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

2019 Annual Report

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INDEX:

Management Report – 2019

I – Executive Summary

Throughout 2019, the activity of Banco Best was centred on the approval and start of the implementation of the Bank's Strategic Plan for 5 years (framed within the Differentiation axis of the NB Group's Strategic Plan) and on the development of initiatives, of different natures and scopes, in line with BEST's innovative and digital DNA and which allowed for the reinforcement of the Bank's competitive positioning, with a special emphasis on its core business: a digital, open and independent asset management and trading platform.

Within this context, the most relevant initiatives in the various axes are listed in summary form below.

In terms of Innovation, the highlight goes to:

- The launch of a new App, focused on simplifying the customer experience, with a first focus on the banking area, and with a high level of customization (the features are presented as if they were Apps);
- The launch of the first Robot Advisor service in Portugal, under a partnership between BEST and DWS (of the Deutsche Bank group), which allows Customers to have a digital discretionary management with a dynamic management of assets, in a 100% online subscription process that combines automation technologies with the human management experience and which is available for placements as from Euros 50/month;
- The internal development of an own Open Banking platform for PSD2;
- The launch of the sale of electronic equipment insurance 100% assured by BEA, Banco Best's chatbot, which allows for online interaction with Customers and potential Customers of BEST (among the pioneers in Europe);
- The continuity of the project started in 2018, to realize Investment Fund purchase operations with the support of Blockchain technology.

In terms of activity/business development, special mention should be made of:

- The launch of the Best Exclusive segment, aimed at Customers with a net worth exceeding Euros 500 thousand, with dedicated managers, and exclusive spaces and services.

- The reorganization of the commercial area, adjusting the structure to the way the Customer interacts with the Bank and to the respective involvement, leading to a significant reinforcement of the Digital Managers' team;
- The inauguration, at the end of 2019, of the new facilities in Oporto, in Avenida da Boavista, with this constituting an investment on the centrality, quality and functionality of this space dedicated to Customers and Employees.
- New proposals and new partners, of note being the French management entity OFI, the Spanish management entities Fidentiis and March, the Portuguese management entities Optimize and Proteste Investe and the activation of sustainability in the various aspects, environmental, social and governance, with the dynamization of products and initiatives that give voice to this urgent topic at the global level;
- The signing of a protocol with a multinational Group specialized in insurance consultancy and brokerage and risk management, which will allow for the commercialization of a wide and sophisticated range of non-life risk insurance;
- The increase in the online bond Trading offer, and the hiring of a new international stock exchange broker;
- The provision of a new articles and news area curated by Banco Best – Best Zoom on the Bank's website, dedicated to topics related to investments, the economy and market trends and the holding of two conferences for Customers, at the beginning of the year on the Outlook for the markets and at the end of the year on investment in European shares, in both cases carried out in Lisbon but with online streaming;
- The relaunch of the NOVO BANCO Mortgage Loans in BEST's offer, in which BEST acts as an intermediary for linked credit and which also included access to a fully renovated simulator on the BEST website;
- As part of the dynamization of the deposits' offer, reference must be made to the thematic cycles of Time Deposit Auctions, as well as Time Deposit - 18th Anniversary carrying a special rate celebrating this date.

Of note at the technological level were:

- The migration and upgrade of the Bank's core computer systems and applications that support the entire front-end, to the most advanced hardware systems and software versions on the market, in this manner preparing the basic infrastructure for the future;

- In September, a new Customer management commercial platform was made available to the entire commercial network, forming part of the "Client on the Go – 100% mobility" project, which allows for the interaction and management of Customers in any location, accompanying the evolution in the ways in which consumers relate to their Bank;
- The development of an own Open Banking platform, compliant with the requirements for the entry into force of PSD2 and introducing a wide range of new features, such as the new security model and the new more interactive investor profile questionnaire.

The diversified offer made available through an open platform means that 74% of the total amount of Euros 2.1 thousand million of assets under the management of BEST as at 31 December 2019, is represented by disintermediation products or investment funds and securities, and thus being registered off balance sheet. In this year of 2019, it is also worth noting the growing interest of investors in operations placing debt securities' issues on the primary market, as happened with SAD Benfica last May and, in June, with TAP and SIC and, in October, with the PSO and PEO subscriptions of Mota-Engil bonds. The volume of orders placed by Banco Best customers through digital channels for these operations has allowed the Bank to be repeatedly identified as one of the reference players in the market in this area and, consequently, invited to the Placement Unions, fact which attests to the dynamics and functioning of its open architecture platform and its capacity to distribute third-party products.

Banco Best recorded a net income of Euros 2.7 million in 2019, simultaneously maintaining very positive prudential and solvency ratios with a transformation ratio of deposits to loans of 27% and a Core Tier 1 ratio of 44.75%.

II – Introduction

Banco Best, incorporated 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 with 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 allows customers to take advantage of the advantages 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 a segment of individual customers who require more sophisticated and diversified financial services, while at the same time meeting their various financial needs and providing them 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 needs. BEST, through its B2B activity, also makes its customized platform available to national and international Institutional Investors, providing these entities with a more comprehensive, flexible, and effective management of their cash and cash equivalents.

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

Banco Best has its registered office in Lisbon, at Praça Marquês de Pombal, but 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 Pro);
- Investment Centres located in Lisbon, Oporto, Braga, Aveiro, Leiria and Faro, that rely on a Personal Managers' network. The Exclusive Managers are centralized in Lisbon and Oporto, making use of differentiated attendance spaces.
- A Digital Managers' network, a permanent management team providing normal services at a distance, to customers needing once off assistance;
- The Contact Centre (telephonic banking) that in addition to telephonic attendance also intervenes in the opening of accounts via video call in a 100% digital process.

In addition, Banco Best also has a network of promoters and bound agents registered with the Bank of Portugal and the CMVM, called Business Introducers and External Consultants, respectively, that work as service providers in accordance with the relevant legal provisions. Some of these External Consultants have their own physical spaces, known as "Offices", where they develop their business activity as per the applicable legal provisions.

III – Economic Overview

The year 2019 was marked by an increase in political risks, with factors such as trade wars, the Brexit uncertainty, protests in Hong Kong, instability in some Latin American countries, political instability in Italy and Spain, among others, conditioning financial markets. Most likely, some of

these factors will continue to affect the world in 2020 and will constitute risks to be considered by investors for the year now starting. Last year there was also a sharp decline in global economic growth, largely due to the slowdown in global trade, reflecting the slowdown in industry, with a preponderance in Europe and China. The world GDP growth rate dropped to 2.9% last year, a minimum since the Great Recession of 2009, according to the latest forecasts published by the International Monetary Fund (IMF). If that year of global contraction is excluded, the 2019 growth rate is the weakest since 2001, when the world economy grew 2.5%. The world economy slowdown turned out to be greater than that estimated by said institution which, at its annual General Assembly, in October of last year, estimated a growth of 3.0% for the world economy in 2019. The downward revision of economic growth is also reflected in both this year and next year: 3.3% in 2020, below the 3.4% previously forecast and 3.4% for 2021, two tenths below the October forecast.

The automobile sector was perhaps that most affected by the slowdown due to regulatory changes and changes in consumer behaviour. The recession in the industrial sector, and in particular in the automobile sector, affected the German economy, which grew 0.5% in 2019, well below the growth of the last two years (2.8% in 2017 and 1.5% in 2018). The calculations of German economists, according to a study of the Institute for Economic Research at the University of Munich (Ifo), point to an economic growth that is lower in 0.75 percentage points due to the weakness of the automobile sector last year. Overall, the automobile sector accounts for 5% of the German GDP and 3% of the employees who make contributions/pay taxes in Germany, so its weakening is already being reflected in the labour market, with the number of workers, seasonally adjusted, of the automobile sector decreasing 1.3% last year, which compares with a decrease of only 0.2% in the remaining manufacturing industries. For 2020, the scenario may worsen, especially after the job cuts announced by large industrial companies in Germany that will, inevitably, produce consequences in German domestic consumption. Despite not intending to relinquish its budgetary surplus, most analysts estimate that, given a scenario of reduced activity in the largest economy of the Eurozone, a stimulus package may be implemented, probably at the end of the year, when the slowdown becomes noticeable and the country has a more stable political framework. This package may include tax benefits for companies, or even a reduction in social contributions from companies and employees. On the positive side, both private and public consumption resisted reasonably well and were the main drivers of the German GDP growth in 2019.

The great openness to international trade, the increased exposure to Chinese demand and the heavy weight of the automobile sector (especially in Germany) explain the greater vulnerability of the Eurozone for 2020. So much so that the IMF has just revised its growth forecast

downwards for this year in 0.1 p.p. and maintained the forecast for 2021, with the forecasts now being 1.3% for 2020 and 1.4% for 2021. On the part of the European Central Bank (ECB), one verified an accommodative monetary policy with the announcement of a new Quantitative Easing (QE) program and a further reduction of deposit rates to -0.50%, a policy confirmed by its new president Christine Lagarde. At the top of her concerns are the slowdown in economic growth in the Eurozone, the uncertainties of the trade war, the low inflation and, more recently, the effects of the Covid-19 virus on economic activity and investor expectations.

In the United States, the slowdown in investment and exports led to the (somewhat unexpected) change in monetary policy by Jerome Powell, with the FED cutting 75 basis points over this period, in order to mitigate the risks of a further slowdown in economic activity in the short term.

At a later stage in the economic cycle, companies' production costs, such as materials and labour, tend to increase and deteriorate companies' profit margins, potentially increasing the pressure on results. The American economy has revealed itself to be quite dependent on the domestic side, with domestic consumption representing about 70% of the entire economy. As such, as long as the domestic side remains resilient, the US economy is expected to continue its expansion cycle that has lasted for over 10 years. The growth of both services and production is in line with the average of recent years and consumer confidence remains extremely positive, due to increases in household income. The labour market in the US is the most robust it has been in recent decades, with the unemployment rate reaching 3.5% at the end of 2019, the lowest level in the last 50 years. However, employment growth in the manufacturing industry has been stagnating as a result of trade tensions between the US and China. The main sectors responsible for this slowdown are transport, metals, and machinery. If the trend of decreasing new jobs continues, it can lead to an increase in unemployment and, consequently, affect domestic consumption.

The year will also be marked by the presidential elections in the United States that are expected to be polarized, and which may affect the activity of companies and the level of consumer confidence. However, it is well known that both Democrats and Republicans advocate fiscal expansionist policies that will sustain the American economy. For the USA, the IMF forecasts a GDP growth of 2.0% and 1.7% for 2020 and 2021, respectively (the forecast for 2020 was revised downwards in 0.1 p.p. when compared with the October Outlook).

In 2019, the Chinese economy grew by 6.1%. Although slowing down from the 6.6% in 2018 and representing a minimum since 1990, the annual growth of the Chinese economy in 2019 fell within the target range of 6.0%-6.5% defined by the authorities, in line with the objective of a gradual moderation of the productive activity, with a view to achieving a more sustainable

growth pattern (i.e. based more on domestic demand and lower recourse to credit). The robustness of the industrial production in December should be underlined, accelerating from 6.2% to 6.9% on an annual basis, thus exceeding expectations and, therefore, appearing to improve at the end of 2019, which, together with the signing of the trade agreement with the USA, was consolidating the optimism surrounding the evolution of the Chinese economy. However, with the emergence of the Covid-19 virus and the application of strong containment measures, economic activity was significantly constrained in the period following the Chinese New Year, which will, in part, alter the trajectory of the planned gradual moderation of productive activity, with the IMF forecast for China's growth of 6.0%, in 2020, being at risk.

The year 2019 was also marked by multiple foci of instability in different geographies (elections in Argentina, independence demonstrations in Catalonia, drone attack on Saudi Aramco, among others), of note being the escalation of violence in Hong Kong, with long days of violence between the police and protesters, which had a strong impact on economic growth and external relations.

The main equity markets closed the year with a very positive performance, much higher than the drops recorded in the last quarter of 2018, of note being the relative performance of the USA and Europe vis-à-vis the Emerging Countries due to the impact of the trade war on these markets. Considering the year as a whole, the American stock index Dow Jones Industrial Average appreciated 22%, the Nasdaq technological stock index gained 39% and exceeded 9,000 points for the first time, while the S&P 500 (which aggregates the 500 largest companies in the USA in terms of market capitalization) rose 32.4%, which translated into the best performance by these indexes since 2013. These values were well above the average appreciation of the world's stock exchanges, which was 28.5%, as measured by the MSCI World index.

In Europe, stock market gains were also widespread, with an emphasis on the financial markets in Zurich (+31.7%), Milan (+29.7%), but also in Paris (+27.6%) and Frankfurt (+26.3%). The Stoxx600 generalist index gained 23.2%. The Iberian stock exchanges were those that had the lowest performance. Even so, Madrid and Lisbon gained 13.6% and 11.4%, respectively. Despite the uncertainty regarding Brexit that marked the entire year, the London stock market also performed well, with a 19.6% increase. Also worthy of mention are stock markets such as the Greek or the Russian, which have appreciated more than 40%.

All the sectors closed the year on a high, even those experiencing a more challenging environment, such as banking (+12.8% in Europe), as a result of the lower interest rate scenario, or automobile manufacturers (+12,9%), which face structural changes due to the energy

transition and the advent of autonomous automobiles. However, the highlight of the year was, once again, the technological sector (+45.3%), with a special emphasis on the semiconductor segment (+59.1%).

In Portugal, the star of the PSI-20 index was Jerónimo Martins. The national retailer closed 2019 with a gain of 41.83% and was the main entity responsible for the rise of the Portuguese stock market reference index.

In the debt market, 10-year Treasuries decreased 76 basis points to 1.92% following the preventive cut in interest rates made by the North American Federal Reserve (FED). German public debt also continued its downward trend, with the 10-year yield falling by around 43 basis points to -0.19%. The negative returns on refuge assets have spread to several government issuers and companies. At the end of the year the value of the global debt with negative interest rates stood, according to Bloomberg, at USD 11 billion, after reaching USD 17 billion in August. The corporate debt (Investment Grade and High Yield) benefited from the context of very low levels of interest rates, with a narrowing of spreads being recorded during 2019.

Greek public debt recorded the best performance of the year, with 10-year bond yields falling by almost 300 basis points. Portugal was also one of the countries standing out, with interest rates falling below the values practiced on the Spanish public debt (for the same maturity), in addition to having seen a narrowing of the differential vis-à-vis the German public debt and with the yields falling to levels never seen before. In the space of 12 months, the implicit rate in Portugal's 10-year debt fell by 128 basis points, a sharp drop that put the country's interest rate at 0.434% at the end of 2019. In August 2019, the Portuguese interest rate reached 0.065%, which corresponds to its lowest value ever.

A prudent view of the outlook for 2020 justifies a greater balance in the portfolios and a wider diversification. A joint exposure to equities and bonds in a balanced way over several regions at the global level will continue, at this stage, to be very important. Global growth is increasingly supported by emerging economies and the outlook continues favourable for the performance of these asset classes, which are more sensitive to signs of an accelerating economy and are apt to favourable levels of appreciation.

In 2019, oil price increases on international markets were visible: the United States' crude oil reference (WTI - West Texas Intermediate) gained 34.46% in 2019 (closing the year at USD 61.06), while the benchmark for Europe (North Sea Brent) gained 22.68% (closing 2019 at USD 66.00). In addition to the natural supply and demand variable (with the volume of North American crude reserves, for example, always being closely monitored), several other aspects dominated the oil market last year and the consequent price evolution, with an emphasis on the US/China

trade war, the OPEC+ decisions and the attacks on important Saudi oil installations, the size of the North American crude stocks and the production of shale oil.

But many other commodities shone in 2019, with double-digit gains, such as palladium, nickel, coffee, iron ore, gold, silver, and wheat:

- Nickel stood out with a rise of close to 35%, capitalizing on the growth of electric vehicles - a trend that is expected to continue -, since it is a crucial metal in rechargeable batteries and stainless steel;

- Still in the same category, copper recorded a more modest gain, in the order of 4% - but 53% of the operators and analysts surveyed by Bloomberg anticipate improvements in this metal, given the progress in the US/China talks (that already plan to negotiate "phase 2" of the trade agreement) and the prospect of a healthier world economy;

- In terms of precious metals, palladium exceeded USD 2,000 per ounce, a level never reached before, and gained more than 50% in the year. There is an increasing demand for palladium to control harmful emissions in gasoline-powered automobiles (80% of the palladium ends up in car exhaust fans), at a time when the regulations in this field are increasingly strict. This was, in fact, the year in which palladium - which is also used in electronics, jewellery and dentistry - exceeded the value of gold.

- In turn, gold gained 19% in the year, its greatest appreciation since 2010. The yellow metal was boosted by its refuge status, which makes it more sought after in times of uncertainty, of commercial and geopolitical tensions and economic contraction.

At the beginning of the current year, the IMF estimated a 3.3% growth in world GDP in 2020, revealing an improvement over the figures observed in 2019. However, the constraints on economic activity in China caused by the Covid-19 containment measures and the potential effects on other regions of the globe may affect growth rates in the 1st quarter of 2020, it still being premature to foresee scenarios for the subsequent quarters, given the uncertainties regarding the scale of the spread worldwide and the extent of the measures to be applied.

IV – Operations in 2019

Throughout 2019, the activity of the Banco Best was centred on the execution of the strategic lines of the Business Plan approved in February 2019 (within the Novo Banco Group's

differentiation axis), with the execution of the main measures of the axis “Efficiency Improvement” and “Upgrade of the value proposition for high-net worth customers”.

As part of the “Efficiency Improvement”, a profound reorganization of the commercial structure was carried out, effective from January 2020, leading to a significant reinforcement in the number of digital managers (in tandem with the high level of autonomy that characterizes BEST’s customer base) and a reduction in the total number of managers, in this manner covering a wider range of customers. In parallel, new tools or improvements were introduced in the products’ and services’ digital support (such as the launch of a new App, the "Client on the Go – 100% mobility", online bond trading, the constitution of web promotional term deposits, improvements in the account opening process with the introduction of the digital move key) in addition to the innovation and partnership strengthening dynamic in the Asset Management and Trading areas; these initiatives will be the subject of further discussion throughout this chapter.

As part of the “Development of a value proposition for high-net worth customers”, BEST launched the Exclusive Segment at the end of 2019, with Specialized Managers (Exclusive Managers) and exclusive attendance spaces in Lisbon and Oporto. Framed by a specific identity program, BEST Exclusive's value proposition is centred on independence, transparency and a comprehensive, worldwide offer, which guarantees total freedom of choice and access to the best solutions available on the market.

In 2019, Banco Best maintained its focus on its leadership in digital banking and on innovation in its offer of financial products and services, having carried out several projects that reiterate its strong commitment to innovation.

Banco Best launched a new APP, under the aegis of simplifying the customer experience, with a first focus on the banking area, with a high level of customization (the features are presented as if they were Apps) and a navigation identical to that of social networks (accounts, transactions and assets are elements of a feed).

It started selling electronic equipment insurance, through a partnership with Simplesurance (a German broker), to customers and non-customers, through BEA, the first Chatbot in the market to sell insurance.

With regard to the activities in the Asset Management and Trading areas, throughout 2019 a multiplicity of initiatives were developed with a view to permanently updating the offer and strengthening the Bank's positioning with an open investment platform, and an independent approach, which makes available to Customers the offer of the most renowned national and international management companies with full transparency in terms of conditions.

The financial services platform gained a new dimension with the introduction of DWS's Robot Advisor. For the first time in Portugal, the first **portfolio management service** digitally operated with very affordable investment minimums, starting at Euros 50 per month, was launched through Banco Best, being managed by a German entity of recognized repute, DWS. With the launch of Robot Advisor, Banco Best took another step towards democratizing the access to financial services. The convenience of accessing online information, the ease of the interaction and the simulation of investment plans, as well as the accompanying and monitoring of investment decisions, are distinguishing factors of this new service. At the end of 2019, some 60% of the Customers who subscribed to the Robot Advisor DWS Portfolio Management Service had active scheduled placement plans, allowing for a regular growth in the subscriptions to this differentiating service.

In the **investment funds**' area, the strategy to widen and diversify the offer of management companies and investment funds seeks to continue the search for alternative markets investments that add value to the current offer or permit the coverage of specific niche markets. In this sense, Banco Best currently distributes over 3,200 investment funds of 70 management companies to the public in general, in addition to providing about 2,000 additional investment funds exclusively for the B2B institutional market.

In this context, the launch of new partnerships with international management entities: the French OFI AM and the Spanish Fidentiis Gestión and March, each with its own specificities, merits mention. The French OFI Asset Management entered Portugal through the partnership with Banco Best, reinforcing the offer of socially responsible investments funds, of note among which being the investment fund associated with the "Positive Economy". OFI Asset Management has over 20 years of experience in the social economy area.

In relation to the two Spanish management entities, Fidentiis Gestión and March, these increased the Long/Short Iberian stock investment strategy solutions as well as the investment in the wine sector and in family businesses. At the same time, a partnership was established for the distribution of investment funds of the national management company Optimize, which made it possible to add to BEST's offer some solutions in terms of Retirement Savings Funds for savings from as little as Euros 10 and a number of multi-active funds. Such is the case of the Optimize Selection range, which includes 3 funds with a differentiating management concept based on the selections of the Proteste Investe (DECO) magazine's team.

In MorningStar's annual edition (MorningStar Awards 2019), which awards the best Management Companies and best investment funds available in Portugal, the differentiating positioning of our open investment platform was reiterated, since the 4 foreign funds receiving

awards are available at Banco Best. The categories of the 4 funds receiving awards were: 'Best Euro Bond Foreign Fund, 'Best Mixed Euro Foreign Fund', 'Best European Shares Foreign Fund' and 'Best Global Shares Foreign Fund'. Additionally, T. Rowe Price, a partner entity of Banco Best for over 5 years, was doubly recognized, receiving the 'Best Bond Foreign Management Entity' and 'Best Global Foreign Management Entity' awards.

As part of the sustainable investment policy, and as from May 2019, a campaign was realized under the motto 'Invest in a responsible future – the future cannot wait any longer' – based on a range of 19 funds. The 19 investment funds selected considered a multiplicity of asset management entities, the most notable being JP Morgan AM, Pictet AM, Nordea, OFI AM, Allianz and BMO Global Asset Management.

The investment themes that were started in 2018, continued throughout 2019, with two new concepts being created: 'Megacities – how megacities will mould the future' and 'Moderate and Flexible – an investment option for moderate investors'. Through the development of these investment themes, we sought to highlight the importance of cities for the global economy, where the ten largest metropolitan areas on the planet produce around 25% of the world's wealth, as well as to highlighting the advantages of moderate and flexible strategies in a context of greater uncertainty given the asset diversification they provide.

Following on from the initiatives carried out to **promote financial literacy** and with a view to strengthening the platform's positioning, Banco Best created a new concept of disclosing financial information on the website: Best Zoom. This is a new space for information and training that seeks to highlight the themes that will be at the forefront of the social, economic and technological change process, through a different and innovative editorial approach with some exclusive content made available by our international partners.

Still within the scope of the promotion of financial literacy, during 2019, three conferences were held in Lisbon, having been broadcast live via streaming in order to reach a greater number of participants. The 1st conference was held in January with the theme "Challenges and Opportunities 2019", having counted on the presence of Nordea Asset Management, GNB Gestão de Ativos and BlackRock. In April, the 'Bonds for all – Diversifying the investment' conference took place, and, in October, we held the conference 'Investing in European Shares, with the participation of Man GLC and Fidentiis Gestión.

In order to improve the experience of our Customers, changes were made to the Investor Profile Questionnaire completion usability, by creating a new way of interacting, simplifying the questions asked and using iconographies. The desired result is a higher Customer response success rate and consequent Investor Profile attribution.

In the matter of **Insurance**, two series of Una Aforro XXI Annuities were sold. This is an investment solution provided by UNA SEGUROS DE VIDA, S.A. to Customers looking for long-term savings with guaranteed capital and a minimum profitability previously defined. This investment solution allowed us to offer an alternative in the area of products with guaranteed capital.

A protocol was also signed with the MDS Group, a multinational specialist in insurance consultancy and brokerage and risk management, which will make available a wide and sophisticated set of non-life risk insurances.

In 2019, Banco Best participated in the Placement Syndicate of 4 **Public Offers** realized in Portugal. Namely:

- Public Subscription and Exchange Offer of BENFICA SAD 2019-2022 Bonds
- Public Subscription Offer of TAP 2019-2022 Bonds
- Public Subscription Offer of SIC 2019-2022 Bonds
- Public Subscription and Exchange Offer of Mota-Engil 2019-2024 Bonds

In the scope of these primary market operations, with two new companies issuing debt for the first time on the retail market, the volume placed exceeded Euros 64 million.

In the **Trading** component, improvements were made to the trading platform associated with the Best Trading Pro Service, with an emphasis on the new risk control and performance analysis by product type tools. Additionally, since May 2019, access to the Toronto Stock Exchange has been made available, granting access to 600 more shares of companies admitted to trading in Canada.

According to the order reception statistics published by the CMVM, Banco Best recorded a market share of 9.7% in orders received online for derivatives in the futures market, with the trading volume attaining Euros 9.8 thousand million.

In 2019, there was a growth of 7% in the raising of **new Customers**, with a positive change of 2.4% being recorded in the total Customer base. Contributing to this positive evolution were various initiatives involving the diversification of the prospection channels, of note being the use of focused actions involving digital marketing and the dynamizing of partnerships with various entities aimed at raising Customers from among their Employees.

At the end of 2019, **customer deposits** amounted to Euros 547.6 million, corresponding to an increase of Euros 1.8 million over the close of 2018. Regarding the dynamizing of the deposit

offer, the thematic cycles of Term Deposit Auctions, as well as the 18th Anniversary Term Deposit with a special rate alluding to this date stand out.

At the same time, the New Customers' Term Deposit was maintained, with interest paid in advance and which remains at the top of the Customers' preferences, as was the Member Get Member campaigns, aimed at promoting the raising of Customers from among the family and social circle of existing Customers, capitalizing on their satisfaction with BEST. A Customer reactivation campaign was also carried out, aimed at promoting their return and increased relationship with the Bank, through the dynamizing of the Card and Deposit offer.

The **customer loan** portfolio, consisting, essentially, of credit collateralized by financial assets and margin accounts, recorded a positive change of Euros 7.9 million in the period under analysis, driven by the good performance of the financial markets and the monitoring by the commercial network. The loss ratio was maintained at the market benchmark levels, with past due credit remaining stable at 0.13% of the total loan portfolio, consequence of the conservative credit granting policy and the type of products offered.

Still on the credit component, the relaunch of the NOVO BANCO Mortgage Loan product took place, with BEST acting as a linked credit intermediary, and which also included access to a fully renovated simulator on the BEST website.

In the last week of the year, Banco Best inaugurated the **new facilities in Oporto**, which have significantly improved quality and functionality when compared with the physical space previously used in that city.

At the **technological level**, it is important to highlight that BEST undertook the migration and upgrade of the Bank's core computer systems and applications that support the entire front-end, to the most advanced hardware systems and software versions on the market, thus preparing the base infrastructure for the future.

It also carried out the roll-out for the entire commercial network of a new commercial customer management platform, forming part of the "Client on the Go – 100% mobility" project, which allows for the interaction and management of Customers in any location, accompanying the evolution in the ways in which consumers relate to their Bank.

BEST also promoted the internal development of its own Open Banking platform, complying with the requirements for the entry into force of PSD2. In this context, a wide range of new features were also introduced, such as the overall review of the Bank's security model, covering all the channels and operations.

In 2019, Banco Best maintained a strong focus **on the training of its employees**, both of the internal and external networks, in order to meet the objective of all employees in the internal and

external commercial networks obtaining and maintaining their certification in Investment Consulting under MiFID II. By itself, the certification of all new employees in the Bank's commercial areas as Investment Consultants, through training in an e-learning regime with a final face-to-face examination, resulted in a total of 3770 hours of training, with the continued development training on topics related to MiFID II, aimed at all employees who obtained their certification before 2019, totalling 4470 hours. A training course on the Marketing of Mortgage Loans was also carried out, in an e-learning regime and with a final face-to-face examination, in a total of 275 hours. Several sessions were also developed jointly with the Bank's partners in order to debate and analyse financial market trends over 2019. A total of 2085 hours of training in English were also realized.

We also highlight the Welcome Training actions (Best Welcome Training), with a load of 35 hours, aimed at all the new Bank employees, regardless of the network (internal or external) and the area (central or commercial), which were embodied in the realization of four sessions (one per quarter), in a total of 1400 hours and that are aimed at integrating BEST's new employees in BEST by transmitting to them both our culture and the best market practices.

As part of the initiatives to **motivate the employees** of BEST and in order to align the central and commercial teams with the strategy and objectives of the Bank, in 2019, a meeting of all internal employees of BEST with the Executive Directors was held, at which the Marketing, Investments, IT and Commercial Directorates had a prominent role in the disclosure of the Bank's strategy for 2020. The Bank's anniversary was also highlighted with a meeting bringing together the various employees.

In 2019, BEST hired 20 new employees and saw the departure of 16 employees, thus closing December 2019 with 133 employees compared with the 129 of the previous year. It should be noted that the workforce is relatively young, with an average age of 41.7 years, with only 39.8% of the employees being aged 45 or over. It is also balanced in terms of gender, with 56% of men and 44% of women and with a high level of academic qualification, with 80% of the employees having tertiary education and with none having a level of education below Secondary Education.

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 and plastic consumption;

- ✓ in 2019 there was a distribution of a ceramic coffee cup to all employees which complemented the initiative to distribute a glass bottle to each employee with his/her name engraved on it. During this financial year, the plastic cups were replaced by paper cups and the plastic sticks by recyclable wooden sticks;
- ✓ with the opting for environmentally friendly products, namely with the consumption of treated drinking water from the water dispenser, avoiding the waste associated with bottled water packaging;
- ✓ through efficient waste management, including the recycling of paper and printer toners;
- ✓ 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 accordance with principles of sustainability in the various aspects, environmental, social and governance.

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 the loan portfolios is carried out, favouring 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 analysed within the scope of the current commercial activity. At the end of 2019, the amount of the gross loans' exposure and the impairment constituted was Euros 202.1 million and Euros 0.8 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 analyses the Bank's liquidity position, namely the balance sheet evolution, an extensive analysis of the gaps and the key indicators of the activity (Liquidity Coverage Ratio, liquidity and commercial gaps, evolution of deposit rates and credit). In summary, a

comprehensive liquidity risk assessment and its evolution is carried out, with a special focus on the current liquidity buffers and the generation/maintenance of eligible assets and their respective impacts on the LCR liquidity ratio. At the end of 2019, the regulatory minimum Liquidity Coverage Ratio (LCR) of 100% was, in BEST's case, 157%, revealing an increase of 5 p.p. over 2018.

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 2019, BEST had a VaR of Euros 32 thousand for its trading positions.

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's 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 requirements resulting from the risks assumed, which the institutions must comply with.

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 includes, essentially, 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 on post-employment liabilities to

employees, the excess value of deferred tax assets and of 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 44.75% at the end of 2019, thus complying with the capital ratio imposed by the Bank of Portugal.

The risk management function, which is vital for the development of Banco Best's activity, aims to identify, assess, 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.

Regarding the 2019 **Financial Statements**, the 2% growth in Net assets in Banco Best's Balance Sheet over the previous year is to be highlighted, having closed the financial year with a total value of Euros 666 million. The favourable growth of Loans and advances to customers (+6%) and the stability of Due to customers were directly reflected in the transformation ratio of deposits into credit which increased 1.4 p.p. over the previous year to 27.2%, even so a very prudent level that reflects the fact that the main business of BEST happens in off-balance sheet products.

