BASE PROSPECTUS dated 18 July 2019

NOVO BANCO, S.A.

(incorporated with limited liability in Portugal)

€10,000,000,000.00

CONDITIONAL PASS-THROUGH COVERED BONDS PROGRAMME

NOVO BANCO, S.A. (the "**Issuer**", "**Bank**" or "**Novo Banco**") is an authorised credit institution under Portuguese Law, for the purposes of Decree-law 59/2006, of 20 March 2006 (as amended, the "**Covered Bonds Law**").

The Covered Bonds (as defined below) will constitute mortgage covered bonds for the purposes, and with the benefit, of the Covered Bonds Law. The Issuer and its subsidiaries are together referred to in this Base Prospectus as the "**Group**".

Under this €10,000,000,000.00 conditional pass-through covered bonds programme (the "**Programme**"), the Issuer may from time to time issue mortgage covered bonds denominated in any currency agreed between the Issuer and the relevant Dealer (as may be settled through Interbolsa) (as defined below).

Covered Bonds shall be issued in registered ("*nominativas*") form and will be represented in book-entry ("*escriturais*") form. The maximum aggregate nominal amount of all Covered Bonds from time to time outstanding under the Programme will not exceed €10,000,000,000.00 (or its equivalent in other currencies calculated as described herein), subject to increase as described herein. Covered Bonds may be issued on a continuing basis to one or more of the Dealers specified under *Overview of the Covered Bonds Programme* and any additional Dealer appointed under the Programme from time to time by the Issuer (each a "**Dealer**" and together, the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the relevant Dealer shall, in the case of an issue of Covered Bonds being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to purchase such Covered Bonds.

See *Risk Factors* for a discussion of certain risk factors to be considered in connection with an investment in the Covered Bonds.

This document comprises a base prospectus (the "**Base Prospectus**") for the purposes of article 5.4 of Directive 2003/71/EC, as amended (the "**Prospectus Directive**") and of article 26 of the Commission Regulation (EC) 809/2004, as amended (the "**Prospectus Regulation**"). This Base Prospectus has been approved by the Central Bank of Ireland, as competent authority under the Prospectus Directive. The Central Bank of Ireland only approves this Base Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Application will be made to the Irish Stock Exchange plc, trading as Euronext Dublin ("**Euronext Dublin**") for the Covered Bonds to be admitted to the Official List and trading on its regulated market. Such approval relates only to the Covered Bonds which are to be admitted to trading on a regulated market for the purposes of Directive 2014/65/EU, as amended, in any Member State of the European Economic Area. References in this Base Prospectus to Covered Bonds being "listed" (and all related references) shall mean that such Covered Bonds have been admitted to trading on the regulated market of the Euronext Dublin or other regulated market. The Programme provides that Covered Bonds may be listed or admitted to trading, as the case may be, on such other stock exchange(s) or markets (including regulated markets) as may be agreed between the Issuer and the relevant Dealer. Covered Bonds may, after notification by the Central Bank of Ireland to the supervision authority of the Relevant Member States of the European Union, in accordance with article 18 of the Prospectus Directive, be admitted to trading on the regulated Market(s) of and/or be admitted to listing on stock exchange(s) of any other Member States of the EEA. The Issuer may also issue unlisted Covered Bonds and/or Covered Bonds not admitted to trading on any market. The rating of certain Series of Covered Bonds to be issued under the Programme may be specified in the applicable Final Terms.

The Covered Bonds issued under the Programme may be rated by Moody's and/or by DBRS. The rating of Covered Bonds will not necessarily be the same as the rating applicable to the Issuer. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Moody's and DBRS are established in the European Union and are registered under CRA Regulation. As such, the referred credit rating agencies are included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.

Notice of the aggregate nominal amount of Covered Bonds, interest (if any) payable in respect of Covered Bonds, the issue price of Covered Bonds and certain other information which is applicable to each Tranche (as defined under *Terms and Conditions of the Covered Bonds*) of Covered Bonds will be set out in a final terms document (the "**Final Terms**") which will be delivered to the Central bank of Ireland and, if admitted to trading on the regulated market, to the Euronext Dublin. Copies of Final Terms in relation to Covered Bonds to be listed on the Euronext Dublin will also be published on the website of the Euronext Dublin (www.ise.ie).

Arranger

J.P. Morgan

Dealers

J.P. Morgan | Novo Banco, S.A.

The date of this Base Prospectus is 18 July 2019.

RESPONSIBILITY STATEMENTS

In respect of the Issuer, this Base Prospectus comprises a base prospectus for the purposes of article 5.4 of the Prospectus Directive for the purpose of giving information with regard to the Issuer which, according to the nature of the Issuer and the Covered Bonds, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer, as well as of the features and characteristics of the Covered Bonds.

The Covered Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended, (the "**Securities Act**") and are subject to U.S. tax law requirements. Subject to certain exceptions, Covered Bonds may not be offered, sold or delivered within the United States or to, or for the account of or benefit of, U.S. persons (see *Subscription and Sale and Transfer Restrictions and Secondary Market Arrangements* below).

The format and contents of this Base Prospectus comply with the relevant provisions of the Prospectus Directive and all laws and regulations applicable thereto, including the Prospectus Regulation.

Each of the Issuer, the members of the Executive Board of Directors and General Supervisory Board of the Issuer (see *Management and Supervisory Corporate Bodies*) are responsible for the information contained in this Base Prospectus and hereby declare that, to the best of its knowledge (having taken all reasonable care to ensure that such is the case), the information contained in this Base Prospectus is in accordance with the facts and contains no omissions likely to affect its import.

Ernst & Young, Audit & Associados – SROC, S.A., registered in the CMVM under number 20161480 and in the OROC under number 178, with registered office at Av. da República no. 90 1700-157 Lisbon (the "**Auditor**"), has audited and expressed an opinion on the financial statements of the Issuer for the financial period from 1 January 2018 to 31 December 2018 and PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda., registered with the CMVM with number 20161485, with registered office at Palácio Sottomayor, Rua Sousa Martins, 1, 3.º, 1069-316 Lisbon as audited and expressed an opinion on the financial statements of the Issuer for the financial period from 1 January 2017 to 31 December 2017. The consolidated financial statements for such financial period give a true and fair view of the financial position of the Issuer as at 31 December 2018 and 31 December 2017, and of the results of the Issuer's operations and cash flows for the period then ended (see *General Information*).

This Base Prospectus is to be read in conjunction with all documents which are incorporated herein by reference (see *Documents Incorporated by Reference*). This Base Prospectus shall be read and construed on the basis that such documents are so incorporated and form part of this Base Prospectus.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in, or not consistent with, this Base Prospectus or any other information supplied in connection with the issue or sale of the Covered Bonds and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Arrangers (as defined in *Definitions*), the Common Representative (as defined under *General Description of the Programme*) or any of the Dealers.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Covered Bonds shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or the date upon which this Base Prospectus has been most recently supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing such information.

The Arrangers, the Common Representative and the Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Covered Bonds of any information coming to their attention. Investors should review, amongst other things, the Issuer's financial statements, if any, of the Issuer when deciding whether or not to purchase any Covered Bonds.

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Covered Bonds in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Covered Bonds may be restricted by law in certain jurisdictions. The Issuer, the Arrangers and the Dealers do not represent that this Base Prospectus may be lawfully distributed, or that any Covered Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Arrangers or the Dealers (save for application for the approval by the Central Bank of Ireland of this Base Prospectus as a base prospectus for the purposes of the Prospectus Directive) which would permit a public offering of any Covered Bonds or the distribution of this Base Prospectus or any other offering material relating to the Programme or the Covered Bonds issued thereunder in any jurisdiction where action for that purpose is required. Accordingly, no Covered Bonds may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material relating to the Programme or the Covered Bonds issued thereunder may be distributed or published in any jurisdiction, except under circumstances that would result in compliance with any applicable securities laws and regulations. Each Dealer has represented or, as the case may be, will be required to represent that to the best of its knowledge all offers and sale by it will be made on the terms indicated above. Persons into whose possession this Base Prospectus or any Covered Bonds may come must inform themselves about, and observe, any applicable restrictions on the distribution of this Base Prospectus and the offering and sale of the Covered Bonds. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Covered Bonds in the United States, the European Economic Area (the "EEA") (including Italy, Portugal and the United Kingdom) and Japan. See *Subscription and Sale and Transfer Restrictions and Secondary Market Arrangements*.

The Arrangers, the Common Representative and the Dealers have not separately verified the information contained or incorporated in this Base Prospectus. Accordingly, none of the Arrangers, the Common Representative or the Dealers makes any representation, warranty or undertaking, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information contained in this Base Prospectus. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the Covered Bonds is intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, the Arrangers, the Common Representative or the Dealers that any recipient of this Base Prospectus or any other financial information supplied in connection with the Programme should purchase the Covered Bonds. Each investor contemplating purchasing any Covered Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness of the Issuer. Neither this Base Prospectus nor any other information supplied in connection with the Programme constitutes an offer or invitation by or on behalf of the Issuer, the Arrangers, the Common Representative or any of the Dealers to subscribe for or to purchase any Covered Bonds.

This Base Prospectus has been prepared on the basis that, except to the extent sub-paragraph (ii) below may apply, any offer of Covered Bonds in any Member State of the EEA which has implemented the Prospectus Directive (each, a "Relevant Member State") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Covered Bonds. Accordingly any person making or intending to make an offer in that Relevant Member State of Covered Bonds which are the subject of an offering contemplated in this Base Prospectus as completed by final terms in relation to the offer of those Covered Bonds may only do so (i) in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to article 3 of the Prospectus Directive or supplement a prospectus pursuant to article 16 of the Prospectus Directive, in each case, in relation to such offer, or (ii) if a prospectus for such offer has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State and (in either case) published, all in accordance with the Prospectus Directive, provided that any such prospectus has subsequently been completed by final terms which specify that offers may be made other than pursuant to article 3(2) of the Prospectus Directive in that Relevant Member State and such offer is made in the period beginning and ending on the dates specified for such purpose in such prospectus or final terms, as applicable. Except to the extent sub-paragraph (ii) above may apply, neither the Issuer nor any Dealer have authorised, nor do they authorise, the making of any offer of Covered Bonds in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

The Covered Bonds may not be a suitable investment for all investors. Each potential investor in the

Covered Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the relevant Covered Bonds, the merits and risks of investing in the relevant Covered Bonds and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Covered Bonds and the impact such investment will have on its overall investmentportfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Covered Bonds, including where the currency for principal or interest payments is different from the currency in which such investor's financial activities are principally denominated;
- understand thoroughly the terms of the relevant Covered Bonds and be familiar with the behaviour of any relevant indices and financial markets;and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (*i*) Covered Bonds are legal investments for it, (*ii*) Covered Bonds can be used as collateral for various types of borrowing and (*iii*) other restrictions apply to its purchase or pledge of any Covered Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Covered Bonds under any applicable risk-based capital or similar rules.

The Final Terms in respect of any Covered Bonds will include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Covered Bonds and which channels for distribution of the Covered Bonds are appropriate. Any person subsequently offering, selling or recommending the Covered Bonds (a "distributor") should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, "**MiFID II**") is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Covered Bonds is a manufacturer in respect of such Covered Bonds, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MIFID Product Governance Rules.

