-	-	-	-
Consumer Loans	131 335	(1 841)	-	-	-	-	-
Other	88	-	-	-	-	16	-
TOTAL	**161 816**	**(2 089)**	**285**	**81 770**	**(167)**	**169 264**	**(19)**

(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	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 I	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	2 330	(167)	108 540	(22)
Real Estate Activities	8 293	(107)	-	-	-	-	-
Services Provided to Companies	4 837	(56)	-	-	-	-	-
Public Administration and Services	2 160	(19)	-	29 978	-	-	-
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**	**(22)**

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 as at 31 December 2017 and 2016 are as follows:

(thousands of Euros)

	31.12.2017	31.12.2016
Corporate	1 782	2 639
Retail	1 901	2 164
Total	**3 683**	**4 803**

Below are the details of the restructuring measures applied to restructured loans and advances until 31 December 2017 and 2016:

(thousands of Euros)

Measure	31.12.2017								
	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	9	41	2	3	8	2	12	49	4
Extension of repayment period	3	16	1	11	18	18	14	34	19
Change of the lease payment plan	2	17	-	-	-	-	2	17	-
Other	16	3 466	11	27	117	108	43	3 583	119
Total	**30**	**3 540**	**14**	**41**	**143**	**128**	**71**	**3 683**	**142**

(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**

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)

	31.12.2017				31.12.2016			
	December	Period average	Maximum	Minimum	December	Period average	Maximum	Minimum
Exchange risk	20.08	45.18	115.30	15.39	149.04	69.26	149.04	21.49
Interest rate risk	0.24	0.39	0.05	0.86	0.05	0.03	0.07	0.02
Shares and commodities	2.62	1.43	-	2.16	-	-	-	-
Volatility	0.05	0.06	-	0.00	-	-	-	-
Diversification effect	-2.93	-1.64	-0.07	-2.73	-0.04	-0.03	-0.00	-0.06
Total	**20.05**	**45.42**	**115.28**	**15.68**	**149.05**	**69.27**	**149.10**	**21.45**

As at 31 December 2017, BEST has a VaR of Euros 20 thousand (31 December 2016: Euros 149 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)

	31.12.2017						
	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	350 357	-	111 368	43 335	187 899	7 755	-
Loans and advances to customers	161 261	-	77 411	61 809	15 672	5 177	1 192
Securities	80 539	1 268	39 147	367	-	27 931	11 826
Total			**227 926**	**105 511**	**203 571**	**40 863**	**13 018**
Deposits from banks	19 209	-	19 209	-	-	-	-
Due to customers	488 334	-	268 145	37 443	35 956	146 790	-
Total			**287 354**	**37 443**	**35 956**	**146 790**	**-**
Balance sheet GAP (Assets - Liabilities)	83 346		(59 428)	68 068	167 615	(105 927)	13 018
Off-Balance sheet	-		-	-	-	-	-
Structural GAP	**83 346**		**(59 428)**	**68 068**	**167 615**	**(105 927)**	**13 018**
Accumulated GAP			**(59 428)**	**8 640**	**176 255**	**70 328**	**83 346**

(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**

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 50 b.p..

(thousands of Euros)

	31.12.2017				31.12.2016			
	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	(373)	373	543	(543)	(144)	144	623	(623)
Average for period	119	(119)	550	(550)	(28)	28	545	(545)
Maximum for period	1 046	(1 046)	821	(821)	(189)	189	623	(623)
Minimum for period	(282)	282	399	(399)	68	(68)	424	(424)

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 2017 and 2016:

(thousands of Euros)

	31.12.2017			31.12.2016		
	Average balance for period	Interest for period	Average interest rate	Average balance for period	Interest for period	Average interest rate
Monetary assets	344 619	3 930	1.12%	309 615	3 699	1.18%
Loans and advances to customers	149 242	3 021	2.00%	141 904	3 462	2.40%
Securities	52 939	936	1.74%	30 711	494	1.58%
Differential applications	-	-	-	-	-	-
Financial assets	**546 800**	**7 887**	**1.42%**	**482 230**	**7 655**	**1.56%**
Monetary liabilities	18 747	2	0.01%	22 512	1	0.00%
Due to customers	458 211	1 030	0.22%	394 981	1 101	0.27%
Differential liabilities	69 842	-	-	64 737	-	-
Financial liabilities	**546 800**	**1 032**	**0.19%**	**482 230**	**1 102**	**0.22%**
Net interest income		**6 855**	**1.24%**		**6 553**	**1.34%**