The 6% increase in Net equity over the previous year resulted from 2019's positive net income of Euros 2.7 million, the incorporation of the totality of the result generated in the previous year of Euros 3.6 million and the increase in revaluation reserves due to the appreciation of the own portfolio of Euros 2.0 million. This increase in the net situation combined with the decrease in investments in Securities of Euros 18 million, translated into an increase in the treasury applications placed by BEST with NB of Eur 19 million.

With regard to the Income Statement, the Operating income came in at Euros 18.7 million, 1% over the previous year and the result of the decrease in the Net interest income of Euros 0.9 million, more than offset by the increase in Net Commissions received of Euros 0.3 million and in Gains on the sale of assets of Euros 0.8 million. The decrease in Net interest income of 14% from the previous year, resulted from the decrease in interest received of Euros 1.3 million due

to the decrease in interest rates, which was not offset by the decrease in interest paid of Euros 0.4 million.

Operating costs increased by 6% over the previous year, mainly as a result of the increase in Staff costs and the stabilization of ESS and Amortization and depreciation. However, the trend of previous years of cost containment was maintained via the optimization of processes, as was the case with:

- Postage and delivery of documents with savings of 36% in the year 2019, a direct result of the implementation of the optimization project regarding paper communications being sent to customers;
- Retainer and legal fees with a decrease of 34% from the previous year in function of the decrease in proceedings and charges with same.

The growth of costs in excess of the growth in operating income led to an unfavourable evolution in the cost-to-income ratio to 73.3%, compared with the 69.4% of the previous year. However, if we exclude the amount of the Gains/(Losses) on the Disposal of Other Assets, non-existent in 2019, from the previous year's results, the corrected cost-to-income ratio becomes similar in both years, at 73%.

Still in terms of P&L, Banco Best recorded impairment and provisions totalling Euros 931 thousand, which represents an increase of Euros 65.8 thousand over the previous year.

The reinforcement of the equity of BEST in 2019 through self-financing and the stability of the Balance Sheet, allowed the Core Tier 1 ratio to have risen to 44.75% in 2019, with this indicator also being at a very high level when compared with the other Banks, both nationally and internationally. The return on equity (ROE) of 3.4%, lower than the 5% recorded in 2018, is thus a consequence of the increase in the level of equity, combined with the decrease in the positive net income for the financial year.

V - Shareholder Structure and Corporate Bodies

In financial year 2019, the shareholder structure of Banco Best did not change, and continued to be 100% held within the NOVO BANCO Group, with the following distribution:

BEST – shareholder list:

Taxpayer no.	Corporate name	No. of shares	%
513 204 016	NOVO BANCO, SA	62 999 700	99.9995%
B-81525776	Novo Banco Servicios Corporativos, S.L.	100	0.0002%
512 061 840	Novo Banco dos Açores, SA	100	0.0002%
502 933 380	GNB Gestão de Ativos SGPS, SA	100	0.0002%
	Total	**63 000 000**	**100.0000%**

With the exception of the Statutory Auditor who was elected at the General Meeting of BEST of 28 May 2018 for a three-year period (2018-2020), coinciding with the appointment term for the other entities of the Novo Banco Group, the remaining Corporate Bodies were elected at the General Meeting of BEST held on 8 October 2019 for a new three-year term (2019-2021), with the Company Secretary being elected at the Board of Directors meeting of 23 October 2019.

As at 31 December 2019, the Corporate Bodies of BEST were as follows:

General Meeting Board

Patrícia Afonso Fonseca Moraes Bastos (Chair)

Mário Nuno de Almeida Martins Adegas (Secretary)

Board of Directors

Albert Sylvain May (Chair)

Maria Madalena Monteiro da Mata Torres Pitta e Cunha (Vice-Chair)

Pedro Alexandre Lemos Cabral das Neves (Member)

Nuno Miguel Gomes Moutinho Rocha (Member)

Jorge Daniel Lopes da Silva (Member)

Isabel Maria Costa Pereira Ramos de Almeida (Member)

João Carlos Brito da Silva Dias (Member)

Supervisory Board

António Joaquim Andrade Gonçalves (Chair)

Fernando Jorge Henriques Bernardo (Member)

Isabel Maria Beja Gonçalves Novo (Member)

João José Barragàn Pires (Alternate Member)

Statutory Auditor

Effective: Ernst & Young & Associados - SROC, S.A. - Statutory Auditor no. 178

Represented by António Filipe Dias da Fonseca Brás - Statutory Auditor no. 1661

Alternate: João Miguel Alves - Statutory Auditor no. 896

Company Secretary

José Alexandre Pereira Soares de Santo António

Alternate: Mário Nuno de Almeida Martins Adegas

VI - Relevant facts after the close of the financial year

At the corporate level nothing of note; the instability caused by the COVID-19 Pandemic is covered in point VII of the Management Report and in Note 34 of the Notes to the financial statements.

VII – Outlook

As from January 2020, the outbreak of COVID-19 has spread beyond China's borders, causing strong impacts on financial markets and economic activity. At present there is a constant change with great undefinition and uncertainty, an example of this being the state of national emergency declared and in force since March 19 and the announcement by various Governments and International Multilateral Institutions of measures and aid packages to the economy, which contemplate, namely, in the case of the Portuguese Government, several financing lines in a total amount of Euros 3 thousand million and, in the case of the ECB, the implementation of the Pandemic Emergency Purchase Program (PEPP), a program for the acquisition of assets from the public and private sectors, which amounts to Euros 750 thousand million. Of note, too, are the monetary policy actions that have already been adopted by the Central Bank of China, with a decrease in interest rates on the provision of liquidity and the huge stimulus program approved for the American economy in the amount of USD 2 billion.

In addition to the COVID-19 topic, international political and macroeconomic instability in the year 2020 may also worsen, namely with uncertainty as regards the outcome of the elections in the USA, the way in which Brexit will be effectively processed, the impact of abrupt changes on the price of oil, and the uncertainty regarding macroeconomic policies in an environment that is still undefined as regards the interest rate levels after COVID-19, may cause and maintain volatility high in the financial markets, with a direct impact on the valuation of the financial products traded by Banco Best.

In any case, the impacts on Banco Best's own activity are mitigated by:

- the low level of balance sheet risk combined with a solid capitalization, resulting in prudent transformation, liquidity and leverage ratios;
- the light operating and distribution cost structures, fully adapted to a remote offer through digital channels;
- the generation of revenues benefiting from the diversification that results from an extensive offer of financial products, both in terms of on-balance sheet banking products, such as deposits, cards and bank credit, and in terms of off-balance sheet financial products, such as Investment Funds, Shares, Bonds, insurance, mortgage loans, renting and servicing platforms for other entities.

Despite the uncertainties mentioned, Banco Best projects the development of its activity in 2020 along the following main lines of action:

- Being a very innovative Bank, managing to offer a high-quality service to all customers and future customers through the different channels, with a greater focus on digital channels;
- Offering the Exclusive service to customers of greater value and sophistication, for whom a personalized accompaniment of higher quality, allied with the products and digital channels offered by BEST, represents an additional value;
- Continuing to deepen the relationship with the Fintechs and Regtechs as occurred over 2019 with, for example, the launch of the sale of insurance through BEA, a chatbot that allows for an online interaction with the customer or non-customer of BEST;
- Deepening the diversification and independence of the financial offer, maintaining a wide range of Asset Management and Trading products and services that aim to satisfy the need for the diversification of financial assets and currencies and allow customers to quickly take advantage of the investment opportunities that arise in function of a constantly changing financial environment;

- Continuing to offer customers and business partners the best solutions that result from the possibilities opened by the MiFID II and PSD2 legislation;
- Maintaining BEST's employees, internal and external, with a high level of technical and interpersonal relationship training, in order to provide the best quality service and support to all customers and partners of BEST, through the most appropriate and efficient channels for each type of interaction.

All these initiatives are accompanied by the maintenance of efforts to control and contain costs, with an emphasis being on making the offer available through the most efficient channels, for each product and customer, aiming, in this manner, to improve the efficiency levels of BEST, in a market context which is expected to remain highly competitive.

VIII - Proposal for the appropriation of the results

Pursuant to Article 66(5)(f) of the Portuguese Commercial Companies 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 Euros 2 668 794.28 (two million six hundred and sixty-eight thousand seven hundred and ninety-four Euros and twenty-eight Cents) be appropriated as follows:

- Euros 266 879.43 to the Legal reserve;
- Euros 2 401 914.85 to Other reserves and Retained earnings.

IX – Additional Information

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

- The Bank neither holds treasury shares 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.

X - Concluding remarks

On concluding the Management Report for 2019, the Board of Directors wishes to acknowledge the cooperation of all those who, in the performance of their duties, have contributed towards achieving the established goals, 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 accompaniment of the activity of the Bank;
- The General Meeting Board and Supervisory Board members, the Statutory Auditor and the Secretary of the Company for their permanent and constructive involvement;
- Our Employees for their commitment, motivation, willingness, and professional competence.

Lisbon, 30 March 2020

Board of Directors:

Albert Sylvain May

Maria Madalena Monteiro da Mata Torres Pitta e Cunha

Pedro Alexandre Lemos Cabral das Neves

Nuno Miguel Gomes Moutinho Rocha

Jorge Daniel Lopes da Silva

Isabel Maria Costa Pereira Ramos de Almeida

João Carlos Brito da Silva Dias

ANNEX TO THE MANAGEMENT REPORT

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

2. Shareholders holding more than one tenth of the share capital of the Company, as at 31 December 2019, in compliance with that laid down in Article 448 of the Portuguese Commercial Companies Code, are:

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

Lisbon, 30 March 2020

The Board of Directors:

Albert Sylvain May

Maria Madalena Monteiro da Mata Torres Pitta e Cunha

Pedro Alexandre Lemos Cabral das Neves

Nuno Miguel Gomes Moutinho Rocha

Jorge Daniel Lopes da Silva

Isabel Maria Costa Pereira Ramos de Almeida

João Carlos Brito da Silva Dias

Banco Electrónico de Serviço Total, S.A.
Balanço em 31 de dezembro de 2018 e 2017

(valores em euros)

	Dez 2018	Dez 2017
ATIVO		
Caixa e disponibilidades bancos centrais	-	-
Disponibilidades em outras I.Crédito	33 260 231	44 694 312
Títulos detidos para negociação	-	-
Derivados detidos para negociação	584 119	284 885
Aplicações em Instituições de Crédito	401 598 151	306 690 033
Crédito a clientes	141 155 819	159 726 895
Carteira de títulos	68 154 263	81 603 210
Ativos com acordo de recompra	-	-
Derivados de cobertura	-	-
Ativos não correntes detidos para venda	-	-
Propriedades de investimento	-	-
Outros ativos tangíveis	1 274 203	350 926
Ativos intangíveis	-	83
Investimentos em associadas e filiais excluídas da consolidação	-	-
Ativos por impostos correntes	-	-
Ativos por impostos diferidos	213 727	-
Provisões técnicas de resseguro cedido	-	-
Outros ativos	4 342 063	3 389 733
Devedores por seguro direto e indireto	-	-
TOTAL DO ATIVO	**650 582 576**	**596 740 077**
PASSIVO		
Recursos de Bancos Centrais	-	-
Passivos financeiros detidos para negociação	647 294	744 093
Outros passivos financeiros ao Justo Valor através de resultados	-	-
Recursos de outras Instituições de Crédito	20 356 152	19 209 804
Recursos de clientes e outros empréstimo	545 845 899	493 890 109
Responsabilidades representadas por títulos	-	-
Passivos Financeiros associados a ativos transferidos	-	-
Derivados de cobertura	-	-
Contratos de investimento	-	-
Passivos não correntes detidos para venda	-	-
Provisões	2 590 503	2 461 267
Provisões técnicas	-	-
Passivos por impostos correntes	730 218	432 039
Passivos por impostos diferidos	-	181 570
Outros passivos subordinados	-	-
Instrumentos representativos de capital	-	-
Outros passivos	4 855 523	4 209 225
Credores por seguro direto e indireto	-	-
TOTAL DO PASSIVO	**575 025 588**	**521 128 107**
CAPITAL PRÓPRIO		
Capital	63 000 000	63 000 000
Prémios de emissão	- 8 200	- 8 200
Outros instrumentos de capital	-	-
Reservas de reavaliação	589 255	1 071 158
Outras reservas e resultados transitados	8 411 836	8 535 435
Acções próprias	-	-
Resultado líquido	3 564 097	3 013 577
Dividendos antecipados	-	-
Interesses minoritários	-	-
TOTAL DO CAPITAL PRÓPRIO	**75 556 988**	**75 611 970**
TOTAL DO PASSIVO E CAPITAL PRÓPRIO	**650 582 576**	**596 740 077**

O Contabilista Certificado

O Conselho de Administração

Banco Electrónico de Serviço Total, S.A.

Demonstração de Resultados em 31 de dezembro de 2018 e 2017

(valores em euros)

	Dez 2018	Dez 2017
Juros e rendimentos similares	7 823 766	7 886 671
Juros e encargos similares	1 242 976	1 031 820
Margem Financeira	**6 580 790**	**6 854 851**
Rendimentos de instrumentos de capital	37 192	80 257
Rendimentos de serviços e comissões	15 006 473	14 722 861
Encargos de serviços e comissões	4 840 169	5 123 093
Resultados de activos e passivos avaliados ao justo valor através de resultados	399 471	- 87 795
Resultados de ativos ao justo valor através de resultados mandatório	94 079	-
Resultados de ativos financeiros ao justo valor através de capital próprio	804 151	6 497
Resultados de reavaliação cambial	- 346 546	344 012
Resultados de alienação de outros ativos	957 127	-
Outros resultados de exploração	- 58 899	51 960
Produto da actividade	**18 633 668**	**16 849 551**
Custos com pessoal	4 548 951	4 780 403
Gastos gerais administrativos	8 164 874	6 755 758
Depreciações e amortizações	216 185	372 996
Provisões líquidas de anulações	61 450	912 357
Imparidade do crédito líquida de reversões e recuperações	- 244 481	- 370 919
Imparidade de outros ativos financeiros líquida de reversões e recuperações	1 048 655	-
Imparidade de outros ativos líquida de reversões	- 7	2 082
Diferenças de consolidação negativas	-	-
Resultados de associadas e empreendimentos conjuntos (Equivalência Patrimonial)	-	-
Resultado antes de impostos e de interesses minoritários	**4 838 039**	**4 396 874**
Impostos correntes	1 277 456	1 217 973
Impostos diferidos	- 3 514	165 324
Resultado após impostos antes de interesses minoritários	**3 564 097**	**3 013 577**
Interesses minoritários	-	-
Resultado consolidado do exercício	**3 564 097**	**3 013 577**

O Contabilista Certificado

O Conselho de Administração

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 2019 AND 2018

(thousands of Euros)

	Notes	31.12.2019	31.12.2018
Interest income	5	6 500	(3)
Interest expenses	5	(861)	-
Net interest income		**5 639**	**(3)**
Dividend income	6	48	-
Fee and commission income	7	15 009	(1)
Fee and commission expenses	7	(4 576)	1
Net gains/(losses) from derecognition of financial assets and liabilities not measured at fair value through profit and loss	8	2 126	3
Net gains/(losses) from financial assets and liabilities held for trading	9	(21)	1
Net gains/(losses) from financial assets mandatorily measured at fair value through profit and loss	10	377	-
Net gains/(losses) from foreign exchange revaluation	11	220	-
Net gains/(losses) from derecognition of non-financial assets	12	(1)	(4)
Other operating income	13	277	-
Other operating expenses	13	(365)	(1)
Operating income		**18 733**	**(4)**
Administrative expenses		(12 583)	4
Staff costs	14	*(5 413)*	-
Other administrative expenses	15	*(7 170)*	*4*
Depreciation and amortization	20, 21	(1 147)	-
Provisions, net of reversals	25	(1 341)	-
Commitments and guarantees issued		*23*	-
Other provisions		*(1 364)*	-
Impairment of financial assets not measured at fair value through profit and loss, net of reversals	19	409	(2)
Profit/(loss) of continuing operating units before income tax		**4 071**	**(2)**
Tax expenses or income on profit/(loss) of continuing operating units	22	(1 402)	2
Current taxes		(1 269)	1
Deferred taxes		(133)	1
Net income for the period		**2 669**	**-**
Basic earnings per share (in Euros)	16	0.04	0.06
Diluted earnings per share (in Euros)	16	0.04	0.06

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 2019 AND 2018

(thousands of Euros)

	Notes	31.12.2019	31.12.2018
Net income for the period		2 669	3 564
Other comprehensive income			
Items that will not be reclassified to the income statement		***18***	***(75)***
Change in the fair value of equity instruments at fair value through other comprehensive income	a)	18	(75)
Items that may be reclassified to the income statement		***1 983***	***(117)***
Financial assets at fair value through other comprehensive income	a)	1 983	(117)
Total comprehensive income for the period		**4 670**	**3 372**

a) See Statement of Changes in Shareholders' Equity

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

BALANCE SHEET
AS AT 31 DECEMBER 2019 AND 2018

(thousands of Euros)

	Notes	31.12.2019	31.12.2018
Assets			
Cash and deposits with Central and other banks	17	38 876	33 260
Financial assets held for trading	18	50	584
Financial assets mandatorily at fair value through profit and loss	19	1 248	851
Financial assets at fair value through other comprehensive income	19	46 588	47 452
Financial assets at amortized cost	19	571 255	562 605
Securities		1 915	19 851
Loans and advances to banks		420 279	401 598
Loans and advances to customers		149 061	141 156
Tangible assets		3 518	1 274
Tangible fixed assets	20	3 518	1 274
Intangible assets	21	274	-
Tax assets	22	-	214
Deferred tax assets		-	214
Other assets	23	3 735	4 343
Total Assets		**665 544**	**650 583**
Liabilities			
Financial liabilities held for trading	18	294	647
Financial liabilities at amortized cost	24	572 517	566 786
Deposits from central and other banks		23 869	20 356
Due to customers		547 638	545 846
Other financial liabilities		1 010	584
Provisions	25	3 931	2 591
Tax liabilities	22	1 273	730
Current tax liabilities		659	730
Deferred tax liabilities		614	-
Other liabilities	26	7 302	4 272
Total Liabilities		**585 317**	**575 026**
Shareholders' Equity			
Share capital	27	63 000	63 000
Accumulated other comprehensive income	28	2 590	589
Other reserves	28	11 968	8 404
Results attributable to shareholders of the holding company	28	2 669	3 564
Total Shareholders' Equity		**80 227**	**75 557**
Total Liabilities and Shareholders' Equity		**665 544**	**650 583**

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

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2019 and 2018

(thousands of Euros)

	Notes	Share capital	Accumulated other comprehensive income	Other reserves	Net income for the period	Total Shareholders' Equity
Balance at 31 December 2017		**63 000**	**1 071**	**8 527**	**3 014**	**75 612**
Impact of transition to IFRS 9		-	(290)	(426)	-	(716)
Balance at 1 January 2018		**63 000**	**781**	**8 101**	**3 014**	**74 896**
Other increases/decreases in equity		**-**	**-**	**303**	**(3 014)**	**(2 711)**
Appropriation of net income of the prior year in other reserves		-	-	*3 014*	*(3 014)*	-
Distribution of dividends ***(a)***		-	-	*(2 712)*	-	*(2 712)*
Other movements		-	-	*1*	-	*1*
Total comprehensive income for the period		**-**	**(192)**	**-**	**3 564**	**3 372**
Changes in fair value, net of tax		-	*(197)*	-	-	*(197)*
Impairment reserves of securities at fair value through other comprehensive income		-	*5*	-	-	*5*
Net income for the period		-	-	-	*3 564*	*3 564*
Balance at 31 December 2018		**63 000**	**589**	**8 404**	**3 564**	**75 557**
Other increases/decreases in equity		**-**	**-**	**3 564**	**(3 564)**	**-**
Appropriation of net income of the prior year in retained earnings		-	-	*3 564*	*(3 564)*	-
Total comprehensive income for the period		**-**	**2 001**	**-**	**2 669**	**4 670**
Changes in fair value, net of tax	*28*	-	*1 977*	-	-	*1 977*
Impairment reserves of securities at fair value through other comprehensive income		-	*24*	-	-	*24*
Net income for the period		-	-	-	*2 669*	*2 669*
Balance at 31 December 2019		**63 000**	**2 590**	**11 968**	**2 669**	**80 227**

(a) Corresponds to a dividend per share of Euros 0.04 paid to shares in circulation during 2018

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 2019 AND 2018

(thousands of Euros)

	Notes	31.12.2019	31.12.2018
Cash flows from operating activities			
Interest received		6 704	7 463
Interest paid		(409)	(973)
Fees and commissions received		15 009	15 007
Fees and commissions paid		(4 576)	(4 841)
Recovery of loans and advances		(88)	33
Cash payments to employees and suppliers		(12 612)	(11 744)
		4 028	**4 945**
Changes in operating assets and liabilities:			
Deposits with/from Central banks		(160)	(500)
Financial assets mandatorily at fair value through profit and loss		335	63
Financial assets at fair value through profit and loss		160	2
Financial assets at fair value through other comprehensive income		5 524	(7 655)
Financial assets at amortized cost		(8 695)	(56 364)
Securities		*18 225*	*18 908*
Loand and advances to banks		*(19 046)*	*(94 081)*
Loans and advances to customers		*(7 874)*	*18 809*
Financial liabilities at amortized cost		4 952	52 822
Deposits from banks		*3 502*	*1 139*
Due to customers		*1 450*	*51 683*
Other operating assets and liabilities		2 068	41
Cash flows from operating activities before income taxes		**8 212**	**(6 646)**
Income taxes paid		(1 503)	(1 128)
Net cash flows from operating activities		**6 709**	**(7 774)**
Cash flows from investing activities			
Dividends received		48	37
Acquisition of other tangible assets		(1 331)	(1 140)
Disposal of other tangible assets		92	1
Net cash flows from investing activities		**(1 473)**	**(1 102)**
Cash flows from financing activities			
Dividends paid on ordinary shares		-	(2 712)
Net cash flows from financing activities		**-**	**(2 712)**
Net changes in cash and cash equivalents		**5 236**	**(11 588)**
Cash and cash equivalents at beginning of period		**27 827**	**39 761**
Effect of foreign exchange rate changes on cash and cash equivalents		220	(346)
Net changes in cash and cash equivalents		5 236	(11 588)
Cash and cash equivalents at end of period		**33 283**	**27 827**
Cash and cash equivalents include:			
Cash and deposits with Central and other banks	17	38 876	33 260
(of which, Mandatory deposits) **(a)**	17	(5 593)	(5 433)
Total		**33 283**	**27 827**

(a) BEST constitutes its minimum reserves indirectly through Novo Banco, S.A. (see Note 17)

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

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

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

(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 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 27). 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 share exchange operation, the NOVO BANCO Group now holds the entire share capital of BEST (see Note 27).

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 the Bank of Portugal, the separate financial statements of BEST – Banco Electrónico de Serviço Total, S.A. (Bank or BEST) are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and in force as at 1 January 2019.

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

The financial statements herein presented relate to 31 December 2019. The accounting policies applied by the Bank in their preparation are consistent with those used in the preparation of the financial statements as at 31 December 2018.

Changes in accounting policies

New standards issued and standards amended

The Bank adopted in the preparation of the financial statements as at 31 December 2019, the accounting standards issued by the IASB and the IFRIC interpretations, effective since 1 January 2019, described in Note 33. The accounting policies adopted by the Bank in the preparation of the financial statements, described in this Note, were adopted accordingly.

In these financial statements the Bank adopted for the first time IFRS 16, with mandatory application for periods beginning on or after 1 January 2019. The Bank did not early adopt any other standard or interpretation.

IFRS 16 Leases

The Bank initially adopted IFRS 16 Leases as from 1 January 2019, with the comparative information presented for 2018 not having been restated, for which reason it is presented, as previously reported, in accordance with IAS 17 and the related interpretations.

According to IFRS 16:

- from a lessee position, the standard introduces a single model for accounting, with the recognition of the assets under right of use representative of the rights to use the underlying assets and the liabilities of the lease representative of the obligations to make lease payments;
- from a lessor position, the accounting remains identical to the existing accounting policies, with the leases being classified as financial or operational.

On the transition to IFRS 16, the Bank recognized assets under right of use and lease liabilities with the following impact on the financial statements:

	(thousands of Euros)
Assets under right of use presented in Tangible fixed assets	2 144
Lease liabilities	2 144

A. Definition of lease

The Bank adopted IFRS 16 using the Modified Retrospective approach, for which reason there was no impact on the net equity, given that there are no differences between the right of use asset and the lease liability at the time of the initial recognition on 1 January 2019.

On the transition to IFRS 16, the Bank chose to apply the “practical expedient” permitted by the standard to support the assessment as to which transactions are leases. The Bank only applied IFRS 16 to contracts that were previously identified as leases. Contracts that were not identified as leases in accordance with IAS 17 and IFRIC 4 have not been reassessed to determine whether they were leases. Therefore, the definition of a lease in accordance with IFRS 16 was applied only to contracts that came into force or were amended as from 1 January 2019 (inclusive).

Previously, the Bank classified real estate leases as operating leases in accordance with IAS 17. Leases typically run for periods of up to 5 years. Some of them include an option to renew the lease for additional periods ranging from 1 month to 20 years after the end of the non-cancellable period. Some leases also provide for additional rent payments due to changes in local price indices.

On the transition, for leases classified as operating leases in accordance with IAS 17, the lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's incremental financing rate on 1 January 2019. The assets under right of use are measured at the amount equivalent to the lease liability, adjusted by the amount of any advance or accumulated lease payments.

Practical expedients

The Bank adopted some practical expedients provided for in the standard on the application of IFRS 16 to leases previously classified as operating leases in accordance with IAS 17:

- Application of the exception of the non-recognition of assets under right of use and liabilities for short-term leases (i.e. with lease terms equal to or less than 12 months);
- Application of the exception of the non-recognition of assets under right of use and liabilities for low-value leases (i.e. value when new of less than Euros 5 thousand);
- Non-separation of the lease components from the non-lease components.

For leases that were classified as finance leases in accordance with IAS 17, the carrying amount of the assets under right of use and the lease liability as at 1 January 2019 were determined at the carrying amount of the lease asset and lease liability for the lease in accordance with IAS 17 immediately before that date.

The accounting standards and interpretations recently issued, but which have not yet come into force and which the Bank has not yet applied in the preparation of its financial statements can also be analysed in Note 40.

The financial statements are stated in Euros thousand, rounded to the nearest thousand. These were prepared on the going concern assumption from the accounting records and following the historical cost principle, with the exception of assets and liabilities recorded at fair value, namely derivative financial instruments, financial assets and liabilities at fair value through profit and loss, financial assets at fair value through other comprehensive income, and covered assets and liabilities, in the component that is being hedged.

Changes in accounting estimates

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 analysed in Note 3.

The financial statements as at 31 December 2019 were approved at the Board of Directors' meeting of 19 February 2020.

2.2. Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the foreign exchange rates prevailing on 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 on 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 on 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 financial assets at fair value through other comprehensive income, which are accounted for in reserves.

Foreign exchange differences relating to cash flow hedges and hedging of net investments in foreign operating units, if any, are recognized in other comprehensive income.

2.3. Derivative financial instruments and hedge accounting

Classification

The Bank classifies its derivatives portfolio into (i) hedging derivatives (fair value hedges) and (ii) trading derivatives that include, besides derivatives contracted with the objective of earning income, derivatives contracted to hedge certain financial assets and liabilities designated at fair value through profit and loss but that were not classified as hedging derivatives (fair value option).

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 hedging model used.

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. The margin accounts are recorded in Other assets and Other liabilities (see Notes 23 and 26) and include the minimum collateral required in respect of open positions.

The fair values of the remaining derivative financial instruments correspond to their market value, if available, or are determined using valuation techniques, including discounted cash flow models and options pricing models, as appropriate.

Hedge accounting

- Classification criteria

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

(i) The hedging instruments and the hedged items are eligible for a hedging relationship;

(ii) 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, the nature of the risk covered and the evaluation of the effectiveness of the hedge;

(iii) There is an economic relationship between the item hedged and the hedging instrument;

(iv) The credit risk effect does not dominate the changes in value resulting from that economic relationship; and

(v) The effectiveness of the hedge can be reliably measured, both at the inception of the hedge and on an ongoing basis.

The use of derivatives is framed within the risk management strategy and objectives of the Bank.

- 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. In cases where the hedging instrument covers an equity instrument designated at fair value through other comprehensive income, the changes in fair value are also recognized in other comprehensive income.

If the coverage no longer meets the requirement of effectiveness, but the objective of risk management remains, the Bank can adjust the coverage to meet the eligibility criteria (rebalancing).

If the hedge no longer meets the criteria for hedge accounting (in the event the hedging instrument expires, is sold, terminates or is exercised, without its substitution having been made in accordance with the documented risk management objective of the entity) 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 in the income statement 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.

Embedded derivatives

If a hybrid contract includes a base contract that is a financial asset under IFRS 9, the Bank classifies the entire contract in accordance with the policy outlined in Note 2.4.

If a hybrid contract includes a base contract that is not an asset under IFRS 9, an embedded derivative shall be separated from the base contract and accounted for as a derivative under this Standard if, and only if:

a) The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the base contract;
b) A separate instrument with the same terms as the embedded derivative would satisfy the definition of a derivative; and
c) The hybrid contract is not measured at fair value with changes in fair value being recognized in profit and loss (i.e. a derivative that is embedded in a financial liability at fair value through profit and loss is not separated).

These embedded derivatives are recorded at fair value with the changes being recognized in the income statement.

2.4. Other financial assets: Loans and advances to banks, Loans and advances to customers and Securities

Since 1 January 2018, the Bank classifies financial assets at the time of acquisition based on the business model considered and the characteristics of the contractual cash flows of these assets. This classification determines how the asset is measured after its initial recognition:

- At amortized cost: if it is included in a business model which objective is only to obtain contractual cash flows, which correspond only to payments of principal and interest on the amount of the principal outstanding (SPPI - solely payments of principal and interest);
- At fair value through other comprehensive income: if included in a business model which purpose is to obtain contractual cash flows and/or sales proceeds and the contractual cash flows fall within the scope of SPPI. In addition, it may be irrevocably chosen at initial recognition to present in equity the subsequent changes in the fair value of an investment in an equity instrument;
- Measured mandatorily at fair value through profit and loss: all cases not falling within the scope of SPPI;
- Measured at fair value through profit and loss: the remaining financial instruments not included in the business models described above. If these assets are acquired for the purpose of being transacted in the short term, they are classified as held for trading.

The Bank, in accordance with its documented risk management strategy, contracts derivative operations (derivatives held for risk management purposes) in order to cover certain risks of certain operations, without, however, resorting to hedge accounting as described in Note 2.3. In these situations, assets and liabilities are recognized at fair value through profit and loss. In this manner, consistency in the valuation of assets and liabilities and derivatives (accounting mismatch) is ensured.

Initial recognition and measurement, and derecognition

These financial assets are initially recognized at fair value plus transaction costs, except for financial assets at fair value through profit and loss, where transaction costs are directly recognized in the income statement.

Financial assets are derecognized from the balance sheet when (i) the Bank's contractual rights to their cash flows have expired, (ii) the Bank has substantially transferred all the risks and benefits associated with their holding, or (iii) although the Bank retained part, but not substantially all the risks

and rewards associated with their holding, control over the assets was transferred. When an operation measured at fair value through other comprehensive income is derecognized, the accumulated gain or loss previously recognized in other comprehensive income is reclassified to profit and loss. In the specific case of equity instruments, the cumulative gain or loss previously recognized in other equity is not reclassified to profit and loss, being transferred between equity accounts.