IMPORTANT – EEA RETAIL INVESTORS – The Covered Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II or (ii) a customer within the meaning of Directive 2016/97/UE (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended the "**PRIIPs Regulation**") for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Amounts payable under the Covered Bonds may be calculated by reference to the Euro Interbank Offered Rate ("**EURIBOR**") or the London Interbank Offered Rate ("**LIBOR**") which are provided by the European Money Markets Institute ("**EMMI**") and the ICE Benchmark Administration Limited ("**ICE**") respectively. As at the date of this Base Prospectus, EMMI does not appear on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority ("**ESMA**") pursuant to Article 36 of the Benchmark Regulation (Regulation (EU) 2016/1011) (the "**BMR**"). As far as the Issuer is aware, the transitional provisions in Article 51, including its pars. (1) and (3), of the BMR apply such that EMMI is not currently required to obtain authorisation or registration. The ICE has been included in the register of administrators established and maintained by ESMA pursuant to Article 36 of the BMR.

In this Base Prospectus, unless otherwise specified or the context otherwise requires, references to "**€**", "**EUR**" or "**euro**" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended, to "**U.S.$**", "**USD**" or "**U.S. dollars**" are to United States dollars, the lawful currency of the United States of America, and to "**£**" or "**GBP**" or "**pounds sterling**" are to pounds sterling, the lawful currency of the United Kingdom.

GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuer may from time to time issue Covered Bonds denominated in any currency agreed between the Issuer and the relevant Dealer**,** subject as set out herein. An overview of the terms and conditions of the Programme and the Covered Bonds appears under *Overview of the Covered Bonds Programme*. The applicable terms of any Covered Bonds will be agreed between the Issuer and the relevant Dealer prior to the issue of those Covered Bonds and will be set out in the *Terms and Conditions of the Covered Bonds* endorsed on, or attached to, the Covered Bonds as completed by the applicable final terms attached to, or endorsed on, such Covered Bonds (the "**Final Terms**"), as more fully described under *Final Terms for Covered Bonds* below.

This Base Prospectus will only be valid for admitting Covered Bonds to trading on the Euronext Dublin's regulated market until no more of Covered Bonds concerned with this Programme are issued in a continuous or repeated manner in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding on all Covered Bonds previously or simultaneously issued under the Programme, does not exceed €10,000,000,000.00 (subject to increase in accordance with the Programme Agreement (as defined below)) or its equivalent in other currencies. For the purpose of calculating the euro equivalent of the aggregate nominal amount of Covered Bonds issued under the Programme from time to time:

a) the euro equivalent of Covered Bonds denominated in another Specified Currency (as specified in the applicable Final Terms in relation to the Covered Bonds, described under *Final Terms for Covered Bonds*) shall be determined, at the discretion of the Issuer, either as of the date on which agreement is reached for the issue of Covered Bonds or on the preceding day on which commercial banks and foreign exchange markets are open for business in London and Lisbon, in each case, on the basis of the spot rate for the sale of the euro against the purchase of such Specified Currency in the Lisbon foreign exchange market quoted by any leading international bank selected by the Issuer on the relevant day of calculation; and

b) the euro equivalent of Zero Coupon Covered Bonds (as specified in the applicable Final Terms in relation to the Covered Bonds, described under *Final Terms for Covered Bonds*) and other Covered Bonds issued at a discount or a premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.

TABLE OF CONTENTS

OVERVIEW OF THE COVERED BONDS PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Covered Bonds, the applicable Final Terms.

This Overview constitutes a general description of the Programme for the purposes of article 22.5(3) of Commission Regulation (EC) 809/2004, as amended, implementing the Prospectus Directive.

Capitalised terms used in this overview and not otherwise defined below or under Definitions have the respective meanings given to those terms elsewhere in this Base Prospectus.

Description:	Covered Bonds Programme.
Programme size:	Up to Euro 10,000,000,000.00 (or its equivalent in other currencies, all calculated as described under *General Description of the Programme*) aggregate principal amount (or, in the case of Covered Bonds issued at a discount, their aggregate nominal value) of Covered Bonds outstanding at any time. The Issuer will have the option at any time to increase the amount of the Programme, subject to compliance with the relevant provisions of the Programme Agreement.
Issuer:	Novo Banco, S.A.
Arranger:	J.P. Morgan Securities plc and any other Arranger(s) appointed from time to time.
Dealers:	J.P. Morgan Securities plc, Novo Banco, S.A. and any other Dealer(s) appointed from time to time by the Issuer in accordance with the Programme Agreement.
Common Representative:	BNP Paribas Trust Corporation UK Limited
Agent:	Novo Banco, S.A.
Paying Agent:	Novo Banco, S.A.
Cover Pool Monitor:	Ernst & Young, Audit & Associados – SROC, S.A., registered in the CMVM under number 20161480 and in the OROC under number 178 See *Cover Pool Monitor*.
Account Bank:	Société Générale London Branch, in its capacity as Account Bank, with its head office at SG House, 41 Tower Hill, London, EC3N 4SG, or any successor account bank, appointed from time to time by the Issuer in connection with the Reserve Account and under the Reserve Account Agreement, when applicable.
Hedge Counterparties:	The parties or party (each, a "**Hedge Counterparty**" and together, the "**Hedge Counterparties**") that, from time to time may enter into Hedging Contracts with the Issuer in accordance with the Covered Bonds Law.
Risk Factors:	There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Covered Bonds issued under the Programme,

including, *inter alia*, those set out under *Risk Factors* below. In addition, there are risk factors which are material for the purpose of assessing the other risks associated with Covered Bonds issued under the Programme. These are also set out in detail under *Risk Factors* below and include, *inter alia*, the dynamics of the legal and regulatory requirements and the risks related to the structure of a particular issue of Covered Bonds.

Distribution:

Covered Bonds may be distributed by way of private placement and on a non-syndicated or syndicated basis. The method of distribution of each Tranche of Covered Bonds will be stated in the applicable Final Terms. Covered Bonds will be issued and placed only outside the United States in reliance on Regulation S under the Securities Act ("**Regulation S**"). See *Subscription and Sale and Transfer Restrictions and Secondary Market Arrangements*.

Certain Restrictions:

Each issue of Covered Bonds denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see *Subscription and Sale and Transfer Restrictions and Secondary Market Arrangements*).

Currencies:

Subject to compliance with relevant laws, Covered Bonds may be issued in any currency agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms).

Ratings:

Covered Bonds issued under the Programme may be rated by Moody's and/or by DBRS.

Each of Moody's and DBRS is established in the European Union and is registered under the CRA Regulation. As such, the referred credit rating agencies are included in the list of registered credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.

The rating of Covered Bonds will not necessarily be the same as the rating applicable to the Issuer. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

Listing and Admission to Trading:

Application has been made to the Euronext Dublin for Covered Bonds issued under the Programme to be admitted to the Official List of the Euronext Dublin and trading on the Regulated Market. The Issuer may also issue unlisted Covered Bonds and/or Covered Bonds not admitted to trading on any market or Covered Bonds admitted to trading on other regulated markets for the purposes of MIFID II or on any other market which is not a regulated market. The relevant Final Terms will state on which stock exchange(s) and/or market(s) the relevant Covered Bonds are to be listed and/or admitted to trading (if any).

Selling Restrictions:

There are restrictions on the offer, sale and transfer of the Covered Bonds in the United States, the EEA (including Italy, Portugal and the United Kingdom) and Japan as set out in S*ubscription and Sale and Transfer Restrictions and Secondary Market Arrangements*.

United States Selling Restriction:

The Covered Bonds have not been and will not be registered under the Securities Act and may not be offered or sold in the United States or to, or for the benefit of, US persons unless an exemption from the registration requirements of the Securities Act is available or in a transaction not subject to the registration requirements of the Securities Act. Accordingly, the Covered Bonds are being offered and sold only outside the United States in reliance upon Regulation S under the Securities Act. See *Subscription and Sale and Transfer Restrictions and Secondary Market Arrangements*.

Use of Proceeds:

Proceeds from the issue of Covered Bonds will be used by the Issuer for its general corporate purposes.

Status of the Covered Bonds:

The Covered Bonds issued under the Programme will constitute direct, unconditional and unsubordinated and secured obligations of the Issuer and will rank *pari passu* among themselves. The Covered Bonds will be mortgage covered bonds issued by the Issuer in accordance with the Covered Bonds Law and, accordingly, will be secured on cover assets that comprise a cover assets pool maintained by the Issuer for issues under the Programme and in accordance with the terms of the Covered Bonds Law. Such cover assets pool is autonomous from any other cover pool maintained by the Issuer in relation to any other programmes that it has or may establish in the future and it is allocated to the issue of Covered Bonds under this Programme only. See *Characteristics of the Cover Pool*.

Terms and Conditions of the Covered Bonds:

Final Terms will be prepared in respect of each Tranche of Covered Bonds, completing the Terms and Conditions of the Covered Bonds set out in *Terms and Conditions of the Covered Bonds*.

Clearing Systems:

Interbolsa (together with any other clearing system which may be chosen from time to time, the "**Clearing System**") and/or, in relation to any Series of Covered Bonds, any other clearing system as specified in the relevant Final Terms. See *Form of the Covered Bonds and Clearing Systems*.

Form of the Covered Bonds:

The Covered Bonds are intended to be held through Interbolsa and will be in book-entry form (*forma escritural*) and *nominativas* (which means that Interbolsa, at the Issuer's request, can ask the Interbolsa Participants information regarding the identity of the holders of Covered Bonds and transmit such information to the Issuer), and thus title to such Covered Bonds will be evidenced by book entries in accordance with the provisions of the Portuguese Securities Code and the applicable regulations. No physical document of title will be issued in respect of Covered Bonds held through Interbolsa. See Form of the Covered Bonds and Clearing Systems.

Transfer of Covered Bonds:

The Covered Bonds may be transferred in accordance with the provisions of the relevant Clearing System or other central securities depositary with which the relevant Covered Bond has been registered. The transferability of the Covered Bonds is not restricted.

Maturity Date:

The Covered Bonds will have such maturities as may be agreed between the Issuer and the relevant Dealer(s) and as set out in the applicable Final Terms, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body), the Covered Bonds Law or any laws or regulations applicable to the Issuer or the relevant Specified Currency. Currently the Covered Bonds Law establishes that Covered Bonds may not be issued

	with a maturity term shorter than two years or in excess of 50 years. See also *Extended Maturity Date*.
Issue Price:	The Covered Bonds may be issued on a fully-paid basis and at an issue price which is at par or at a discount to, or premium over, par, as specified in the applicable Final Terms.
Insolvency Event:	If an Insolvency Event in respect of the Issuer occurs, pursuant to the Covered Bonds Law the holders of Covered Bonds may approve a Resolution to determine the serving of an Acceleration Notice, in which case all outstanding Covered Bonds shall immediately become due and payable each at their Early Redemption Amount together with accrued interest, without prejudice to the applicability of the pass-through provision, as described under Condition 6. of the *Terms and Conditions of the Covered Bonds*.
Negative Pledge:	None.
Cross Default:	None.
Guarantor:	None.
Fixed Rate Covered Bonds:	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms).
Floating Rate Covered Bonds:	Floating Rate Covered Bonds will bear interest determined separately for each Series as follows: • on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association Inc. ("**ISDA**") and as amended and updated as at the Issue Date of the first Tranche of Covered Bonds of the relevant Series); or • on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service. The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer(s) for each Series of Floating Rate Covered Bonds. Interest periods will be specified in the applicable Final Terms. In the event a Benchmark Event occurs (a) a Successor Rate or, failing which, an Alternative Reference Rate, and (b) in either case, an Adjustment Spread may be used for the purposes of determining the Rate of Interest.
Zero Coupon Covered Bonds:	Zero Coupon Covered Bonds may be offered and sold at a discount to their nominal amount unless otherwise specified in the applicable Final Terms.
Redemption:	The applicable Final Terms relating to each Tranche of Covered Bonds will specify either (*i*) that the relevant Covered Bonds cannot be redeemed prior to their stated maturity, save as provided for in the

Covered Bonds Law (see *The Covered Bonds Law*) and in the pass-through provisions under Condition 6., or (*ii*) that the relevant Covered Bonds will be redeemable at the option of the Issuer and/or the holder of Covered Bonds upon giving notice to the holder of Covered Bonds or the Issuer (as applicable), on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer(s). See also *Extended Maturity Date*. The applicable Final Terms may provide that the Covered Bonds may be redeemable in two or more instalments of such amounts and on such dates as are specified in the applicable Final Terms.