Regarding foreign exchange risk, the breakdown of assets and liabilities by currency, as at 31 of December of 2017 and 2016, is analyzed as follows:

(thousands of Euros)

		31.12.2017			31.12.2016		
		Spot	Forward	Net exposure	Spot	Forward	Net exposure
USD	UNITED STATES DOLLAR	514	-	514	3 130	49	3 179
GBP	GREAT BRITAIN POUND	(120)	-	(120)	327	-	327
DKK	DANISH KRONE	36	-	36	126	-	126
JPY	JAPANESE YEN	77	-	77	431	-	431
CHF	SWISS FRANC	105	-	105	230	-	230
SEK	SWEDISH KRONE	60	-	60	105	-	105
NOK	NORWEGIAN KRONE	28	-	28	82	-	82
CAD	CANADIAN DOLLAR	69	-	69	263	-	263
AUD	AUSTRALIAN DOLLAR	90	-	90	133	-	133
PLN	POLISH ZLOTY	25	-	25	23	-	23
TRY	TURKISH LIRA	24	-	24	8	-	8
	OTHER	54	-	54	171	-	171
		962	**-**	**962**	**5 029**	**49**	**5 078**

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 minimized 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, specific reports are prepared that allow for the identification of negative mismatches, permitting their dynamic coverage.

(thousands of Euros)

	31.12.2017						
	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	350 358	44 695	56 673	10 000	43 335	187 899	7 755
Loans and advances to customers	159 899	218	463	2 836	2 960	1 582	151 840
Securities	78 887	-	-	39 147	-	-	39 739
Other net assets	(26)	(26)	-	-	-	-	-
Off-balance sheet (Commitments and Derivatives)	240	-	-	228	12	-	-
Total		**44 887**	**57 136**	**52 211**	**46 307**	**189 481**	**199 334**
LIABILITIES							
Deposits from banks, Central Banks and Other loans	19 209	19 209	-	-	-	-	-
Due to customers	488 333	35 360	4 947	9 828	2 121	162	435 915
Other short-term liabilities	10 606	10 606	-	-	-	-	-
Off-balance sheet (Commitments and Derivatives)	277	-	-	226	29	21	-
Total		**65 175**	**4 947**	**10 054**	**2 150**	**183**	**435 915**
GAP (Assets - Liabilities)		**(20 288)**	**52 189**	**42 157**	**44 156**	**189 299**	
Accumulated GAP		**(20 288)**	**31 901**	**74 058**	**118 215**	**307 514**	
Net Assets Buffer > 12 months							**35 466**

(thousands 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	355 967	68 821	-	20 000	147 846	100 000	19 300
Loans and advances to customers	135 890	304	217	2 345	1 835	1 851	129 338
Securities	35 047	-	-	-	-	1 054	33 992
Other net assets	(20)	(20)	-	-	-	-	-
Off-balance sheet (Commitments and Derivatives)	169	-	-	164	5	-	-
Total		**69 105**	**217**	**22 509**	**149 686**	**102 905**	**182 630**
LIABILITIES							
Deposits from banks, Central Banks and Other loans	15 529	15 529	-	-	-	-	-
Due to customers	439 788	46 209	3 724	7 761	1 590	270	380 234
Other short-term liabilities	5 982	5 982	-	-	-	-	-
Off-balance sheet (Commitments and Derivatives)	76 346	-	-	175	13	23	76 135
Total		**67 720**	**3 724**	**7 936**	**1 603**	**293**	**456 369**
GAP (Assets - Liabilities)		**1 385**	**(3 507)**	**14 573**	**148 084**	**102 613**	
Accumulated GAP		**1 385**	**(2 122)**	**12 451**	**160 535**	**263 147**	
Net Assets Buffer > 12 months							**25 378**

The one year cumulative gap went from Euros 263 147 thousand on 31 December 2016 to Euros 307 691 thousand on 31 December 2017, remaining at a very positive amount and reflecting the liquidity of the Bank's assets.

Additionally, and considering the importance of liquidity risk management, the regulatory legislation includes a Liquidity Coverage Ratio (LCR) and a Net Stable Funding Ratio (NSFR). The LCR aims to promote the resilience of banks to short-term liquidity risk by ensuring that these hold liquid assets of a high quality, in sufficient value to survive a severe stress scenario over a period of 30 days, whilst the NSFR aims to ensure that banks maintain a stable funding for their off-balance sheet assets and operations, for a period of one year.