Loans and advances to banks and Loans and advances to customers are recorded on the date the amount of the transaction is advanced to the counterpart. The acquisitions and disposals of securities are recognized on the trade date, that is, on the date the Bank undertakes to acquire or dispose of the asset.

Financial assets at amortized cost or at fair value through other comprehensive income

In accordance with IFRS 9 - Financial Instruments, for a financial asset to be classified and measured at amortized cost or at fair value through other comprehensive income, it is necessary that:

(i) the contractual clauses shall give rise to cash flows that correspond only to payments of principal and interest on the outstanding amount (SPPI-solely payments of principal and interest). For the purposes of the SPPI test, the principal is the fair value of the financial asset at the time of initial recognition. The contractual flows that are SPPI are consistent with a basic loan agreement. Contractual clauses that introduce exposure to risks or volatility of contractual cash flows that are not related to a basic loan agreement, such as exposure to changes in share or commodity prices, do not give rise to contractual cash flows that are only payments relating to principal and interest calculated on the amount of principal outstanding. In these cases, financial assets must be measured at fair value through profit and loss;

(ii) the business model of the financial asset is to receive only the contractual flows to maturity (asset at amortized cost) or to receive the contractual flows to maturity and obtain a gain on its sale (asset at fair value through other comprehensive income). The assessment of the business models of the financial asset is fundamental for its classification. The Bank determines business models by financial asset groups according to how they are managed to achieve a particular business objective. The Bank's business models determine whether cash flows will be generated by obtaining only contractual cash flows, flows from the sale of financial assets or both. On the initial recognition of a financial asset, the Bank determines whether it is part of an existing business model or reflects a new business model. The Bank reassesses its business models in each reporting period to determine whether changes in business models have occurred since the last reporting period.

The above requirements do not apply to lease receivables, which meet the criteria set out in IFRS 16 - Leases.

Financial assets that are subsequently measured at amortized cost or at fair value through other comprehensive income are subject to impairment.

Financial assets at fair value through other comprehensive income are initially recorded at fair value and subsequently also measured at fair value; however, the respective changes are recognized in reserves (other comprehensive income) until the assets are derecognized, at which point the accumulated amount of the potential gains and losses recorded in reserves is transferred to the caption Gains/(losses) from financial assets at fair value through profit and loss. In the specific case of equity instruments, the cumulative gain or loss previously recognized in other equity is not reclassified to profit and loss, being transferred between equity accounts. However, the dividends received from these equity instruments are recognized in the income statement.

Financial assets at amortized cost are initially recorded at acquisition cost and are subsequently measured at amortized cost based on the effective interest rate method. Interest, calculated at the effective interest rate, and dividends are recognized in the income statement.

Financial assets at fair value through profit and loss

An asset recorded at fair value through profit and loss presents the following characteristics:

- the contractual cash flows are not SPPI (mandatorily at fair value through profit and loss); or/and
- it is held in a business model that is not intended to obtain only contractual cash flows or to obtain contractual cash flows and its sales proceeds; or,
- it is designated at fair value through profit and loss as a result of applying the fair value option.

These assets are measured at fair value and the respective revaluation gains or losses are recognized in the income statement.

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

In the event the Bank changes a business model, the financial assets included in that model are reclassified, and the classification and measurement requirements for the new category are applied prospectively as from that date.

Impairment

The Bank recognizes impairment for expected credit losses ("ECLs") on the following debt instruments:

- Loans and advances to customers;
- Guarantees issued;
- Import documentary credits;
- Confirmed export documentary credits;
- Unused credit lines;
- Deposits and loans and advances to banks (“Money Market”);
- Own securities’ portfolio.

The debt instruments of this universe that are classified at amortized cost or fair value through other comprehensive income are considered in the scope of the impairment calculation.

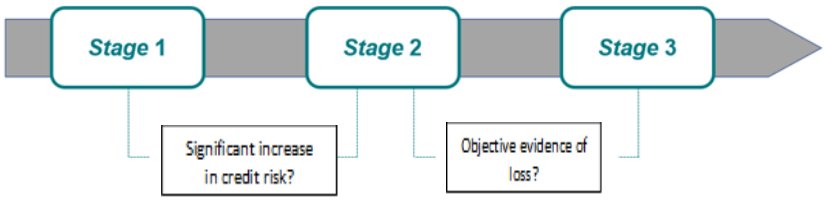
The impairment losses identified are recorded in the income statement and are subsequently reversed through the income statement if, in a subsequent period, the estimated loss amount decreases.

The approach taken for the calculation of impairment distinguishes between the calculation of expected losses at 12 months - Stage 1 - and the calculation of expected lifetime losses. To determine expected lifetime losses, the approach considers the projection of the contractual cash flows - Stage 2 - or the present value of the expected recoveries - Stage 3. Thus, the model of impairment by Stage is summarized as follows:

- expected loss resulting from a potential loss event occurring within the next 12 months after the calculation date (Stage 1); or
- expected loss, resulting from all potential loss-to-maturity events, applied to the projection of the contractual cash flows (Stage 2); or
- expected loss resulting from the difference between the amount outstanding and the present value of the cash flows estimated to be recovered from the exposure[1] (Stage 3).

[1] Parameters used to determine recoveries vary, essentially, in function of the risk profile/nature of the exposure

Therefore, for the determination of impairment, all exposures are previously classified by Stage according to their level of credit risk, as summarized in the figure below:



- Stage 3

  The process of assigning a Stage to an exposure starts by checking whether the Stage 3 criterion applies. If the exposure is classified as in Default - according to the internal definition in force[2] - that exposure is classified as Stage 3.

  Thus, the classification of exposures in Stage 3 is based on the occurrence of a default event, with objective evidence of loss being verified at the time as from which a significant change occurs in the creditor/borrower relationship, which subjects the creditor to a monetary loss.

- Stage 2

  Exposures are classified as Stage 2 whenever there is a significant increase in the exposure's credit risk. If there is no objective evidence of loss associated with the exposure, the criteria are analysed to determine whether the exposure has suffered a significant increase in credit risk.

  The significant increase in credit risk is assessed through qualitative and quantitative indications. Once it is verified that - at least - one of these indications is active, the exposure is classified in Stage 2.

  As explained in IFRS 9, the assessment of the significant increase in credit risk also involves comparing the current level of risk of an exposure against its level of risk at origination.

  Thus, the Bank assigns to the exposure/borrower an internal credit risk rate, depending on the quality of the respective exposure/borrower, and associated with that rate is a probability of default. On assessing whether the credit risk of an exposure has increased significantly since its initial recognition, the Bank compares, at the current reporting date, the exposure risk

[2] The internal definition of Default is aligned with Article 178 of the CRD IV, that prescribes the criteria as material non-performance over 90 days and unlikely to pay

to maturity versus the same risk of default on the recognition date of the financial instrument. Depending on whether the change observed is above a defined threshold - relative and/or absolute - the exposure is classified in Stage 2.

In addition to this indication, others are considered and imply, by their verification, the classification in Stage 2 – for example, material non-compliance for more than 30 days, signs of risk in the financial system and an internal credit risk rate above a certain threshold.

- Stage 1

  The classification of exposures in Stage 1 depends on:

  (i) the absence of active indications of Stage 3 and Stage 2 classification, mentioned and described above; or,

  (ii) the framing of these exposures under the scope of the low-credit risk exemption. These exposures, if not in Stage 3, are automatically classified in Stage 1.

The Bank calculates impairment, on a collective or individual basis, on the incidence base by means of an initial classification of its respective risk level - Stage 1, 2 or 3 in the collective analysis model, and the going concern or gone concern approach in the individual analysis model.

If, for a given loan, there is no objective evidence of impairment on an individual perspective, such loan is included in a group of loans with similar credit risk characteristics (loan portfolio segment), which is assessed collectively by applying risk factors estimated for the respective segment of the exposure - impairment analysis on a collective basis. For the exposures that are assessed individually and for which, as a result of that analysis, an impairment loss is identified, the corresponding amount calculated prevails over the impairment calculated in the collective analysis.

For the individual analysis, the following customers are selected:

- for all customers in default (stage 3), or stage 2 and with no rating assigned, with an exposure higher than Euros 1 million;
- for all customers in stage 2, with an exposure higher than Euros 5 million;
- for all customers in stage 1 and without a rating, with a credit exposure higher than Euros 5 million;
- for all customers belonging to the real estate development or financial holding sectors, with a credit exposure higher than Euros 5 million;
- for all other customers in stage 1 with an exposure higher than Euros 25 million; and
- the following customers are also selected:

- those identified by the Bank itself based on another criterion that is justified (e.g. activity sector);
- those which in the past had been attributed specific impairment;
- those which in the face of some new element that may have repercussions on the calculation of impairment, are proposed for analysis by one of the members of the Impairment Committee or by another Body/Forum.

In the context of the impairment analysis on a collective basis, exposures are grouped based on similar credit risk characteristics in function of the risk assessment defined by the Bank. For each of these homogeneous risk groups, risk factors are estimated and then applied in the scope of the impairment calculation.

Scenario analysis

As envisaged in the IFRS 9 regulations, the impairment estimate should reflect different expectations of macroeconomic developments, i.e., it should incorporate multiple scenarios. In order to incorporate the effects of future macroeconomic behaviour on loss estimates, forward looking macroeconomic estimates are included in some of the risk parameters used to calculate impairment. In fact, different possible scenarios are considered that give rise to the same number of impairment results.

In this context, the process for the definition of macroeconomic scenarios must consider the following principles:

- Representative scenarios that capture the existing non-linearities (e.g. a baseline scenario, a scenario with more favourable macroeconomic perspectives and a scenario with less favourable macroeconomic perspectives);
- The baseline scenario should be consistent with the inputs used in other exercises in the Bank (e.g.: Planning). This is ensured because the option used for the purpose of calculating impairment was precisely the same as the one used in internal and/or regulatory planning exercises.
- Alternative scenarios to the baseline scenario should not translate extreme scenarios;
- The correlation between the projected variables must be realistic with the economic reality (e.g.: if GDP is increasing, unemployment is expected to be decreasing).

The macroeconomic scenarios and projections available also have an occurrence probability. Thus, when reviewing/updating the scenarios, the respective probabilities of execution are also reviewed. Once the scenarios are updated, the values of the risk parameters are updated for subsequent consideration in the scope of the impairment calculation. The final impairment calculated will thus

result from the sum of the impairment value of each scenario, weighted by the respective probability of execution.

It is also important to mention that there is a specific universe of portfolios where the internal credit risk rates incorporate, through their allocation process, forward-looking information. We refer to the portfolios commonly denominated Low Default Portfolios for which the allocation of the internal credit risk rate is made from a medium- and long-term perspective and incorporates all the available forward-looking information.

Thus, for this universe of portfolios the incorporation of forward-looking information is assured.

Write-offs

A write-off is defined as the derecognition of a financial asset from the Bank's balance sheet, which should only occur when cumulatively:

(i) The total amount of the loan has been demanded, that is to say, the loans must be fully booked in non-performing loans, with no maturing debt. Exemptions from this requirement are debt restructuring/pardon made under extrajudicial agreements, PERs (Special Recovery Processes) and Insolvencies, where part of the loan may be kept active while the remainder of the loan owed is written off under a judicial/extra-judicial decision;

(ii) All recovery efforts considered adequate have been developed (and relevant evidence of same gathered) and further attempts to recover the asset are not considered economically viable;

(iii) Loan recovery expectations are very low, leading to an extreme scenario of total impairment – 100% impairment. This rule is only applicable for contracts without guarantees and provided the entire contract is considered past due. In the remaining cases, it is necessary to ensure that the amount to be written off from the asset is 100% impaired (constituted at least one month prior to the write-off); and

(iv) A definitive agreement is obtained in the context of a restructuring or debt pardon and the remaining balance can no longer be collected;

Or, additionally, if it is considered more economical to sell the loan to a third party. At the time of sale, the difference between the sale amount and the carrying value must be 100% provisioned, and at the time of sale the derecognition of the loan sold against the receipt of the funds/assets and consequent utilization of the impairment in the balance sheet will be made.

Receipts subsequent to write-off shall be recorded as write-off recoveries.

2.5. Sale and repurchase agreements, securities' loans and short sales

The securities sold subject to repurchase agreements (repos) at a fixed price or at sales price plus a return are not de-recognized from the balance sheet. 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.

The securities purchased under agreements to resell (reverse repos) at a fixed price or at purchase price plus a return are not recognized in the balance sheet, 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 ceded under loan agreements are not de-recognized, being classified and valued in accordance with the accounting policy described in Note 2.4. 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 resale agreement. Gains and losses resulting from the respective change in fair value are recognized directly in the income statement.

2.6. 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 is settled, expires or is cancelled.

Non-derivative 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 and loss, which are measured at fair value.

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

- such designation eliminates or significantly reduces an inconsistency of measurement or recognition that would otherwise result;
- the financial liability integrates a group of financial assets or financial liabilities or both, which is managed and measured on a fair value basis, in accordance with the risk management or investment strategy of the Bank; or,
- such financial liabilities contain embedded derivatives and IFRS 9 allows the totality of the hybrid contract to be designated at fair value through profit and loss.

Reclassifications between categories of liabilities are not permitted.

The structured products issued by the Bank - with the exception of structured products in respect of which the embedded derivatives were separated and recorded separately and revalued at fair value - because they always fall into one of the situations described above, follow the valuation method of financial liabilities at fair value through profit and loss.

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 own credit risk of the Group's issuing entity.

Gains or losses arising on the revaluation of liabilities at fair value are recorded in the income statement. However, the change in fair value attributable to changes in credit risk is recognized in other comprehensive income. At the time of the derecognition of the liability, the amount recorded in other comprehensive income related to changes in credit risk is not transferred to the income statement.

The Bank accounts for a substantial modification of the terms of an existing liability or part thereof as an extinction of the original financial liability and the recognition of a new liability. The terms are assumed to be substantially different if the present value of the cash flows under the new terms, including any commissions paid net of any commissions received, and discounted using the original effective interest rate, is at least 10% different from the present value of the remaining discounted cash flows of the original financial liability. The difference between the carrying value of the original liability and the amount of the new liability is recorded in profit and loss.

If the Bank repurchases debt issued, same is annulled from the balance sheet and the difference between the carrying value of the liability and the purchase amount is recorded in profit and loss.

2.7. 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 contractual terms of debt instruments, namely 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.

2.8. Equity instruments

An instrument is classified as an equity instrument when it does not contain a contractual obligation for its settlement to be made through the delivery of 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 issue 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.

2.9. Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is an enforceable legal right to set off 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 the Bank's activity, as well as in the event of the default, bankruptcy or insolvency of the Bank or the counterpart.

2.10. Assets acquired in recovery of loans and non-current assets held for sale

In the course of its current lending activity, the Bank incurs in the risk of not being able to recover all of its loans. In the case of loans with mortgage collateral, the Bank proceeds with the execution of same receiving real estate and other assets in settlement of the loan granted. Under the provisions of the General Regime governing Credit Institutions and Financial Companies (RGICSF), Banks are barred, unless authorized by the Bank of Portugal, from acquiring real estate that is not indispensable to their installation and operation or to the pursuit of their corporate purpose (no. 1 of Article 112 of the RGICSF), but may acquire real estate in reimbursement of its own loans, with the resulting situations having to be regularized within a period of 2 years which, if there is good reason, may be extended by the Bank of Portugal, under such conditions as it may determine (Article 114 of the RGICSF).

Although the Bank's objective is the immediate sale of all properties received in settlement of loans, during the 2016 financial year the Bank altered the classification of these properties from Non-current assets held for sale to Other assets, given that the assets are held in the portfolio for longer than 12 months. However, the method of accounting did not change, being recorded at initial recognition at the lower of their fair value less expected costs to sell and the carrying value of the loan being recovered. Subsequently, these assets are measured at the lower of the initial recognition value and the fair value less costs to sell and are not amortized. Unrealized losses on these assets, thus determined, are recorded in the income statement.

The valuations of these properties are carried out according to one of the following methodologies, applied according to the specific situation of the property:

(i) Market Method

The Market Method refers to property transaction values similar and comparable to the property object of the study obtained through market prospecting realized in the area.

(ii) Revenue Method

This method aims to estimate the value of the property through the capitalization of its net rentals, discounted to the present moment, using the discounted cash flow method.

(iii) Cost Method

The Cost Method aims to reflect the amount that would be currently required to substitute the assets in their present condition, breaking down the value of the property into its fundamental components: Urban Land Value and Urbanity Value; Construction Value; and Indirect Costs Value.

The valuations are performed by independent professional appraisers. The valuation reports are analysed internally to measure the adequacy of the assumptions, comparing the historical sales amounts with the revalued amounts of the properties, to ensure that the parameters and valuation processes are in line with the market evolution.

2.11. Other tangible assets

The 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 incurred with tangible fixed assets are recognized only when it is probable that future economic benefits associated with same will flow to the Bank. All other repair and maintenance expenditure is charged to the income statement during the financial year in which it is incurred.

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

	Number of years
Buildings for own use	35 to 50
Improvements in leasehold property	10
Computer equipment	4 to 5
Furniture	4 to 10
Fixtures	5 to 12
Security equipment	4 to 10
Office equipment	4 to 10
Motor vehicles	4
Other equipment	5

The useful lives and residual values of the tangible fixed assets are reviewed at each reporting date.

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, considering the depreciation that these would have undergone.

The recoverable amount is determined as the lower of its fair value less selling costs and its value in use, the latter being determined based on the net present value of the estimated future cash flows expected to be obtained from the continued use and ultimate disposal of the asset.

On the date of the derecognition of a tangible asset, the gain or loss calculated by the difference between the fair value less costs to sell and the net carrying value is recognized in the income statement in the caption Other operating income or Other operating expenses.

2.12. Intangible assets

The costs incurred with the acquisition, production and development of software are capitalized, as are the costs incurred to bring same 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 software, and that will probably generate economic benefits beyond one financial year, are recognized and recorded as intangible assets.

All remaining costs related to IT services are recognized as an expense as incurred.

2.13. Leases

IFRS 16 Leases

According to IFRS 16:

- from a lessee position, the standard introduces a single model for accounting, with the recognition of the assets under right of use representative of the rights to use the underlying assets and the liabilities of the lease representative of the obligations to make lease payments;
- from a lessor position, the accounting depends on the classification of the lease as financial or operational.

The Bank adopted IFRS 16 using the Modified Retrospective approach, for which reason there was no impact on the net equity, given that there are no differences between the right of use asset and the lease liability at the time of the initial recognition on 1 January 2019.

A. Definition of lease

- Determining whether an Agreement Contains a Lease. The Bank assesses whether an agreement is or contains a lease based on the definition of a lease. According to IFRS 16, an agreement is, or contains, a lease if it carries the right to control the use of an identified asset over a certain period, in exchange for a consideration.

For leases where the entity is a lessee, it was decided not to separate the non-lease components but rather to account for the lease and non-lease components as a single lease component.

B. As lessee

Financial leasing agreements are recorded on the date they start, in assets and liabilities, being capitalized at the lower of the fair value of the leased assets and the minimum lease payments contracted. Instalments comprise (i) an interest charge, which is recognized in the income statement and (ii) the repayment of principal, which is deducted from liabilities. Finance 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.

The Bank leases several assets, including real estate, vehicles, and computer equipment.

As a lessee, the Bank initially classified leases as operating or finance leases, based on the general assessment of whether the lease transfers substantially all the risks and benefits associated with the ownership of the underlying assets. In accordance with IFRS 16, the Bank recognizes assets under right of use and lease liabilities for some asset classes, i.e., these leases are included in the entity's balance sheet.

However, the Bank chose not to recognize assets under right of use and liabilities for short-term leases, where the lease term is equal to or less than 12 months, and for low-value asset leases (e.g. computer equipment). The Bank recognizes lease payments associated with these leases as expenses on a straight-line basis over the lease term.

The Bank presents assets under right of use that do not fit the definition of investment property under "Tangible fixed assets", in the same lines of the items presenting the underlying assets of the same

nature that are its own property. Assets under right of use that fall under the definition of investment property are presented as investment property

The Bank presents the lease liabilities under "Other liabilities" in the statement of financial position.

Significant judgment in determining the lease term of the agreements

The Bank applied judgment in determining the lease term for some agreements, in which it is in the lessee position, which include renewal and termination options. The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain that it will be exercised, or any periods covered by an option to terminate the lease, if it is reasonably sure not to be exercised. This assessment will have an impact on the lease term, which will significantly affect the amount of the lease liabilities and the assets under right of use recognized.

The Bank has the option, namely in real estate lease agreements, to lease the assets for additional terms of 1 month through 20 years. The Bank applies judgment when assessing whether it is reasonably certain it will exercise the renewal option. In other words, it considers all the relevant factors that create an economic incentive for the exercising of the renewal option.

For leases classified as operating leases in accordance with IAS 17, the lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's incremental financing rate on 1 January 2019. The assets under right of use are measured at the amount equivalent to the lease liability, adjusted by the amount of any advance or accumulated lease payments.

Practical expedients

The Bank adopts some practical expedients provided for in the standard on the application of IFRS 16:

- Application of the exception of the non-recognition of assets under right of use and liabilities for short-term leases (i.e. with lease terms equal to or less than 12 months);
- Application of the exception of the non-recognition of assets under right of use and liabilities for low-value leases (i.e. value when new of less than Euros 5 thousand);
- Non-separation of the lease components from the non-lease components.

C. As lessor

Finance leases

Leasing contracts are recorded in the balance sheet as loans granted for the amount equivalent to the net investment made in the leased assets, together with any estimated non-guaranteed residual value. Interest included in instalments charged to customers is recorded as interest income, while the repayments of principal, also included in the instalments, are deducted from the amount of the loans granted to customers. The recognition of the interest reflects a constant periodic rate of return on the lessor's net outstanding investment.

Operating leases

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

As at 31 December 2018, the Bank classified 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. The accounting policies applicable to the Bank as lessor are not different from the accounting policies applicable under IAS 17.

2.14. Employee benefits

Variable remuneration paid to employees

The Bank recognizes in costs the short-term benefits attributed to employees who rendered services in the respective accounting period.

- Profit-sharing and bonus plans
  The Bank recognizes the estimated costs 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 regard to 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.

2.15. Income taxes

The Bank is subject to the tax regime laid down in the Corporate Income Tax Code (Código do Imposto sobre o Rendimento das Pessoas Coletivas (CIRC).

Total 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, fact which implies its recognition in equity. Deferred taxes recognized directly in equity relating to the measurement of assets at fair value through other comprehensive income and of cash flow hedges are 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 and any adjustments to taxes of prior periods. The tax is recognized in each financial reporting period, based on Management's estimates of the average annual effective tax rate forecast for the entire fiscal year.

Current tax is calculated based on the taxable income for the period, which differs from the accounting income due to adjustments resulting from expenses or income that are not relevant for tax purposes or that will only be considered in subsequent years.

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, and that are expected to come to apply when the timing differences reverse.

Deferred tax liabilities are recognized for all taxable timing differences, except for i) the differences arising on the initial recognition of assets and liabilities that neither affect the accounting nor the taxable income; ii), those that do not result from a business combination, and iii) the differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

Deferred tax assets are recognized to the extent that it is probable that future taxable income will be available to absorb the deductible timing differences for tax purposes (including tax losses carried forward).

Deferred tax liabilities are always recorded, regardless of the Bank's performance.

The Bank proceeds, as established in IAS 12, paragraph 74, to offset deferred tax assets and liabilities whenever (i) it has the legally enforceable right to offset current tax assets and current tax liabilities; and (ii) the deferred tax assets and liabilities relate to income tax levied by the same taxing authority on the same taxable entity or different taxable entities that want to settle current tax liabilities and assets on a net basis or to realize the assets and settle the liabilities simultaneously, in each future period in which the deferred tax liabilities or assets are expected to be settled or recovered.

2.16. Provisions and Contingent liabilities

Provisions are recognized when: (i) the Bank has a present, legal or contractual, 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.

Provisions related to legal proceedings, opposing the Bank to third parties, are set up in accordance with the internal risk assessments carried out by Management, with the support and advice of its legal consultants.

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. In these cases, the increase in the provision due to the passage of time is recognized in financial costs.

Provisions shall be 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 shall be recognized when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable costs of meeting the obligations arising under same. This provision shall be 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 expenses are recognized in the income statement under interest income and interest expenses, respectively, for financial instruments measured at amortized cost and for the financial assets at fair value through other comprehensive income, using the effective interest rate method. Interest income and expenses arising from financial assets and liabilities at fair value through profit and loss are also included under interest income or interest expenses, respectively.

The effective interest rate is the rate that exactly discounts the 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 is re-estimated periodically considering the estimated future impacts 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 income includes interest on financial assets for which impairment was recognized. The interest on financial assets classified in Stage 3 are determined applying the effective interest rate method to the net carrying value. When the assets cease to be included in Stage 3, the interest is calculated based on the gross carrying value.

For derivative financial instruments, the interest component inherent in the changes in fair value of derivative financial instruments classified as fair value hedges and fair value options are recognized in the captions of interest income or interest expenses. For the remaining derivatives, the interest component inherent in the change in fair value will not be separated and will be classified under the caption Net gains/(losses) from financial assets and liabilities at fair value through profit and loss (see Note 2.3).

2.18. Recognition of fee and commission income

Fee and commission income is recognized as revenue from contracts with customers in the same measure the performance obligations are met:

- 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 to which they relate;
- 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, the Bank 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 in circulation 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 in circulation is adjusted to reflect 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 a maturity of less than three months from the acquisition/contracting date and which risk of change in value is immaterial, including cash and deposits with Central and other banks. Cash and cash equivalents exclude mandatory deposits with Central Banks.

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 their disclosure.

3.1. Impairment of financial assets accounted for at amortized cost and at fair value through other comprehensive income

The critical judgments with the greatest impact on the recognized amounts of impairment of financial assets accounted for at amortized cost and at fair value through other comprehensive income are as follows:

- Assessment of the business model: the classification and measurement of financial assets depends on the results of the SPPI test and the definition of the business model. The Bank determines the business model depending on how it wants to manage financial assets and business objectives. Annually, the Bank monitors whether the business model classification is appropriate based on the analysis of the anticipated derecognition of assets at amortized cost or at fair value through other comprehensive income, assessing whether a prospective change is necessary;
- Significant increase in credit risk: as stated in policy 2.4 - Other financial assets, the determination of the transfer of an asset from stage 1 to stage 2 for the purpose of determining its impairment is made on the basis of a significant increase in its credit risk, with IFRS 9 not objectively defining what constitutes a significant increase in credit risk;
- Classification of an exposure as "in default": the internal definition at the NOVO BANCO Group of an exposure in default is broadly in line with the regulatory definition in Article 178 of the CRR/CRD IV. This same regulation establishes qualitative criteria for the assessment of the state of default – "unlikely to pay" -, criteria which are replicated in the internal definition implemented

by the Bank and which result in judgments regarding the high probability that the borrower does not fulfil the obligations under the conditions agreed with the Bank;

- Definition of groups of assets with similar credit risk characteristics: when the expected credit losses are measured in a collective model, the financial instruments are grouped based on the same risk characteristics. The Bank monitors the adequacy of the credit risk characteristics in order to ensure that a proper reclassification of the assets is made, in case of changes in credit risk characteristics;
- Models and assumptions used: the Bank uses several models and assumptions in the measurement of the estimate of expected credit losses. The judgment is applied in the identification of the most appropriate model for each type of asset as well as to determine the assumptions used in these models, including the assumptions related to the main drivers of credit risk. In addition, in compliance with the IFRS 9 regulations that explain the need for the impairment result to consider multiple scenarios, a methodology for incorporating scenario analysis in the risk parameters was implemented. Thus, the collective impairment calculation considers several scenarios with a specific weighting, based on the internal methodology defined for scenario analysis - definition of multiple perspectives of macroeconomic evolution, with a relevant probability of occurrence.

3.2. Fair value of derivative financial instruments and other financial assets and liabilities at fair value

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 discounted taking 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. The Bank uses various models and assumptions in the measurement of the fair value of financial assets. Judgement is applied in identifying the most appropriate model for each asset type as well as to determine the assumptions used in these models, including the assumptions related to the main drivers of credit risk.

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 Note 31.

3.3. Income taxes

The Bank is subject to taxes on its income. Significant interpretations and estimates are required in determining the global amount of income taxes. Different interpretations and estimates could result in a different level of income taxes, current and deferred, being recognized in the period and evidenced in Note 22.

The Tax Authorities are entitled to review the Bank's taxable income self-assessment during a period of four years (except in the event tax losses have been carried forward, as well as any other deduction or tax credit, in respect of which the statutory limitation period is the exercise of that right). Hence, it is possible that the taxable income may be corrected, 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 to the income taxes recorded in the financial statements.

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)

	31.12.2019		31.12.2018	
	Of assets/liabilities at amortized cost and assets at fair value through other comprehensive income	Total	Of assets/liabilities at amortized cost and assets at fair value through other comprehensive income	Total
Interest income				
Interest from loans and advances to customers	2 570	2 570	2 896	2 896
Interest from deposits with and loans and advances to banks	3 073	3 073	3 765	3 765
Interest from securities	857	857	1 163	1 163
	6 500	**6 500**	**7 824**	**7 824**
Interest expenses				
Interest on amounts due to customers	839	839	1 233	1 233
Interest on deposits from Central and other banks	12	12	9	9
Other interest and similar charges	10	10	1	1
	861	**861**	**1 243**	**1 243**
	5 639	**5 639**	**6 581**	**6 581**

NOTE 6 – DIVIDEND INCOME

This caption comprises:

(thousands of Euros)

	31.12.2019	31.12.2018
Of non-negotiable financial assets mandatorily at fair value through profit and loss		
Shares	5	7
Of financial assets at fair value through other comprehensive income		
Shares	43	30
	48	**37**

NOTE 7 – NET FEE AND COMMISSION INCOME

This caption comprises:

(thousands of Euros)

	31.12.2019	31.12.2018
Fee and commission income		
From banking services	9 146	9 858
From guarantees issued	2 486	2 566
From transactions with securities	2 361	1 681
From commitments to third parties	1	3
Other fee and commission income	1 015	898
	15 009	**15 006**
Fee and commission expenses		
On banking services rendered by third parties	343	380
On transactions with securities	209	206
Other fee and commission expenses	4 024	4 254
	4 576	**4 840**
	10 433	**10 166**

NOTE 8 – NET GAINS/(LOSSES) FROM DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS

This caption comprises:

(thousands of Euros)

	31.12.2019			31.12.2018		
	Gains	Losses	Total	Gains	Losses	Total
Of financial assets at fair value through other comprehensive income						
Securities						
Bonds and other fixed-income securities						
Of Government/public issuers	2 125	-	2 125	804	-	804
	2 125	**-**	**2 125**	**804**	**-**	**804**
Of financial assets and liabilities at amortized cost						
Securities						
Bonds and other fixed-income securities						
Of other issuers	-	-	-	957	-	957
Loans and advances	1	-	1	13	13	-
	1	**-**	**1**	**970**	**13**	**957**
	2 126	**-**	**2 126**	**1 774**	**13**	**1 761**

NOTE 9 – NET GAINS/(LOSSES) FROM FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

This caption comprises:

(thousands of Euros)

	31.12.2019			31.12.2018		
	Gains	Losses	Total	Gains	Losses	Total
Securities						
Bonds and other fixed-income securities						
Of other issuers	260	-	260	-	-	-
Derivative financial instruments						
Exchange rate contracts	546	746	(200)	967	615	352
Interest rate contracts	19	19	-	41	39	2
Equity/Index contracts	95	177	(82)	158	113	45
Other	1	-	1	-	-	-
	921	**942**	**(21)**	**1 166**	**767**	**399**

NOTE 10 – NET GAINS/(LOSSES) FROM FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS

This caption comprises:

(thousands of Euros)

	31.12.2019			31.12.2018		
	Gains	Losses	Total	Gains	Losses	Total
Gains or losses from financial assets mandatorily measured at fair value through profit and loss						
Securities						
Shares	377	-	377	94	-	94
	377	**-**	**377**	**94**	**-**	**94**

NOTE 11 – NET GAINS/(LOSSES) FROM FOREIGN EXCHANGE REVALUATION

This caption comprises:

(thousands of Euros)

	31.12.2019			31.12.2018		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange revaluation	6 441	6 221	220	8 266	8 612	(346)
	6 441	**6 221**	**220**	**8 266**	**8 612**	**(346)**

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 12 – NET GAINS/(LOSSES) FROM DERECOGNITION OF NON-FINANCIAL ASSETS

This caption comprises:

(thousands of Euros)

	31.12.2019	31.12.2018
Other	(1)	-
	(1)	**-**

The amount of the losses recorded in 2019 refers to the disposal of other tangible assets.