Extended Maturity Date:

An Extended Maturity Date will be specified in the relevant Final Terms for each Series of Covered Bonds issued under the Programme. Pursuant to the Covered Bonds Law, the Extended Maturity Date may not fall later than 50 years after the Issue Date of such Series.

Such Extended Maturity Date, as defined in the Final Terms of each Series of Covered Bonds, will apply if a Pass-through Event occurs. In this case the maturity of the principal amount outstanding of all Covered Bonds issued under the programme will automatically extend to the relevant Extended Maturity Date. In that event, the Issuer and/or any entity managing the Cover Pool will redeem all or any part of the principal amount outstanding of the Covered Bonds on an Interest Payment Date after the Pass-through Date up to and including the Extended Maturity Date in accordance with the Pass-Through provision as described under Condition 6. of the Terms and Conditions.

Following the occurrence of a Pass-through Event, Covered Bonds will bear interest on the principal amount outstanding of the Covered Bonds from (and including) the Pass-through Date to (but excluding) the earlier of the Interest Payment Date on which the Covered Bonds are redeemed in full and the Extended Maturity Date. Interest will be payable on each Interest Payment Date following the Pass-through Date in respect of the Interest Period ending immediately prior to such Interest Payment Date or as otherwise provided for in the applicable Final Terms at the rate provided for in the applicable Final Terms.

Covered Bonds may for the purposes of the Programme be:

(a) Fixed Rate Covered Bonds, Zero Coupon Covered Bonds or Floating Rate Covered Bonds in respect of the period from the Issue Date to (and including) the Maturity Date or the Pass-through Date, as applicable; or

(b) Fixed Rate Covered Bonds or Floating Rate Covered Bonds in respect of the period from (but excluding) the Pass-through Date to (and including) the Extended Maturity Date, as set out in the applicable Final Terms.

In the case of Covered Bonds which are Zero Coupon Covered Bonds up to (and including) the Pass-through Date, the initial outstanding principal amount on the Pass-through Date for the above purposes will be the total amount otherwise payable by the Issuer on that date in accordance with Condition 6.7.

Pass-through Covered Bonds:

If a Series of Covered Bonds has not been repaid in full on its Maturity Date or within two Business Days thereafter or an Insolvency Event in respect of the Issuer occurs (both constituting a "**Pass-through Event**"), the maturity of all outstanding Series of Covered Bonds issued under the Programme is deferred until the Extended Maturity Date, as defined in the relevant Final Terms, and all outstanding Series of Covered Bonds issued under the Programme become pass- through Covered Bonds in the Pass-through Date. See *Terms and Conditions of the Covered Bonds*.

Pass-through redemption undertakings:

The Issuer and/or any entity managing the Cover Pool will be obliged to use and employ its best efforts to sell (in whole or in part) assets comprised in the Cover Pool along commercial acceptable terms then possible in order to redeem, to the extent possible, the Covered Bonds prior to the relevant Extended Maturity Date, provided such sale and subsequent redemption of the respective Covered Bonds will not result in a reduction in Overcollateralisation under the prescribed Overcollateralisation Percentage outlined in Condition 15.1. Failure by the Issuer and/or any entity managing the Cover Pool to sell or refinance the assets comprised in the Cover Pool will not constitute an event of default.

Covered Bonds with a Repurchase Commitment:

If a Repurchase Commitment is specified in the applicable Final Terms for a particular Series of Covered Bonds, the Issuer will irrevocably and unconditionally undertake to repurchase such Series of Covered Bonds on the Repurchase Date at par plus accrued interest (or any other repurchase amount as specified in, or determined in the manner specified in, the applicable Final Terms for such Series of Covered Bonds), if so requested by the holders of such Series of Covered Bonds which are Qualified Investors and subject to such Series of Covered Bonds not being redeemed up to two Business Days after the Maturity Date. This undertaking does not form part of the Terms and Conditions of the Covered Bonds and, accordingly, non-compliance by the Issuer with such undertaking will not constitute an event of default under such Terms and Conditions. See *Repurchase Commitment*.

Denomination of Covered Bonds:

The Covered Bonds will be issued in denomination per unit equal to or higher than €100,000 (or its equivalent in another currency, all calculated as described under *General Description of the Programme*) as specified in the relevant Final Terms, subject to compliance with the applicable legal and/or regulatory and/or central bank requirements and provided that each Series will have Covered Bonds of one denomination only.

Reserve Account:

While Covered Bonds are outstanding, the Covered Bonds will have the benefit of a Reserve Account held by the Issuer with the Account Bank on behalf of the Programme and which will form part of the Cover Pool and be subject to the same legal requirements and legal regime as any Other Assets which are part of the Cover Pool. The Issuer shall ensure that the legal requirements as required by the Covered Bonds Law for the Reserve Account to qualify as Other Assets of the Cover Pool are met at all times. The Issuer will be required to maintain at all times in the Reserve Account funds in an amount sufficient to reach the Total Target Reserve Amount. As long as the funds in the Reserve Account equal or exceed the Total Target Reserve Amount, the Issuer will not be required to transfer any additional amounts to the Reserve Account. If the amounts in the Reserve Account exceed the Total Target Reserve Amount, the Issuer may release the excess amounts.

The Account Bank will at all times have the minimum rating and comply with other requirements as required by the Covered Bonds Law for the

Reserve Account to qualify as Other Assets of the Cover Pool. The Reserve Account will form part of the Cover Pool associated with the Programme, provided that the amounts standing to the credit of such Reserve Account (together with the remaining Other Assets) do not at any time exceed 20 per cent. of the value of the mortgage loans and other eligible assets allocated to the Cover Pool.

Funds held in the Reserve Account, given their nature of Cover Pool assets, are available to meet amounts due in relation to the Covered Bonds and shall not be applied towards a partial principal redemption of the Covered Bonds prior to their Extended Maturity Date, subject to Conditions 6.8 and 6.9. See *Terms and Conditions of the Covered Bonds*.

At the Issuer's option, the Reserve Account may be replaced by a liquidity facility, through a Liquidity Facility Agreement to be settled with a Liquidity Facility Provider pursuant to which the Issuer will be entitled to make liquidity drawings equal to the interest payable on the Covered Bonds on any Interest Payment Dates following the occurrence of a Liquidity Event up to a maximum amount equal to Total Target Reserve Amount. This replacement will be subject to the confirmation that it will not result in any credit rating then assigned to the Covered Bonds by the Rating Agencies being reduced, removed, suspended or placed on credit watch.

Liquidity Facility Provider:

An eligible entity the short-term unsecured debt obligations of which are rated as required by the Covered Bonds Law for liquidity facility providers or such other rating that will not result in a reduction or qualification of the ratings then assigned to the Covered Bonds or is otherwise approved by these rating agencies for the purposes of entering into any Liquidity Facility Agreement, in any case in compliance with the Covered Bonds Law.

Benchmark Discontinuation:

In the event a Benchmark Event occurs (a) a Successor Rate or, failing which, an Alternative Reference Rate, and (b) in either case, an Adjustment Spread may be used for the purposes of determining the Rate of Interest.

Taxation of the Covered Bonds:

All payments in respect of the Covered Bonds will be made without deduction for, or on account of, withholding taxes imposed by any jurisdiction, unless the Issuer shall be obliged by law to make such deduction or withholding and provided that the Covered Bonds holders deliver, *inter alia*, certain tax certifications. The Issuer will not be obliged to make any additional payments in respect of any such withholding or deduction imposed. See *Taxation*.

The Covered Bonds Law:

The Covered Bonds Law introduced into Portuguese law a framework for the issuance of certain types of asset covered bonds. Asset covered bonds can only be issued by (*i*) credit institutions licensed under the Credit Institutions General Regime or (*ii*) by special credit institutions created pursuant to the Covered Bonds Law, whose special purpose is the issue of covered bonds. The Covered Bonds Law establishes that issuers of mortgage covered bonds shall maintain a cover assets pool, comprised of mortgage credit assets and limited classes of other assets, over which the holders of the relevant covered bonds have a statutory special creditor privilege.

The Covered Bonds Law also provides for (*i*) the inclusion of certain hedging contracts in the relevant cover pool and (*ii*) certain special rules that apply in the event of insolvency of the Issuer. The Covered Bonds Law and the Bank of Portugal Regulations further provide for (*i*) the supervision and regulation of issuers of covered bonds by the Bank of Portugal, (*ii*) the role of a cover pool monitor in respect of each issuer of covered bonds and the relevant cover pool maintained by it, (*iii*) the role of the common representative of the holders of covered bonds, (*iv*) restrictions on the types and status of the assets comprised in a cover pool (including loan to value restrictions, weighted average interest receivables and weighted average maturity restrictions), and (*v*) asset/liability management between the cover pool and the covered bonds. See *Characteristics of the Cover Pool*, *Insolvency of the Issuer*, *Common Representative of the Holders of Covered Bonds* and *The Covered Bonds Law*.

The Covered Bonds issued by the Issuer will qualify as mortgage covered bonds for the purposes of the Covered Bonds Law. The Covered Bonds will be senior obligations of the Issuer and will rank equally with all other Covered Bonds which may be issued by the Issuer. In the event of an insolvency of the Issuer, the holders of the Covered Bonds issued by the Issuer, together with the Other Preferred Creditors, will have recourse under the Covered Bonds Law to the Cover Pool in priority to other creditors (whether secured or unsecured) of the Issuer who are not preferred creditors under the Covered Bonds Law. See *Characteristics of the Cover Pool* and *Insolvency of the Issuer*.

Governing Law:

Unless otherwise specifically provided (as is the case of the Reserve Account Agreement), the Covered Bonds and all other documentation and matters relating to the Programme, including any non-contractual obligations arising out of, or in connection with, the Covered Bonds or the Programme, are governed by, and will be construed in accordance with, Portuguese law.

Jurisdiction:

The courts of Lisbon, Portugal are to have jurisdiction to settle any disputes (including any non-contractual obligations) which may arise out of or in connection with the Covered Bonds or the Programme (except in respect of the Reserve Account Agreement, where the applicable exclusive jurisdiction is of the English courts) and, accordingly, any suit, action or proceedings arising out of or in connection with the Covered Bonds or the Programme may be brought in such courts, to the extent not mandatorily resulting otherwise from any applicablelaws.

RISK FACTORS

Investing in financial instruments, including securities, involves risk. Before making any investment decision, one must take into consideration all the information described in this Base Prospectus and, in particular, the risks mentioned herein.