According to the regulatory legislation in force, BEST was obliged to comply with the minimum level, in 2017, of 80% in terms of LCR and a minimum of 100% in 2018. The Bank continues to follow the regulatory changes in order to comply with all the obligations, namely the implementation of the NSFR and respective limit.

Operational risk

Operational risk represents the risk of losses, on results or equity, resulting from failures or weaknesses in internal procedures, information systems, and human behavior 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 standardizing, systematizing and regulating the frequency of actions with the objective of identifying, monitoring, controlling and mitigating said risk. The system is supported at organizational 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 Commission 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.

Currently, under the new Basel III 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, realized 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 as at 31 December 2017 and 2016:

(thousands of Euros)

		31.12.2017 (*)	31.12.2016
A - Own Funds			
Realized ordinary share capital, Share premiums, Treasury stock		62 992	62 992
Eligible Reserves and Results (excluding fair value reserves)		8 535	8 259
Intangible assets		-	(49)
Actuarial deviations with post-employment responsibilities with a prudential impact		-	-
Fair value reserves with a prudential impact		858	(31)
Other		(75)	(151)
Common Equity Tier I / Core Tier I	**(A1)**	**72 310**	**71 020**
Preference and Hybrid shares		-	-
Other		-	-
Tier I	**(A2)**	**72 310**	**71 020**
Eligible subordinated debt		-	-
Other		-	-
Tier II		**72 310**	**71 020**
Deductions		**-**	**-**
Eligible Own Funds	**(A3)**	**72 310**	**71 020**
B- Risk Weighted Assets	**(B)**	**212 750**	**168 243**
C- Prudential Ratios			
Common Equity Tier I / Core Tier 1	**(A1 / B)**	**34.0%**	**42.2%**
Tier 1	**(A2 / B)**	**34.0%**	**42.2%**
Solvency	**(A3 / B)**	**34.0%**	**42.2%**

* Provisional figures

During financial years 2017 and 2016, the Bank complied with the capital ratios imposed by the Bank of Portugal.

NOTE 32 – IMPACT OF THE ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARD 9 – FINANCIAL INSTRUMENTS

On 24 July 2014, in response to the challenge posed by the G20 following the global financial crisis, the International Accounting Standards Board (IASB) issued the final version of IFRS 9 - Financial Instruments (“IFRS 9”). This new standard applies to annual periods beginning on or after 1 January 2018 and will replace IAS 39 - Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 incorporates significant changes to IAS 39 essentially at 3 levels: (i) new rules for the classification, recognition and measurement of financial assets in accordance with the business model of the Bank and the characteristics of the contractual cash flows of these assets; (ii) new concepts in the methodology and measurement of impairment of financial assets, calculated on an expected loss basis ("ECL" – Expected Credit Loss); and (iii) new hedge accounting requirements more aligned with entities' risk management practices.

a) Classification and measurement of financial assets

The criteria for the classification of financial assets will depend both on the business management model and on the characteristics of the contractual cash flows of these assets. Consequently, the asset can be measured at amortized cost, at fair value with changes recognized in equity (revaluation reserves) or in the income statement (results of assets and liabilities at fair value through profit or loss), depending on the business model in which it is inserted and the characteristics of the contractual cash flows. In addition, IFRS 9, in line with IAS 39, also establishes the option to, under certain conditions, designate a financial asset at fair value with changes being recognized in the income statement.

Currently, given that the main activity of the Bank focuses on the granting of loans, significant changes in the measurement of assets are not expected under IFRS 9 when compared with IAS 39:

1) The generality of the loans and balances receivable from banks and customers will continue to be measured at amortized cost;
2) The generality of the debt instruments classified as available-for-sale will be measured at fair value with changes recognized in other comprehensive income, or measured at amortized cost, depending on the business model defined;
3) The equity instruments are classified and measured at fair value through profit or loss, unless the Bank irrevocably decides, for non-trading assets, to classify these assets at fair value with changes recognized in other comprehensive income. This irrevocable classification will imply that, on the disinvestment/realization of such financial assets, the amounts recognized in equity are not recycled to the income statement.