NOTE 13 - OTHER OPERATING INCOME AND OTHER OPERATING EXPENSES

This caption comprises:

(thousands of Euros)

	31.12.2019	31.12.2018
Other operating income		
Results of loan recoveries	51	33
Other	226	157
	277	**190**
Other operating expenses		
Direct and indirect taxes	(7)	(24)
Contributions to the deposits guarantee fund	(1)	(1)
Banking levy	(163)	(126)
Other	(194)	(98)
	(365)	**(249)**
Other operating income/(expenses)	**(88)**	**(59)**

NOTE 14 – STAFF COSTS

Staff costs have the following breakdown:

(thousands of Euros)

	31.12.2019	31.12.2018
Wages and salaries	4 385	3 618
Remuneration	*4 385*	*3 618*
Mandatory social charges	895	821
Other costs	133	110
	5 413	**4 549**

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

	31.12.2019	31.12.2018
Top management functions	31	32
Middle management functions	17	15
Specific functions	73	70
Administrative and other functions	12	12
	133	**129**

NOTE 15 – GENERAL AND ADMINISTRATIVE EXPENSES

This caption comprises:

(thousands of Euros)

	31.12.2019	31.12.2018
Rentals	99	932
Advertising	989	947
Communication	1 118	1 179
Maintenance and repairs	31	23
Travel and entertainment	69	75
Transport	10	8
Insurance	57	31
IT services	1 486	1 626
Independent work	82	146
Assignment of human resources	1 607	1 303
Temporary work	31	27
Electronic payment systems	262	220
Legal costs	356	515
Consultants and auditors	93	218
Water, energy and fuel	43	32
Consumables	13	26
Other costs	824	857
	7 170	**8 165**

The fees invoiced during financial years 2019 and 2018 by the Statutory Audit Firm, disclosed in accordance with the provision of Article 66-A of the Portuguese Commercial Companies Code, have the following breakdown:

(thousands of Euros)

	31.12.2019	31.12.2018
Statutory audit fees	26	21
Other services	23	22
Total amount of the services invoiced	**49**	**43**

NOTE 16 – 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 in circulation during the period.

(thousands of Euros)

	31.12.2019	31.12.2018
Net income attributable to the shareholders of the Bank	**2 669**	**3 564**
Weighted average number of ordinary shares in circulation (thousands)	63 000	63 000
Basic earnings per share attributable to the shareholders of the Bank (in Euros)	**0.04**	**0.06**

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 in circulation, adjusted for the effects of all potential dilutive ordinary shares.

As at 31 December 2019 and 2018, the Bank had no potential dilutive ordinary shares, and so the diluted earnings per share is equal to the basic earnings per share.

NOTE 17 – CASH AND DEPOSITS WITH CENTRAL AND OTHER BANKS

As at 31 December 2019 and 2018, this caption is analysed as follows:

(thousands of Euros)

	31.12.2019	31.12.2018
Deposits with banks in Portugal		
Demand deposits	12 424	13 085
	12 424	**13 085**
Deposits with banks abroad		
Other deposits	26 452	20 175
	26 452	**20 175**
	38 876	**33 260**

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 2019, the balance of that account amounted to Euros 5 593 thousand (31 December 2018: Euros 5 433 thousand), and the average interest rate on same was nil (31 December 2018: nil).

NOTE 18 – FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

As at 31 December 2019 and 2018, this caption is analysed as follows:

(thousands of Euros)

	31.12.2019	31.12.2018
Financial assets held for trading		
Derivatives		
Derivatives held for trading with a positive fair value	50	584
	50	**584**
Financial liabilities held for trading		
Derivatives		
Derivatives held for trading with a negative fair value	294	647
	294	**647**

Derivatives

As at 31 December 2019 and 2018, the derivatives held for trading may be analysed as follows:

(thousands of Euros)

	31.12.2019			31.12.2018		
	Notional	Fair value		Notional	Fair value	
		Assets	Liabilities		Assets	Liabilities
Derivatives held for trading						
Exchange rate contracts	80 524	50	294	84 891	443	490
Interest rate contracts	-	-	-	3 800	-	19
Equity/Index contracts	-	-	-	7 600	141	138
		50	**294**		**584**	**647**

As at 31 December 2019 and 2018, the analysis of derivatives held for trading by period to maturity is as follows:

(thousands of Euros)

	31.12.2019			31.12.2018		
	Notional		Net fair value	Notional		Net fair value
	Buy	Sell		Buy	Sell	
Derivatives held for trading						
Up to 3 months	80 524	80 524	(244)	84 891	84 895	(47)
3 months to 1 year	-	-	-	11 400	11 024	(16)
	80 524	**80 524**	**(244)**	**96 291**	**95 919**	**(63)**

NOTE 19 – FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS, AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AND AT AMORTIZED COST

As at 31 December 2019 and 2018, these captions are analysed as follows:

(thousands of Euros)

	31.12.2019			
	Mandatorily at fair value through profit and loss	Fair value through other comprehensive income	Amortized cost	Total
Securities	1 248	46 588	1 915	49 751
Loans and advances to banks	-	-	420 279	420 279
Loans and advances to customers	-	-	149 061	149 061
	1 248	**46 588**	**571 255**	**619 091**

(thousands of Euros)

	31.12.2018			
	Mandatorily at fair value through profit and loss	Fair value through other comprehensive income	Amortized cost	Total
Securities	851	47 452	19 851	68 154
Loans and advances to banks	-	-	401 598	401 598
Loans and advances to customers	-	-	141 156	141 156
	851	**47 452**	**562 605**	**610 908**

Securities

As at 31 December 2019 and 2018, the breakdown of the Securities' portfolio is as follows:

(thousands of Euros)

	31.12.2019	31.12.2018
Securities mandatorily measured at fair value through profit and loss		
Shares	1 248	851
	1 248	**851**
Securities at fair value through other comprehensive income		
Bonds and other fixed-income securities		
Of Government/public issuers	46 190	47 079
Shares	398	373
	46 588	**47 452**
Securities at amortized cost		
Bonds and other fixed-income securities		
Of other issuers	1 997	20 222
Impairment	(82)	(371)
	1 915	**19 851**
	49 751	**68 154**

As at 31 December 2019 and 2018, the detail of the securities at fair value through other comprehensive income is as follows:

(thousands of Euros)

	Cost [1]	Fair value reserves		Carrying value	Impairment reserves
		Positive	Negative		
Bonds and other fixed-income securities					
Of Government/public issuers	**42 579**	**3 611**	**-**	**46 190**	**(29)**
Residents	42 579	3 611	-	46 190	(29)
Shares	**549**	**2**	**(153)**	**398**	**-**
Residents	549	2	(153)	398	-
Balance at 31 December 2019	**43 128**	**3 613**	**(153)**	**46 588**	**(29)**

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

(thousands of Euros)

	Cost (1)	Fair value reserves		Carrying value	Impairment reserves
		Positive	Negative		
Bonds and other fixed-income securities					
Of Government/public issuers	**46 113**	**966**	**-**	**47 079**	**(5)**
Residents	46 113	966	-	47 079	(5)
Shares	**550**	**2**	**(179)**	**373**	**-**
Residents	550	2	(179)	373	-
Balance at 31 December 2018	**46 663**	**968**	**(179)**	**47 452**	**(5)**

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

The movements occurring in the impairment of securities at fair value through other comprehensive income is as follows:

(thousands of Euros)

	Movement in impairment of securities at fair value through other comprehensive income			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at 31 December 2017				**167**
Impact of transition to IFRS 9				(162)
Balance at 1 January 2018	**5**	**-**	**-**	**5**
Increases due to changes in credit risk	8	-	-	8
Decreases due to changes in credit risk	(5)	-	-	(5)
Utilization during period	(2)	-	-	(2)
Other movements	(1)	-	-	(1)
Balance at 31 December 2018	**5**	**-**	**-**	**5**
Increases due to changes in credit risk	27	-	-	27
Decreases due to changes in credit risk	(4)	-	-	(4)
Other movements	1	-	-	1
Balance at 31 December 2019	**29**	**-**	**-**	**29**

During financial year 2019, the Bank disposed of financial instruments classified at fair value though other comprehensive income in the amount of Euros 30 thousand (31 December 2018: Euros 28 thousand), having recorded no gain or loss on the transaction.

According to the accounting policy described in Note 2.4, the Bank regularly assesses whether there is any objective evidence of impairment in its portfolio of financial assets at fair value through other comprehensive income following the judgment criteria described in Note 3.1.

The detail of the securities' portfolio, by fair value hierarchy, is presented in Note 31.

The movements occurring in impairment losses of securities at amortized cost, are presented as follows:

(thousands of Euros)

	Movement in impairment of securities at amortized cost			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at 31 December 2017	**-**	**-**	**-**	**-**
Impact of transition to IFRS 9				379
Balance at 1 January 2018	**-**	**379**	**-**	**379**
Increases due to changes in credit risk	184	3 325	-	3 509
Decreases due to changes in credit risk	(60)	(2 499)	-	(2 559)
Utilization during period	(96)	(840)	-	(936)
Other movements	3	(25)	-	(22)
Balance at 31 December 2018	**31**	**340**	**-**	**371**
Increases due to changes in credit risk	149	2 101	-	2 250
Decreases due to changes in credit risk	(180)	(2 359)	-	(2 539)
Balance at 31 December 2019	**-**	**82**	**-**	**82**

As at 31 December 2019 and 2018, the analysis of the securities' portfolio by period to maturity, is as follows:

(thousands of Euros)

	31.12.2019	31.12.2018
Securities mandatorily measured at fair value through profit and loss		
Undetermined	1 248	851
	1 248	**851**
Securities at fair value through other comprehensive income		
Up to 3 months	588	724
1 to 5 years	366	364
More than 5 years	45 236	45 991
Undetermined	398	373
	46 588	**47 452**
Securities at amortized cost (*)		
Up to 3 months	1 997	20 222
	1 997	**20 222**
	49 833	**68 525**

(*) Gross amount before impairment

Loans and advances to banks

As at 31 December 2019 and 2018, the analysis of loans and advances to banks, is as follows:

(thousands of Euros)

	31.12.2019	31.12.2018
Loans and advances to banks		
Deposits	420 634	402 041
	420 634	**402 041**
Impairment losses	**(355)**	**(443)**
	420 279	**401 598**

As at 31 December 2019 and 2018, the analysis of loans and advances to banks by period to maturity, are as follows:

(thousands of Euros)

	31.12.2019	31.12.2018
Up to 3 months	157 025	96 668
3 months to 1 year	262 080	299 436
1 to 5 years	1 109	5 931
More than 5 years	420	6
	420 634	**402 041**

The movements occurring up to 31 December 2019 and 2018 in impairment losses on loans and advances to banks are presented as follows:

(thousands of Euros)

	Loans and advances to banks			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at 31 December 2017				**-**
Impact of transition to IFRS 9				343
Balance at 1 January 2018	**343**	**-**	**-**	**343**
Increases due to changes in credit risk	405	-	-	405
Decreases due to changes in credit risk	(306)	-	-	(306)
Other movements	1	-	-	1
Balance at 31 December 2018	**443**	**-**	**-**	**443**
Increases due to changes in credit risk	357	-	-	357
Decreases due to changes in credit risk	(444)	-	-	(444)
Other movements	(1)	-	-	(1)
Balance at 31 December 2019	**355**	**-**	**-**	**355**

Loans and advances to Customers

As at 31 December 2019 and 2018, this caption is analysed as follows:

(thousands of Euros)

	31.12.2019	**31.12.2018**
Domestic loans and advances		
Corporate		
Current account loans and advances	29 668	30 127
Overdrafts	-	4
Individuals		
Consumer and other loans	114 351	106 355
	144 019	**136 486**
Foreign loans and advances		
Corporate		
Current account loans and advances	159	99
Individuals		
Consumer and other loans	5 466	5 214
	5 625	**5 313**
Past due loans and advances and interest		
Up to 90 days	2	17
More than 90 days	185	165
	187	**182**
	149 831	**141 981**
Impairment losses	**(770)**	**(825)**
	149 061	**141 156**

The movements occurring in impairment losses of loans and advances to customers, were as follows:

(thousands of Euros)

	Movement in impairment of loans and advances to customers			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at 31 December 2017				**2 089**
Impact of transition to IFRS 9				62
Balance at 1 January 2018	**527**	**234**	**1 390**	**2 151**
Financial assets derecognized	-	-	(1 081)	(1 081)
Increases due to changes in credit risk	71	443	38	552
Decreases due to changes in credit risk	(467)	(146)	(183)	(796)
Utilization during period	-	-	(1)	(1)
Other movements	280	(273)	(7)	-
Balance at 31 December 2018	**411**	**258**	**156**	**825**
Increases due to changes in credit risk	85	196	46	327
Decreases due to changes in credit risk	(283)	(88)	(12)	(383)
Other movements	176	(157)	(18)	1
Balance at 31 December 2019	**389**	**209**	**172**	**770**

As at 31 December 2019 and 2018, the analysis of loans and advances to customers by period to maturity is as follows:

(thousands of Euros)

	31.12.2019	**31.12.2018**
Up to 3 months	66 570	59 283
3 months to 1 year	75 289	70 395
1 to 5 years	577	4 683
More than 5 years	7 208	7 438
Undetermined	187	182
	149 831	**141 981**

The distribution of Loans and advances to customers by type of rate is as follows:

(thousands of Euros)

	31.12.2019	**31.12.2018**
Fixed rate	82 581	75 365
Variable rate	67 250	66 616
	149 831	**141 981**

NOTE 20 – TANGIBLE FIXED ASSETS

As at 31 December 2019 and 2018, this caption is analysed as follows:

(thousands of Euros)

	31.12.2019	31.12.2018
Real estate property		
Improvements in leasehold property	1 409	951
Assets under right of use	2 307	-
	3 716	**951**
Equipment		
Computer equipment	2 909	2 967
Fixtures	430	431
Furniture	1 503	1 509
Security equipment	67	65
Machinery and tools	114	110
Assets under right of use	322	-
Other	-	1
	5 345	**5 083**
	9 061	**6 034**
Tangible fixed assets in progress		
Improvements in leasehold property	-	53
	-	**53**
	9 061	**6 087**
Accumulated depreciation	(5 543)	(4 813)
	3 518	**1 274**

The movement in this caption was as follows:

(thousands of Euros)

	Real estate property	Equipment	Fixed assets in progress	Total
Acquisition cost				
Balance at 31 December 2017	**1 077**	**4 085**	**-**	**5 162**
Additions	-	1 085	53	1 138
Disposals/write-offs	(126)	(87)	-	(213)
Balance at 31 December 2018	**951**	**5 083**	**53**	**6 087**
Additions	932	399	-	1 331
Disposals/write-offs	(154)	(347)	-	(501)
Transfers	53	-	(53)	-
Impact of transition to IFRS16	1 934	210	-	2 144
Balance at 31 December 2019	**3 716**	**5 345**	**-**	**9 061**
Accumulated depreciation				
Balance at 31 December 2017	**952**	**3 859**	**-**	**4 811**
Depreciation for the period	77	139	-	216
Disposals/write-offs	(126)	(88)	-	(214)
Balance at 31 December 2018	**903**	**3 910**	**-**	**4 813**
Depreciation for the period	701	438	-	1 139
Disposals/write-offs	(71)	(338)	-	(409)
Balance at 31 December 2019	**1 533**	**4 010**	**-**	**5 543**
Carrying value at 31 December 2019	**2 183**	**1 335**	**-**	**3 518**
Carrying value at 31 December 2018	**48**	**1 173**	**53**	**1 274**

NOTE 21 – INTANGIBLE ASSETS

As at 31 December 2019 and 2018, this caption is analysed as follows:

(thousands of Euros)

	31.12.2019	31.12.2018
Acquired from third parties		
Software - Automatic data processing system	4 050	3 768
Accumulated amortization	(3 776)	(3 768)
	274	**-**

The movement in this caption was as follows:

(thousands of Euros)

	Automatic data processing system	Total
Acquisition cost		
Balance at 31 December 2017	**3 768**	**3 768**
Balance at 31 December 2018	**3 768**	**3 768**
Additions:		
Acquired from third parties	282	282
Balance at 31 December 2019	**4 050**	**4 050**
Accumulated amortization		
Balance at 31 December 2017	**3 768**	**3 768**
Balance at 31 December 2018	**3 768**	**3 768**
Amortization for the period	8	8
Balance at 31 December 2019	**3 776**	**3 776**
Carrying value at 31 December 2019	**274**	**274**
Carrying value at 31 December 2018	**-**	**-**

NOTE 22 – INCOME TAXES

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

Income taxes (current or deferred) are 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 reflected in equity, not affecting the net income for the period.

The current income tax for the financial year ended 31 December 2019 was determined based on the nominal IRC tax rate and Municipal Surcharge in force, increased by an additional State Surcharge ("Derrama Estadual") levied depending on the taxable income determined (3%, for taxable income between Euros 1.5 million and Euros 7.5 million; 5% for taxable income between Euros 7.5 million and Euros 35 million and 9% for taxable income in excess of Euros 35 million).

Deferred taxes are calculated based on the 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.

For financial year 2019, 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 of 1.5% and an average estimated rate of 3.5% for the State Surcharge.

On 4 September 2019, Law no. 98/2019 was published, which amended the IRC Code on the tax treatment of impairment of credit institutions, creating rules applicable to impairment losses recorded in the tax periods beginning before 1 January 2019, not yet accepted for tax purposes. This law enshrined a transition period for the aforementioned tax regime, which allows taxpayers in the five tax periods beginning on or after 1 January 2019, to continue to apply the tax regime in force before the publication of this law, unless they exercise the "opt in" until the end of October of each tax period of the transition period.

Thus, as at 31 December 2019, the Bank continued to apply Regulatory Decree no. 13/2018, of 28 December, which extends, for tax purposes, the tax framework resulting from Notice no. 3/95 of the Bank of Portugal.

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 no additional material tax charges will arise.

Deferred tax assets and liabilities recognized in the balance sheet as at 31 December 2019 and 2018, may be analysed as follows:

(thousands of Euros)

	31.12.2019		31.12.2018	
	Assets	Liabilities	Assets	Liabilities
Current tax	**-**	**659**	**-**	**730**
Corporate income tax recoverable/payable	-	659	-	730
Deferred tax	**-**	**614**	**214**	**-**
	-	**1 273**	**214**	**730**

Deferred tax assets and liabilities recognized in the balance sheet in this financial year, may be analysed as follows:

(thousands of Euros)

	Assets		Liabilities		Net	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Financial instruments	61	143	(940)	(252)	(879)	(109)
Impairment of loans and advances to customers	242	293	-	-	242	293
Provisions	23	30	-	-	23	30
Deferred tax assets/(liabilities)	**326**	**466**	**(940)**	**(252)**	**(614)**	**214**
Offsetting of deferred tax assets/liabilities	(326)	(252)	326	252	-	-
Net deferred tax assets/(liabilities)	**-**	**214**	**(614)**	**-**	**(614)**	**214**

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

(thousands of Euros)

	31.12.2019	31.12.2018
Opening balance	214	(182)
Income statement	(133)	4
Fair value reserves	(694)	68
Other reserves	(1)	126
Impact IFRS 9 (in other reserves)	-	198
Closing balance - Asset/(Liability)	**(614)**	**214**

The tax recognized in the income statement and reserves during financial years 2019 and 2018 had the following origins:

(thousands of Euros)

	31.12.2019		31.12.2018	
	Recognized in the income statement	Recognized in reserves	Recognized in the income statement	Recognized in reserves
Financial instruments	75	695	2	(171)
Impairment of loans and advances to customers	52	-	1	-
Provisions	6	-	(7)	-
Deferred taxes	**133**	**695**	**(4)**	**(171)**
Current taxes	1 269	-	1 277	-
Total tax recognized (income)/expense	**1 402**	**695**	**1 273**	**(171)**

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

(thousands of Euros)

	31.12.2019		31.12.2018	
	%	Amount	%	Amount
Profit/(loss) before income tax		**4 071**		**4 837**
Extraordinary contribution on Banking Sector (see Note 13)		163		126
		4 234		**4 963**
Tax rate	26.0		26.0	
Income tax calculated based on tax rate		1 101		1 290
Non-deductible costs	0.5	22	0.3	13
Autonomous taxation	0.7	28	0.8	31
Other	6.2	251	(1.5)	(61)
Effective tax rate/Corporate income tax	**34.4**	**1 402**	**26.3**	**1 273**

Following the enactment of Law no. 55-A/2010, of 31 December, a Banking Levy ("Contribuição sobre o Sector Bancário") was created, being levied on the average annual liability calculated based on the balance sheet, net of own funds and the deposits covered by 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 has been being extended. As at 31 December 2019, the Bank recognized the amount of Euros 163 thousand (31 December 2018: Euros 126 thousand) as Banking Levy cost, pursuant to

Law no. 114/2017, of 29 December. 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 Deposits Guarantee Fund, approved by Law no. 7-A/2016, of 30 March and by Ordinance no. 165-A/2016, of 14 June.

NOTE 23 - OTHER ASSETS

As at 31 December 2019 and 2018, the caption Other assets is analysed as follows:

(thousands of Euros)

	31.12.2019	31.12.2018
Public sector administration	59	416
Other debtors	485	1 415
Accrued income	2 339	1 928
Prepayments	475	414
Other transactions pending settlement	363	155
Other assets	14	15
	3 735	**4 343**

The movements in impairment losses were as follows:

(thousands of Euros)

	31.12.2019	31.12.2018
Opening balance	-	2
Utilization for period	-	(2)
Closing balance	**-**	**-**

NOTE 24 – FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST

As at 31 December 2019 and 2018, this caption is analysed as follows:

(thousands of Euros)

	31.12.2019	31.12.2018
	Measured at amortized cost	**Measured at amortized cost**
Deposits from Central and other banks	23 869	20 356
Due to customers	547 638	545 846
Other financial liabilities	1 010	584
	572 517	**566 786**

Deposits from Central and other banks

The caption Deposits from Central and other banks, by nature, is presented as follows:

(thousands of Euros)

	31.12.2019	31.12.2018
Deposits from banks		
Domestic		
Deposits	1 554	2 094
Other funds	19	8
	1 573	**2 102**
Foreign		
Deposits	5 249	5 055
Other funds	17 047	13 199
	22 296	**18 254**
	23 869	**20 356**

As at 31 December 2019 and 2018, the analysis of deposits from banks by period to maturity is as follows:

(thousands of Euros)

	31.12.2019	31.12.2018
Deposits from banks		
Up to 3 months	23 869	20 356
	23 869	**20 356**

Due to customers

The caption Due to customers, by nature, has the following breakdown:

(thousands of Euros)

	31.12.2019	31.12.2018
Deposits on sight		
Demand deposits	393 823	360 595
Time deposits		
Time deposits	151 478	180 415
Savings accounts		
Other	592	565
Other funds		
Other	1 745	4 271
	547 638	**545 846**

As at 31 December 2019 and 2018, the analysis of the caption Due to customers by period to maturity is as follows:

(thousands of Euros)

	31.12.2019	31.12.2018
Payable on sight	**393 823**	**360 595**
With agreed maturity		
Up to 3 months	120 715	164 026
3 months to 1 year	31 993	15 301
1 to 5 years	1 107	5 924
	153 815	**185 251**
	547 638	**545 846**

NOTE 25 – PROVISIONS

As at 31 December 2019 and 2018, the caption Provisions has the following breakdown:

(thousands of Euros)

	Provisions for guarantees and commitments	Other provisions	Total
Balance at 31 December 2017	**19**	**2 442**	**2 461**
Impact of transition to IFRS 9	68	-	68
Balance at 1 January 2018	**87**	**2 442**	**2 529**
Allocations/(reversals) for period	24	37	61
Foreign exchange differences and other	-	1	1
Balance at 31 December 2018	**111**	**2 480**	**2 591**
Allocations/(reversals) for period	(23)	1 364	1 341
Foreign exchange differences and other	(1)	-	(1)
Balance at 31 December 2019	**87**	**3 844**	**3 931**

As regards provisions for guarantees and commitments assumed, the movement of the provision is detailed as follows:

(thousands of Euros)

	Stage 1	Stage 2	Stage 3	Total
Balance at 31 December 2017				**19**
Impact of transition to IFRS 9				68
Saldo a 1 de janeiro de 2018	**78**	**9**	**-**	**87**
Increases due to change in credit risk	55	16	-	71
Decreases due to change in credit risk	(37)	(10)	-	(47)
Other	3	(3)	-	-
Balance at 31 December 2018	**99**	**12**	**-**	**111**
Increases due to change in credit risk	17	23	-	40
Decreases due to change in credit risk	(54)	(10)	-	(64)
Balance at 31 December 2019	**62**	**25**	**-**	**87**

Other provisions include provisions for ongoing legal proceedings in the amount of Euros 3 795 thousand (31 December 2018: Euros 2 113 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 26 – OTHER LIABILITIES

As at 31 December 2019 and 2018, the caption Other liabilities is analysed as follows:

(thousands of Euros)

	31.12.2019	31.12.2018
Public sector administration	798	561
Suppliers	4 475	1 726
Other creditors	92	121
Staff costs	1 261	606
Other accrued expenses	457	1 007
Deferred income	219	251
	7 302	**4 272**

NOTE 27 – SHARE CAPITAL

Ordinary shares

As at 31 December 2019 and 2018, the Bank's share capital, amounting to Euros 63 000 thousand, is represented by 63 million shares, with a nominal value of Euro 1 each, was fully subscribed and 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 Euro 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 Euro 1 each. In 2005, share capital was again increased through the issuance of 6 million ordinary shares and, in 2006, once again, through the issuance of a further 2 million ordinary shares.

The Bank's shareholder structure is as follows:

	% Share capital	
	31.12.2019	31.12.2018
NOVO BANCO, S.A.	100.00%	100.00%
NOVO BANCO dos Açores, S.A. [(a)]	0.00%	0.00%
Novo Banco Servicios Corporativos, S.L. [(a)]	0.00%	0.00%
GNB - Gestão de Ativos, SGPS, S.A. [(a)]	0.00%	0.00%
	100.00%	**100.00%**

[(a)] Holds 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 28 – OTHER COMPREHENSIVE INCOME, RETAINED EARNINGS AND OTHER RESERVES

As at 31 December 2019 and 2018, accumulated other comprehensive income, retained earnings and other reserves were as follows:

(thousands of Euros)

	31.12.2019	31.12.2018
Accumulated other comprehensive income	**2 590**	**589**
Other reserves and Retained earnings	**11 968**	**8 404**
Legal reserve	6 091	5 734
Other reserves	5 877	2 670
	14 558	**8 993**

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.

Accumulated other comprehensive income

The movements in Accumulated other comprehensive income were as follows:

(thousands of Euros)

	Accumulated other comprehensive income		Total
	Impairment reserves	Fair value reserves	
Balance at 31 December 2017	**-**	**1 071**	**1 071**
Impact of transition to IFRS 9	-	(290)	(290)
Balance at 1 January 2018	**-**	**781**	**781**
Changes in fair value, net of tax	-	(197)	(197)
Impairment reserves of securities at fair value through other comprehensive income	5	-	5
Balance at 31 December 2018	**5**	**584**	**589**
Changes in fair value, net of tax	-	1 977	1 977
Change in credit risk of financial liabilities at fair value, net of tax	-	-	-
Impairment reserves of securities at fair value through other comprehensive income	24	-	24
Balance at 31 December 2019	**29**	**2 561**	**2 590**

Fair value reserves

The fair value reserves represent the amounts of unrealized gains and losses arising on the portfolio of financial assets at fair value through other comprehensive income, net of impairment. The amount of this reserve is presented net of deferred taxes.

The movement in fair value reserves net of tax and in impairment reserves, were as follows:

(thousands of Euros)

	31.12.2019			31.12.2018		
	Fair value reserves			Fair value reserves		
	Financial assets at fair value through other comprehensive income	Reserves for deferred taxes	Total fair value reserves	Financial assets at fair value through other comprehensive income	Reserves for deferred taxes	Total fair value reserves
Opening balance	**789**	**(205)**	**584**	**1 447**	**(376)**	**1 071**
Impact of transition to IFRS 9	-	-	-	(393)	103	(290)
Balance at 1 January 2019	**789**	**(205)**	**584**	**1 054**	**(273)**	**781**
Changes in fair value	4 749	-	4 749	500	-	500
Disposals during period	(2 078)	-	(2 078)	-	-	-
Impairment recognized in period	-	-	-	(765)	-	(765)
Deferred taxes recognized in reserves during period	-	(694)	(694)	-	68	68
Closing balance	**3 460**	**(899)**	**2 561**	**789**	**(205)**	**584**

The fair value reserves are analysed as follows:

(thousands of Euros)

	31.12.2019	31.12.2018
Amortized cost of financial assets at fair value through other comprehensive income	43 128	46 663
Market value of financial assets at fair value through other comprehensive income	46 588	47 452
Unrealized gains/(losses) recognized in fair value reserves	3 460	789
Deferred taxes	(899)	(205)
Fair value reserve attributable to shareholders of the Bank	**2 561**	**584**

NOTE 29 – CONTINGENT LIABILITIES AND COMMITMENTS

In addition to derivative financial instruments, as at 31 December 2019 and 2018, the off-balance sheet elements included the following:

(thousands of Euros)

	31.12.2019	31.12.2018
Contingent liabilities		
Guarantees and standby letters	141 766	172 338
Assets pledged as collateral	1 793	1 670
	143 559	**174 008**
Commitments		
Revocable commitments	52 456	63 881
Irrevocable commitments	1 160	1 324
	53 616	**65 205**

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

As at 31 December 2019, 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 1 195 thousand (31 December 2018: Euros 1 113 thousand);
- Securities pledged as collateral to the Deposits Guarantee Fund ("Fundo de Garantia de Depósitos" (FGD)) in the amount of Euros 598 thousand (31 December 2018: Euros 557 thousand).

These financial assets pledged as collateral are recorded in the various categories of assets on the Bank's balance sheet and can be executed in the event of non-compliance with the contractual obligations assumed by the Bank, under the terms and conditions set forth in the contracts entered into.

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.

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

(thousands of Euros)

	31.12.2019	31.12.2018
Deposit and custodianship of securities	373 707	380 387
Other responsibilities related to banking services	13 710	13 389
	387 417	**393 776**

In Other responsibilities related to banking services are considered the amounts related 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 is to provide financial support for the resolution measures implemented by the Bank of Portugal, while national resolution authority, and to perform all other functions conferred 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. As at 31 December 2019, the periodic contribution made by the Bank amounted to Euros 73 thousand (31 December 2018: Euros 51 thousand).