The Issuer believes that the following factors may affect its ability to fulfil its obligations under Covered Bonds issued under the Programme. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with Covered Bonds issued under the Programme are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in Covered Bonds issued under the Programme, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with any Covered Bonds for other reasons and the Issuer does not represent that the statements below regarding the risks of holding any Covered Bonds are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus or incorporated by reference herein and reach their own views prior to making any investment decision.

Words and expressions defined in Definitions shall have the same meaning in this section.

RISKS RELATING TO THE ISSUER

Risks relating to the Portuguese economy

As a financial group whose core business is banking (taking deposits and extending credit) in Portugal, the Novo Banco Group is dependent on the state of the Portuguese economy. Moreover, the Group expects the proportion of the business it conducts in Portugal to increase going forward, as it focuses on its core retail and corporate banking business in Portugal and divests its non-core operations, including as required by the commitments undertaken by the Portuguese State towards the European Commission. Those commitments were initially undertaken in 2014 in the context of the application of a resolution measure by the Bank of Portugal to Banco Espírito Santo, S.A. (“**BES**”), on 3 August 2014 (as amended and supplemented by related decisions, including by the Decisions of 29 December 2015 and the Decision of 29 December 2015 on Retransfer), the “**Resolution Measure**”, subsequently revised in December 2015 and then superseded by a new set of commitments agreed in October 2017 (the “**Commitments**”). As at 31 December 2018 and 31 December 2017, approximately 91.7% and 86.7% respectively, of the Novo Banco Group’s consolidated net assets related to its business activities in Portugal, and 97.0% and 87.7% of net income was generated by the operations in Portugal. Consequently, the business of the Novo Banco Group is particularly exposed to macroeconomic conditions, which affect growth, particularly in the Portuguese market, which in turn are affected by both domestic and international economic and political events. Furthermore, because the Group has significant exposure to large corporate and small and medium-sized enterprise (“**SME**”) lending, the performance of which is closely linked to both trends in the economy and export activity, the Group could be more heavily affected by macroeconomic conditions in Portugal than other Portuguese banks with less exposure to the large corporate and SME sectors.

In 2011 the Economic Adjustment Programme (the “**Financial Assistance Programme**”) was created by a memorandum of understanding on financial assistance with the International Monetary Fund (“**IMF**”), the European Commission (“**EC**”) and the “European Central Bank” (“**ECB**”) to address deteriorating economic conditions in Portugal stemming from the global financial crisis of 2007/2008. Portugal concluded its Financial Assistance Programme in June 2014 without the need for any precautionary package involving external economic aid.

Economic conditions in Portugal have improved over the past few years, with gross domestic product (“**GDP**”) back to its pre-crisis level and the unemployment rate having declined to 7% of the labour force in 2018, according to Portugal’s Instituto Nacional de Estatística. The recovery has broadened to domestic demand, after strong exports sustained economic activity in the years immediately following the crisis. This was underpinned by rapid growth in the tourism sector, as well as exports across a variety of manufacturing sectors that reflected improvements in product quality and a decline in relative export prices. Investment has begun to rise again in 2014, after receding each year between 2009 and 2013. The recovery has been driven by an increase in spending by firms, combined with public investment exerting less of a drag on growth. Machinery and equipment investment has begun rising again, and housing investment is being stoked by rising dwelling prices. Consumption has also made a solid contribution to GDP growth over the past few years, buoyed by rising private earnings. Employment has benefited from the robust recovery, especially in some labour-intensive sectors, and wages have risen as the labour market improved.

After having contracted in 2011, 2012 and 2013, with real GDP decreasing by 1.8%, 4.0% and 1.1%, respectively, the Portuguese economy returned to growth in 2014, with GDP expanding by 0.9% in that year, 1.8% in 2015, 1.9% in 2016 and 2.8% in 2017. In 2018, GDP increased 2.1%, led by a solid domestic demand, particularly private consumption.

The combined current and capital account balance decreased in 2018, with the Portuguese economy keeping a net lending position, albeit one of a small magnitude. The correction in the negative international investment position, as a percentage of GDP, continued in 2018, mainly reflecting GDP growth. Whilst there has been some progress, the magnitude of external indebtedness remains one of the main underlying vulnerabilities of the Portuguese economy.

Portugal's fiscal position has improved significantly. After peaking at 11.2% of GDP in 2010, the fiscal deficit gradually declined over the past few years, and reached a level close to balance in 2018 (0.2% of GDP, Source: Statistics Portugal). The fiscal policy stance was roughly neutral in 2018, a conclusion that remains valid considering the last five years as a whole. The public debt-to-GDP ratio has come down in the most recent period, but it is still among the highest in the euro area. This high debt burden still limits the government's ability to respond to future economic shocks. Improvements in fiscal balances have contributed to a decline in the ratio of public debt to GDP from 130.6% in 2014 to 121.5% in 2018 (Source: Statistics Portugal).

The economy is projected to continue expanding at a stable pace. Activity should be supported by improving financing conditions, resilient export growth, gradual stabilization of the banking sector, strong growth in tourism and stronger public and private investment. Further employment gains and rising real wages should underpin consumption growth. A slowdown in the pace of activity in Portugal's major trading partners, such as Spain, Germany and the United Kingdom, may provide a headwind to further export growth. A gradual further reduction in economic slack will prompt a slight increase in inflation over the coming years. In a context of a weaker contribution from net exports, the strength of private consumption and investment should lead GDP growth, which is projected at 1.7% both in 2019 and in 2020, according to the latest forecasts from the Bank of Portugal (Economic Bulletin, March 2019). The projections from the European Commission (May 2019) anticipate the same performance for the Portuguese GDP growth (1.7% both in 2019 and in 2020).

Economic growth, a lower budget deficit and the stabilization of the banking sector led to upgrades in the sovereign rating by Fitch in December 2017 (from BB+ to BBB, stable outlook), having revised the outlook from "stable" to "positive" in May 2019. Moody's also upgraded Portuguese sovereign debt rating (from Ba1 to Baa3, stable outlook) in October 2018, as well as S&P (from BBB- to BBB, stable outlook) in March 2019. DBRS revised the outlook from "stable" to "positive" in April 2019, after having upgraded Portugal's credit rating from BBB- to BBB in April 2018. With these decisions, Portugal's sovereign debt is now considered investment grade by all main rating agencies.

With the economy expanding and credit agencies upgrading their rating of Portuguese sovereign debt, interest costs have declined. After peaking at 17% at the beginning of 2012, long-term interest rates on government bonds fell to around 0.5% in June 2019 (Source: Bloomberg). Debt-servicing costs have also been reduced by the ongoing amortization of bonds that were issued at higher interest rates during the financial crisis. A rise in interest rates could increase the cost of debt servicing. Nevertheless, under a scenario of stable interest rates, debt-servicing costs should decline, given there is still a pipeline of high-cost public debt that is scheduled to mature over the coming years.

Under the government's current plans, the public debt ratio will decline to 99.6% of GDP in 2023 (Stability Programme 2019-2023, April 2019). Thereafter, the path of public debt will be highly dependent on the pace of fiscal consolidation and the government's ability to introduce new measures that offset the rising costs of ageing. Active debt management is smoothing the debt redemption profile.

Bilateral buybacks have been carried out over 2017 and 2018, as well as bond exchanges involving the repurchase of bonds and sale of other bonds with longer maturities. After early repayments of around EUR 10 billion in 2017 and EUR 0.8 billion in January 2018, Portugal anticipated the full repayment of the outstanding IMF loan, amounting to around EUR 4.7 billion, to December 2018. The full early repayment of the IMF loan was possible due to the decision of the European creditors – i.e. the European Financial Stability Facility (EFSF) and the European Financial Stabilisation Mechanism (EFSM) – to grant another waiver of the proportional repayment obligation. Both the buy-backs and the early repayment of the IMF loan contribute to a smoothening of the redemption profile of Portugal's public debt, in particular concerning the redemption peak in 2021. The Portuguese authorities confirmed their intention to invite the IMF to conduct staff visits up until the end of the originally envisaged Post-Program Monitoring period.

Under the budget supervision rules agreed at the European level, since 2017 Portugal has been subject to the rules set out in the preventive arm of the Stability and Growth Pact (SGP). These rules call for each Member-State's public finance to make sufficient progress to ensure that, in the first phase, the structural adjustment leads to the Medium-term Objective (MTO) and, in a second phase, a robust budgetary position is retained at the MTO level. The need to gauge whether the adjustment path leads to that objective requires the assessment be undertaken on the basis of the structural balance indicator and the expenditure benchmark. Once the MTO has been reached (based on an assessment of the year t-1 outcomes) and its permanence ensured, Member-States may deviate from the requirements to comply with the expenditure benchmark, except if the MTO overrun is explained by the significant impact of unexpected revenue gains. At the same time such progress should also ensure compliance with the transitional provisions of the debt rule, which in Portugal's case are in force for the three years from 2017-2019. After that transitional period (from 2020), Portugal must comply with the general debt reduction rule. That rule requires that the difference between the public debt ratio and the limit of 60% be reduced over three years at an average rate of 1/20th per year, and failure to do so may lead to an excessive deficit procedure.

Despite recent recovery, the Portuguese economy continues to be characterised by high levels of public and private debt, unemployment and budget deficits, among other factors, and thus remains vulnerable to negative external shocks. A deterioration of investor sentiment associated with political, geopolitical and financial market uncertainty (such as the recent deterioration in economic conditions in Italy as a result of political instability or due to, for example, upward adjustment in inflation and rates expectations or geopolitical tensions, including those in the Middle East, or a rise in oil prices) could increase volatility in global financial markets and have a negative impact on financing conditions. Risks to the outlook thus include a tightening in financial conditions, particularly an increase in interest rates, potentially stemming from the normalization of monetary policy by the ECB, which could negatively impact business and household spending. On the upside, further improvements in the competitiveness of Portuguese exports could lead to larger export market share gains.

Domestic risks also include potential economic and fiscal impacts of the ongoing adjustments in the banking sector in Portugal, given the still high stock of non-performing exposures and the constraints to the banks' profitability. The stock of non-performing loans (NPLs) has consistently declined (from a peak of 17.9% of total loans in June 2016 to 9.4% in December 2018 (Source: Bank of Portugal, Portuguese Banking System Statistics, April 2019). However, the ratio of NPLs to total loan exposures is still relatively high, weighing on banks profitability.

Furthermore, a reduction in the government's budget deficit could consequently lead to reduced government spending, thereby potentially affecting the economy or a rise in the level of interest rates, implying an increase of interest expenditure, and could lead to a deterioration of the budget balance. The ability to use Portuguese public debt as an asset eligible for collateral for financing with the ECB will depend on the maintenance of an "investment grade" rating by at least one rating agency recognised by the ECB. The non-eligibility for the ECB could have a material and negative impact on the market value, cost of funding and overall demand for Portuguese public debt. A credit rating downgrade may occur in the future due to a number of factors, such as lower than expected tax revenue, weaker than expected economic growth, increased public debt as a percentage of GDP, slowdown in corporate sector deleveraging, failure to reduce general public debt, failure to increase GDP ratios, limited access to international financial markets or the failure of structural reforms. Any downgrade in the ratings of Portugal's sovereign debt or other negative statements regarding its credit ratings could negatively impact funding conditions for the Bank, and, as a result, materially and adversely affect the Group's business, financial condition and results of operations.