The classification and measurement of financial liabilities under IAS 39 remains substantially the same under IFRS 9. However, it should be noted that, in most situations, changes in the fair value of financial liabilities designated at fair value through profit or loss, arising from the entity's own credit risk, will be recognized in equity (other comprehensive income).

b) Expected Credit Impairment Loss Model

The expected credit impairment loss model recommended by IFRS 9 is applicable to all financial assets valued at amortized cost, to financial assets equivalent to debt instruments valued at fair value with changes recognized in equity (other comprehensive income), to receivables from leasing and to financial guarantees and credit commitments not measured at fair value.

The most significant change of this new standard is the introduction of the expected loss concept to the detriment of the incurred loss concept on which the Bank's current impairment model is based to meet the requirements of IAS 39. This conceptual change is introduced together with new classification and measurement requirements of expected credit impairment losses, with financial assets subject to impairment being required to be classified into different stages depending on the evolution of their credit risk as from the date of initial recognition and not in relation to credit risk at the reporting date:

- "Stage 1": financial assets are classified in stage 1 whenever there is no significant increase in credit risk as from the date of their initial recognition. For these assets, the expected credit impairment loss resulting from non-performing events during the 12 months subsequent to the reporting date will be recognized in the income statement for the year;
- "Stage 2": financial assets for which there has been a significant increase in credit risk as from the date of their initial recognition are classified in stage 2. For these financial assets, expected credit impairment losses are recognized over the assets' lifetime. However, interest will continue to be calculated on the gross amount of the asset; and
- "Stage 3": assets classified in this stage present objective evidence of impairment, on the reporting date, as a result of one or more events that have already occurred and that have resulted in a loss. In this case, the expected credit impairment loss for the expected residual life of the financial assets will be recognized in the income statement for the financial year. Interest is calculated on the net book value of the assets.

The significant increase in credit risk is to be determined by analyzing the quantitative and/or qualitative internal indicators used by the Bank in the course of the normal management of credit risk, thereby imposing a stronger link between the accounting requirements and the credit risk management policies established by the Bank. It should, however, be noted that IFRS 9 contains the rebuttable presumption that a default occurs when the asset is in arrears over 90 days (stage 3), as well as the rebuttable assumption that there is a significant increase in credit risk in respect of arrears exceeding 30 days (stage 2).

According to this new model recommended by IFRS 9, the measurement of expected losses will also require the inclusion of forward looking information, including future trends and scenarios, namely macroeconomic data. In this context, estimates of expected credit impairment losses will include multiple macroeconomic scenarios which probability will be evaluated considering past events, the current situation and future macroeconomic trends, such as GDP, the unemployment rate, amongst others.

With regard to credit impairment, compared with IAS 39, the Bank currently forecasts that the overall amount of these provisions will increase with the initial adoption of IFRS 9, essentially due to the requirement to (i) initially recognize expected credit losses for 12 months and to (ii) recognize credit losses for the remaining life in loans assets that are significantly impaired but not yet in default, namely in portfolios with greater maturity.

For more material portfolios, the Bank expects to adopt credit modeling approaches in the measurement of expected credit losses, leveraging, whenever possible, on the Bank's existing models. For the remaining portfolios, and depending on the materiality of each portfolio, the Bank expects to develop new models or use simplified approaches.

c) Hedge accounting

IFRS 9 includes new requirements for hedge accounting that have two main objectives: (i) the simplification of current needs and (ii) the alignment of hedge accounting with entity risk management. The Bank is currently considering the possibility of maintaining the application of IAS 39 until further clarifications on the IASB macro hedge project.

d) Estimated impacts on equity

The main impact estimated by the Bank as at 1 January 2018 due to the introduction of IFRS 9 derives, fundamentally, from the increase in impairment provisions of all financial instruments (namely in the loans and advances to customers and available-for-sale financial assets portfolios). It should be pointed out, however, that the credit impairment model continues to be the subject of internal and external validation, and that the Bank, at the present date, is completing with greater rigor a review of said impact.

Bank Implementation Strategy

Since 2016, NOVO BANCO defined a global work structure aimed at adapting its internal processes to the rules contained in IFRS 9, making sure that these are, simultaneously, uniformly applied in all the Group's subsidiaries and adapted to their individual characteristics.

Regarding the governance structure of the IFRS 9 implementation project, the Bank has created a Committee responsible for overseeing this project, as well as assuring that all areas relevant to this project are involved for the success of same. This way, the Department of Accounting, Consolidation and Taxation, the Department of Treasury and Finance, the Department of Global Risk, and the Department of Information Systems are involved in this Committee. Whenever found necessary, other departments of the Bank are involved in the project.