As part of its responsibility as supervisory and resolution authority, the Bank of Portugal decided to apply, on 3 August 2014, a resolution measure to 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 NOVO BANCO, created specifically for this purpose, with the capitalization having been assured by the Fundo de Resolução.

To realize the share capital of NOVO BANCO, Fundo de Resolução made available Euros 4 900 million, of which Euros 365 million corresponded to own funds. A loan was also granted by a banking syndicate to Fundo de Resolução, amounting to Euros 635 million, with the share of each credit institution having been weighted depending on various factors, including its respective size. The remaining amount (Euros 3 900 million) came from a reimbursable loan granted by the Portuguese State.

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 State. 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..

The situation of severe financial imbalance in which BES found itself, in 2014, and BANIF, in 2015, and which justified the application of the resolution measures, 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 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 State 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 call on 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 18 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 may be called upon to make payments 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 the Bank's capitalization levels. The possible payments to be realized under this contingent mechanism are subject to an absolute maximum limit of Euros 3 890 million.

- An indemnity mechanism in favour of NOVO BANCO if, subject to certain conditions, same comes to be condemned in the payment of any liability, by a final court decision that does not recognize or is contrary to the resolution measure applied by the Bank of Portugal, or to the perimeter of assets and liabilities of NOVO BANCO.

Notwithstanding the possibility provided for in the applicable legislation for the call up 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, 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 and the indemnity mechanism referred to in the previous paragraphs.

According to the statement made by Fundo de Resolução on 1 March 2019, for the payment to be made to NOVO BANCO within the scope of the contingent capitalization mechanism, the available financial resources, resulting from the contributions paid directly or indirectly by the banking sector, will be used in the first place, with these resources being supplemented by the use of a loan agreed with the Portuguese State in October 2017, with the annual ceiling, then set, of Euros 850 million.

Any changes regarding this subject matter and the application of these mechanisms may have relevant implications on the financial statements of the Bank.

NOTE 30 – RELATED PARTY TRANSACTIONS

As at 31 December 2019 and 2018, the Bank's transactions with related parties, as well as the respective expenses and income recognized during the financial years, are summarized as follows:

(thousands of Euros)

	31.12.2019					31.12.2018				
	Assets	Liabilities	Guarantees	Income	Expense	Assets	Liabilities	Guarantees	Income	Expense
Shareholder										
NOVO BANCO	432 110	1 862	140 696	2 803	4 941	411 167	2 417	171 357	6 673	476
					-					
Related companies										
NOVO BANCO AÇORES	246	-	-	-	-	1 057	-	-	-	-
GNB GA	25	-	-	-	-	91	-	-	219	-
GNB VIDA	-	-	-	-	-	296	23 659	-	752	3
EDENRED	-	17 085	62	-	32	-	15 004	-	-	5
GNB SEGUROS	-	41	-	-	-	-	27	-	-	-
	432 381	**18 988**	**140 758**	**2 803**	**4 973**	**412 611**	**41 107**	**171 357**	**7 644**	**484**

Interest generating assets and liabilities contracted with NOVO BANCO Group entities present interest rates between 0.31% and 7.57% and between 0% and 0.60%, respectively.

As at 31 December 2019 and 2018 (in accordance with the scope defined in IAS 24) there were no loans and advances granted to the members of the Board of Directors of BEST. The Supervisory Board of BEST had no loan responsibilities.

NOTE 31 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The governance model for valuing the Bank's financial instruments is defined in internal regulations, which establish the policies and procedures to be followed in identifying and valuing financial instruments, the control procedures and the definition of the responsibilities of those involved in this process.

In accordance with the methodology for valuing assets and liabilities at fair value, these are classified in the corresponding fair value hierarchy defined in IFRS 13 - Fair Value. The following is a brief description of the type of assets and liabilities included in each level of the hierarchy and the corresponding form of valuation:

Quoted market prices (level 1)

This category includes financial instruments with quoted market prices available on official markets and with dealer price quotations provided by entities that usually provide transaction prices for these instruments traded on active markets.

The priority as regards the prices used is given to those observed on the official markets; in cases where there is more than one official market, the option falls on the main market where these financial instruments are traded.

The Bank considers as market prices those disclosed by independent entities, assuming that they act in their own economic interest and that these prices are representative of the active market, using, whenever possible, prices provided by more than one entity (for a certain asset and/or liability). In the re-valuation process of the financial instruments, the Bank analyses the different prices in order to select the one that appears most representative for the instrument under analysis. Additionally, when these exist, prices related to recent transactions of similar financial instruments are used as inputs, which are subsequently compared with those provided by the referred entities in order to better justify the Bank's option for a given price.

This category includes, among others, the following financial instruments:

(i) Derivatives traded on an organized market;

(ii) Shares listed on a stock exchange;

(iii) Open securities' funds listed on a stock exchange;

(iv) Closed securities' funds which underlying assets are purely financial instruments quoted on a stock exchange;

(v) Bonds with more than one provider and for which the instruments are listed on a stock exchange;

(vi) Financial instruments with market offers even if not available from normal sources of information (e.g. securities to be traded based on the recovery rate).

Valuation models based on observable market parameters/prices (level 2)

In this category are considered the financial instruments valued using internal valuation models, 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.

This category includes, among others, the following financial instruments:

(i) Unlisted bonds; and

(ii) OTC derivatives.

Valuation models based on non-observable market information (level 3)

In this level are included the valuations determined based on 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.

This category includes, among others, the following financial instruments:

(i) Debt securities valued using inputs not observable on the market;
(ii) Unlisted shares;
(iii) Closed real estate funds;
(iv) Hedge funds;
(v) Private equities;
(vi) Restructuring Funds; and
(vii) OTC derivatives with quotations provided by third parties.

The valuation models used by type of instrument are as follows:

Money market operations and loans to customers: the fair value is determined using the discounted cash flow method, with the future cash flows discounted considering the currency yield curve plus the credit risk of the entity that will contractually settle said flow.

Commercial paper: its fair value is determined by discounting the future cash flows against the currency yield curve increased by the credit risk of the issuer determined in the issuance program.

Debt instruments (bonds) with liquidity: the methodology used is the independent valuation selection based on observations available in Bloomberg, called 'Best Price', where all available valuations are requested, but only previously validated sources are considered as input, with the model also considering the exclusion of prices due to ageing and for outliers. In the specific case of Portuguese public debt, and due to the Bank's market making activity and the materiality of its positions, the CBBT sourced valuations are always considered (CBBT is a composite of valuations prepared by Bloomberg, which considers the average of executable prices with high liquidity).

Debt instruments (bonds) with low liquidity: the models considered for valuing low-liquidity bonds with no observable market values are determined taking into account the information available on the issuer and the instrument, with the following models being considered: (i) discounted cash flows - cash flows are discounted considering the interest rate risk, credit risk of the issuer and any other risks that may underly the instrument; or (ii) valuations made available by external counterparties, in the impossibility of determining the fair value of the instrument, with the selection being made from reliable sources with reputable credibility in the market and independence in the valuation of the instruments under analysis.

Convertible bonds: cash flows are discounted considering the interest rate risk, credit risk of the issuer and any other risks that may be associated with the instrument, increased by the net present value ('NPV') of the convertibility options embedded in the instrument.

Listed shares and funds: in the case of capital products listed on the market, the quotation presented by the respective stock exchange is considered.

Unlisted shares: The valuation is made using external valuations carried out on the companies in which it holds interests. If an external valuation is not justified due to the immateriality of the position in the balance sheet, the position is revalued considering the book value of the entity.

Unlisted funds: the valuation provided by the management company is considered, which considers assumptions not observable on the market. In the event that there are capital calls after the reference date of the last valuation made available, the valuation is recalculated considering the capital calls made after the reference date at the amounts these were made, until a new valuation that incorporates the capital calls realized is made available by the management company. It should be noted that although the valuations provided by the management companies are accepted, whenever applicable under the funds' regulations, the Bank requests the legal certification of accounts issued by the independent auditors, in order to obtain the additional comfort necessary to the information provided by the management company.

Derivative instruments: if these are traded on organized markets, the valuations are observable on the market, otherwise they are valued using standard models using variables observable on the market, notably:

- Foreign exchange options: these are valued through the front-office system, which considers models such as Garman-Kohlhagen, Binomial, Black&Scholes, Levy or Vanna-Volga;
- Interest rate swaps and foreign exchange swaps: the valuation of these instruments is made through the front-office system, where the cash flows of the fixed leg of the instrument are discounted from the yield curve of the respective currency, and the cash flows of the variable leg are projected considering the forward curve and discounted considering, also, the discount factors and forward rates from the yield curve of the respective currency.
- Credit Default Swaps: Both legs of the CDS are composed of cash flows contingent on the credit risk of the underlying asset, for which reason they are valued through market credit spreads.
- Futures and Options: The Bank trades these products on an organized market; however, there is the possibility of trading on the OTC market. In the organized futures and options market, valuations are observable on the market, with the valuation being received daily through the

broker selected for these products. In the OTC futures and options market and based on the type of product and the type of underlying asset, models can be considered in discrete time (binomial) or in continuous time (Black & Scholes).

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

(thousands of Euros)

	Measured 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 2019				
Financial assets held for trading	**-**	**50**	**-**	**50**
Derivatives held for trading	-	50	-	50
Exchange rate	-	*50*	-	*50*
Financial assets mandatorily measured at fair value through profit and loss	**1 248**	**-**	**-**	**1 248**
Shares	*1 248*	-	-	*1 248*
Financial assets at fair value through other comprehensive income	**46 190**	**-**	**398**	**46 588**
Bonds of Government/public issuers	*46 190*	-	-	*46 190*
Shares	-	-	*398*	*398*
Assets at fair value	**47 438**	**50**	**398**	**47 886**
Financial liabilities held for trading	**-**	**294**	**-**	**294**
Derivatives held for trading	-	294	-	294
Exchange rate	-	*294*	-	*294*
Liabilities at fair value	**-**	**294**	**-**	**294**

(thousands of Euros)

	Measured 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 2018				
Financial assets held for trading	**-**	**584**	**-**	**584**
Derivatives held for trading	-	584	-	584
Exchange rate	-	*443*	-	*443*
Other	-	*141*	-	*141*
Financial assets mandatorily measured at fair value through profit and loss	**851**	**-**	**-**	**851**
Shares	*851*	-	-	*851*
Financial assets at fair value through other comprehensive income	**47 079**	**-**	**373**	**47 452**
Bonds of Government/public issuers	*47 079*	-	-	*47 079*
Shares	-	-	*373*	*373*
Assets at fair value	**47 930**	**584**	**373**	**48 887**
Financial liabilities held for trading	**-**	**647**	**-**	**647**
Derivatives held for trading	-	647	-	647
Exchange rate	-	490	-	*490*
Interets rate	-	19		*19*
Other	-	138	-	*138*
Liabilities at fair value	**-**	**647**	**-**	**647**

The movement in financial assets valued based on non-observable market information (level 3 of the fair value hierarchy), as at 31 December 2019 and 2018, may be analysed as follows:

(thousands of Euros)

	31.12.2019	
	Financial assets at fair value through other comprehensive income	**Total assets**
Balance on 31 December 2018	**373**	**373**
Changes in value	25	25
Balance on 31 December 2019	**398**	**398**

(thousands of Euros)

	31.12.2018	
	Financial assets at fair value through other comprehensive income	**Total assets**
Balance on 31 December 2017	**39 150**	**39 150**
Impact of transition to IFRS 9	(38 739)	(38 739)
Balance on 1 January 2018	**411**	**411**
Changes in value	(38)	(38)
Balance on 31 December 2018	**373**	**373**

The main parameters used in the valuation models, as at 31 December 2019 and 2018, are as follows:

Interest rate curves

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

(%)

	31.12.2019			31.12.2018		
	EUR	**USD**	**GBP**	**EUR**	**USD**	**GBP**
Overnight	-0.4560	1.6000	0.7500	-0.4200	2.4000	0.7650
1 month	-0.4380	1.7900	0.7650	-0.3630	2.7000	0.9050
3 months	-0.3830	1.9200	0.8650	-0.3090	2.8700	0.9500
6 months	-0.3240	1.9300	0.9000	-0.2370	2.9500	1.0700
9 months	-0.3174	1.9100	0.9450	-0.2295	3.0300	1.1600
1 year	-0.3161	1.7490	0.7419	-0.2250	2.7440	0.9898
3 years	-0.2380	1.6556	0.8243	-0.0650	2.5800	1.2193
5 years	-0.1205	1.6990	0.8844	0.2010	2.5780	1.3050
7 years	0.0160	1.7630	0.9406	0.4690	2.6210	1.3574
10 years	0.2110	1.8470	1.0172	0.8150	2.7110	1.4365
15 years	0.4670	1.9650	1.0968	1.1690	2.7890	1.5131
20 years	0.5990	2.0160	1.1206	1.3450	2.8190	1.5461
25 years	0.6370	2.0350	1.1130	1.3720	2.8190	1.5491
30 years	0.6310	2.0420	1.1082	1.4050	2.8110	1.5411

Interest rate volatility

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

(%)

	31.12.2019			31.12.2018		
	EUR	USD	GBP	EUR	USD	GBP
1 year	12.71	18.87	48.83	16.48	11.25	33.95
3 years	22.74	39.23	57.73	32.17	22.87	-
5 years	33.51	36.57	64.04	48.20	27.29	58.01
7 years	40.12	39.25	67.79	57.42	28.35	61.25
10 years	46.46	34.71	70.87	63.34	30.20	-
15 years	51.03	-	-	64.69	-	-

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 valuation of derivatives are presented next:

			Volatility (%)				
Foreign exchange rate pair	31.12.2019	31.12.2018	1 month	3 months	6 months	9 months	1 year
EUR/USD	1.1234	1.1450	5.03	5.24	5.43	5.58	5.85
EUR/GBP	0.8508	0.8945	7.10	6.78	6.83	6.80	6.95
EUR/CHF	1.0854	1.1269	3.98	4.20	4.35	4.58	4.68
EUR/NOK	9.8638	9.9483	6.29	6.30	6.40	6.50	6.58
EUR/PLN	4.2568	4.3014	3.80	3.85	4.04	4.13	4.20
EUR/RUB	69.9563	79.7153	7.51	8.07	8.71	9.29	9.58
USD/BRL [a)]	4.0197	3.8812	10.45	10.58	10.57	10.65	10.73
USD/TRY [b)]	5.9501	5.2915	12.05	13.20	14.30	15.13	15.93

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

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

The Bank uses in its valuation models the spot rate observed on the market at the time of the valuation.

Equity indexes

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

	Quotation			Historical volatility		Implicit volatility
	31.12.2019	31.12.2018	% change	1 month	3 months	
DJ Euro Stoxx 50	3 745	3 001	-19.86%	11.15	11.68	-
PSI 20	5 214	4 731	-9.26%	9.67	10.42	-
IBEX 35	9 549	8 540	-10.57%	12.15	12.24	-
FTSE 100	7 542	6 728	-10.80%	13.21	11.90	11.26
DAX	13 249	10 559	-20.30%	10.70	12.12	12.59
S&P 500	3 231	2 507	-22.41%	7.32	9.53	11.14
BOVESPA	115 645	87 887	-24.00%	11.24	15.03	19.21

The fair value of financial assets and liabilities measured at amortized cost in the balance sheet is analysed as follows, having been estimated based on the main methods and assumptions described below:

(thousands of Euros)

	Assets/liabilities measured at amortized cost	Fair value			Total 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)	
31 December 2019					
Cash, deposits with Central and other banks	38 876	-	38 876	-	38 876
Financial assets at amortized cost					
Securities	1 915	-	-	1 997	1 997
Loans and advances to banks	420 279	-	420 279	-	420 279
Loans and advances to customers	149 061	-	-	149 381	149 381
Financial assets	**610 131**	**-**	**459 155**	**151 378**	**610 533**
Financial liabilities at amortized cost					
Deposits from banks	23 869	-	23 869	-	23 869
Due to customers	547 638	-	-	547 638	547 638
Other financial liabilities	1 010	-	-	1 010	1 010
Financial liabilities	**572 517**	**-**	**23 869**	**548 648**	**572 517**

(thousands of Euros)

	Assets/liabilities measured at amortized cost	Fair value			Total 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)	
31 December 2018					
Cash, deposits with Central and other banks	33 260	-	33 260	-	33 260
Financial assets at amortized cost					
Securities	19 851	-	-	20 229	20 229
Loans and advances to banks	401 598	-	401 598	-	401 598
Loans and advances to customers	141 156	-	-	142 234	142 234
Financial assets	**595 865**	**-**	**434 858**	**162 463**	**597 321**
Financial liabilities at amortized cost					
Deposits from banks	-	-	-	-	-
Due to customers	20 356	-	-	20 356	20 356
Other financial liabilities	545 846	-	-	545 846	545 846
Financial liabilities	**566 202**	**-**	**-**	**566 202**	**566 202**

Cash, deposits with Central and other banks, Loans and advances to banks and Deposits from Central banks

These assets and liabilities are very short term for which reason their carrying value is a reasonable estimate of their fair value.

Securities at amortized costs

The fair value of securities recorded at amortized cost is estimated based on the methodologies followed for the valuation of securities recorded at fair value, as described in the beginning of this Note.

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, housing loans, 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 banks

The fair value of the deposits from Central and other banks is estimated based on the present value of the estimated cash flows of capital and interest.

Due to customers

The fair value of these financial instruments is estimated based on the discounting of the expected future cash flows of capital and interest. The discount rates used are the current interest rates used for deposits with similar characteristics as at the balance sheet date. Considering that the interest rates applicable to these instruments are renewed for periods substantially lower than one year, the differences between the fair value and carrying value are not material.

Debt securities issues, Subordinated debt and Liabilities associated with assets transferred

The fair value of these instruments is based on market quotations when available; if these do not exist, it is estimated by discounting the cash flows of capital and interest expected in the future for these instruments.

Other financial liabilities

These liabilities are short term for which reason their carrying value is a reasonable estimate of their fair value.

NOTE 32 – ACTIVITY RISK MANAGEMENT

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

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

Credit risk

Credit risk represents the potential financial loss arising from the failure of a borrower or counterpart to honour its contractual obligations established with the Bank in the scope of its lending activity. Credit risk is essentially present in traditional banking products – loans, guarantees issued and other contingent liabilities. For credit default swaps (CDS), the net exposure between buyer and seller protection positions over each entity subjacent to the operations, constitutes a credit risk for the Bank. CDSs are recorded at their fair value according to the accounting policy described in Note 2.3.

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

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

BEST's maximum credit risk exposure is analysed as follows:

(thousands of Euros)

	31.12.2019	31.12.2018
Deposits with and loans and advances to banks	459 155	434 858
Derivatives held for trading	50	584
Securities at fair value through other comprehensive income	46 190	47 079
Securities at amortized cost	1 915	19 851
Loans and advances to customers	149 061	141 156
Other assets	2 824	3 343
Guarantees and standby letters	141 679	172 227
Revocable and irrevocable commitments	53 616	65 205
	854 490	**884 303**

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 and for the loan commitments and other credit-related commitments of an irrevocable nature, is the total amount of the commitments assumed.

Impairment is calculated on a collective or individual basis in accordance with the accounting policy defined in Note 2.4. In the cases where the value of the collateral, net of haircuts (differentiated by type of collateral) equals or exceeds the exposure, the impairment may be nil. Thus, the Bank does not have past due financial assets for which it has not carried out an assessment as to their recovery and consequent recognition of the respective impairment, when verified.

The following table presents the assets that are impaired, or past due but not impaired:

(thousands of Euros)

	31.12.2019					
	Neither past due nor impaired	**Past due but not impaired**	**Impaired**	**Total exposure**	**Impairment**	**Net exposure**
Deposits with and loans and advances to banks	459 510	-	-	459 510	(355)	459 155
Securities at fair value through other comprehensive income	46 190	-	-	46 190	*(29)*	46 161
Debt instruments - Government/public issuers	*46 190*	-	-	*46 190*	*(29)*	*46 161*
Securities at amortized cost	1 997	-	-	1 997	(82)	1 915
Debt instruments - other issuers	*1 997*	-	-	*1 997*	*(82)*	*1 915*
Loans and advances to customers	149 641	3	187	149 831	(770)	149 061

(thousands of Euros)

	31.12.2018					
	Neither past due nor impaired	**Past due but not impaired**	**Impaired**	**Total exposure**	**Impairment**	**Net exposure**
Deposits with and loans and advances to banks	435 301	-	-	435 301	(443)	434 858
Securities at fair value through other comprehensive income	47 079	-	-	47 079	-	47 079
Debt instruments - Government/public issuers	*47 079*	-	-	*47 079*	-	*47 079*
Securities at amortized cost	*20 222*	-	-	*20 222*	*(371)*	*19 851*
Debt instruments - other issuers	*20 222*	-	-	*20 222*	*(371)*	*19 851*
Loans and advances to customers	141 793	15	173	141 981	(825)	141 156

Impaired exposures correspond to (i) exposures with objective evidence of loss ("Exposure in default", according to the internal definition of default - corresponding to Stage 3); and (ii) exposures classified as having specific impairment after being assessed individually for impairment.

Exposures classified as non-impaired relate to (i) all exposures that present no signs of a significant deterioration of credit risk - exposures classified as Stage 1; (ii) exposures that, although presenting signs of a significant deterioration of credit risk, have neither objective evidence of impairment nor specific impairment after being assessed individually for impairment.

The following table shows the assets that are impaired or past due without impairment, broken down by the respective maturity or ageing (if past due):

(thousands of Euros)

	31.12.2019	
	Loans and advances to customers	
	Past due but not impaired	Impaired
Past due		
Up to 3 months	1	1
3 months to 1 year	1	27
1 to 3 years	1	66
3 to 5 years	-	2
More than 5 years	-	88
	3	**184**
Not yet due		
1 to 3 years	-	3
	-	**3**
	3	**187**

(thousands of Euros)

	31.12.2018	
	Loans and advances to customers	
	Past due but not impaired	Impaired
Past due		
Up to 3 months	14	3
3 months to 1 year	1	38
1 to 3 years	-	30
3 to 5 years	-	7
More than 5 years	-	89
	15	**167**
Not yet due		
3 months to 1 year	-	5
1 to 3 years	-	1
	-	**6**
	15	**173**

The following table shows the assets that are impaired or past due without impairment, broken down by the respective Stage of impairment:

(thousands of Euros)

	31.12.2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers	1	2	187	190
	1	**2**	**187**	**190**

(thousands of Euros)

	31.12.2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers	5	10	173	188
	5	**10**	**173**	**188**

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 is considered, for loans and advances to customers and for cash and cash equivalents and loans and advances to banks 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)

	31.12.2019					
	Prime + High grade	**Upper Medium grade**	**Lower Medium grade**	**Non-investment grade Speculative + Highly speculative**	**Other**	**Total**
Deposits with and loans and advances to banks	-	-	-	-	459 510	459 510
Securities at fair value through other comprehensive income	-	-	46 190	-	-	46 190
Debt instruments - Government/public issuers	-	-	*46 190*	-	-	*46 190*
Securities at amortized cost	-	-	-	-	1 997	*1 997*
Debt instruments - other issuers	-	-	-	-	*1 997*	*1 997*
Loans and advances to customers	831	88 776	23 437	7 266	29 332	149 641

(thousands of Euros)

	31.12.2018					
	Prime + High grade	**Upper Medium grade**	**Lower Medium grade**	**Non-investment grade Speculative + Highly speculative**	**Other**	**Total**
Deposits with and loans and advances to banks	-	-	-	-	435 301	435 301
Securities at fair value through other comprehensive income	-	-	47 079	-	-	47 079
Debt instruments - Government/public issuers	-	-	*47 079*	-	-	*47 079*
Securities at amortized cost	-	-	-	-	20 222	*20 222*
Debt instruments - other issuers	-	-	-	-	*20 222*	*20 222*
Loans and advances to customers	132	73 573	24 398	15 303	28 387	141 793

As at 31 December 2019 and 2018, the detail of gross loans and advances to customers and impairment recognized by segment was as follows:

(thousands of Euros)

Segment	31.12.2019													
	Performing						Non-Performing						Total loans and advances	
	Active or with delay < 30 days		With delay > 30 days		Total		Days of delay				Total			
							<= 90 days		> 90 days					
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	29 827	152	-	-	29 827	152	-	-	-	-	-	-	29 827	152
Mortgage loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other loans to individuals	119 812	447	3	-	119 815	447	2	-	187	171	189	171	120 004	618
Total	**149 639**	**599**	**3**	**-**	**149 642**	**599**	**2**	**-**	**187**	**171**	**189**	**171**	**149 831**	**770**

(thousands of Euros)

Segment	31.12.2018													
	Performing						Non-Performing						Total loans and advances	
	Active or with delay < 30 days		With delay > 30 days		Total		Days of delay				Total			
							<= 90 days		> 90 days					
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	30 233	147	-	-	30 233	147	-	-	-	-	-	-	30 233	147
Mortgage loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other loans to individuals	111 531	522	38	1	111 569	523	10	2	169	153	179	155	111 748	678
Total	**141 764**	**669**	**38**	**1**	**141 802**	**670**	**10**	**2**	**169**	**153**	**179**	**155**	**141 981**	**825**

As at 31 December 2019 and 2018, the breakdown of the loans and advances to customers' portfolio and reference year was as follows:

(thousands of Euros)

Year of production	31.12.2019								
	Corporate			Other loans to individuals			Total		
	Number of operations	Amount	Impairment constituted	Number of operations	Amount	Impairment constituted	Number of operations	Amount	Impairment constituted
2004 and prior	2	-	-	9 588	735	20	9 590	735	20
2005	-	-	-	425	360	9	425	360	9
2006	-	-	-	524	433	16	524	433	16
2007	-	-	-	449	1 238	99	449	1 238	99
2008	-	-	-	345	246	16	345	246	16
2009	1	-	-	350	645	4	351	645	4
2010	1	507	6	930	1 389	12	931	1 896	18
2011	1	-	-	1 247	4 531	20	1 248	4 531	20
2012	2	2 016	6	875	5 136	16	877	7 152	22
2013	4	638	1	914	5 731	22	918	6 369	23
2014	8	658	2	736	10 303	40	744	10 961	42
2015	10	3 324	33	539	11 730	48	549	15 054	81
2016	17	4 208	9	403	17 559	81	420	21 767	90
2017	31	11 506	77	455	27 818	111	486	39 324	188
2018	22	3 790	7	377	11 765	41	399	15 555	48
2019	25	3 180	11	394	20 385	63	419	23 565	74
Total	**124**	**29 827**	**152**	**18 551**	**120 004**	**618**	**18 675**	**149 831**	**770**

(thousands of Euros)

Year of production	31.12.2018								
	Corporate			Other loans to individuals			Total		
	Number of operations	Amount	Impairment constituted	Number of operations	Amount	Impairment constituted	Number of operations	Amount	Impairment constituted
2004 and prior	3	-	-	10 763	892	22	10 766	892	22
2005	-	-	-	455	380	5	455	380	5
2006	-	-	-	577	435	9	577	435	9
2007	-	-	-	487	1 016	96	487	1 016	96
2008	1	-	-	385	351	17	386	351	17
2009	1	4	-	360	918	7	361	922	7
2010	1	352	5	1 035	1 620	10	1 036	1 972	15
2011	2	-	-	1 488	5 559	33	1 490	5 559	33
2012	9	5 109	35	1 010	8 373	32	1 019	13 482	67
2013	10	1 165	2	1 182	5 502	28	1 192	6 667	30
2014	15	1 512	4	1 001	13 015	59	1 016	14 527	63
2015	21	5 333	40	684	10 902	57	705	16 235	97
2016	14	4 257	20	501	18 954	113	515	23 211	133
2017	27	8 813	32	505	29 457	136	532	38 270	168
2018	24	3 688	9	411	14 374	54	435	18 062	63
Total	**128**	**30 233**	**147**	**20 844**	**111 748**	**678**	**20 972**	**141 981**	**825**

The amounts presented include, in addition to all the new operation of the year of reference, renovations, interventions and restructurings of operations originated in previous years.

As at 31 December 2019 and 2018, the breakdown of gross loans and advances to customers and impairment assessed individually and collectively, by segment, was as follows:

(thousands of Euros)

	31.12.2019					
	Individual Assessment [1]		Collective Assessment [2]		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	-	-	29 827	152	29 827	152
Other loans to individuals	-	-	120 004	618	120 004	618
Total	**-**	**-**	**149 831**	**770**	**149 831**	**770**

[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 collective impairment model

(thousands of Euros)

	31.12.2018					
	Individual Assessment [1]		Collective Assessment [2]		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	-	-	30 233	147	30 233	147
Other loans to individuals	-	-	111 748	678	111 748	678
Total	**-**	**-**	**141 981**	**825**	**141 981**	**825**

[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 collective impairment model

In the case of loans analysed by the Impairment Committee for which the impairment determined automatically by the Impairment model has not been changed, these are included and presented in the "Collective assessment".

As at 31 December 2019 and 2018, the detail of the gross loans and advances to customers' exposure and impairment assessed individually and collectively, by geography, was as follows:

(thousands of Euros)

Country	31.12.2019					
	Individual Assessment		Collective Assessment		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
PORTUGAL	-	-	144 037	726	144 037	726
LUXEMBOURG	-	-	13	-	13	-
UNITED KINGDOM	-	-	108	-	108	-
SPAIN	-	-	965	2	965	2
IRELAND	-	-	396	-	396	-
OTHER	-	-	4 312	42	4 312	42
Total	**-**	**-**	**149 831**	**770**	**149 831**	**770**

(thousands of Euros)

Country	31.12.2018					
	Individual Assessment		Collective Assessment		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
PORTUGAL	-	-	136 524	776	136 524	776
LUXEMBOURG	-	-	7	-	7	-
UNITED KINGDOM	-	-	105	-	105	-
SPAIN	-	-	1 606	32	1 606	32
IRELAND	-	-	154	1	154	1
OTHER	-	-	3 585	16	3 585	16
Total	**-**	**-**	**141 981**	**825**	**141 981**	**825**

The analysis by sector of activity, as at 31 December 2019 and 2018, may be presented as follows:

(thousands of Euros)

	31.12.2019									
	Loans and advances to customers		Derivatives held for trading	Securities at fair value through profit and loss	Securities at fair value through other comprehensive income		Securities at amortized cost		Guarantees issued	
	Gross amount	Impairment			Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment
Agriculture, Forestry and Fishery	1 086	-	-	-	-	-	-	-	-	-
Food, Beverages and Tobacco	244	-	-	-	-	-	-	-	-	-
Textiles and Clothing	5 162	(27)	-	-	-	-	-	-	-	-
Paper and Printing Industry	23	-	-	-	-	-	-	-	-	-
Chemicals and Rubber	313	-	-	-	-	-	-	-	-	-
Production of Transport Material	70	-	-	-	-	-	-	-	-	-
Construction and Public Works	77	-	-	-	-	-	-	-	-	-
Wholesale and Retail Trade	2 638	(2)	-	-	-	-	-	-	767	(17)
Tourism	3 008	(2)	-	-	-	-	-	-	-	-
Transport and Communication	27	-		-	-	-	-	-	-	-
Financial Activities	536	(7)	50	1 241	398	-	-	-	140 758	(22)
Real Estate Activities	10 659	(105)	-	-	-	-	1 997	(82)	-	-
Services Provided to Companies	3 680	(6)	-	-	-	-	-	-	-	-
Public Administration and Services	1 866	(3)	-	-	46 190	(29)	-	-	-	-
Other community service activities	438	-	-	-	-	-	-	-	-	-
Loans to individuals	120 004	(618)	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	241	(48)
TOTAL	**149 831**	**(770)**	**50**	**1 241**	**46 588**	**(29)**	**1 997**	**(82)**	**141 766**	**(87)**

(thousands of Euros)

	31.12.2018									
	Loans and advances to customers		Derivatives held for trading	Securities at fair value through profit and loss	Securities at fair value through other comprehensive income		Securities at amortized cost		Guarantees issued	
	Gross amount	Impairment			Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment
Agriculture, Forestry and Fishery	713	(1)	-	-	-	-	-	-	-	-
Food, Beverages and Tobacco	153	-	-	-	-	-	-	-	-	-
Textiles and Clothing	2 424	(2)	-	-	-	-	-	-	-	-
Paper and Printing Industry	15	-	-	-	-	-	-	-	-	-
Chemicals and Rubber	196	-	-	-	-	-	-	-	-	-
Non-metallic Minerals	120	-	-	-	-	-	-	-	-	-
Production of Transport Material	44	-	-	-	-	-	-	-	-	-
Construction and Public Works	8 792	(95)	-	-	-	-	14 977	(340)	-	-
Wholesale and Retail Trade	5 342	(11)	-	-	-	-	5 245	(31)	735	(47)
Tourism	1 719	(1)	-	-	-	-	-	-	-	-
Transport and Communication	-	-		-	-	-	-	-	-	-
Financial Activities	48	-	584	851	373	-	-	-	171 357	(26)
Real Estate Activities	6 179	(27)	-	-	-	-	-	-	-	-
Services Provided to Companies	2 473	(8)	-	-	-	-	-	-	-	-
Public Administration and Services	1 761	(2)	-	-	47 079	(5)	-	-	-	-
Other community service activities	254	-	-	-	-	-	-	-	-	-
Loans to individuals	111 748	(678)	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	246	(38)
TOTAL	**141 981**	**(825)**	**584**	**851**	**47 452**	**(5)**	**20 222**	**(371)**	**172 338**	**(111)**

The Bank identifies and marks credit agreements restructured due to financial difficulties of the customer whenever there are changes to the terms and conditions of a contract in which the customer defaulted, or it is foreseeable that it will default, on a financial obligation. A change to the terms and conditions of the contract is deemed to exist when (i) there are contractual changes to the customer's benefit, such as extension of the term, introduction of grace periods, rate reduction or partial debt pardon; (ii) there is a new loan operation for the settlement of existing debt (total or partial); or (iii) the new terms of the contract are more favourable than those applied to other customers with the same risk profile.