Concerns relating to macroeconomic conditions in Portugal, including regarding Portuguese public finances and political and social stability, have affected and may continue to affect the business and results of operations of financial institutions in Portugal, including the Bank and other members of the Group. For example, difficulties in achieving further structural fiscal consolidation could prevent further improvements in economic conditions. The parliamentary elections that will take place in October 2019 may not return a parliamentary majority of any of the parties and a new Government may have difficulties in gaining parliamentary support. These factors could impair the implementation of certain economic policies, and in turn, could affect the long-term growth potential of the Portuguese economy, thereby reducing the prospective profitability of the Bank's business. All of these factors could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Portugal's fragile demographics (projected declining and ageing population) and low productivity growth exacerbate the growth challenges of the Portuguese economy. Low productivity growth would likely stifle the economy's growth potential, without further improvements in the efficiency of the public administration, judiciary, and the business environment, including with respect to barriers in services markets.

These concerns may result in, among other things, static or worsening economic conditions in Portugal, lower market values for Portuguese sovereign debt, limited liquidity in the Portuguese banking system, decreased demand for banking products, increased competition for, and thus cost of, customer deposits, limited credit extension to customers and a deterioration of credit quality. Macroeconomic conditions also adversely affect the behaviour and financial condition of the Group's customers given, for example, lower demand for credit or increased credit risk and defaults in case of an economic downturn, and consequently impact the supply and demand for the products and services that the Group offers and therefore overall business volumes and profitability. In particular, and despite the economic progress since 2014, the high unemployment rates, the low profitability and the high level of indebtedness of many companies will likely continue to have a negative influence on the ability of the Group's customers to pay back loans, which, consequently, could cause an increase in overdue loans and in impairments related to loans and other financial assets.

These macroeconomic factors, and their impact on the banking sector in Portugal, could have a material adverse effect on the business, financial condition and results of operations of the Group.

Risks relating to international economic and financial conditions

The Novo Banco Group's businesses and performance are being and may continue to be negatively affected by current local and global economic conditions and adverse perceptions of those conditions and future economic prospects.

External risks include changes in the framework of the EU, or uncertainties or consequences arising from the United Kingdom's exit from the EU (commonly referred to as "Brexit"), including the possibility that other Member States may seek to leave the EU in the future, or any other significant changes to the structure of the EU and/or European Monetary Union, as well as the increased shift in the focus of some national governments toward more protectionist or restrictive economic and trade policies, which in some cases have led to the imposition of trade tariffs.

Sustainable economic growth in the Euro area continues to be a challenge in certain countries of the euro area, including Portugal. Slow economic growth or recession in major EU economies, the restructuring or default by an EU Member State on its sovereign debt obligations or withdrawal from the Eurozone, could significantly increase volatility and uncertainty in financial and currency markets. Prolonged political instability in Italy, rising populism and anti-integration movements in Europe could be reflected in a deterioration of market sentiment towards Portugal. Further uncertainty could arise from the United Kingdom exit from the EU and the associated implications for the EU and the euro area. Until the terms and timing of the United Kingdom's exit from the EU are clearer, it is not possible to determine the impact that the United Kingdom's departure from the EU and/or any related matters may have on the Group. Furthermore, the process of the United Kingdom departing from the EU may introduce significant new uncertainties and instability in financial markets, as well as political instability in Europe, and it may materially affect the economies of countries, including Portugal, which have political and economic ties with the United Kingdom.

A trade war that results in a significant increase in policy barriers to trade between the European Union and other large countries, such as the US, could derail the recovery, given the economy's increased reliance on the external sector. Similarly, turbulence that is transmitted across emerging markets could have a negative impact on the Portuguese business sector. For example, Brazil and Angola account for over 10% of the stock of Portugal's outward foreign direct investment. In addition, a disorderly conclusion to negotiations around the United Kingdom's planned departure from the European Union could reduce exports. A weaker performance of the European economy could lead to a persistence of very low interest rates. Upside risks to growth of the Portuguese economy should be mainly associated with stronger than expected growth could come from a benign growth scenario in Europe, with favourable outcomes from political risks and expansionary fiscal policies.

Adverse economic and market conditions pose various challenges and exert downward pressure on asset prices and on credit availability, increase funding costs, and impact credit recovery rates and the credit quality of the Novo Banco Group's businesses, customers and counterparties, including issuers of sovereign debt. In particular, the Novo Banco Group has significant exposure to customers and counterparties in the European Union (particularly in Portugal) that would be affected by the restructuring of the terms, principal, interest or maturity of their borrowings.

Any significant deterioration in the global economy, including in the credit profiles of other European Union member states or in the solvency of Portuguese or international banks, or other economic changes in the Eurozone could:

- negatively affect the capacity of the Portuguese Republic to satisfy its financing needs;
- have a material adverse effect on the value of portfolios of sovereign debt securities of peripheral Eurozone countries;
- have a significant adverse effect on the Novo Banco Group's capacity to raise and/or generate capital and comply with minimum regulatory capital requirements;
- significantly restrict the Novo Banco Group's ability to obtain liquidity; and
- negatively affect Novo Banco Group's capital position, its operational results and its financial condition.

The United Kingdom's impending departure from the EU could adversely affect the Bank's activity

On 23 June 2016, the United Kingdom held a referendum on the country's membership of the EU, according to which the United Kingdom voters elected to leave the EU ("Brexit"). The negotiation process for the exit is ongoing but there is a great amount of uncertainty on the specific terms to be agreed between the negotiating parties. Moreover, there is an increasing risk that the United Kingdom and the EU will part ways without any agreement regarding such crucial matters as trade in goods and services, security or immigration cooperation. If the so-called 'Hard-Brexit' scenario materialises, implications for the European financial sector could be acute, especially in terms of access to financial market infrastructures, the ability to perform contractual obligations under existing contracts, access to funding markets, and the use of English law in issuances of minimum requirement for own funds and eligible liabilities ("**MREL**") eligible instruments.

The consequences of Brexit are uncertain with respect to the EU integration process, the relationship between the United Kingdom and the EU, and the impact on economies and European businesses. Should international trade between the United Kingdom and the Member States become significantly restricted in the future, the Portuguese economy could be adversely affected, given the importance of the United Kingdom as a market for the export of goods, with a 6.3 per cent. average share in 2018 (Source: Portugal's National Statistics Institute, March 2019) and as a source of tourism, with 19.6 per cent. of tourists arriving in Portugal from the United Kingdom in January – December 2018 (Source: Portugal's National Statistics Institute, March 2019).

Given the current uncertainties and the range of possible outcomes, no assurance can be given in relation to the possible impact of any of the matters described above neither can there be an assurance that such matters would not adversely affect the Issuer and/or its ability to satisfy its obligations, including under the Covered Bonds.

Novo Banco Group is subject to liquidity risk, including that arising from its dependence on customer deposits as a principal source of funding

Liquidity risk arises from the present or future inability to pay liabilities as they become due. Banks, principally by virtue of their business of providing long-term loans and receiving short-term deposits, are subject to liquidity risk.

The ongoing availability of customer deposits to fund the Novo Banco Group business is subject to a variety of factors, such as depositors' concerns relating to the Portuguese economy in general, the financial services industry or Novo Banco Group specifically, economic conditions in Portugal impacting the availability of funds for deposits, the availability and extent of deposit guarantees and the existence of alternative and competitive savings products. Customer deposits, consisting of repayable on demand deposits, time deposits and savings accounts are the principal source of funding for Novo Banco Group, and accounted for 63.9% and 62.7% of total liabilities as at 31 December 2018 and 31 December 2017, respectively.

If Novo Banco Group depositors withdraw their funds at a rate faster than borrowers repay their loans, or Novo Banco Group is unable to obtain the necessary liquidity by other means, Novo Banco Group may be unable to maintain its current levels of liquidity. If additional liquidity were needed, Novo Banco Group might be required to obtain additional funding at significantly higher funding costs, liquidate certain of its assets or increase its central bank funding through monetary policy operations of the ECB. Ultimately, as a last resort, the Issuer may seek Emergency Liquidity Assistance ("**ELA**") provided by the Bank of Portugal, as Portugal's Eurosystem National Central Bank (the "National Central Bank") (which allows for the support of solvent financial institutions facing temporary liquidity problems under exceptional terms). In the past the Issuer has experienced pressure on its customer deposits following public announcements or other relevant developments about its financial position or prospects. Novo Banco Group suffered significant deposit outflows from its creation until approximately the end of September 2014. Following its incorporation on 3 August 2014, the Issuer resorted to ELA funding from the Bank of Portugal as National Central Bank, but repaid all amounts borrowed under this liquidity line by December 2014 and has not subsequently applied for ELA funding. Customer deposits have increased since then, reaching €28.4 billion and representing approximately 63.9% of the Novo Banco Group total liabilities as at 31 December 2018. Following the Bank of Portugal's decisions on 29 December 2015 (the "**Decisions of 29 December 2015**"), in particular, the retransfer of senior bonds back to BES (the "**Decision of 29 December 2015 on Retransfer**"), customer deposits were again under pressure.

Novo Banco may experience again in the future pressure on its customer deposits. Unusually high levels of withdrawals could result in the Issuer or another member of Novo Banco Group not being in a position to continue operations without additional funding support, which may be more costly or unavailable to the Issuer.

Novo Banco Group inability to attract customer deposits may impact Novo Banco Group ability to fund its operations and meet its minimum liquidity requirements (notwithstanding the availability of ELA funds under certain circumstances) and have a material adverse effect on its business, financial condition or results of operations.

Novo Banco Group liquidity could also be impaired by other limitations on its ability to raise liquidity when required, such as an inability to access wholesale funding, an inability to sell assets or redeem its investments, or to do so at an acceptable value, and other unexpected outflows of cash or collateral deterioration. These situations may arise due to factors such as a deterioration of risk perception of Novo Banco Group or to circumstances that the Group is unable to control, such as continued general market disruption, loss of confidence in financial markets, uncertainty and speculation regarding the solvency of market participants, credit rating downgrades or operational problems that affect third parties.

Novo Banco has had very limited access to the interbank markets, international capital markets and wholesale funding markets more generally since its establishment. A perception among market participants that a financial institution is experiencing constrained liquidity risk can adversely impact the institution. Circumstances in which Novo Banco Group could find its liquidity further impaired include the following:

- Increased difficulty selling Novo Banco Group assets, particularly if other participants in distressed situations are seeking to sell similar assets or because the market value of assets, including financial instruments underlying derivative transactions, has become difficult to ascertain, which has occurred in the recent past and may occur again.
- Financial institutions with which the Novo Banco Group interacts may exercise set-off rights or the right to require additional collateral.
- Customers with whom the Group has outstanding but undrawn lending commitments draw down an amount on these credit lines that is higher than the Group is anticipating.
- Novo Banco Group contingency plan for liquidity stress scenarios relies largely on its ability to raise funds on open market operations with the ECB. If the ECB were to suspend its programme, and if no similar source of financing were to exist in the market, this could severely impede the Novo Banco Group ability to manage a period of liquidity stress.
- An increase in interest rates and/or credit spreads, including as a result of concerns relating to Novo Banco Group, such as the need to raise additional capital, as well as any restriction on the availability of funding, including, but not limited to, inter-bank funding, could impact Novo Banco Group ability to borrow on a secured or unsecured basis, which may have a material adverse effect on Novo Banco Group liquidity and results of operations.

Any or all of these events could cause Novo Banco Group to curtail its business activities and could increase its cost of funding, both of which could have a material adverse effect on Novo Banco Group business and results of operations.