NOTE 33 – RECENTLY ISSUED ACCOUNTING STANDARDS AND INTERPRETATIONS

The standards presented below became effective as from 1 January 2017. None of the standards had a material impact on the financial statements of the Bank, with same having been incorporated in the Bank's financial statements with reference to 31 December 2017:

IAS 7 (amendment), 'Revision of disclosures' (to be applied as from the annual periods beginning on or after 1 January 2017). 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.

IAS 12 (amendment), 'Income tax – Recognition of deferred tax assets on unrealized losses' (to be applied as from the annual periods beginning on or after 1 January 2017). This amendment clarifies how to account for deferred tax assets related to assets measured at fair value, how to estimate future taxable profits when there are deductible timing differences and how to evaluate the recoverability of deferred tax assets when there are restrictions in the tax legislation.

The standards (new and amendments) set out below have already been published, endorsed by the European Union and their application is mandatory as from the annual periods beginning on or after 1 January 2018. However, none of the standards set out below have been adopted in advance by the Bank:

IFRS 9 (new), 'Financial instruments' (to be applied as from the annual periods beginning on or after 1 January 2018). IFRS 9 replaces the requirements of IAS 39 in respect of: (i) the classification and measurement of financial assets and liabilities; (ii) the recognition of impairment of amounts receivable (through the expected loss model); and (iii) the requirements for the recognition and classification of hedge accounting. See detail of the impacts of the standard in Note 32.

IFRS 15 (new), 'Revenue from contracts with customers' (to be applied as from the annual periods beginning on or after 1 January 2018). This new standard applies only to contracts for the delivery of products or services, and requires an entity to recognize revenue when the contractual obligation to deliver assets or services is satisfied and in the amount that reflects the consideration to which the entity has the right, as provided for in the "5 steps methodology". A material impact is not expected as a result of the adoption of this standard.

IFRS 16 (new), 'Leases' (to be applied as from the annual periods beginning on or after 1 January 2019). This new standard replaces IAS 17, with a significant impact on the accounting by lessees that are now obliged to recognize 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". A material impact is not expected as a result of 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). These changes refer to the additional steps to be followed to determine the performance obligations of a contract, at the time of the revenue recognition of an intellectual property license, the review of the indicators for the classification of the principal versus agent relationship, and the new regimes foreseen to simplify the transition. A material impact is not expected as a result of the adoption of this standard.

The standards (new and amendments) and interpretations already published, presented below, are mandatory as from the annual periods beginning on or after 1 January 2018; however, the European Union has not yet endorsed them. Materially relevant impacts are not expected as a result of the future adoption of these standards and interpretations:

Standards

Improvements to standards 2014 – 2016, (to be applied, in general, for periods beginning on or after 1 January 2017). This cycle of improvements affects the following standards: IFRS 1, IFRS 12 and IAS 28.

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 payment plan that change its classification from cash-settled to equity-settled. In addition, it introduces an exception to the principles of IFRS 2, which require that a shared-based payment plan be treated as if it were fully equity-settled when the employer is required to withhold an amount from the employee and pay it over to the tax authority.

IFRS 9 (amendment), 'Prepayment elements with negative compensation' (to be applied as from the annual periods beginning on or after 1 January 2019). This amendment is still subject to endorsement by the European Union. This amendment introduces the possibility of classifying financial assets with prepayment conditions with negative compensation at amortized cost, provided that specific conditions are met, instead of being classified at fair value through profit or loss.

IAS 28 (amendment), 'Long-term investments in associated companies and joint ventures' (to be applied as from the annual periods beginning on or after 1 January 2019). This amendment is still subject to endorsement by the European Union. This amendment clarifies that long-term investments in associated companies and joint ventures (components of an entity's investment in associated companies and joint ventures), which are not being measured using the equity method, are accounted for according to IFRS 9, being subject to the estimated impairment loss model, prior to any impairment test of the investment as a whole.

Improvements to standards 2015 – 2017, (to be applied as from the annual periods beginning on or after 1 January 2019). This cycle of improvements is still subject to endorsement by the European Union. This cycle of improvements affects the following standards: IAS 23, IAS 12, IFRS 3 and IFRS 11.