The demarcation of a loan restructured due to financial difficulties of the customer can only occur after a minimum period of two years from the date of the restructuring, provided that the following conditions are cumulatively met: (i) regular payment of principal and interest; (ii) the customer has no past due principal or interest; and (iii) there were no debt restructuring mechanisms on behalf of the customer in that period.

The amounts of loans restructured due to financial difficulties of the customer as at 31 December 2019 and 2018 are as follows:

(thousands of Euros)

	31.12.2019	**31.12.2018**
Corporate	1 750	1 749
Other loans to individuals	560	732
Total	**2 310**	**2 481**

Below are the details of the restructuring measures applied to restructured loans and advances until 31 December 2019 and 2018:

(thousands of Euros)

Measure	31.12.2019								
	Performing			Non-performing			Total		
	No. transactions	Exposure	Impairment	No. transactions	Exposure	Impairment	No. transactions	Exposure	Impairment
New loan in total or partial payment of existing loan	5	78	3	2	4	2	7	82	5
Extension of repayment period	2	6	-	5	9	9	7	15	9
Change of the lease payment plan	1	3	-	-	-	-	1	3	-
Other	7	2 209	10	2	1	1	9	2 210	11
Total	**15**	**2 296**	**13**	**9**	**14**	**12**	**24**	**2 310**	**25**

(thousands of Euros)

Measure	31.12.2018								
	Performing			Non-performing			Total		
	No. transactions	Exposure	Impairment	No. transactions	Exposure	Impairment	No. transactions	Exposure	Impairment
New loan in total or partial payment of existing loan	3	13	1	2	7	4	5	20	5
Extension of repayment period	2	10	-	7	12	12	9	22	12
Change of the lease payment plan	2	16	-	-	-	-	2	16	-
Other	10	2 420	11	3	3	2	13	2 423	13
Total	**17**	**2 459**	**12**	**12**	**22**	**18**	**29**	**2 481**	**30**

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, commodity prices, and volatility and credit spread.

Market risk management is integrated within the balance sheet management through the Capital, Asset and Liability Committee (CALCO), 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 assessment of the impact of potential losses higher than those considered by VaR.

(thousands of Euros)

	31.12.2019				31.12.2018			
	December	Period average	Maximum	Minimum	December	Period average	Maximum	Minimum
Exchange rate risk	31.76	16.92	45.11	2.47	13.07	18.96	62.12	5.36
Interest rate risk	0.03	0.01	0.02	0.01	0.05	0.17	0.11	0.15
Shares and Commodities	-	2.05	2.72	-	0.88	1.05	0.61	0.70
Volatility	-	0.67	1.81	-	0.13	0.14	0.03	0.19
Diversification effect	-0.04	-0.52	-4.73	-0.01	-0.80	-1.25	-0.65	-0.95
Total	**31.75**	**19.14**	**44.93**	**2.47**	**13.33**	**19.06**	**62.21**	**5.45**

As at 31 December 2019, BEST has a VaR of approximately Euros 32 thousand (31 December 2018: Euros 13 thousand) for its trading positions.

Following the recommendations of the European Banking Authority explicit in document EBA/GL/2018/02, BEST calculates its exposure to interest rate risk based on the shocks prescribed, classifying the notional amounts of all balance and off-balance captions sensitive to interest rates, which are not part of the trading portfolio, by re-pricing intervals.

(thousands of Euros)

	31.12.2019						
	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	458 010	-	196 107	57 225	203 706	972	-
Loans and advances to customers	149 136	-	70 648	55 161	18 609	4 440	278
Securities	41 419	1 646	1 918	355	-	-	37 500
Total			**268 672**	**112 741**	**222 315**	**5 412**	**37 778**
Deposits from banks	23 850	-	23 850	-	-	-	-
Due to customers	544 960	-	347 445	36 271	39 927	121 317	-
Total			**371 295**	**36 271**	**39 927**	**121 317**	**-**
Balance sheet GAP (Assets - Liabilities)	78 109		(102 623)	76 470	182 388	(115 904)	37 778
Off-Balance sheet	-		-	-	-	-	-
Structural GAP	**78 109**		**(102 623)**	**76 470**	**182 388**	**(115 904)**	**37 778**
Accumulated GAP			**(102 623)**	**(26 153)**	**156 235**	**40 331**	**78 109**

(thousands of Euros)

	31.12.2018						
	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	433 347	-	129 317	35 475	263 100	5 455	-
Loans and advances to customers	141 438	-	66 738	53 732	16 563	3 854	551
Securities	67 431	1 225	19 851	364	-	-	45 991
Total			**215 906**	**89 571**	**279 663**	**9 309**	**46 542**
Deposits from banks	20 349	-	20 349	-	-	-	-
Due to customers	540 983	-	334 713	26 073	36 828	143 369	-
Total			**355 062**	**26 073**	**36 828**	**143 369**	**-**
Balance sheet GAP (Assets - Liabilities)	79 659		(139 156)	63 498	242 835	(134 060)	46 542
Off-Balance sheet	-		-	-	-	-	-
Structural GAP	**79 659**		**(139 156)**	**63 498**	**242 835**	**(134 060)**	**46 542**
Accumulated GAP			**(139 156)**	**(75 658)**	**167 177**	**33 117**	**79 659**

Sensitivity analyses are carried out for the interest rate risk of the bank portfolio based on the present value difference between the interest rate mismatch discounted at current rates and the discounted value of the same cash flows, through scenarios of the displacement of parallel (displacements of +/- 200 bp) and non-parallel (short rate shock up/down, steepener/flattener shocks) yield curves, according to the outliers tests defined by the EBA (assuming linear regulatory floors between -1% and 0%, compared with the single regulatory floor of 0% in 2018).

(thousands of Euros)

	31.12.2019					
	Parallel increase of 200 bp	Parallel decrease of 200 bp	Short Rate Shock Up	Short Rate Shock Down	Steepener shock	Flattener shock
At 31 December	(5 501)	2 540	(756)	416	(2 871)	1 171
Average for period	(5 685)	2 369	(890)	499	(2 673)	1 005
Maximum for period	(4 553)	2 540	115	1 194	(1 926)	1 841
Minimum for period	(7 993)	1 862	(2 556)	83	(3 294)	(260)

The following table presents the average balances for the period, interest for the period, and average interest rates for the Bank's major financial assets and liabilities' categories, as at 31 December 2019 and 2018:

(thousands of Euros)

	31.12.2019			31.12.2018		
	Average balance for period	**Interest for period**	**Average interest rate**	**Average balance for period**	**Interest for period**	**Average interest rate**
Monetary assets	481 175	3 074	0.63%	387 733	3 764	0.96%
Loans and advances to customers	144 280	2 558	1.75%	154 507	2 894	1.85%
Securities	60 229	858	1.41%	70 664	1 163	1.62%
Differential applications	-	-	-	-	-	0.00%
Financial assets	**685 684**	**6 490**	**0.93%**	**612 904**	**7 821**	**1.26%**
Monetary liabilities	22 223	12	0.05%	19 735	8	0.04%
Due to customers	552 470	839	0.15%	522 160	1 232	0.23%
Differential liabilities	110 991	-	-	71 009	-	-
Financial liabilities	**685 684**	**851**	**0.12%**	**612 904**	**1 240**	**0.20%**
Net interest income		**5 639**	**0.81%**		**6 581**	**1.06%**

Regarding foreign exchange risk, the breakdown of assets and liabilities by currency, as at 31 of December of 2019 and 2018, is analysed as follows:

(thousands of Euros)

		31.12.2019			31.12.2018		
		Spot	Forward	Net exposure	Spot	Forward	Net exposure
USD	UNITED STATES DOLLAR	988	(499)	489	1 840	(1 747)	93
GBP	GREAT BRITAIN POUND	169	-	169	139	-	139
DKK	DANISH KRONE	55	-	55	53	-	53
JPY	JAPANESE YEN	15	-	15	30	-	30
CHF	SWISS FRANC	47	-	47	81	-	81
SEK	SWEDISH KRONE	-	-	-	22	-	22
NOK	NORWEGIAN KRONE	45	-	45	46	-	46
CAD	CANADIAN DOLLAR	145	-	145	120	-	120
AUD	AUSTRALIAN DOLLAR	86	-	86	58	-	58
PLN	POLISH ZLOTY	12	-	12	12	-	12
TRY	TURKISH LIRA	-	-	-	8	-	8
	OTHER	7	-	7	53	-	53
		1 569	**(499)**	**1 070**	**2 462**	**(1 747)**	**715**

Note: Asset/(liability)

Liquidity risk

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

Liquidity risk can be divided into two types:

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

• Funding liquidity (funding liquidity risk) – consists of the inability to, within the desired timeframe and currency, fund assets on the market and/or refinance debt falling due. This inability can be reflected in a significant increase in the financing cost or in 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.

In order to assess the global exposure to liquidity risk, reports are prepared that allow not only for the identification of negative mismatches, but also for the dynamic coverage of same. According to the

ITS (Implementing Technical Standards) reporting rules, the net contractual deficit and the counterbalancing capacity are calculated for the end of 2019:

(thousands of Euros)

	31.12.2019						
	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
OUTFLOWS							
Behavioural outflows of deposits	570 600	2 143	1 195	3 186	4 778	9 557	549 741
Exchange rate swaps and Derivatives	80 524	-	-	80 524	-	-	-
Total Outflows	**651 124**	**2 143**	**1 195**	**83 710**	**4 778**	**9 557**	**549 741**
INFLOWS							
Behavioural inflows of loans and advances	607 383	32 427	101 657	24 955	58 886	207 026	182 432
Exchange rate swaps and Derivatives	80 524	-	-	80 524	-	-	-
Securities in own portfolio maturing and Other inflows	47 517	-	-	-	-	-	47 517
Total Inflows	**735 424**	**32 427**	**101 657**	**105 479**	**58 886**	**207 026**	**229 949**
Net contractual deficit	84 299	30 284	100 462	21 770	54 107	197 469	(319 793)
Accumulated net contractual deficit	**-**	**30 284**	**130 746**	**152 516**	**206 623**	**404 092**	**84 299**
REBALANCING CAPACITY	Initial stock	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
Negotiable and non-negotiable assets eligible for central banks	45 056	-	-	-	-	-	(43 808)
Net change in rebalancing capacity	-	-	-	-	-	-	(43 808)
Accumulated rebalancing capacity	**45 056**	**45 056**	**45 056**	**45 056**	**45 056**	**45 056**	**1 248**

(thousands of Euros)

	31.12.2018						
	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
OUTFLOWS							
Behavioural outflows of deposits	565 669	4 665	1 179	3 144	4 716	9 431	542 534
Exchange rate swaps and Derivatives	84 945	-	-	84 909	36	-	-
Total Outflows	**650 614**	**4 665**	**1 179**	**88 053**	**4 752**	**9 431**	**542 534**
INFLOWS							
Behavioural inflows of loans and advances	574 914	3 473	56 732	41 448	40 857	273 865	158 539
Exchange rate swaps and Derivatives	84 925	-	-	84 905	20	-	-
Securities in own portfolio maturing and Other inflows	66 206	-	-	-	-	-	66 206
Total Inflows	**726 045**	**3 473**	**56 732**	**126 353**	**40 877**	**273 865**	**224 745**
Net contractual deficit	75 432	(1 192)	55 554	38 301	36 125	264 433	(317 789)
Accumulated net contractual deficit	**-**	**(1 192)**	**54 362**	**92 663**	**128 788**	**393 221**	**75 432**
REBALANCING CAPACITY	Initial stock	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
Negotiable and non-negotiable assets eligible for central banks	45 537	-	-	-	-	-	(44 685)
Net change in rebalancing capacity	-	-	-	-	-	-	(44 685)
Accumulated rebalancing capacity	**45 537**	**45 537**	**45 537**	**45 537**	**45 537**	**45 537**	**852**

In addition, and given the importance of liquidity risk management, regulatory legislation includes a liquidity coverage ratio (Liquidity Coverage Ratio - LCR) and a stable financing ratio (Net Stable

Funding Ratio - NSFR). The LCR aims to promote banks' resilience to short-term liquidity risk, ensuring that they hold high-quality liquid assets, sufficient to survive a severe stress scenario, for a period of 30 days, while the NSFR aims to ensure that Banks maintain stable financing for their assets and off-balance sheet operations, for a period of one year.

In accordance with current regulatory legislation, BEST was required to comply with a minimum limit of 100%. The Bank continues to follow regulatory changes in order to comply with all 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 behaviour or caused by external events, including legal risks. Operational risk is therefore understood to be the sum of the following risks: operational, information systems, compliance and reputational.

To manage operational risk, a system was developed and implemented standardizing, systematizing and regulating the frequency of actions with the objective of identifying, monitoring, controlling and mitigating said risk. The system is supported at the 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, branches 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 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 objectives.

In prudential terms, the Bank is subject to the Bank of Portugal's supervision according to 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. This legislation transposes into the European legal order the recommendations of the Basel Committee, generally designated Basel III.

Currently, under the Basel III legal framework, 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 retained, when audited. The following balance sheet amounts are deductible from Common Equity Tier I: eligible intangible assets, negative actuarial deviations arising on liabilities for 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 following table presents a summary of the own funds, risk-weighted assets, and capital ratios of BEST as at 31 December 2019 and 2018, period during which there was a strengthening of the Bank's solvency:

(thousands of Euros)

		31.12.2019	31.12.2018
Realized ordinary share capital, Share premiums and Treasury shares		63 000	62 992
Reserves and Retained earnings		14 558	9 001
Net income for the period attributable to shareholders of the Bank		2 669	3 564
A - Own Funds		**80 227**	**75 557**
Net income for the period attributable to shareholders of the Bank not eligible [1]		(2 669)	(3 564)
Additional valuation adjustments		(48)	(50)
Transition period IFRS 9		725	810
Intangible assets		(274)	-
Deferred tax assets and investments in financial entities		-	-
Other		(247)	(247)
B - Regulatory adjustments to own funds		**(2 513)**	**(3 050)**
C - Tier 1 core own funds - CET I (A+B)		**77 715**	**72 506**
D - Additional Tier 1 own funds - Additional Tier 1		**-**	**-**
E - Tier 1 own funds - Tier I (C+D)		**77 715**	**72 506**
F - Tier 2 own funds - Tier II		**-**	**-**
G - Total own funds (E+F)		**77 715**	**72 506**
Credit risk		145,141	152,662
Market risk		1,998	868
Operational risk		26,521	26,521
H - Risk weighted assets		**173 659**	**180 050**
Solvency ratios			
CET I	**(C/H)**	**44.8%**	**40.3%**
Tier I	**(E/H)**	**44.8%**	**40.3%**
Solvency	**(G/H)**	**44.8%**	**40.3%**
Leveraging ratio[2]		**11.1%**	**10.5%**

[1] Component of the net income for the period retained and incorporated in the subsequent period
[2] The leveraging ratio results from dividing the Tier 1 by the exposure measure determined under the CRR

As at 31 December 2019, the Bank met the minimum capital requirements in all the capital typologies.

NOTE 33 - RECENTLY ISSUED ACCOUNTING STANDARDS AND INTERPRETATIONS

Applicable in 2019

The standards presented below became effective as from 1 January 2019:

IFRS 16 – Leases

The scope of IFRS 16 includes leases of all assets, with some exceptions. A lease is defined as a contract, or part of a contract, that transfers the right of use of an asset (the underlying asset) for a period of time in exchange for an amount.

IFRS 16 requires lessees to account for all leases based on a single on-balance sheet model in a similar way as the treatment that IAS 17 gives to finance leases. The standard recognizes two exceptions to this model: (1) low-value leases (e.g. personal computers) and short-term leases (i.e. with a lease term under 12 months). At the start of the lease, the lessee will recognize the liability related to the lease payments (i.e. the lease liability) and the asset that represents the right to use the underlying asset during the lease period (i.e. the right of use or ROU).

Lessees will have to separately recognize the cost of the interest on the lease liability and the depreciation of the ROU.

Lessees should also remeasure the lease liability upon the occurrence of certain events (such as a change in the lease period, a change in future payments that results from a change in the reference rate or of the rate used to determine such payments). The lessee will recognize the amount of the remeasurement of the lease liability as an adjustment in the ROU.

The lessor's accounting remains substantially unchanged from the current treatment under IAS 17. The lessor continues to classify all leases using the same principles of IAS 17 and distinguishing between two types of leases: operating and finance leases.

The lessee may choose to apply this standard using either the retrospective approach or the modified retrospective approach, through the use of certain practical transition expedients. Early adoption is permitted, but only after the application of IFRS 15 - Revenue from contracts with customers by the entity.

The rental expense recognition pattern will be accelerated when compared with what currently occurs. Thus, the entity's key balance sheet indicators, such as leverage ratios, financial ratios, debt covenants and results, such as earnings before interest, taxes, and depreciation (EBIDTA), may be impacted.

At the lessee level, the cash flow statement may also be affected, as the capital payments associated with the lease agreement are now shown in the cash flows from financing activities. The accounting by the lessor remains substantially unchanged when compared with the current IAS 17 treatment.

The standard requires lessees and lessors to make disclosures that are more extensive than those required by IAS 17. Given the aforementioned accounting implications, lessees should assess every agreement they sign in order to identify whether it is or contains a lease. This assessment is also relevant for lessors to determine which agreements (or parts of agreements) will be subject to the new standard applicable to revenue.

IFRIC 23 – (Interpretation) - Uncertainties about different treatments of income tax

In June 2017, the IASB issued IFRIC 23 Uncertainty about different income tax treatments (the Interpretation) which clarifies the application and measurement requirements of IAS 12 Income tax when there is uncertainty as to the treatment to be given to the tax on income.

The Interpretation addresses the accounting of income tax when tax treatments involve uncertainty and affect the application of IAS 12. The Interpretation does not apply to taxes or levies that do not fall within the scope of IAS 12, nor does it specifically include requirements relating to interest or fines associated with the uncertainty of tax treatments.

The Interpretation specifically addresses the following:

- Whether an entity considers the uncertainties of tax treatments separately;
- The assumptions that an entity makes based on a study of the tax treatment afforded by the tax authorities;
- How an entity determines the taxable income (loss), the tax base, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

The entity determines whether to consider each uncertain tax treatment separately or together with one or more uncertain tax treatments and considers the approach that best predicts the resolution of the uncertainty.

The application of this interpretation can prove to be a challenge for entities, particularly for those operating in multinational environments with more complex tax frameworks. Entities may also have to assess whether adequate processes and procedures have been established to obtain all the information necessary to apply the interpretation requirements in a timely manner and to ensure that all disclosures required by the standard are made.

Prepayments with negative compensation - Amendments to IFRS 9

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income provided that the implicit cash flows are "only payment of principal and interest on the principle outstanding" (the SPPI criterion) and the instrument is held in a business model that allows for such classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance causing the early termination of the contract and regardless of which party pays or receives reasonable compensation for the early termination of same.

The concluding bases for this amendment clarify that the early termination may be a consequence of a contractual clause or an event that is beyond the control of the parties to the contract, such as a change of laws or regulations leading to early termination.

The amendments should be applied whenever the amount of the prepayment closes in on the unpaid amounts of principal and interest plus or minus an amount that reflects the change in the benchmark interest rate. This implies that the prepayment recognized at its present fair value or at a value that includes the fair value of the cost of terminating an associated hedging instrument, should normally satisfy the SPPI criterion, but only if other elements of the fair value change, such as the effect of credit or liquidity risk, are reduced. Most likely, the cost of terminating a “plain vanilla” interest rate swap contract, guaranteed so as to minimize the credit risk of the parties to the contract, should meet this requirement. These amendments must be applied retrospectively. This amendment includes specific requirements to adopt on the transition but only if entities adopt it in 2019 instead of in 2018 together with IFRS 9.

<u>Modification or substitution of a financial liability that does not give rise to the derecognition of such liabilities</u>

In the concluding bases, the IASB also clarifies that the requirements of IFRS 9 for the adjustment of the amortized cost of a financial liability when a modification (or substitution) does not result in its derecognition are consistent with the requirements applied to a modification of an asset that does not result in its derecognition. This means that the gain or loss resulting from the modification of that

financial liability that does not result in its derecognition, calculated by discounting the change in the cash flows associated with that liability at the original effective interest rate, is immediately recognized in the income statement.

The IASB made this comment in the concluding bases regarding this amendment as it believes that the current requirements of IFRS 9 provide a good basis for entities to account for the modifications or substitutions of financial liabilities and that no formal change to IFRS 9 is required as regards this matter.

The IASB stated that this clarification on the modification or replacement of financial liabilities refers specifically to the application of IFRS 9. As such, it may be understood that this clarification does not need to be applied to the accounting of modifications to financial liabilities in accordance with IAS 39 Financial Instruments: Recognition and Measurement. It is therefore likely that there will be a change in the accounting transition, for entities that did not apply this accounting under IAS 39. As there are no specific expedients, this change should be applied retrospectively.

IAS 19 Changes to the plan, cuts or liquidation of the plan

This amendment clarifies the accounting treatment to follow in cases where there is a change in the plan, a cut in the plan or the liquidation of the plan.

<u>Determining the current services costs and the net interest</u>

When a defined benefit plan is accounted for in accordance with IAS 19, the standard requires that the cost of current services be measured using actuarial assumptions determined at the date of commencement of that reporting period. Likewise, the net interest is measured multiplying the net liability (asset) of the plan by the discount rate, both determined at the beginning date of that reporting period. This amendment clarifies that when a change, a cut or the liquidation of the plan occurs during the period, it is required:

- That the cost of the current services for the remaining period be measured using the actuarial assumptions that have been used to remeasure the net liability (asset) of the plan, which reflects the benefits offered by the plan and the plan assets after that event;
- That the net interest for the remaining period after this event be determined using:
    - The net liability (asset) of the plan, which reflects the benefits offered by the plan and the plan assets after that event; and
    - The discount rate used to remeasure that net liability (asset) of the plan.

Impact on the requirements to determine the maximum limit of the recognition of the asset.

A change, cut or liquidation of the plan can reduce or eliminate the excess that exists in the defined benefit plan, which may lead to a change in the maximum limit of the recognition of the asset.

This amendment clarifies that any past service cost, or a gain or loss on the liquidation, must first be determined, without considering the maximum limit for the recognition of the asset. This amount is recognized in profit and loss for the period. Subsequently, the effect of the maximum limit for the recognition of the asset after the change, cut or liquidation of the plan must be determined. Any change in that effect, not considering the amounts included in the net interest, is recognized in comprehensive income.

This clarification may lead an entity to recognize past service costs, or a gain or loss on the liquidation, which reduces the excess that has not been recognized in the past. Changes in the effect of the cap on the recognition of the asset cannot offset these amounts.

This amendment applies to changes, curtailments or liquidations of plans occurring on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Early adoption is permitted, which must be disclosed.

Long-term interests in associates or joint ventures - amendments to IAS 28

The amendments clarify that an entity shall apply IFRS 9 to long-term interests in associates or joint ventures to which the equity method is not applied but which, in substance, form part of the net investment in that associate or joint venture (long-term interests). This clarification is relevant since it implies that the expected loss model of IFRS 9 should be applied to such investments.

The IASB also clarified that in applying IFRS 9 an entity does not take into account any losses of that associate or joint venture, or impairment losses on the net investment, which are recognized as an adjustment to the net investment arising from the application of IAS 28.

To illustrate how entities should apply the requirements of IAS 28 and IFRS 9 on long-term interests, the IASB published illustrative examples when it issued this amendment. These amendments will allow for the elimination of some ambiguities in the text of the standard.

This amendment is effective for financial years beginning on or after 1 January 2019. The amendment must be applied retrospectively, with some exceptions. Early adoption is permitted and must be disclosed.

Annual improvements for the 2015-2017 cycle

In the Annual Improvements for the 2015-2017 cycle, the IASB has introduced improvements in four standards, summarized below:

IFRS 3 Business Combinations - Interest previously held in a joint venture

- The amendments clarify that when an entity obtains control of a joint venture, it must apply the requirements of the business combination in stages, including remeasuring the interest previously held in the assets and liabilities of the joint venture to its fair value.
- In doing so, the acquirer remeasures its interest previously held in that joint venture.
- This amendment is applicable to business combinations for which the acquisition date is on or after the beginning of the first reporting period that begins on or after 1 January 2019. Early adoption is permitted.

IFRS 11 Joint Arrangements - Interest previously held in a joint venture

- A party that participates, but does not have joint control, in a joint venture may obtain joint control over a joint venture which business activity is a business as defined under IFRS 3. This amendment clarifies that the interest previously held should not be remeasured.
- This amendment applies to transactions in which the entity obtains joint control that occur on or after the beginning of the first reporting period that begins on or after 1 January 2019. Early adoption is permitted.

IAS 12 Income tax - income tax consequences of revenue derived from payments related to financial instruments classified as equity instruments

- These changes clarify that the dividend income tax consequences are directly associated with the transaction or past event that generated results distributable to shareholders. As a result, the entity recognizes tax-level impacts in the income statement, comprehensive income or other equity instrument in accordance with the entity's past recognition of such transactions or events.
- These amendments apply to financial years beginning on or after 1 January 2019. Early adoption is permitted. When the entity applies these amendments for the first time, it shall apply same to the tax consequences of dividends recognized on or after the beginning of the earliest comparative period.

IAS 23 Borrowing costs - borrowing costs eligible for capitalization

- The amendments clarify that an entity treats as part of the global loans any loan originally obtained for the development of the qualifying asset, when substantially all the activities necessary to prepare that asset for its intended use or for sale are complete.
- The amendments are applicable to borrowing costs incurred on or after the commencement of the reporting period in which the entity adopts these amendments.
- These amendments apply to financial years beginning on or after 1 January 2019. Early adoption is permitted.

IFRS 10 and IAS 28: Sale or delivery of assets by an investor to its associate or joint venture

The improvements seek to resolve the conflict between IFRS 10 and IAS 28 when facing loss of control of a subsidiary that is sold or transferred to an associate or joint venture.

The amendments to IAS 28 introduce different recognition criteria for the effects of transactions involving the sale or delivery of assets by an investor (including its consolidated subsidiaries) to its associate or joint venture depending on whether the transactions involve, or not, assets that constitute a business, as defined in IFRS 3 - Business Combinations. When the transactions constitute a business combination under the required terms, the gain or loss shall be recognized in full in the income statement for the year of the investor. However, if the transferred asset does not constitute a business, the gain or loss shall continue to be recognized only to the extent that it relates to other (unrelated) investors.

In December 2015, the IASB decided to defer the date of application of this amendment until any amendments that result from the research project underway on the equity method are finalized. The early application of this amendment is permitted and must be disclosed. The amendments should be applied prospectively.

At the date of approval of these financial statements, the standards and interpretations endorsed by the European Union, but which mandatory application occurs in future years, are as follows:

Definition of materiality - Amendments to IAS 1 and IAS 8

The purpose of this amendment was to make the definition of "material" consistent across all existing standards and to clarify certain aspects related to its definition. The new definition states that

"information is material if its omission, error or concealment can reasonably be expected to influence the decisions that the primary users of the financial statements make on the basis of those financial statements which provide financial information about a given reporting entity".

The amendments clarify that materiality depends on the nature and magnitude of the information, or both. An entity must assess whether certain information, either individually or in combination with other information, is material in the context of the financial statements.

Hidden information

The amendments explain that information is hidden if it is communicated in a way that has the same effects as if it were missing or contained errors. Material information may be hidden, for example, if the information relating to a material item, a material transaction or other material event is dispersed throughout the financial statements or is disclosed using language that is vague and unclear. Material information may also be hidden if dissimilar items, dissimilar transactions, or dissimilar events are aggregated inappropriately, or conversely, if similar items are disaggregated.

New level of materiality (threshold)

The amendments replace the reference to the "may influence" level of materiality, which suggests that any potential influence of users must be considered, by the "reasonably expected to influence" mention contained in the definition of materiality. In the amended definition it is thus clarified that the assessment of materiality must consider only that which can reasonably be expected to influence the economic decisions of the primary users of the financial statements.

Primary users of financial statements

The current definition refers to "users" but does not specify their characteristics, the interpretation of which may imply that the entity must take into account all possible users of the financial statements when deciding what information to disclose. Consequently, the IASB decided to refer only to primary users in the new definition, to address concerns that the term "users" could be interpreted broadly.

This amendment is effective for financial years beginning on or after 1 January 2020. This amendment must be applied prospectively. Early adoption is permitted and must be disclosed.
Note: This amendment also impacts IFRS Practice Statement 2: Making judgments about materiality, which was disclosed in the IFRS Update document issued on 31 December 2017.

The conceptual framework for financial reporting

The conceptual framework establishes a comprehensive set of concepts for:

- The financial reporting;
- The definition of standards;
- The development of consistent accounting principles; and
- Support in the understanding and interpretation of standards.

The revised conceptual framework includes:

- Some new concepts;
- Revised definitions and criteria for the recognition of assets and liabilities; and
- Clarifications on important concepts.

This structure is organized as follows:

- Chapter 1 - The purpose of financial reporting
- Chapter 2 - Qualitative characteristics of useful financial information
- Chapter 3 - Financial statements and the reporting entity
- Chapter 4 - The elements of financial statements
- Chapter 5 - Recognition and derecognition
- Chapter 6 - Measurement
- Chapter 7 - Presentation and disclosure
- Chapter 8 - Concepts of capital and capital maintenance.