Although Novo Banco Group puts significant effort in liquidity risk management and focuses on maintaining liquidity surplus in the short term, the Novo Banco Group is exposed to the general risk of liquidity shortfalls and cannot ensure that the procedures in place to manage such risks will be suitable to eliminate liquidity risk.

Novo Banco Group continues to follow all the legislative changes in order to comply with regulatory requirements, particularly in relation to the new Basel III liquidity ratios - LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio). As of 31 December 2018 the LCR stood at 125%, up from 124% as of 31 December 2017. There is no assurance that Novo Banco will always be able to comply with these requirements or other that maybe introduced in the future.

Novo Banco Group is dependent on the ECB for access to funding, which is subject to certain conditions and risks.

Novo Banco Group access to capital markets has been very limited since its establishment. As a result, in addition to deposits, the Group has made significant use of funding from the ECB. The ECB, which currently makes funding available to European banks that satisfy certain conditions, including pledging eligible collateral, was a major funding source for the majority of Portuguese banks during the financial crisis and the European sovereign debt crisis. Novo Banco Group had approximately €5.9 billion and €2.8 billion net exposure with the European central banks as at 31 December 2018 and 31 December 2017, respectively.

The assets of Novo Banco Group that are eligible as collateral for rediscount (liquidity facilities of the ECB) with the ECB have been materially reduced in the past as a result of loss of eligibility due to changes in the eligibility criteria or changes in credit ratings, and could be materially reduced in the future as a result of price devaluations or changes in ECB rules relating to collateral, including increases in haircuts following credit downgrades or the loss of eligibility of certain assets, including those that benefit from measures implemented by the ECB to support liquidity, including the acceptance of additional credit claims. Additionally, downgrades of the credit rating of Portugal or other European sovereigns or of Portuguese companies could result in an increase in haircuts applied to any eligible collateral or in the non-eligibility of such assets, thereby further decreasing the total amount of Novo

Banco Group eligible portfolio, for example with respect to securitisations and covered bonds. The continuing eligibility of Portuguese public debt as an eligible asset depends on the maintenance of an "investment grade" rating by at least one rating agency recognised by the ECB. A reduction of the pool of eligible assets and the increased difficulty in managing eligible assets to compensate for such loss of eligibility would have a negative impact on liquidity and the Issuer's ability to comply with liquidity regulatory ratios, requiring Novo Banco Group to find alternative funding sources, which may have a negative impact on Novo Banco Group business, financial condition or results of operations. In addition, if the value of Novo Banco Group assets eligible as collateral for the ECB declines, then the amount of funding the Group can obtain from the ECB will be correspondingly reduced.

Although the monetary policy followed by the ECB in past years has contributed to improve the liquidity conditions of European banks, if the ECB starts to remove the monetary stimulus progressively, which, despite the lower level of the net funding of the Issuer, could require the Group to find alternative funding sources, some of which may be more costly or may not be available at all, or to dispose of assets at a potentially significant discount in relation to their respective book values, with a corresponding negative impact on the Group's capital position and results of operations.

Novo Banco may also be eligible for ELA funding. National Central Banks in the Eurosystem may provide ELA funding to solvent financial institutions with temporary liquidity problems in their respective jurisdictions, unless the ECB restricts such funding if it considers that these operations interfere with the objectives and tasks of the Eurosystem or the funding conditions. At 31 December 2018, the Novo Banco Group portfolio of assets eligible as collateral for rediscounting operations with the ECB (net of haircut) totalled €14.6 billion (€12.7 billion on 31 December 2017).

Any such changes in the conditions of funding from the ECB (or from the Bank of Portugal, as National Central Bank) or the value of the collateral pledged for such funding could ultimately have a materially adverse effect on Novo Banco Group business, financial condition or results of operations.

Novo Banco Group is exposed to significant credit risk.

Novo Banco Group is exposed to credit risk, meaning, by definition, the risk that Novo Banco Group borrowers and other counterparties are unable to fulfil their payment obligations and that the collateral securing payments of these obligations is insufficient. Risks arising from changes in credit quality and the repayment of loans and amounts due from borrowers and counterparties are inherent in Novo Banco Group business. Adverse changes in the credit quality of Novo Banco Group borrowers and counterparties, a general deterioration in Portuguese or global economic conditions or increased systemic risks in financial systems could affect the recovery and value of Novo Banco Group assets and require an increase in provisions for bad and doubtful debts and other credit losses.

The following indicators characterised Novo Banco Group credit risk exposure as at 31 December 2018:

- the ratio of overdue loans > 90 days to gross loans was 12.1%, compared to 16.3% as at 31 December 2017, with a coverage ratio (the ratio of provisions to overdue loans > 90 days) of 114.3% (109.8% as at 31 December 2017);
- the ratio of overdue loans to gross loans was 12.3%, compared to 16.6% as at 31 December 2017, with a coverage ratio of 111.8% (108.0% as at 31 December 2017);

Novo Banco Group is exposed to many different counterparties in the normal course of its business, but its exposure to counterparties in the financial services industry is also significant. This exposure can arise through trading, lending, deposit taking, clearance and settlement and numerous other activities and relationships. These counterparties include institutional clients, brokers and dealers, commercial banks and investment banks. Many of these relationships expose Novo Banco Group to credit risk in the event of default of a counterparty or client. In addition, Novo Banco Group credit risk may be exacerbated when the collateral it holds cannot be realised at, or is liquidated at prices not sufficient to recover, the full amount of the loan or derivative exposure it is due to cover. Many of the hedging and other risk management strategies used by the Novo Banco Group also involve transactions with financial services counterparties. The insolvency of these counterparties may impair the effectiveness of the Novo Banco Group hedging and other risk management strategies, which could in turn have a material adverse effect on the Novo Banco Group financial condition and results of operations.

Macroeconomic conditions have a significant influence on credit risk, as in an economic downturn more customers tend to fall into default, which is magnified for Novo Banco Group as a result of its significant exposure to corporate and SME customers. In the context of continued weak economic conditions and high levels of unemployment, loans to corporates and individuals and the value of assets collateralising the Group's loans remain under pressure. Failure by the Group to adequately manage its credit risk could materially and adversely affect the Novo Banco Group financial condition and results of operations.

Although the Novo Banco Group regularly reviews its exposure to its clients and other counterparties, as well as its exposure to certain economic sectors and countries which the Novo Banco Group believes to be particularly critical, payment defaults may arise from events and circumstances that are unforeseeable or difficult to predict or detect. In addition, the collateral and security provided to the Novo Banco Group may be insufficient to cover the exposure, for example, as a result of sudden market declines that reduce the value of the collateral. Accordingly, if a major client or other significant counterparty were to default on its obligations this could have a material adverse effect on the Novo Banco Group's financial condition and results of operations.

Novo Banco Group actively manages credit risk and analyses credit transactions. Expectations about future credit losses may, however, be incorrect for a variety of reasons. A prolonged decline in general economic conditions, particularly of those in Portugal, unanticipated political events, a lack of liquidity in the economy or a sharp increase in interest rates may result in losses which exceed the amount of Novo Banco Group's provisions or the maximum probable losses envisaged by its risk management models. An increase in Novo Banco Group's provisions for loan losses or any losses in excess of the provisions mentioned above could have a material adverse effect on the Novo Banco Group's financial condition and results of operations.

Changes in interest rates may adversely affect the Novo Banco Group's net interest margin and results of operations.

Novo Banco Group is subject to interest rate risk. As is the case with other banks in Portugal, the Group is particularly exposed to differentials between the interest rates payable by it on deposits and the interest rates that it is able to charge on loans to customers and other banks. This exposure is increased by the fact that, in the Portuguese market, loans typically have floating interest rates, whereas the interest rates applicable to deposits are usually fixed for periods that may vary between three months and three years. As a result, Portuguese banks, including Novo Banco, frequently experience difficulties in adjusting the interest rates that they pay for deposits in line with market interest rate changes. This trend is reinforced by the current historically low interest rates that put pressure on a bank's interest margin.

Interest rates are sensitive to several factors that are out of the Novo Banco Group's control, including tax and monetary policies of governments and central banks, as well as domestic and international political conditions. Changes in market interest rates can affect the interest rates that the Novo Banco Group receives on its interest-earning assets in a different way when compared to the rates that the Novo Banco Group pays for its interest bearing liabilities. This difference may reduce the net interest margin, which could have an adverse effect on Novo Banco Group's results of operations.

In addition, various factors could require Novo Banco Group to lower the rates that it charges on loans or to increase the rates that it pays on deposits, including reputational risks, changing demand for fixed-rate and floating-rate loans, increased inflation, and changes in the EURIBOR interest rate, changes on international interbank markets or increased competition. Any of the factors described may reduce the rate that Novo Banco Group may charge on loans and other interest earning assets and, to the extent that Nov Banco Group is unable to achieve corresponding reductions in the rates it pays on deposits and other interest-bearing liabilities, including if the Novo Banco Group monitoring procedures are unable to manage adequately interest rate risk, could negatively impact the Novo Banco Group net interest margin as well as the Group's net interest income. Lower rates and reduced margins may also result from changes in the composition of Novo Banco Group loan portfolio, such as increases in the proportion of lower-rate loan products, or a preference from depositors for savings and term accounts which usually pay a higher interest rate than on-site deposits which bear low or no interest rate.

A rise in interest rates could reduce customer demand for credit, which in turn could reduce the Novo Banco Group ability to originate credit for its customers, as well as contribute to an increase in the default rate of its customers. Conversely, a reduction in the level of interest rates may adversely affect the Group through, among other things, a lower interest margin, a decrease in demand for deposits and an increase in competition in deposit taking and lending to customers. As a result of these factors, significant changes or volatility in interest rates could have a material adverse impact on the business, financial condition or results of operations of the Novo Banco Group.

Novo Banco Group is exposed to market risks.

Novo Banco Group engages in various activities for its own account, including entering into interest rate, credit, equity and exchange rate derivative transactions, as well as taking positions in fixed income and equity in the domestic and international markets and trading in the primary and secondary securities markets, including for government securities. Novo Banco Group also offers these types of products and services to its customers.

As at 31 December 2018, the Novo Banco Group securities portfolio, excluding the securities portfolio held by GNB Vida (which is now treated as a discontinued operation), amounted to €10.9 billion, of which 67.9% was public debt instruments, 16.9% were classified as bonds and 15.2% were shares and other variable income securities.

Additionally, 72.9% of such assets were classified as Level 1 (those that are quoted on a recognised market as of such date), 0.2% as Level 2 (those for which valuation methods with prices and standards that are observable in the markets are used), 14.1% as Level 3 (those for which valuation methods with prices and standards that are not observable in the markets are used) and the remaining 12.8% were registered at acquisition cost. As at 31 December 2017, the Group's securities portfolio amounted to €8.5 billion (excluding GNB Vida), of which 70.4% were public debt instruments, 11.3% were classified as bonds and 18.3% were shares and other variable income securities. Additionally, 66.8% of such assets were classified as Level 1, 7.8% as Level 2, 24.8% as Level 3 and the remaining 0.6% were registered at acquisition cost.

As at 31 December 2018, the Group had a value at risk ("**VaR**") of €38.7 million in its trading positions in respect of equities, interest rates, volatility and credit spread, total commodities position and total foreign exchange position and liquidity management portfolios, compared to €34.4 million as at 31 December 2017. The Group's VaR is calculated using the Monte Carlo simulation, with a 99% confidence level and a holding period of ten days.