Interpretations

IFRIC 22 (new), 'Foreign currency operations and advance consideration' (to be applied as from annual periods beginning on or after 1 January 2018). This interpretation is still subject to endorsement by the European Union. This is an interpretation of IAS 21 'The effects of changes in exchange rates' and refers to the determination of the “transaction date” when an entity pays or receives in advance the consideration of contracts denominated in foreign currency. The "transaction date" determines the exchange rate to be used to convert the transactions into foreign currency.

IFRIC 23 (new), 'Uncertainty over the treatment of income tax' (to be applied for annual periods beginning on or after 1 January 2019). This interpretation is still subject to endorsement by the European Union. This is an interpretation of IAS 12 - 'Income tax', referring to the measurement and recognition requirements to be applied when there is uncertainty as to the acceptance of a certain tax treatment by the tax authorities in respect of income tax. In the event of uncertainty as to the position of the tax authority on a specific transaction, the entity shall make its best estimate and record the income tax assets or liabilities under IAS 12, rather than IAS 37 - "Provisions, contingent liabilities and contingent assets ", based on the expected amount or the most probable amount. The application of IFRIC 23 may be of retrospective or retrospective modified application.

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 2017 financial year.

I. BUSINESS MODEL

1. Description of the business model

In the introduction and in chapter "II – Operations in 2017" 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 2017" and "V – Outlook" of the Management Report. The Bank neither realized any debt securities issue nor any securitization operation until 31 December 2017.

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

In chapter "II – Operations in 2017" 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 31 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 the monitoring and control of same.

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. Between 2015 and 2017, this situation was stabilized, with Portugal having exited the assistance program.

12. Breakdown of the write-downs between realized and unrealized

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 31 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 2017.

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 stabilized and improved significantly in 2012 and 2013, reaching a point of stability between 2014 and 2017.

Banco Best's exposure to public debt of the affected countries (Portugal, Spain, Greece and Ireland) was limited solely to Portugal, in an amount, as at 31 December 2017, of Euros 40.1 million, intended to guarantee the Bank's liabilities in respect of the FGD and SII and the maintenance of the LCR ratio at the regulatory level. These securities had an associated positive fair value reserve totaling Euros 1 196 thousand in December 2017.

19. Movements in the exposures between financial years

Notes 14, 15, 16, 30 and 31 disclose relevant information on the Bank's exposures, comparing the market exposures as well as the results with reference to financial years 2017 and 2016. The information therein contained is considered sufficient, considering the detail and quantification presented and the fact that no events of material relevance occurred in 2017.

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 MEASUREMENT METHODS

22. Structured products

These situations are covered in Note 2 – Main Accounting Policies.

23. Special Purpose Entities (SPE) and consolidation

The Bank neither realized any debt securities issue nor any securitization operation until 31 December 2017.

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 considering, 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 Financial Reporting Standards (IFRS) which confer 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 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.
2. 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);
3. The Remuneration policy of the members of the governing bodies of BEST approved at the General Meeting of 30 April 2015 was revoked;
4. That the new Remuneration policy of the members of the governing bodies of BEST will be decided on the next General Meeting to be held in 2018 following the Policy dated 27 March 2018 "Remuneration Policy for Management and Supervisory Bodies" approved on the General Meeting of NOVO BANCO. On the next Banco Best General Meeting the collective evaluation of the Governing Bodies as well as the nomination of the new Directors will be decided. For the General Meeting information, the Remuneration policy of the Executive Managers was approved on the Board Meeting of 16 March 2018.

NOVO BANCO proposes:

a) That, during 2017, no variable remuneration be paid to the members of the governing bodies both with reference to this year or deferred from previous years;

1. Payments made in 2017 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 2017. The remuneration of the members of the Executive Commission in financial year 2017 includes the fixed remuneration, paid in 14 instalments - or during the period of the year they exercised their functions at BEST - and the complements that are granted to all employees of Banco Best, such as seniority or other subsidies. Isabel Maria Ferreira Possantes Rodrigues Cascão (Banco Best CEO until the end of January 2017) earned a remuneration of Euros 32 264. Maria Madalena Monteiro de Mata Torres Pitta e Cunha, current Banco Best CEO earned a remuneration of Euros 36 204. Marília Boavida Correia Cabral earned a remuneration of Euros 141.070. Pedro Alexandre Lemos Cabral das Neves earned a remuneration of Euros 128 426.

b) Supervisory Board

The members of the Supervisory Board did not receive any variable remuneration in 2017. António Joaquim Andrade Gonçalves received a fixed remuneration in attendance fees of Euros 5 250, Isabel Maria Beja Gonçalves Novo received a fixed remuneration in attendance fees of Euros 3 500 and Fernando Jorge Henrique Bernardo also received a fixed remuneration in attendance fees of Euros 3 500.