The revised conceptual framework for financial reporting is not a standard and none of its concepts prevail over the concepts present in standards or other requirements of any of the standards. It shall apply to entities that develop their accounting principles based on the conceptual framework for financial years beginning on or after 1 January 2020.

Reform of the reference interest rate indices - changes to IFRS 9, IAS 39 and IFRS 7

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 Financial Instruments: Disclosures, which include the first phase of the work developed to respond to the effects on the financial reporting of the IBOR (Interbank Offered Rates) reform.

These changes provide temporary expedients that allow hedge accounting to be maintained during the period of uncertainty that precedes the replacement of the currently existing reference interest rate with an alternative reference interest rate.

Amendments to IFRS 9

The changes include several expedients, applicable to all hedging relationships that are directly affected by the reform of the reference interest rate. A hedge relationship is affected if the ongoing reform generates uncertainties about the reference periodicity and/or amount of the cash flows generated by the hedged object or the hedging instrument.

The application of the expedients is mandatory. The first three expedients provide for the treatment of:

- Assessment of whether a future transaction is highly likely
- Assessment of when to reclassify the cash flow amount recorded in reserves to profit and loss
- Assessment of the economic relationship between the hedged object and the hedging instrument.

For each of these expedients, it is assumed that the benchmark for calculating the covered cash flows (whether or not it is contractually specified) and/or, for the third expedient, the benchmark for the cash flow calculation of the covered instrument, will not be modified as a result of the IBOR reform.

A fourth expedient requires that, at the beginning of the hedging relationship, the risk component of the reference interest rate affected by IBOR be separately identified.

When the hedging strategy involves continuously including and removing hedged and hedging instruments from the portfolio, the requirement mentioned need only be ensured in the initial recognition of the hedged elements in the hedging relationship.

Given that a hedging instrument is changed so that its cash flows are based on an RFR but the hedged item is still based on IBOR (or vice versa), there is no expedient to determine the measurement and recognition of the potential ineffectiveness that results from the changes in the fair value of the elements.

The expedients continue indefinitely in the absence of any of the events described in the amendments. When the entity designates a set of elements as a hedged element, the requirements as to when the expedients end are applied separately to each of the elements individually.

The amendments also introduce specific disclosure requirements for the hedging relationships to which these expedients apply.

Amendments to IAS 39

The amendments to the standard are consistent with the amendments made to IFRS 9, but with the following differences:

- For the purpose of the prospective assessment of the hedging relationship, it is assumed that the benchmark for calculating the covered cash flows (whether or not contractually specified) and/or, for the third expedient, the benchmark for the cash flow calculation of the instrument covered, will not be modified as a result of the IBOR reform.
- For the purpose of the retrospective assessment of the effectiveness of the hedging relationship, the hedge is allowed to pass the effectiveness tests even if the hedge results are temporarily outside the 80% -125% range, during the period of uncertainty resulting from the IBOR reform.
- In the case of the hedging of part of the reference interest rate risk (other than the risk component under IFRS 9) that is affected by the IBOR reform, the requirement for the separate identification of this part should only be guaranteed in the initial recognition of the hedging relationship.

These changes must be applied retrospectively. However, any hedging relationships that were not previously designated cannot be re-designated, nor can they be reinstated, nor should new hedging relationships be designated within the context of the retrospective application. Early application is permitted but must be disclosed.

Standards and Interpretations issued by the IASB, but not yet endorsed by the European Union

The following standards, interpretations, amendments and revisions, with mandatory application in future financial years, were not, up to the date of approval of these financial statements, endorsed by the European Union:

Definition of business activity - amendments to IFRS 3

This amendment clarifies the minimum requirements to be considered a business activity, removes the assessment as to whether market participants are able to replace the missing elements, adds guidance on the assessment as to whether an acquired process is substantive, narrows the definitions of business activity and output and introduces an optional fair value test of the business activity.

Minimum requirements to be considered a business activity

The amendment clarifies that to be considered a business activity, an integrated set of activities must include at least one input and a substantive process that together contribute significantly to the creation of an output. It also clarifies that a business activity can exist without including all inputs and all processes necessary to create outputs. That is, the inputs and processes applied to these inputs "must be able to contribute to the creation of outputs" rather than "have to be able to create outputs".

Ability of market participants to replace missing elements

Before the amendment, IFRS 3 foresaw that a business activity did not have to include all inputs or processes that the seller used in the operationalization of the business activity, "if market participants are able to acquire the business activity and continue to execute the productive process, for example, integrating the business activity with its own inputs and processes". The reference to this integration has been eliminated from the standard and the assessment is based on what was acquired in its current state and conditions.

Evaluate whether an acquired process is substantive

The amendments clarify that if a set of activities and assets do not have outputs at the acquisition date, an acquired process is considered a substantive one:

a) If it is critical for the ability to develop and convert inputs acquired into outputs; and
b) If the inputs acquired include either an organized workforce with the necessary skills, knowledge, or experience in carrying out this process, or other inputs that this organized labour force can develop or convert into outputs.

In contrast, if a set of activities and assets acquired include outputs at the acquisition date, an acquired process must be considered a substantive one:

a) If it is critical for the ability to continue to produce outputs and the inputs purchased include an organized workforce with the necessary skills, knowledge, or experience to carry out this process; or
b) If it contributes significantly to the ability to continue producing outputs and/or is considered unique or scarce, or cannot be replaced without significant costs, without significant effort or without significant delays in the capacity to continue producing outputs.

Narrower definition of outputs

The amendments narrowed the definition of outputs by focusing on goods or services provided to customers, return on investment (such as dividends or interest) or other revenue from ordinary activities. The definition of business activity in Appendix A of IFRS 3 has been amended accordingly.

Optional concentration test

The amendments introduce an optional test of the fair value of the merger to allow for a simplified assessment if a set of acquired activities are not a business activity. Entities may choose to apply this test on a transaction-by-transaction basis. The test is performed if substantially all the fair values of the gross assets acquired are concentrated in a single identifiable asset or in a similar group of identifiable assets. If the test is not complied with, or if the entity chooses not to apply the test to a particular transaction, a detailed assessment will have to be performed applying the standard IFRS 3 requirements.

This amendment is effective for transactions that are deemed to be business combinations or purchases of assets for which the acquisition date occurred on or after the beginning of the first period beginning on or after 1 January 2020.

These amendments apply prospectively. Consequently, entities do not have to assess acquisitions that occurred before that date. Early adoption is permitted and must be disclosed.

This amendment will also have an impact on other standards (e.g. where the parent company loses control of the subsidiary and has early adopted the amendment to IFRS 10 and IAS 28 regarding the sale or delivery of assets by an investor to its associate or joint venture - mentioned earlier in Point II of this document).

IFRS 17 (new) – Insurance contracts (to be applied in financial years beginning on or after 1 January 2021)

IFRS 17 applies to all insurance contracts (i.e., life, non-life, direct insurance, and reinsurance), regardless of the type of entities that issue them, as well as certain guarantees and financial instruments with discretionary participation features. Some exceptions shall apply. The general objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and more consistent for issuers. In contrast to the requirements of IFRS 4, which are based on the local accounting policies previously adopted, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

NOTE 34 – SUBSEQUENT EVENTS

- As from January 2020, the outbreak of COVID-19 has spread beyond China's borders, impacting financial markets and economic activity.

The Bank is closely monitoring the evolution of the situation which, at the date of the production of this report, is still at a preliminary stage and, as such, is constantly changing and with great undefinition and uncertainty. An example of this is the state of national emergency in force since 19 March, decreed for a period of 15 days, with the possibility of an extension. On this date, the Portuguese Government announced a package that includes several financing lines, totalling Euros 3 thousand million with State guarantee, particularly aimed at the tourism, restaurateur, textiles, clothing, footwear, and lumber sectors.

On the other hand, and on the same date, the ECB announced the implementation of the Pandemic Emergency Purchase Program (PEPP), a public and private sector asset acquisition program, which will amount to Euros 750 thousand million, and which may be increased. Purchases will run until the end of 2020 and will include all classes of assets eligible under the program in force since the sovereign debt crisis (the amount of which had already been increased by Euros 120 thousand million). Also, of note, are the monetary policy actions that have already been adopted by the Central Bank of China, with the drop in the liquidity provision interest rates at 1 and 5 years.

The Bank is also monitoring the impacts that may arise and, when relevant, is making decisions that defend the interests of the different stakeholders, including employees, depositors, customers, and shareholders. The main impacts on the Group's financial statements may arise as a result of an increase in credit risk, an increase in the volatility of financial and non-financial assets and restrictions on the activity resulting from measures adopted to contain the pandemic.

In view of these very recent facts, in constant progress and, as such, not yet definitive, the Bank, in the new budget under development, will contemplate and include in its forecasts, scenarios with various levels of severity, also including events resulting from the pandemic, as yet not fully known - such as possible moratoria measures on the repayment of loans, and the respective impacts on asset impairment, credit quality, assessment of the significant increase in credit risk, loan restructuring, expected losses in accordance with IFRS9, impacts on capital, among others, material and immaterial. This estimate is not quantifiable at the present date.

With regard to the fair value of the portfolio of Financial assets measured at fair value, which at 31 December 2019 amounted to Euros 47 386 thousand, as disclosed in Note 19, there is an increased volatility in the interest rate market, but considering the measures announced by the ECB, it is not possible to estimate the comprehensive impacts of the pandemic reliably.

As a result of the evolution of the pandemic in Portugal, the Bank implemented the following measures:

Information to Employees

- World Health Organization Recommendations and Esumédica Brochure;
- Recommendations for Employees returning from countries/areas with active community transmission;
- News on *Best Web* dedicated to the theme: Coronavirus - Covid 19;
- Placing of Posters (DGS) with General Information and Recommendations and Hand Washing procedures (WC's) in the buildings of Lisbon and Oporto and in all investment Centres;
- Reinforcement of communications via news on *Best Web*, emails, videos and podcasts with specialist doctors, partners of NB.

Reduced Social Contact

- Recommendation promoting social distancing between Employees in the common areas (for example, in the coffee areas, Bars, Cafeterias, etc.).

Reduced Professional Contact

- Team division (Central services and commercial areas) - Home Office;
- Creation of two groups for circulation areas/Meeting rooms within the Praça do Marquês Building;
- Quarantine (confined at home and avoiding social contact) for Employees who have been in areas with active community transmission, who must remain under Quarantine for 14 days (as from the date of return), as well as those who have had direct contact with a confirmed case of COVID-19 disease.

Hygiene and Cleaning

- Reinforcement of cleanliness of floors, walls and other building surfaces, equipment and utensils, as well as objects and surfaces that are more handled (e.g. handrails, door handles, lift buttons);
- Reinforcement of general cleaning, namely in WC's and pantries;
- Distribution of disinfectant gel and/or alcohol for hands.

Protection of Employees and Customers

- Availability of dedicated isolation rooms, in all central buildings and branches, for the confinement of employees suspected of infection;
- Evacuation and disinfection plan for buildings and branches in case of the confirmed infection of a team member;
- Self-isolation/quarantine and teleworking measures for employees who have travelled to one of the affected countries or regions or who have been in close contact with someone who has been confirmed to be infected;
- Prohibition of all non-critical business trips and recommendation to all employees to minimize personal travel;
- Restriction of internal or face-to-face, non-critical supplier/partner meetings, which are substituted by digital means (video and conference call or other team collaboration tools) and reduced to a minimum number of participants;
- Substitution of face-to-face meetings with customers for remote options whenever possible, with greater restrictions in the affected areas;
- Implementation of teleworking plans and division of teams between various locations for critical and non-critical functions, in order to ensure the capacity to maintain service levels without disruption;
- Evaluation with our main suppliers and partners of their business and continuity plans for COVID-19 to ensure the minimization of the impact on the business through third party supplies.

Customer Attendance

- Having been founded in 2001 as a digital Bank, essential services are ensured through digital means, either permanently through Banco Best's home-banking (through the website or the app) or through the digital medium we refer to as operations confirmation (digital circuit which allows the Bank's commercial employees to make specific operating instructions available directly to customers via the website and obtaining their respective digital signature), or through a recorded call via the Bank's Contact Centre;
- The communication to customers about transaction, digital contracting and contact means was also reinforced, with detailed information about the evolution of the markets being provided directly on the Banco Best website.
- With regard to the availability of face-to-face attendance, the Bank's Investment centres were temporarily closed as from 17 March, with all employees being qualified to provide all services via teleworking and to maintain contact with customers by telematic means.

These measures may have an impact on the Bank's activity; however, given the preponderance of the use of remote and digital channels by the Bank's customers since its inception, the Bank does not expect this to be relevant considering these mitigation measures implemented.

However, the risks of a more prolonged global impact, arising from any trigger that breaks trust, are not yet to be ruled out completely.

It is also the belief of the Board of Directors that the Bank has the means to operate the business, despite the adversity and to continue to count on the support of its shareholders; therefore, we consider it appropriate that the Bank's financial statements continue to be prepared on a going concern basis as described in Note 2.1.

ANNEX

Adoption of the Financial Stability Forum (FSF) and the 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, considering 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 2019 financial year.

I. BUSINESS MODEL

1. Description of the business model

In the introduction and in chapter “IV – Operations in 2019” 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 “IV – Operations in 2019” and “VII – Outlook” of the Management Report. The Bank neither realized any debt securities issue nor any securitization operation up till 31 December 2019.

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

In chapter “IV – Operations in 2019” of the Management Report, information is presented on the activities carried out and their contribution to the business.

II. RISK AND RISK MANAGEMENT

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

Note 32 to the Financial Statements contains diverse information that allows the market to perceive the risks incurred by the Bank and the management mechanisms implemented for 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 2019, this situation had been 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 and loss, at fair value through profit and loss mandatorily and at fair value through other comprehensive income, are broken down by financial instrument in Notes 8 through 10 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 loss risk

Note 32 to the financial statements discloses information on the losses susceptible of occurring in market stress situations.

15. Debt securities issued and results

Not applicable due to the Bank not having issued debt securities during financial year 2019.

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

16. Nominal and fair value of the exposures

Notes 18 and 19 to the financial statements discloses 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, having reached a point of stability between 2014 and 2019.

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 2019, of Euros 42.0 million, intended to guarantee the Bank's liabilities in respect of the FGD and SII and the maintenance of the liquidity ratios above the regulatory level. These securities had an associated positive fair value reserve totalling Euros 3.6 million.

19. Movements in the exposures between financial years

Notes 18, 19, 31 and 32 disclose relevant information on the Bank's exposures, comparing the exposures to the markets as well as the results with reference to financial years 2019 and 2018. The

information therein contained is considered sufficient, considering the detail and quantification presented and the fact that no events of material relevance occurred in 2019.

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 up till 31 December 2019.

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, the cost of obtaining the relevant information and, on the other, the benefits that this provides to the various users.

From among the information made available to the shareholders, customers, employees, supervisory entities and the public in general, we highlight the Management Report and the Financial Statements and respective Notes to the Financial Statements. The financial statements are prepared based on the International Financial Reporting Standards (IFRS) which confer a high degree of transparency on the information disclosed as well as comparability both at the national and international level.

ANNEX

Remuneration policy for members of the corporate bodies of BEST

1 Legal and Regulatory Framework

This Remuneration Policy contains the principles and rules for the remuneration of the members of the Corporate Bodies of BEST – Banco Electrónico de Serviço Total, S.A. (“BEST” or “Bank”) and is established in accordance with Article 115-C of the General Regime governing Credit Institutions and Financial Companies. This Policy has been prepared considering the regulations and the applicable legislation for this purpose, namely the following:

- General Regime governing Credit Institutions and Financial Companies ("RGICSF");
- EBA/GL/2015/22 - Guidelines on a sound Remuneration Policy, in accordance with Articles 74, No. 3 and 75. No. 2 of Directive 2013/36/EU and on the disclosure of information in accordance with Article 450 of Regulation (EU) No. 575/2013;
- Directive 2013/36/EU of the European Parliament and of the Council;
- Delegated Regulation (EU) No. 604/2014 of the Commission;
- Regulation (EU) No. 575/2013 of the European Parliament and of the Council;
- Notice no. 10/2011 of the Bank of Portugal;
- Portuguese Commercial Companies Code;
- Directive 2014/65/EU (MiFID II) of the European Parliament and of the Council on markets of financial instruments and related regulations.

The regulations and legislation on remuneration establish the adoption and enforcement of remuneration practices consistent with a prudent, sound and effective risk management that do not constitute an incentive to take excessive risks or create situations of conflict of interest with customers.

The present Policy takes into account the objectives of the Bank, the general strategy of the NOVO BANCO Group (“GNB”) which it integrates, its strategy, nature, structure, culture and values and is based on the guiding principles of meritocracy and transparency to achieve the recognition of high performance. In addition, this Policy and its implementation shall respect and encourage the professional conduct of all members and reflect the principles set forth in the Remuneration Policy for Employees regarding equal treatment of customers, best remuneration practices related to the sale of products and prevention of conflicts of interest with customers.

The level of risk that the institution is willing to assume is in line with the internal capital adequacy assessment (ICAAP) process and the risk appetite framework.

2 Scope

The present Remuneration Policy is applicable to the following members of the corporate bodies of BEST:

- Members of the General Meeting Board;
- Members of the Board of Directors;
- Members of the Supervisory Board;
- Statutory Auditor or "ROC".

The Remuneration Policy for Employees is established in a separate document that is subject to approval by the Executive Commission and ratification by the Board of Directors.

3 Governance of the Remuneration Policy

3.1 Summary of Responsibilities

The governance of the Remuneration Policy implies the cooperation of the different functions of the Bank, among which the following stand out:

	Shareholders' Meeting	Board of Directors	Executive Commission	ACD & HCD NB	GRO	CO
Prepare the Remuneration Policy			✓	✓		✓
Propose for approval the Policy and subsequent changes		✓				
Approve the Policy and subsequent changes	✓					
Monitor the implementation of the Policy		✓	✓	✓		✓
Provide information that establishes basic rules for Fixed and Variable Remuneration				✓	✓	✓
Evaluate the impact of the Variable Remuneration on the risk profile of the Bank					✓	✓
Approve the Remuneration of the Executive Commission and Supervisory Board	✓					
Revise and update the Policy			✓	✓		✓

3.1.1 Board of Directors

In accordance with the general regime and the Articles of Association, the Board of Directors is responsible for:

- Proposing for approval by the Shareholders' Meeting of the Remuneration Policy and its revisions and amendments;
- Monitoring whether the Remuneration Policy is being properly applied and is in line with the general regime, corporate governance and risk profile of the Bank;
- Assessing the achievement of the objectives and the need for ex-post risk adjustment, including the application of mechanisms of reduction (malus) and of reversal (clawback), if applicable.

3.1.2 Executive Commission

In accordance with the general regime, the Articles of Association and the delegated powers, the Executive Commission is responsible for:

- Preparing the Remuneration Policy and ensuring its implementation;
- Preparing remuneration decisions (e.g. attribution criteria/rules, amounts) that shall be reviewed by the Board of Directors;
- Coordinating the appropriate involvement of the relevant internal structures and directorates (e.g. human capital, legal, compliance and risk) in their respective areas of expertise and, where appropriate, obtaining external advice;
- Verifying that the existing remuneration policies are updated and, if necessary, making proposals for changes;
- Monitoring whether the Remuneration Policy is being properly applied and is in line with the general regime, corporate governance and risk profile of the Bank;
- Monitoring whether the limits are not being breached;
- Assessing the achievement of performance objectives and the need for ex-post risk adjustment, including the application of reduction (malus) and reversal (clawback) mechanisms, if applicable;
- Reviewing and updating the Remuneration Policy.

3.1.3 Global Risk Office

The Global Risk Office shall provide the support requested by the Executive Commission in the performance of its duties, namely:

- Providing effective elements, within the scope of its duties, for the definition of global bonuses, performance criteria and remuneration attribution;
- Assisting in the definition of appropriate risk-adjusted performance measures (including ex-post adjustments) and providing appropriate information to that effect;
- Participating in the evaluation of how the structure of Variable Remuneration affects the risk profile and culture of the institution;

3.1.4 Compliance Office

The Compliance Office shall provide the support requested by the Executive Commission in the performance of its duties, namely:

- Assisting in the preparation and analysis of the Remuneration Policy;
- Analysing and monitoring the implementation and compliance of the Remuneration Policy with the laws, regulations and internal policies of the institution, such as required regulatory reporting, and report any compliance risks and non-compliance problems with respect to remuneration issues communicated to same;
- Providing information, within the scope of its duties, for the definition of global bonuses, performance criteria and remuneration attribution;
- Proposing and monitoring the implementation of compliance indicators used in the eligibility of variable remuneration or incentives;
- Participating in the evaluation of how the structure of Variable Remuneration affects the risk profile and culture of the institution;
- Informing the Executive Commission of any conflict of interest situation that may be relevant to the duties and responsibilities or that may affect the performance of the functions of the Executive Commission or the Supervisory Board;

3.1.5 Accounting and Control Directorate and Human Capital Department of NOVO BANCO

The Accounting and Control Directorate and the Human Capital Department of NOVO BANCO shall provide the support requested by the Executive Commission in the performance of its duties, namely:

- Assisting in the preparation, analysis and implementation of the Remuneration Policy;
- Participating in the preparation and evaluation of the institution's Remuneration Policy, namely the remuneration structure, remuneration levels and incentive schemes;
- Ensuring an adequate internal and external disclosure of the Remuneration Policy.

3.2 Approval

The Remuneration Policy for the members of the General Meeting Board, the Board of Directors and the members of the Supervisory Board shall be approved at the Shareholders' Meeting upon proposal of the Board of Directors.

The remuneration of the Statutory Auditor (ROC) shall correspond to a fixed fee under the audit services commitment in the scope of the NOVO BANCO Group.

4. Remuneration Components

The Total Remuneration results from the combination of the components of Fixed and Variable Remuneration. This chapter describes the structure and the criteria considered for the attribution of the different components of remuneration.

4.1 Members of the General Meeting Board and non-executive members of the Board of Directors

The members of the General Meeting Board and the non-executive members of the Board of Directors are not remunerated. Members who perform executive functions in management bodies of companies in a control and/or group relationship with BEST, or who perform specific functions by appointment of the Board of Directors of BEST, may be remunerated by said companies or by BEST, according to the importance of the functions performed.

4.2 Members of the Supervisory Board

The remuneration of the members of the Supervisory Board is exclusively composed of a fixed remuneration paid monthly (14 salaries).

4.3 Executive Members of the Board of Directors (Executive Commission)

4.3.1 Fixed Remuneration

The fixed remuneration shall consider the complexity, the level of responsibility and the variety of skills required for the functions performed. The fixed remuneration shall be paid monthly, 14 times a year.

4.3.2 Variable Remuneration

The Variable Remuneration attributed to the Executive Members of the Board of Directors is based on the combination of the Collective Performance Assessment and the performance of the Bank, taking into account quantitative and qualitative criteria implemented through Objectives and Competencies defined according to the applicable Performance Appraisal Process. Variable Remuneration depends on the verification of certain conditions and objectives, is not contractually guaranteed and may be subject to adjustments under the mechanisms provided for in section 4.2.2.3 Risk Adjustment Mechanisms.

4.3.2.1 Criteria/rules for the attribution of Variable Remuneration

The following rules shall apply to Variable Remuneration:

a) BEST only considers the attribution of Variable Remuneration if the Bank has a positive and consistent performance with sound and effective risk management practices;
b) The attribution of Variable Remuneration cannot limit the ability of the Bank to strengthen and maintain the necessary capital base;
c) The total Variable Remuneration (including the employee remuneration) shall be attributed at the end of each year, based on a positive operational performance;
d) The total Variable Remuneration attributed to any Executive Member of the Board of Directors shall be limited to 100% of the respective fixed remuneration;
e) The total Variable Remuneration attributed to any Member of the Executive Commission shall be deferred for a minimum period of 3 years, payable on a proportional basis;
f) 50% of the Variable Remuneration shall consist of remuneration units, the value of which is determined by the financial performance indicators of the Bank. The remuneration units have a financial effect equivalent to the attribution of shares, as permitted by law. These remuneration units shall have a right of acquisition period of 3 years. The remuneration units shall be settled in cash on their due date and shall be attributed reflecting the financial performance indicators of the Bank.

4.3.2.2 Performance Appraisal and Key Performance Indicators

The appraisal of the Executive Members of the Board of Directors shall be made during the period defined annually for the Performance Appraisal Process and considering the performance and objectives defined for the previous year.

The annual Variable Remuneration attribution shall be defined based on the attainment of the corporate key performance indicators ("KPIs") and individual non-financial indicators agreed upon with each Executive Member of the Board of Directors in the scope of the Performance Appraisal Process. KPIs shall be defined based on a combination of the Bank's overall financial performance, on the member's individual areas of responsibility (including the development of employees with direct reportees) and the objectives of the areas they manage.

It is the responsibility of the Board of Directors to define the aforementioned KPIs, their individual weighting, to assess the level of attainment at the end of the year and to define the total annual Variable Remuneration to be attributed to the Executive Members of the Board of Directors. The Executive Members shall be appraised by the President of the Executive Commission and the President of the Executive Commission shall be appraised by the Chair of the Board of Directors.

4.3.2.3 Risk adjustment mechanisms

The Bank shall be able to apply risk adjustment mechanisms to Variable Remuneration, based on risk, through the following mechanisms:

a. Reduction (Malus): allows the Bank to reduce totally or partially the Variable Remuneration object of deferral and which payment is not yet considered an acquired right;
b. Reversal (Clawback): allows the Bank to recover amounts already paid or which payment already constitutes a vested right, with the relevant employee being required to return such amounts.

4.3.2.3.1 Rules for applying Malus and Clawback

The aforementioned mechanisms are applicable to the total Variable Remuneration, during the deferral period, and following an extremely significant event attributable individually to the Executive Members of the Board of Directors. The Shareholders' Meeting shall determine the severity of an event and whether the malus or clawback mechanisms are applicable to the Variable Remuneration attributed to the Executive Members of the Board of Directors. Depending on the severity of the event, the Shareholders' Meeting shall decide whether the malus or clawback mechanism is applicable.

Examples of a significant event in which an Executive Member of the Board of Directors may lose the Variable Remuneration include fraud, material breach of confidentiality obligations, individual material regulatory sanctions applied or the member ceases to be deemed suitable (appropriate or prepared) by the supervisory authority, in accordance with applicable laws and regulations, or criminal convictions (other than traffic violations or other offenses for which a non-custodial penalty applies).

4.3.2.4 Rules in case of departure situations

4.3.2.4.1 Rules for departure at the initiative of the Bank

If the term of office of the Executive Member of the Board of Directors is terminated by the Bank without just cause, under Portuguese law, the respective member shall be entitled to receive all deferred amounts of the Variable Remuneration due as at that date subject to malus or clawback adjustments and on the date specified for the payment of each deferred part.

If the term of office of the Executive Member of the Board of Directors is terminated by the Bank with just cause, under Portuguese law, the respective member shall not be entitled to any deferred portion of the Variable Remuneration.

4.3.2.4.2 Rules on the departure at the initiative of the Executive Member of the Board of Directors

If an executive member of the Board of Directors voluntarily resigns before the end of the term of office for which he/she has been appointed, the Shareholders' Meeting shall determine whether the individual member continues to be entitled to any deferred portion of the Variable Remuneration which entitlement has not yet been acquired, subject to the applicable malus or clawback adjustments and on the date specified for the payment of each deferred part. The Shareholders' Meeting shall also consider the imposition of a non-competition agreement and a notice period on making its decision.

4.3.3 Other Benefits

Other benefits such as health insurance, cell phones, etc. are applicable in line with that attributed to the Bank's employees, in accordance with internal regulations.

If any Executive Member of the Board of Directors is an employee of the Bank, he/she may maintain during the term of office the benefits resulting from the employment contract and the regulations applicable before his/her appointment to the Board of Directors, if the applicable laws and regulations do not provide otherwise.

5 Conflicts of interest

Conflicts of interest relating to the Remuneration Policy and the Variable Remuneration attributed shall be identified and adequately addressed, namely by defining objective attribution criteria, based on the internal information system, appropriate controls and the "four eyes" principle. The Remuneration Policy shall pursue the objective that no significant conflicts of interest arise for members of the Management and Supervisory Bodies in the performance of their functions.

The Compliance Office is responsible for monitoring adherence to the Remuneration Policy with the objective of preventing conflicts of interest established in applicable laws, regulations and guidelines and shall notify the Chair of the Board of Directors and the Supervisory Board in the event of significant conflicts of interest for members of the Management and Supervisory Bodies in the performance of their functions related to this Remuneration Policy. In the event of conflicts of interest related to the Chair of the Board of Directors and the Supervisory Board, the aforementioned notice shall be sent to the President of the Compliance Committee of NOVO BANCO.

Decisions taken by the Board of Directors regarding any conflicts of interest arising in relation to members of the Board of Directors as well as those relating to the Supervisory Board related to this Remuneration Policy shall be subject to ratification by the Shareholders.

6 Review and update of the Policy

An annual review and update of the Remuneration Policy shall be carried out, if necessary, to ensure that it is being properly implemented, the remuneration paid is in line with this Policy, the risk profile and the long-term objectives of the Bank and is compatible with current national and international regulations and with the applicable legal regime.

7 Disclosure of information

After approval, this Remuneration Policy shall be disclosed internally to the institution and the Bank shall also adequately disclose the information through the means and channels provided for in the applicable legislation.

8 Final Provision

This Policy was approval by the Shareholders' Meeting of 9 April 2019.

Amounts paid in 2019 to the members of the corporate bodies, including amounts paid, for any reason, to other 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 2019. The remuneration of the members of the Executive Commission in financial year 2019 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. Albert Sylvain May, current Chair of the Board of Directors earned a remuneration of Euros 6 917; Maria Madalena Monteiro de Mata Torres Pitta e Cunha, current Chair of the Executive Commission earned a remuneration of Euros 167 426; Pedro Alexandre Lemos Cabral das Neves earned a remuneration of Euros 128 957; Nuno Miguel Gomes Moutinho da Rocha earned a remuneration of Euros 35 050.

b) Supervisory Board

The members of the Supervisory Board did not receive any variable remuneration in 2019. António Joaquim Andrade Gonçalves received a fixed remuneration in attendance fees of Euros 5 600, Isabel Maria Beja Gonçalves Novo received a fixed remuneration in attendance fees of Euros 4 200 and Fernando Jorge Henrique Bernardo also received a fixed remuneration in attendance fees of Euros 4 200.

ANNEX

Remuneration policy for employees of Banco Best

1. Legal and Regulatory Framework

This Remuneration Policy contains the principles and rules for the remuneration of the Employees of BEST – Banco Electrónico de Serviço Total, S.A. (“BEST” or “Bank”) and is established in accordance with Article 115-C of the General Regime governing Credit Institutions and Financial Companies.

This Policy has been prepared taking into account the regulations and applicable legislation for this purpose, namely the following:

- General Regime governing Credit Institutions and Financial Companies ("RGICSF");
- EBA/GL/2015/22 - Guidelines on a sound Remuneration Policy, in accordance with Articles 74, No. 3 and 75. No. 2 of Directive 2013/36/EU and on the disclosure of information in accordance with Article 450 of Regulation (EU) No. 575/2013;
- Directive 2013/36/EU of the European Parliament and of the Council;
- Delegated Regulation (EU) No. 604/2014 of the Commission;
- Regulation (EU) No. 575/2013 of the European Parliament and of the Council;
- Notice no. 10/2011 of the Bank of Portugal;
- Portuguese Commercial Companies Code;
- Directive 2014/65/EU (MiFID II) of the European Parliament and of the Council on markets of financial instruments and related regulations;
- Portuguese Securities Code;
- EBA/GL/2016/06 - Guidelines on remuneration policies and practices relating to the sale and supply of retail banking products and services;
- Directive 2014/17/EU of the European Parliament and its respective consequent Portuguese law DL 74-A/2017;
- Report on the risk of conduct and abusive practices on sale of investment products of the Conselho Nacional de Supervisores Financeiros (National Council of Financial Supervisors) of 3 March 2016;
- The list of significant supervised entities and the list of least significant institutions of the European Central Bank.