Novo Banco proprietary trading securities portfolio, excluding GNB Vida, is highly concentrated on sovereign exposure, reflecting a more conservative portfolio management approach and based on securities with lower risk and higher liquidity and its trading activities are mainly concentrated on the provision of these services/product offerings to its customers and risk management of the balance sheet. Nevertheless, proprietary trading involves a certain degree of risk. Protracted adverse market movements, particularly price declines, can reduce the level of activity in the market or reduce market liquidity. These developments can lead to losses if Novo Banco Group cannot close out deteriorating positions in a timely way.

Novo Banco Group is exposed to the risk of public debt securities within the credit portfolio where the main exposure is to peripheral Eurozone countries.

Novo Banco Group is exposed to public debt securities of peripheral Eurozone countries. The Group is a market maker for Portuguese sovereign debt and also engages in proprietary trading. The amounts and average maturity of the debt held over time varies as a result of its market making and proprietary trading activities and of its outlook as to the attractiveness of such debt.

As at 31 December 2018, Novo Banco Group public debt securities of Eurozone countries portfolio comprised approximately €4.4 billion in Portuguese public debt, approximately €2.0 billion in Spanish public debt, approximately €0.1 billion in Italian public debt, approximately €0.1 billion in Irish public debt and no exposure to Greek public debt, which together represents 60% of the Group's total securities portfolio. As at 31 December 2017, the Group's public debt securities of Eurozone countries portfolio comprised approximately €3.9 billion in Portuguese public debt (of which approximately €1.0 billion had a maturity of more than five years), approximately €1.5 billion in Spanish public debt, approximately €0.3 billion in Italian public debt and no exposure to Greek public debt. Following the implementation of IFRS9 as of January 2018, this portfolio is registered at fair value through other comprehensive income.

In extreme situations of economic, political and social crises, governments may be reluctant or may not have access to funding in order to refinance or repay capital or pay interest on their debt securities. In a default scenario, security holders' recourse to legal mechanisms may be limited. In addition, there could be an increase in default risk in a scenario in which a Member State enters into default thereby exacerbating the negative sentiment toward other Eurozone members through a contagion effect.

Depreciations in the public debt portfolio can have the effect of reducing the Novo Banco's Common Equity Tier 1 capital used to determine its capital ratios and could adversely affect its results of operations. Any decrease of the Novo Banco's solvency ratios could hinder its ability to operate its business in accordance with its strategy.

Novo Banco Group faces significant competition in the markets in which it operates.

Novo Banco Group operates in a highly competitive environment and will continue to experience intense competition from local and global financial institutions as well as new entrants, in both domestic and foreign markets. Novo Banco Group competitors in the Portuguese market are mainly commercial banks. In addition, Novo Banco Group and other traditional financial institutions are facing new sources of competition from new market entrants, including alternative providers of payment services and of financial services in the so-called fin-tech space, as well as from non-financial operators (e.g., large retailers), who are increasingly promoting their own credit cards and credit lines. These alternative providers may have lower cost bases than Novo Banco Group. The introduction of disruptive technology may impede Novo Banco Group ability to grow or retain its market share and impact its revenues and profitability. Furthermore, competitors might be better positioned to compete in the fin-tech space and less constrained than the Issuer.

Structural changes in the Portuguese economy over the past decades have significantly increased competition in the Portuguese financial services industry. These changes are principally related to the privatisation of several sectors of the economy, including banking and insurance, as well as to the integration of the Portuguese economy into the EU and the introduction of the euro. Mergers and acquisitions involving the largest Portuguese banks have resulted in a significant concentration of market share, a process which has continued and is expected to continue in the future. Moreover, competition has further increased with the emergence of non-traditional distribution channels such as internet and telephone banking.

Novo Banco Group competitors may also have access to cheaper sources of funding or with better terms, including deposits. Accordingly, these banks may be able to maintain or increase their market share by offering credit products with lower interest rates, enabling them to expand lending more easily. In addition, the Commitments to which Novo Banco is subject could also limit its ability to compete with other Portuguese banks, such as limitations on its business activities, including in respect of the aggregate amount of its loan book, as well as restrictions on its pricing policies

Novo Banco Group may not be able to compete effectively in these markets in the future. If Novo Banco Group is unable to offer attractive products and services, it may lose market share or incur losses on some or all of its activities, which could adversely affect its financial condition and its results of operations.

Novo Banco Group's business is subject to operational risks

Novo Banco Group is subject to certain operational risks, including interruption of service, errors, fraud by third parties (including large-scale organised fraud, as a result of the Group's financial operations), fraud by the Group's own employees or management, breach or delays in the provision of services, breach of confidentiality obligations with regards to customer information and compliance with risk management requirements. The Group continually monitors these risks by means of, among other things, unlikely administrative and information systems and insurance coverage in respect of certain operational risks. However, the Group may be unable to successfully monitor or prevent all or part of these risks in the future. Any failure to successfully execute the Group's operational risk management and control policies could result in reputational damage and/or have a material adverse effect on the Group's financial condition and results of operations.

Novo Banco's activity is subject to reputational risk

Novo Banco is exposed to reputational risk understood as the probability of negative impacts for Novo Banco resulting from an unfavourable perception of its public image, whether proven or not, among customers, suppliers, analysts, employees, investors, media and any other bodies with which Novo Banco may be related, or even public opinion in general. Novo Banco continually monitors this risk by means through its internal procedures. In any event, Novo Banco cannot assure potential investors that it will be able to foresee and mitigate the impacts of this risk if the same occurs and, should that be the case, any failure to execute Novo Banco's reputational risk policies successfully could materially adversely affect Novo Banco's business activities, financial condition and results of operations.

Risks associated with the implementation of its risk management policies

The Issuer is exposed to a number of risks, including, among others, market risk, credit risk, liquidity risk and operational risk. Although the Issuer has implemented risk management policies for each of the risks that it is exposed to, taking into account worst case scenarios, the policies and procedures it employs to identify, monitor and manage these risks may not be fully effective.

The Novo Banco Group is exposed to IT and cybercrime risks

The Novo Banco Group's ability to remain competitive depends in part on its ability to upgrade its information technology on a timely and cost-effective basis. The Novo Banco Group must continually make significant investments and improvements in its information technology infrastructure to remain competitive. Any failure to effectively improve or upgrade the Novo Banco Group's information technology infrastructure and management information systems in a timely manner could have a material adverse effect on the Group.

The Novo Banco Group's businesses depend on the ability to process a large number of transactions efficiently and accurately, and on the Novo Banco Group's ability to rely on its digital technologies, computer and email services, software and networks, as well as on the secure processing, storage and transmission of confidential and other information in the Group's computer systems and networks. Losses can result from inadequate personnel, inadequate or failed internal control processes and systems, or from external events that interrupt normal business operations. The Novo Banco Group takes protective measures and continually monitors and develops its systems to protect the Group's technology infrastructure and data from misappropriation or corruption. However, the Novo Banco Group's systems, software and networks may nevertheless be vulnerable to unauthorised access, misuse, computer viruses or other malicious code, and other events that could have an impact on security levels. An interception, misuse or mishandling of personal, confidential or proprietary information sent to or received from a client, vendor, service provider, counterparty or third party could result in legal liability, regulatory action and reputational harm. There can be no assurances that the Novo Banco Group will not suffer material losses from operational risk in the future, including that relating to cyber-attacks or other such security breaches. Furthermore, as cyber-attacks continue to evolve, the Novo Banco Group may incur significant costs in its attempt to modify or enhance its protective measures or to investigate or remediate any vulnerabilities.

The Novo Banco Group is exposed to fluctuations in the value of Portuguese real estate

The Novo Banco Group is exposed to fluctuations in the value of Portuguese real estate, both directly through assets related to its operations or obtained in lieu of payment, or indirectly, through real estate that secures loans or by financing real estate projects. The Group's real estate assets registered as investment properties amounted to €1.1 billion as at 31 December 2018 (€1.1 billion as at 31 December 2017), and the real estate assets registered as other assets amounted to €0.9 billion as at 31 December 2018 (net of impairment which amounted to €0.6 million) and €1.3 billion as at 31 December 2017 (net of impairment which amounted to €0.6 million). During 2018 and 2017, the Group recognised a loss of €16.5 million and a loss of €67.7 million, respectively, related to the fair value of investment properties. Concerning the real estate registered in other assets, the impairment charge of 2018 and 2017 amounted to €229.2 million and €54.9 million, respectively. The Group is also exposed to the real estate market through the exposure to real estate subsidiaries that were acquired for resale in the short-term, through real estate funds as well as through holdings of real estate restructuring funds (funds managed by external parties that were established by the Portuguese banking system to deal with the financial recovery of companies which were in financial stress). A decrease in the value of Portuguese real estate market prices will decrease the value of the real estate assets held by the Issuer, directly or indirectly, as well as of the collateral provided with respect to such loans, thus adversely affecting the financial condition and results of the operations of the Group.

Pursuant to the General Framework for Credit Institutions and Financial Companies (Regime Geral das Instituições de Crédito e Sociedades Financeiras), established by Decree-Law no 298/92 of December 1992, as amended ("**RGICSF**"), banks are prevented, unless authorised by the Bank of Portugal, from acquiring real estate that is not essential to their daily operations or their corporate purpose. However, a bank may acquire real estate in the context of credit recovery and for repayment of its own credit, provided that such real estate is disposed of within two years from its acquisition date. This two-year period may be extended by the Bank of Portugal. Despite the intention to sell real estate acquired in repayment of its own credit, the Group regularly requests the Bank of Portugal's authorisation, under article 114 of RGICSF, to extend the time period the Group has to hold foreclosed assets. However, there is no assurance that the Bank of Portugal will continue to grant such extensions, and any failure to do so could result in the Group being required to dispose of assets at a potentially significant discount in relation to their respective book values. Furthermore, any significant devaluation of Portuguese real estate market prices while these assets are held by the Group may result in impairment losses on such assets. As a result of any or all of these factors, the financial condition and results of operations of the Group could be adversely impacted.

Furthermore, as at 31 December 2018, 33.3% of the Group's loans and advances to customers consisted of mortgage loans (31.0% as at 31 December 2017). While the Group has experienced a relatively low level of defaults in these types of loans, a decrease in house prices, which can happen at any time in the future, could negatively affect the recovery value of the loans and/or increase the Group's impairment charges or capital requirements, as they depend, among others, on the loan to value ratio (which would increase in such circumstances). The majority of these loans are floating rate loans and an increase in the interest rate could also negatively impact the Group's mortgage loan portfolio.

The Group's loans and advances to customers in the real estate sector represented 8.3% of all its loans and advances to customers as at 31 December 2018 (8.4% as at 31 December 2017). If the real estate sector faces economic or other difficulties, this can also negatively impact the recovery value of the loans or increase the impairment charge or capital requirements. Any such changes could negatively affect the financial condition, results of operations and capital position of the Group, as well as the appraisal and, if applicable, disposal value of real estate assets comprised within the Cover Pool.

Risks relating to data protection and privacy

The processing of personal data by Novo Banco and the Novo Banco Group is subject to: (i) the General Data Protection Regulation ("**GDPR**"), approved by Regulation (EU) 2016/679 of 27 April 2016; (ii) Law no. 67/98, of 26 October 1998, as long as it is in force and in everything that it does not conflict with the GDPR; (iii) any law approved for the adaptation of specific rules of the GDPR to the Portuguese jurisdiction; (iv) Directive 2002/58/EC, of 12 July 2002, on privacy and electronic communications; and (v) Law no. 41/2004, of 18 August 2004.