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 based 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 organizational 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 management policies, and taking in consideration the strategic goals of the Bank.

3. Composition of the Board of Directors

The current composition of the Board of Directors is as follows: António Manuel Palma Ramalho, Maria Madalena Monteiro da Mata Torres Pitta e Cunha, Marília Boavida Correia Cabral, Pedro Alexandre Lemos Cabral das Neves, Jorge Daniel Lopes da Silva, Carlos Manuel Portela Enes Epifânio and Luís Fernando Rocha dos Reis.

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 21% 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 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 21% 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 (IGS) associated with each business area and according to the attainment level of the main goals approved by the Board of Directors. 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 21%; 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 carried out in the Portuguese market, with a business strategy focused mainly on the market segment of affluent Personal 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 or the Bank'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; and 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; and 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 attributed 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 2017

The remuneration paid to the Executive Managers and to employees in control positions in respect of financial year 2017 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 879 671 and a variable remuneration of Euros zero. Detailing by main business areas, the three Executive Managers of the commercial areas received a global fixed remuneration of Euros 218 150. The nine Executive Managers allocated to the central services areas and employees in control positions received a global fixed remuneration of Euros 661 521.

Statutory Audit Report - PWC

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 balance sheet as at 31 December 2017 (which shows total assets of Euros 596,890 thousand and total shareholders' equity of Euros 75,612 thousand, including a net income of Euros 3,014 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 that include a summary of the 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 2017, 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.

Bases 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. We consider that the matters described below are the key audit matters to communicate in this report.

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 31 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 2017, the gross amount of the caption Loans and advances to customers ascends to Euros 161,816 thousand and the impairment losses as at that date amount to Euros 2,089 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. Specifically: • 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 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	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, the procedures and controls tested covered those related to: (i) the timely identification of customers with indications of impairment or in default; (ii) the impairment model calculation process 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 analyzed 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 recognized by Management. As regards the customers individually analyzed by the Bank, for a representative sample of the loans and advances to customers portfolio as at 31 December 2017, the procedures carried out consisted of: (i) reviewing the documentation associated with the loans and advances granting process; (ii) analyzing the contractual support and the most relevant collateral and confirming the registration of said collateral in favor of the Bank; (iii) questioning the valuations of the collateral

Key audit matters	Summary of the audit approach
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. With the entry into force of IFRS 9 - Financial instruments, for the years beginning on or after 1 January 2018, the Bank initiated during the year 2017 a detailed plan for the implementation of this new standard, bearing in mind that the new rules apply retrospectively as from that date, even though the respective comparative balances are not restated. The implementation of IFRS 9 introduces a set of new requirements and it is expected that most of its impacts will be derived from the measurement and recognition of impairment of financial assets, to be determined through an expected loss model to the detriment of the model of incurred losses underlying IAS 39.	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 2017; (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). With regard to the implementation of IFRS 9 "Financial instruments", we have followed up and challenged the action plan the Bank currently has underway, with the main focus being on the measurement and recognition of impairment of loans and advances. In this sense, we have developed, amongst others, the following procedures: • Regular meetings with Management

Key audit matters	*Summary of the audit approach*
	and with the main persons responsible for the implementation plan to understand and monitor the timing, scope and depth of the work planned and the progress already achieved; • Understanding the areas where a greater impact from the implementation is expected as at 1 January 2018, bearing in mind the accumulated knowledge we have of the activities and practices of the Bank; • Reading and analysis of the relevant documentation prepared by the Bank, including the preliminary assessment of the expected impacts. In addition, our auditing procedures also included a review of the disclosures related to the loans and advances to customers portfolio and respective impairment losses in the accompanying notes, considering for the purpose the applicable accounting standards.

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 the 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 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 skepticism 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 the 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, as well as that the non-financial information has been presented.

Report on other legal and regulatory requirements

On the Management Report

In compliance with paragraph 3 e) of Article 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 in force, 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.

On the additional information required in Article 10 of the Regulation (EU) 537/2014

In accordance with Article 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. In the planning and execution of our audit in accordance with IASs we have maintained professional skepticism and designed audit procedures 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 24 April 2018.

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.

24 April 2018

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

Carlos José Figueiredo Rodrigues, R.O.C.