The regulations and legislation on remuneration establish the adoption and enforcement of remuneration practices consistent with a prudent, sound and effective risk management that do not constitute an incentive to take excessive risks or create situations of conflict of interest with customers.

This Remuneration Policy takes into account the objectives of the Bank, the general strategy of the NOVO BANCO Group (“GNB”) which it integrates, its strategy, nature, structure, culture and values and is based on the guiding principles of meritocracy and transparency to obtain the recognition of high performance, being aligned with the principles foreseen in the Remuneration Policy for Members of the corporate bodies of BEST. In addition, this Remuneration Policy and its implementation shall respect and encourage the professional conduct of all members and reflect the principles of equal treatment of customers, best remuneration practices related to the sale of products and prevention of conflicts of interest with customers.

2 Scope

BEST aims to attract and retain Employees who can contribute positively to achieve the objectives of the Bank, always from a sustainable development perspective and in line with the risk appetite framework and with the intervention of all the stakeholders. This Remuneration Policy also seeks to encourage responsible and ethical professional conduct by all Employees, fair treatment of customers and the prevention of conflicts of interest and mitigation of risks, such as, for example, reputation.

The Remuneration Policy is applicable to all Employees with an employment contract with BEST. The members of the corporate bodies are covered by a specific Remuneration Policy for the Members of the Corporate Bodies of BEST, set down in an autonomous document, with its total consistency with the principles and practices of the present Remuneration Policy being assured.

The employees' on assignment having an employment contract with NOVO BANCO are covered by the Remuneration Policy for Employees of NOVO BANCO for the fixed component of the remuneration and the present Remuneration Policy for the variable component of the remuneration.

3 Governance of the Remuneration Policy

3.1 Summary of Responsibilities

The governance of this Remuneration Policy implies the cooperation of different areas, among which the following stand out:

	Executive Commission	ACD & HCD NB	GRO	CO
Prepare the Remuneration Policy	✓	✓		✓
Approve the Policy and subsequent changes	✓			
Map and update Identified Employees		✓		
Approve the list of Identified Employees	✓			
Provide information that establishes basic rules for Fixed and Variable Remuneration		✓	✓	✓
Prepare and Propose decisions on Remuneration (for example, attribution criteria/rules, KPI, amounts)	✓	✓		
Evaluate the impact of the Variable Remuneration on the risk profile of the Bank			✓	✓
Decide on the Remuneration	✓			
Monitor and implement the Policy	✓	✓		✓
Revise and update the Policy	✓	✓		✓

3.1.1 Executive Commission

In accordance with the general regime, the Articles of Association and the delegated powers, the Executive Commission is responsible for:

- Approving the Remuneration Policy and ensuring its implementation;
- Adopting decisions on remuneration (e.g. attribution criteria/rules, amounts);
- Monitoring whether the Remuneration Policy is being properly applied and is in line with the general regime, corporate governance and risk profile of the Bank;
- Monitoring whether limits are not being breached;
- Deciding which Employees shall be classified as Identified Employees, based on the criteria set forth in section 4 of the present Policy and decide on possible exclusions or updates;
- Verifying that the existing remuneration policies are up-to-date and, if necessary, making proposals for changes;
- Assessing the achievement of performance objectives and the need for ex-post risk adjustment, including the application of reduction (malus) and reversal (clawback) mechanisms, if applicable;
- Reviewing the Remuneration Policy in accordance with section 8;

3.1.2 Global Risk Office

The Global Risk Office shall provide the support requested by the Executive Commission in the performance of its duties, namely:

- Providing effective elements, within the scope of its duties, for the definition of global bonuses, performance criteria and remuneration attribution;
- Assisting in the definition of appropriate risk-adjusted performance measures (including ex-post adjustments) and providing appropriate information to that effect;

- Participating in the evaluation of how the structure of Variable Remuneration affects the risk profile and culture of the institution;

3.1.3 Compliance Office

The Compliance Office shall provide the support requested by the Executive Commission in the performance of its duties, namely:

- Assisting in the preparation and analysis of the Remuneration Policy;
- Providing information, within the scope of its duties, for the definition of global bonuses, performance criteria and remuneration attribution;
- Proposing and monitoring the implementation of compliance indicators used in the eligibility of variable remuneration or incentives;
- Analysing and monitoring the implementation and compliance of the Remuneration Policy with the laws, regulations and internal policies of the institution, such as required regulatory reporting, and report any compliance risks and non-compliance problems with respect to remuneration issues communicated to it, to the Executive Commission or Supervisory Board;
- Participating in the evaluation of how the structure of Variable Remuneration affects the risk profile and culture of the institution;
- Informing the Executive Commission of any conflict of interest situation that may be relevant to the duties and responsibilities or that may affect the performance of the functions of the Executive Commission;

3.1.4 Accounting and Control Directorate and Human Capital Department of NOVO BANCO

The Accounting and Control Directorate of Banco Best and the Human Capital Department of NOVO BANCO shall provide the support requested by the Executive Commission in the performance of its duties, namely:

- Assisting in the preparation, analysis and implementation of the Remuneration Policy;
- Participating in the preparation and evaluation of the institution's Remuneration Policy, namely the remuneration structure, remuneration levels and incentive schemes;
- Ensuring an adequate internal and external disclosure of the Remuneration Policy.

3.2 Approval

The Policy for Employees of BEST shall be approved by the Executive Commission following a joint proposal of the ACD and CO and subject to subsequent ratification by the Board of Directors.

4 Classification of Identified Employees

The Executive Commission is responsible for selecting and approving all Identified Employees whose professional activities have or may have a significant impact on the Bank's risk profile.

In accordance with Articles 3 and 4 of Delegated Regulation (EU) No. 604/2014 of the European Commission, appropriate qualitative and quantitative criteria shall be established to identify the core categories of employees whose professional activities have a significant impact on the risk of the institution.

In addition to the provisions of the Remuneration Policy, BEST may define additional criteria that reflect the risk levels of the different activities in the institution and the impact of the Employees on the risk profile.

4.1 Mapping of Identified Employees

Given the operating structure, objectives and business strategy of the Bank, *Identified Employees* of BEST comprise the following people:

- First line Managers: All Employees responsible for the directorates, structures or areas of the Bank who report directly to the Members of the Executive Commission.
- Other Employees (who are not first-line Managers):
    - Whose total remuneration exceeds, in absolute terms, Euros 250 000 per year, or;
    - Who are included in the 1% of the permanent Employees with the highest total remuneration in the Institution;

  In all cases, provided they have a material impact on the risk profile of the Bank.

The Accounting and Control Directorate shall draw up a list of proposed Identified Employees, corresponding to the categories indicated above, which shall be submitted for approval to the Executive Commission. For the purposes of this Remuneration Policy, only the Employees included in this list shall be considered Identified Employees. This list shall be reviewed annually by the Accounting and Control Directorate and its changes subject to the regime described above.

Nevertheless, the Accounting and Control Directorate shall propose an immediate update whenever there are changes regarding the persons occupying these positions or changes in the organization of the directorates of the Bank, in these cases also following the regime indicated above.

The Accounting and Control Directorate shall communicate to each one of the nominees on the list of Identified Employees their “Identified” status for the purposes of this Remuneration Policy, providing all necessary information and clarifications regarding this statute.

5 Remuneration Components

The Total Remuneration results from the combination of the components of Fixed and Variable Remuneration. The present chapter describes the structure and the criteria considered for the attribution of the different components of remuneration.

5.1 Fixed Remuneration

The Fixed Remuneration is paid to all Employees of BEST with an employment contract and includes all the amounts received, on a regular and periodic basis, in exchange for the work realized. The Fixed Remuneration component shall reflect the relevant professional experience and organizational responsibility inherent to the function.

Fixed Remuneration may consist of several components, which shall comply with a set of conditions, namely:

a) Reflect in a non-discretionary manner the level of professional experience and the seniority of the Employees;
b) Be transparent as regards the individual amount allocated to the Employee;
c) Be permanent, that is, to remain for the period of time associated with the specific position and organizational responsibilities;
d) May not be reduced, suspended or cancelled by the Bank;
e) Do not depend on performance.

The table below describes the various components that make up the Fixed Remuneration of BEST. Without prejudice, the Executive Commission may decide to grant new fixed benefits provided that the rules and principles laid down in the legislation and regulations in force are complied with.

Components of Fixed Remuneration

Categories	Frequency	Description
Base salary	14 months	Amount attributed to employees corresponding to the activity realized in accordance with the normal working hours
Remuneration for exemption from normal working hour limits	14 months	Amount attributed to employees who are available, as a rule, to realize their activity beyond the normal working hours

In addition, in accordance with the provisions of the legislation and regulations in force, BEST attributed other benefits or amounts to its Employees, namely:

a) Meal allowance;
b) Remuneration for overtime work;
c) Remuneration for Stand-By;
d) Displacement allowance;
e) Reimbursement of expenses and other allowances for trips, travel, transport, accommodation and others equivalent.

5.2 Variable Remuneration

As part of the NOVO BANCO Group, considered a Significant Financial Institution, BEST is obliged to comply with a set of specific requirements that shall be considered in the attribution of Variable Remuneration.

The Variable Remuneration depends on the verification of certain conditions and objectives, is not contractually guaranteed and may be subject to adjustments under the mechanisms provided for in section 5.3 *(Risk Adjustment Mechanisms)*. Thus, the Variable Remuneration attributed to the Employees of BEST is based on the combination of the performance of each employee, of the respective Directorate and of BEST, taking into account quantitative and qualitative criteria evaluated through Objectives and Competencies.

There are three types of Variable Remuneration for Employees:

a. Bonus: to be attributed based on minimum criteria of merit and individual and collective performance of each year and only upon verification of certain conditions, being applicable to all employees not covered by the Commercial Incentives and Commercial Campaigns;
b. Commercial Incentives: these are payments that may have components with a monthly, quarterly, half-yearly or annual frequency and that aim to remunerate the best commercial performances, ensuring the monitoring of abusive sales practices and other qualitative indicators of the activity;
c. Commercial Campaigns: correspond to the attribution of Awards (in cash or in kind) without a previously defined periodicity or format. The Campaigns and the respective Awards are applicable to the Employees covered by the Commercial Incentives and are considered and evaluated in accordance with the internal rules that apply to the creation, approval, distribution and monitoring of Products and aim to stimulate a specific segment of the commercial offering of the Bank for a limited period of time.

Other commercial incentives or bonuses for specific categories of employees in special circumstances not provided for in this Policy (including incentives that may be agreed by the Bank with third parties) may be attributed on the terms and conditions to be defined and communicated to the relevant Employees, provided that the principles of this Policy and the applicable law are complied with.

In addition, the variable remuneration of all Employees who:

a. may have an impact on the customer service rendered or the business conduct of BEST, including, but not limited to: (i) customer service personnel, commercial teams or other personnel directly involved in the provision of investment or supplementary services; (ii) persons involved in the handling of complaints or in the design and development of products;
b. are involved in the preparation, marketing and concession of loan contracts to consumers;
c. are employees directly and indirectly supervising the teams in all of the aforementioned activities.

It shall comply with the following principles:

a. The appraisal of the underlying performance shall take into account not only quantitative criteria but also qualitative criteria linked to the Employee's compliance with the rules in force in relation to customers, in particular as regards duties of information, the duty to prevent conflicts of interest, keeping records and evidence;
b. Qualitative criteria cannot be offset by better financial performance and, ultimately, may be exclusively applied for payment purposes;
c. Identified Employees shall be appraised and remunerated in a way that avoids any conflict with their obligation to act in the interests of customers;
d. Remuneration cannot be attributed if it is based on the distribution of banking products to non-professional customers, when the employee can propose a different banking product that best matches the needs of that customer;
e. Remuneration cannot be attributed if it is based on the distribution of financial product packages to non-professional customers, when the package, on an integrated basis, is not adequate to that customer's needs.

5.2.1 Variable Remuneration of Identified Employees

The Performance Indicator used by BEST to calculate the variable component of the Remuneration of Identified Employees shall:

- Consider quantitative and qualitative performance criteria, including financial and non-financial performance, for the Employees, business units and the Bank;
- Be processed in a multi-year framework to ensure that the appraisal process is based on long-term performance and that the effective attribution of the Variable Remuneration (Bonus) part is deferred over the period defined below, taking into account the business cycle of the Bank and its business risks and promoting the retention of the Identified Employees;
- Not encourage excessive risk-taking or abusive product sales;
- Include risk adjustment mechanisms ("Malus" and "Clawback").

5.2.1.1 Bonus

The following rules shall be applied when attributing Bonuses:

a. It can only be attributed if the Bank has positive Operating Results in the previous year;
b. The Bonus attribution and its payment, including the deferred parts, cannot limit the ability of the Bank to strengthen and maintain the required capital base in line with the level of risk that the Bank is willing to assume in accordance with the internal capital adequacy assessment process;
c. The total budget for bonuses to be attributed each year to Employees shall be defined by the Executive Commission and ratified by the Board of Directors;
d. Bonuses or deferred parts thereof shall only be paid on the respective dates (until the end of the first half year after the assessment year), provided that it is sustainable in the light of the Bank's overall financial situation and is justified in the light of the Bank's, the Business Unit's and the individual Employee's performance;
e. The Identified Employees shall only be entitled to the deferred parts of the Bonus, as described below, if their respective employment contract is in effect on the date of the payment of each part;
f. The Bonus attributed cannot exceed 100% of the Fixed Remuneration component for each Employee;
g. The Executive Commission shall define the criteria/rules for the attribution of Bonuses, using quantitative and qualitative indicators (KPI);
h. The Executive Commission shall propose to the Board of Directors the approval of the Identified Employees who are to receive Bonuses.

5.2.1.2 Form of payment

The Variable Remuneration attributed to the Identified Employees, existing and having been approved, shall be paid on a proportional basis over a period of three years, the first payment being made in the year of the attribution and the others in subsequent years, provided that the condition set forth in paragraph e) of point 5.2.1.1 is verified.

Each of the three payments, when due, shall be carried out as follows:

- 50% is paid in cash;
- The other 50% shall consist of remuneration units, the value of which is determined by the financial performance indicators of the Bank. The remuneration units have an effect equivalent to the attribution of shares, as permitted by law.

The remuneration units shall be settled in cash on the due payment date and shall be attributed reflecting the financial performance indicators of the Bank.

5.2.2 Variable Remuneration of Employees Allocated to Business Structures:

5.2.2.1 Commercial Incentives

The Commercial Incentive Program is defined and approved by the Executive Commission and has the following assumptions:

a. It is applicable to Employees in the commercial areas with assigned customers and to those who supervise directly and indirectly the commercial teams and who are not Identified Employees;
b. The budget for the commercial incentive program is reviewed annually by the Executive Commission, taking as the maximum reference a value not exceeding 5% of the payroll of the Bank;
c. Employees eligible for this commercial incentive program are excluded from the Bonus system;
d. This Incentive Program shall have a frequency as indicated in a specific autonomous document and also attributes a part of the total incentive to the annual attainment of the objectives;
e. Full details of the Commercial Incentive Program and its method of calculation shall be published in a separate document;
f. The program includes risk adjustment mechanisms, as described in point 5.3 of the present Remuneration Policy.

5.2.2.2 Commercial Campaigns

When establishing a Commercial Campaign, the responsible Directorates shall consider the following:

a. Each campaign and its awards/attributions shall be approved by the Bank's Product Committee;
b. Campaigns for products related to the MiFID II Regulation and Housing Loans cannot be established;
c. The commercial campaigns apply to the same group of employees covered by the commercial incentives, and no employee may receive, during a calendar year, a total aggregate amount of awards/attributions in Commercial Campaigns exceeding an amount equivalent to their monthly fixed remuneration.

5.2.3 Variable Remuneration for the Remaining Employees

The Variable Remuneration for this category of Employees (all non-Identified Employees or employees covered by the Commercial Incentives) shall consist of a Bonus and its attribution shall be governed by the rules described in section 5.2.1.1 of the present Remuneration Policy, as applicable.

The Variable Remuneration attributed to the remaining Employees, existing and having been approved, shall be paid until the end of the first half-year of the year following the appraisal, provided that the respective employment contract is in effect on the date of the payment.

5.3 Risk adjustment mechanisms

The Bank shall be able to apply risk adjustment mechanisms to Variable Remuneration, based on risk, through the following mechanisms:

a. Reduction (Malus): allows the Bank to reduce totally or partially the Variable Remuneration object of deferral and which payment is not yet considered an acquired right;
b. Reversal (Clawback): allows the Bank to recover amounts already paid or which payment already constitutes a vested right, with the relevant employee being required to return such amounts.

5.3.1 Rules for applying Malus and Clawback

5.3.1.1 Application to Identified Employees

The aforementioned mechanisms are applicable to the total Variable Remuneration for Identified Employees, during the deferral period, and following an extremely significant event attributable to an Employee.

The Executive Commission shall determine the severity of an event and whether the Malus or Clawback mechanisms are applicable to the Variable Remuneration attributed to Identified Employees. Depending on the severity of the event, the Executive Commission shall decide whether the malus or clawback mechanism is applicable.

Examples of a significant event in which an Employee shall lose the Variable Remuneration include fraud, material breach of confidentiality obligations, individual material regulatory sanctions applied or, if applicable to that Employee, he/she ceases to be deemed suitable (appropriate or prepared) by the supervisory authority, in accordance with applicable laws and regulations, or criminal convictions (other than traffic violations or other offenses for which a non-custodial penalty applies).

5.3.1.2 Application to Employees Allocated to Business Structures

The Commercial Incentive Program includes a risk adjustment mechanism that seeks to recover any amounts found to have been unduly paid. For this purpose, one of the following events must occur:

a. Disciplinary procedures or dismissal for just cause following the manipulation of commercial performance results;
b. Fraudulent sales;
c. Adulterated records or evidence related to the sales process.

The Compliance Office shall identify such events based on internal information or information forwarded by other Directorates and inform the Accounting and Control Directorate, which in liaison with the Human Capital Department of NOVO BANCO shall ensure that:

a. The Employee is informed of the detected event and of the amount that is considered unduly paid;
b. The Employee shall not receive other incentives until the amount unduly paid is offset by positive future performances.

5.3.1.3 Application to all Remaining Employees

The Clawback mechanism shall apply if and when any failure to comply with the rules applicable to the professional practice of the services provided contained in laws, regulations, internal regulations or codes of conduct by the Employee is detected, according to the analysis performed by the Compliance Office and duly communicated to the Accounting and Control Directorate.

The Accounting and Control Directorate shall analyse the aforementioned information transmitted and propose an assessment of the severity of the event and as to whether the Clawback mechanism is applicable to the bonus attributed to the Remaining Employees for approval by the Executive Commission.

5.4 Rules in case of departure situations

5.4.1 Rules for the departure at the initiative of the Bank

If the employment contract is terminated by the Bank without just cause, under Portuguese law, the Employee shall be entitled to receive all deferred amounts of the Bonus, subject to malus or clawback adjustments applicable and on the date specified for each deferred payment.

If the employment contract is terminated by the Bank with just cause, under Portuguese law, the Employee shall not be entitled to any deferred portion of the Bonus.

5.4.2 Rules for the departure at the initiative of the Employee

If the Employee decides to terminate the employment contract, he/she shall not be entitled to any deferred part of the Bonus.

6 Conflicts of interest

Conflicts of interest relating to the Remuneration Policy and the remuneration attributed shall be identified and adequately addressed, namely by defining objective attribution criteria, based on the internal information system, appropriate controls and the "four eyes" principle.

The Remuneration Policy shall pursue the objective that no significant conflicts of interest arise for any Employee in the performance of his/her duties, in accordance with the current conflicts of interest policy in force at BEST.

To mitigate the risks associated with conflicts of interest regarding the Remuneration Policy, BEST seeks to:

a. Take into account the interests of shareholders, the rights and interests of consumers, market practices in terms of remuneration and the state of maturity of the activity;
b. Not associate remuneration primarily with a quantitative goal of the trade or supply of banking products and services;
c. Ensure that the forms of remuneration and performance appraisals do not introduce incentives which favour their own interests or the interests of the Bank, to the detriment of their customers;
d. Avoid promoting the trade or supply of a particular product or category of products in relation to other products, such as products which are more profitable to the institution or to the Employee, to the detriment of the interests of the customer;
e. Ensure that the Variable Remuneration is not paid through means or methods that aim at or facilitate the non-compliance with the Remuneration Policy. This may include, among other things, the celebration of agreements between the Bank and third parties in which the Employee has a personal or financial interest;
f. All Employees shall inform the Compliance Office if there is a conflict of interests related to the present Policy;
g. The aforementioned notification shall be evaluated by the Compliance Office under applicable Portuguese laws and internal regulations such as the Code of Conduct, the Conflicts of Interest Policy, the Related Party Transactions Policy, as well as the Articles of Association of BEST.

The Compliance Office shall inform the Supervisory Board and the Executive Commission of:

- Any communication received on conflicts of interest related to the Remuneration Policy and its evaluation;
- Any situation detected where the Employee's obligation to inform the Compliance Office of a conflict of interest arising from the application of this policy, under the conflict of interest policy, has not been complied with.

7 Disclosure of information

Upon approval, this Remuneration Policy shall be internally disclosed to the institution.

8 Review and Update

An annual review and update of the Policy and its implementation shall be carried out, if necessary, to ensure that it is being properly implemented, that the remuneration paid is in line with this Policy, the risk profile and the long-term objectives of the Bank and is compatible with national and international regulations and with the applicable legal regime.

9 Final Provisions

This Policy was approved by the Executive Commission on 25 October 2018 and approved through ratification by the Board of Directors dated as of 20 November 2018.

Amounts paid in 2019 to Identified Employees of Banco Best

The remuneration earned by Identified Employees in respect of financial year 2019 includes the fixed remuneration, paid in 14 instalments, the complements paid to all employees of the Bank, such as seniority and other subsidies, and the variable remuneration attributed and already paid regarding previous financial years. Identified Employees received a global fixed remuneration of Euros 917 429 and a variable remuneration of Euros zero. Detailing by main business areas, the two Managers of the commercial areas received a global fixed remuneration of Euros 165 421. The ten Managers allocated to the central services areas and employees in control positions received a global fixed remuneration of Euros 752 008.

Statutory and Audit Report

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of BEST- Banco Electrónico de Serviço Total, S.A. (Banco BEST, S.A.), which comprise the Balance Sheet as at 31 December 2019 (which shows total assets of Euros 665,544 thousand and total shareholders' equity of Euros 80,227 thousand, including a net income of Euros 2,669 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 explanatory 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 2019, 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 the opinion

We conducted our audit in accordance with International Standards on Auditing (ISA) 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 entity 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.

Matter of emphasis on Covid-19

The recent developments resulting from the Covid-19 (Coronavirus) pandemic have a significant impact on people's health and on society as a whole, increasing uncertainty about Organizations' operational and financial performance. In note 34 of the Notes to the financial statements, developments resulting from the pandemic identified by the management body of BEST - Banco Electrónico de Serviço Total, S.A. are disclosed, based on the information available at the time. The management body understands that the impacts resulting from this situation are uncertain, and it is not possible to estimate its financial effect, namely with regard to the fair value of financial and non-financial assets, the measurement of expected losses in the loan portfolio and the capital requirements. Our opinion is not changed in relation to this matter.

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 describe below the key audit matters of the current year:

1. Impairment of loans and advances to customers

Description of the most significant risks of material misstatement	Summary of our response to the main risks of material misstatement
The balance sheet caption of Loans and advances to customers includes accumulated impairment amounting to Euros 770 thousand, with a positive impact of Euros 55 thousand having been recognized in the income statement in the caption Impairment losses of loans and advances, net of reversals and recoveries. The gross amount of Loans and advances to customers is Euros 149,323 thousand, for which reason the accumulated impairment losses represent 1% of the loans and advances amount. The detail of the impairment and the accounting policies, methodologies, concepts and assumptions used are disclosed in the	We identified and assessed the audit risk that led to the definition of the audit approach to respond to the risk of material misstatement. This approach included (i) a global response with an impact on the manner the audit was carried out and (ii) a specific response that was reflected in the design, and subsequent execution, of additional procedures that included tests of controls and substantive procedures, namely: ➢ We gained the understanding, evaluated the design and tested the operational effectiveness of the internal control procedures existing in the process to

Description of the most significant risks of material misstatement	Summary of our response to the main risks of material misstatement
explanatory notes to the financial statements (Note 19). The impairment of loans and advances to customers represents the best estimate of the management body of the Bank of the expected losses from the loan and advances to customers' portfolio with reference to 31 December 2019. For the calculation of this estimate, the management body of the Bank established assumptions, relied on mathematical models to calculate parameters, interpreted concepts and designed a model to calculate the expected loss. For relevant exposures, it relied on the judgement of specialists for the assessment of the credit risk of the Bank. Besides the complexity of the models described, their use requires the processing of a significant volume of data that are not always available on the central systems of the Bank, such as information on the credit risk at the moment of the granting, the date and amount of the first default, the amount of the historical recoveries of loans in default. To overcome limitations that may exist in some data, the management body occasionally relies on practical expediencies that increase the judgments applied. The use of alternative approaches, models or assumptions may have a material impact on the amount of the impairment estimated. Given the degree of subjectivity and complexity that the estimation of the impairment involves and the materiality of its amount, we consider this matter a key audit matter.	quantify impairment losses on Loans and advances to customers; ➢ We realized analytical review tests on the evolution of the balance of Impairment on loans and advances to customers, comparing it with the homologous period and with the expectations formed, of note being the understanding of the changes that have occurred in the Loans and advances to customers' portfolio and the changes in the impairment assumptions and methodologies; ➢ We selected a sample of customers subject to individual impairment assessment to evaluate the assumptions used by the management body in the quantification of the impairment. This analysis included: the inspection of the information with the business models and the economic and financial situation of the debtors and the reports on the valuation of the collateral; enquires of specialists of the Bank to understand the recovery strategy defined and the assumptions used; ➢ With the support of specialists in internal risks, we assessed the reasonableness of the parameters used in the calculation of impairment, with the following procedures realized being highlighted: i) understanding of the methodology formalized and approved by the management body and comparison with that effectively used; ii) assessment of the changes to the models to determine parameters to reflect the expected loss; iii) analysis of the changes made during the 2019 financial year to the risk parameters (PD, LGD and EAD); iv) on a sample basis, comparison of the data used in determining the risk parameters with source information;

Description of the most significant risks of material misstatement	Summary of our response to the main risks of material misstatement
	v) enquiries of specialists of the Bank responsible for the models, of the previous auditors and inspection of the internal audit, regulatory and previous auditors' reports; vi) inspection of the reports with the results of the operational assessment of the model (back-testing). ➢ We obtained the understanding and evaluated the design of the model for the calculation of expected loss, tested the calculation, compared the information used in the model, through reconciliations prepared by the Bank, with source information, evaluated the assumptions used to overcome data gaps, compared the parameters used with the results of the estimation models, compared the results with the amounts in the financial statements; ➢ Analysis of the disclosures included in the explanatory notes to the financial statements, based on the requirements of the international financial reporting standards and the accounting records.

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

The management body is responsible for:

- 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, as adopted by the European Union;
- the preparation of the Management Report in accordance with the applicable laws and regulations;
- the creation and maintenance of an appropriate system of internal control to enable the preparation of financial statements that are free from material misstatement due to fraud or error;
- the adoption of appropriate accounting policies and criteria under the circumstances; and

- 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 due to fraud or error, and to issue a 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 ISA 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 those financial statements.

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

- identify and assess the risks of material misstatement of the financial statements, due to fraud or error, design and perform audit procedures that respond 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;

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

- evaluated the appropriateness of the accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management body;

- concluded 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 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 report. However, future events or conditions may cause the Bank to cease to continue as a going concern;

- evaluated 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;

- communicated with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit and the significant audit findings, including any significant weaknesses in internal control identified during our audit;

- regarding the matters we have communicated to those charged with governance, including the supervisory body, we determined 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; and

- declared to the supervisory body that we comply with the relevant ethical requirements regarding independence and communicated 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, and the verifications foreseen in no. 4 and no. 5 of Article 451 of the Portuguese Commercial Companies Code, as well as the verification that the non-financial statement was presented.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Management Report

In compliance with paragraph e) of No. 3 of Article 451 of the Portuguese Commercial Companies Code, we are of the opinion 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.

As foreseen in no. 7 of Article 451 of the Portuguese Commercial Companies Code this opinion is not applicable to the non-financial statement included in the Management Report.

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

In compliance 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 report the following information:

- We were appointed auditors of BEST- Banco Electrónico de Serviço Total, S.A. for the first time at the Shareholders' General Meeting of 28 May 2014 for the term of office 2018-2020;

  The management body has confirmed to us it has no knowledge of the occurrence of any fraud or suspicion of fraud with material effect on the financial statements.

  In the planning and execution of our audit in accordance with IAS we maintained professional scepticism 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;

- 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 this date; and

- We declare that we did not provide any prohibited non-audit services referred to in No. 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 during the conduct of our audit.

Lisbon, 3 April 2020

Ernst & Young Audit & Associados – SROC, S.A.
- Sociedade de Revisores Oficiais de Contas
represented by:

António Filipe Dias da Fonseca Brás – Statutory Auditor no. 1661
Registered with the CMVM under no. 20161271

REPORT AND OPINION

OF THE SUPERVISORY BOARD

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

Financial year 2019

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

In accordance with the legal and statutory provisions, we are bound to present for your appraisal our report on the supervisory activity carried out by the Supervisory Board, as well as to issue an 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 2019 and, also, our appraisal of the respective statutory audit report issued by the statutory audit firm.

The Supervisory Board carried out with regularity the functions attributed to it, namely having performed the verifications it considered convenient, attended periodic meetings and appraised 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 Executive Commission and 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.

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 with the Articles of association.

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 this 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 different phases of the work carried out. No situations were communicated to us of abnormal risks or significant weaknesses in the internal control system that may have a material impact on the financial statements.

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 Board accompanied the process of the preparation and disclosure of the financial information, with same being adequate.

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

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 audit tests planned, 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.

We took note of the Statutory Audit Report on the financial statements for financial year 2019 issued by the statutory audit firm, which includes a matter of emphasis. According to the Statutory Auditor, it is the understanding of the Board of Directors, that the financial impacts arising from the Covid-19 situation, are uncertain and difficult to quantify reliably, namely as regards the fair value of financial and non-financial assets, the measurement of the expected losses in the loan portfolio and the capital requirements, with the Supervisory Board agreeing with such understanding. The Statutory Auditor, through the Additional Report addressed to the Supervisory Board, communicated the relevant aspects of the work carried out and respective conclusions.

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 appraised 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.

Considering the activity developed by the Bank, namely in the area of customer portfolios' management, an efficient monitoring of its internal control and the continuous evaluation of its operational effectiveness comprises an essential factor for the mitigation of risk, namely the risk of fraud, with the Bank having strengthened its controls in these areas.

Opinion

As a result of the supervisory actions realized and the appraisal 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 2019, as presented by the Board of Directors;

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

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 exercise of its functions.

Lisbon, 9 April 2020

The Supervisory Board

Chair - António Joaquim Andrade Gonçalves

Member - Isabel Maria Beja Gonçalves Novo

Member - Fernando Jorge Henriques Bernardo