REPORT AND OPINION OF THE SUPERVISORY BOARD

BEST - Banco Electrónico de Serviço Total, S.A.
Financial period 2017

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

1. In accordance with the legal and statutory provisions, we present for your assessment our report on the supervisory activity carried out by the Supervisory Board, as well as our opinion on the management report and proposed appropriation of results that the Board of Directors of BEST - Banco Electrónico de Serviço Total, S.A. (Bank) presented in respect of the financial year ended on 31 December 2017 and, also, our assessment of the respective statutory audit report issued by the statutory audit firm.

2. The Supervisory Board carried out with regularity the functions attributed to it, having performed the verifications it considered convenient, attending periodic meetings and assessing the accounting elements that were regularly made available to it, as well as the supplementary explanations that were given to same by the Board of Directors. To the effect, we met regularly with the Board of Directors of the Bank, as well as with the persons responsible for the relevant areas, namely risk management, compliance, accounting and corporative internal audit.

3. The order of the accounting records was verified as was the process for the monitoring and accompanying of the Bank's activity, with those responsible for the operational areas having met with the Supervisory Board, presented the main trends and evolutions occurring at the level of the activity developed and the results obtained. We verified the compliance with the law and the articles of association.

4. In order to guarantee an adequate supervision of the effectiveness of the risk management system, of the internal control system and of the internal audit system, the Supervisory Board met with: (i) those responsible for the Internal Audit Department of the Group, given that it consists of a corporative function; (ii) those responsible for the area identifying and monitoring the risk system and compliance; and (iii) the external auditors, having taken note of the results of the work carried out. No situations were communicated to us of abnormal risks or significant weaknesses in the internal control system.

We verified that in the course of the present financial year special attention continued to be given to the monitoring of the activity developed by the Bank and to the management of operational risk.

5. The Supervisory Board reviewed the accounting policies and valuation criteria adopted by the Bank which aim to ensure the presentation of a true and fair view of the financial position and of the results of its operations. In addition, the Supervisory Bard accompanied the process of the preparation and disclosure of the financial information, with same being adequate.

6. We met with the Bank's Statutory Auditor, having taken note of the results of the work carried out in the different phases of the audit work, namely the risks identified in the planning phase and the response to same conceived by the audit team, the planned audit tests, the work carried out and the respective conclusions. The Statutory Auditor accompanied the process of the preparation and presentation of the financial statements of the Bank, having made the Supervisory Board aware of its conclusions on and agreement with the documents prepared by the Board of Directors.

   The Statutory Auditor, through the Report addressed to the Supervisory Board, communicated the relevant aspects of the work carried out and respective conclusions.

   We understood the Statutory Audit Report on the financial statements for financial year 2017 issued by the statutory audit firm, without any qualifications or emphases, and with which we agree.

   It is the understanding of the Statutory Auditor that the key matter of the audit was the impairment losses of loans and advances to customers. In this area, the audit procedures and tests considered relevant under the circumstances were carried out.

   We verified the independence of the Statutory Auditor for the exercising of the functions, with same meeting the necessary independence requirements.

7. We assessed the management report and the financial statements of the Bank that were presented to us by the Board of Directors. The management report complies with the legal and statutory provisions, referring the more relevant aspects of the activity during the financial year. The financial statements were prepared in accordance with the accounting

referential in force, with the main accounting principles and valuation criteria adopted being adequate and allowing for same to present a true and fair view of the financial position and of the results of the Bank.

The provisions for other risks and charges, as at 31 December 2017, aim, primarily, to cover for potential losses arising from legal suits brought against the Bank, currently in progress. The amount of the provision was determined based on information obtained from the Bank's legal counsel.

Opinion

8. As a result of the supervisory actions realized and the assessment of the documents referred to in the previous numbers, the Supervisory Board is of the opinion that the Shareholders' General meeting approve:

a) The Management Report and financial statements and other accountability documents for the financial year ended on 31 December 2017, as presented by the Board;

b) The proposed appropriation of results presented by the Board of Directors.

9. Finally, the Supervisory Board wishes to thank the members of the Board of Directors, the Statutory Auditor and the Employees of the Bank for all the collaboration received during the exercising of its functions.

Lisbon, 24 April 2018

The Supervisory Board

Chairman – António Joaquim Andrade Gonçalves

Member- Isabel Maria Beja Gonçalves Novo

Member – Fernando Jorge Henriques Bernardo