The Portuguese authorities will have to approve legislation to adapt the Portuguese legal order to the

GDPR. That legislation has not yet been adopted.

Failure to comply or inadequate compliance with data protection and privacy obligations may result in several types of liabilities, ranging from tort liability in relation to the data subject, to significant administrative fines.

Risks relating to regulatory requirements

Banking and insurance activities in Portugal and in the European Union are subject to extensive and detailed regulation and supervision by supervisory authorities, which have broad administrative power over many aspects of the financial and banking services business, which include liquidity, capital adequacy and permitted investments, ethical issues, money laundering, privacy, securities (including debt instruments) issuance and offering/placement, financial intermediation issues, record-keeping, marketing and selling practices, among others, as well as those relating to insurance services, which include insurance, reinsurance, pension funds and their management companies and insurance mediation. The resources dedicated to ensure compliance with these various regulations can significantly increase the costs of the Novo Banco Group's structure and limit its possibilities for increasing its income.

Moreover, the Novo Banco Group is subject to ongoing supervision from the Single Supervisory Mechanism ("**SSM**"), including the ECB and Banco de Portugal, as well as from the CMVM and Autoridade de Supervisão de Seguros e Fundos de Pensões ("**ASF**", the Portuguese Insurance and Pension Funds Supervisory Authority), under their respective competencies. Non-compliance with rules and regulations enforced by the ECB, SSM, Banco de Portugal, CMVM or ASF may result in severe penalties and other sanctions such as bans, inhibitions and suspensions, which would directly impact the Novo Banco Group's ability to perform its activities.

Novo Banco is required by the SSM, ECB and the regulators in Portugal and other countries in which it undertakes regulated activities to maintain minimum levels of capital and liquidity. In jurisdictions in which it has branches, including within the EEA, Novo Banco is also subject to the regulatory capital and liquidity requirements of such jurisdictions. Novo Banco, its regulated subsidiaries and its branches may be subject to the risk of having insufficient capital resources to meet the minimum regulatory capital and/or liquidity requirements. In addition, those minimum regulatory capital requirements may increase in the future, or the methods of calculating capital resources may change. Likewise, liquidity requirements may have come under heightened scrutiny, and may place additional stress on Novo Banco' liquidity demands in the jurisdictions in which it operates.

Changes in regulatory requirements may also require Novo Banco to raise additional capital. In June 2013, the European Parliament and the Council of Europe issued Directive 2013/36/EU (the "**CRD IV Directive**") and the Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms, referred to as the EU Capital Requirements Regulation (the "**CRR**") (CRR and the CRD IV Directive together, the "**CRD IV**") which incorporate the key amendments that have been proposed by the Basel Committee for Banking Supervision (known as "**Basel III**"). The new regulations have been directly applicable to all EU Member States since 1 January 2014, but some changes under CRD IV will be implemented gradually.

In December 2014 the European Banking Authority ("**EBA**") published its final guidelines on the common procedures and methodologies that will form its Supervisory Review and Evaluation Process ("**SREP**") assessments, taking into account the general framework and principles defined in the CRD IV. The SREP assessments include reviews of capital, liquidity, internal governance and institution-wide risk controls, risks to liquidity and funding, business model analysis, and broader stress testing, in order to evaluate whether the subject institution has implemented adequate arrangements, strategies, processes and mechanisms to comply with the CRD IV and evaluate risks to which they are or might be exposed and risks institutions may pose to the financial system.

Novo Banco is subject to the SREP review on an annual basis. Where the SREP review identifies risks or elements of risk that are not adequately covered by pillar 1 capital requirements or the combined buffer requirement the ECB can determine the appropriate level of the institution´s own funds under CRD IV and assess whether additional own funds shall be required.

According to Council Regulation (EU) no. 1024/2013 of 15 October 2013 and based on the SREP conducted pursuant to Article 4(1)(f) of Regulation (EU) No 1024/2013 with reference date 31 December 2015, the ECB communicated to Novo Banco in 20 December 2018 that the Novo Banco Group should comply with an own funds requirement of 3.25% to be held in excess of the minimum own funds requirement, to be made up entirely of CET 1 capital.

In addition, credit institutions identified as other systemically important institutions ("**O-SIIs**"), such as Novo Banco, are subject to an additional buffer requirement (the "**O-SII buffer**"). According to Banco de Portugal's decision, the O-SII buffer is to be phased-in over a four-year period, 25% from 1 January 2018 and 100% from 1 January 2021; the O-SII buffer for Novo Banco is 0.125% from 1 January 2018 and 0. 5% from 1 January 2021.

As at 30 March2019, Novo Banco's CET1 ratio was 13.5% (phased-in) and 12.7% (fully implemented) (12.8% (phased-in) and 11.9% (fully implemented) as at 31 December 2018). If the Novo Banco Group does not satisfy these or other minimum capital ratio requirements in the future, it may be required to raise additional capital or be subject to measures or sanctions by Banco de Portugal or the ECB or SSM. If Novo Banco is required to raise further capital in the future after failing to satisfy the minimum capital ratio requirements, but is unable to do so or to do so on acceptable terms, Novo Banco may be required to further reduce the amount of the Bank's risk-weighted assets and engage in the disposition of core and other non-core businesses, which may not occur on a timely basis or achieve prices which would otherwise be attractive to Novo Banco. Any failure to maintain minimum regulatory capital ratios could result in administrative actions or other sanctions, which in turn may have a material adverse effect on Novo Banco' operating results, financial condition and prospects. The regulatory laws governing banking activity may change at any time in ways which may have an adverse effect on the business of the Novo Banco Group. It is not possible to predict the timing or form of any future regulatory initiatives. Changes in existing regulatory laws may materially affect the way in which Novo Banco Group conducts its business, the products and services it can offer and the value of its assets.

On 23 November 2016, the European Commission presented legislative proposals for amendments to the CRR, the CRD IV Directive, the BRRD and the Single Resolution Mechanism (collectively, the "**Reforms**"). After the European Parliament confirmed its position on the Reforms, the European Parliament and Council of the EU reached agreement on the main elements of the Reforms. The agreed text was endorsed on 16 April 2019 by the European Parliament and sets out a comprehensive set of reforms to strengthen further resilience and resolvability of EU banks.

On 14 May 2019, the European Council announced that it had adopted the Reforms. The Reforms were published in the Official Journal in the course of June and entered into force, although most of the new rules will start applying in mid-2021. As per the European Council's press release, the Reforms include the following key measures:

- a leverage ratio requirement for all institutions as well as a leverage ratio buffer for all global systemically important institutions;
- a net stable funding requirement;
- a new market risk framework for reporting purposes, including measures reducing reporting and disclosure requirements and simplifying market risk and liquidity rules for small non-complex banks in order to ensure a proportionate framework for all banks within the EU;
- a requirement for third-country institutions with significant activities in the EU to have an EU intermediate parent undertaking;
- a new total loss absorbing capacity (TLAC) requirement for global systemically important institutions;
- enhanced Minimum Requirement for own funds and Eligible Liabilities (MREL) subordination rules for global systemically important institutions (G-SIIs) and other large banks;
- a new moratorium power for the resolution authority.

In addition, on 7 December 2017, the Basel Committee and the GHOS presented reforms to the Basel III regulatory framework also known as "Basel IV". The final Basel III reforms include several policy and supervisory measures that aim to enhance the reliability and comparability of risk-weighted capital ratios and to reduce the potential for undue variation in capital requirements for banks across the globe. The measures comprise revisions to the standardised approach for credit risk, internal ratings-based approaches for credit risk, the credit valuation adjustment risk framework, the operational risk framework, the leverage ratio framework and a revised output floor. The proposals contained in the Basel III reforms are intended to be applied from 2022 with a transitional period for the output floor until 2027, although these timelines remain unclear until such rules are implemented into draft European and Portuguese legislation.

The Directive (EU) 2017/2399 of the European Parliament and of the Council of 12 December 2017 (regarding the ranking of unsecured debt instruments in insolvency hierarchy), which amended BRDD, was implemented in Portugal through Law no. 23/2019, of 13 March 2019, creating a new asset class of "non-preferred" senior debt that ranks in insolvency above own-funds instruments and subordinated liabilities that do not qualify as own funds, but below other senior liabilities. Further, it confers a preferential claim to generally all deposit *vis-à-vis* senior debt.

In addition, the Novo Banco Group's operations are subject to regulation in each jurisdiction in which it operates. Often, these regulations are complex and costly to comply with in terms of time and other resources. Breach of applicable regulations may lead to penalties, fines, compliance costs, reputational harm and even loss of licenses to operate.

Banking institutions may become legally obligated to reflect negative index rates in the calculation of the loan interest rates in consumer and residential loan agreements

Law No. 32/2018, of 18 July, amending Decree-Law 74-A/2017, of 23 June, on credit agreements for consumers relating to residential real estate property, entered into force on 19 July 2018 and, in the context of residential loan agreements, imposes on banking institutions the obligation to reflect the existence of negative rates in the calculation of interest rates applicable to the loans.

According to this law, when the sum of the relevant index rate (such as EURIBOR) and the relevant margin is negative, this negative interest rate amount will have to either (i) be discounted from the principal amounts outstanding of the relevant loans or (ii) be converted into a credit which may in the future set off against positive interest rates (and ultimately be paid to the borrowers if it has not fully been set off at maturity). The Issuer has decided to apply the first option, i.e., to deduct the negative index interest rates from the principal amounts of outstanding debts. This could result in material adverse effects on the Issuer's business, financial condition, results of operations and prospects.

Risks relating to the Bank Recovery and Resolution Directive

In May 2014, the EU Council and the EU Parliament approved a Directive establishing a framework for the recovery and resolution of credit institutions and investment firms (Directive 2014/59/UE of the European Parliament and of the Council, of 15 May 2014, establishing a framework for the recovery and resolution of credit institutions and investment firms, the "BRRD"). The aim of the BRRD is to equip national authorities with harmonised tools and powers to tackle crises at banks and certain investment firms at the earliest possible moment and to minimise costs for taxpayers. The tools and powers include:

(a) preparatory and preventive measures (including the requirement for banks to have recovery and resolution plans);

(b) early supervisory intervention (including powers for authorities to take early action to address emerging problems); and

(c) resolution tools, which are intended to ensure the continuity of essential services and to manage the failure of a bank in an orderly way

EU Member States were required to implement the BRRD in national law by 1 January 2015, save that the bail in tool (which will enable the recapitalisation of a failed or failing bank through the imposition of losses on certain of its creditors through the write-down of their claims or the conversion of the claims into the failed or failing bank's equity) were to apply from 1 January 2016. The bail-in tool as proposed in the BRRD applies to all "eligible liabilities" (as defined in the BRRD) irrespective of when they were issued.

Under an early intervention, the authorities are notably entitled to replace managers or directors and require that the institution draws up and submits for consultation a plan for debt restructuring with its creditors according to a recovery plan.

The BRRD's resolution tools and powers may be used alone or in combination where the relevant resolution authority considers that certain required conditions are met, namely, if an institution is failing or likely to fail, that no alternative private sector measure, or supervisory action, would prevent the failure of the institution within a reasonable timeframe and that the taking of a resolution action is necessary to the public interest. The resolution tools include the power to sell or transfer assets (or ownership thereof) to another institution or to an asset management vehicle and the general bail-in tool, as mentioned above, which provides for the write-down or conversion of any liabilities of the institution that meet relevant conditions.

The BRRD was implemented in Portugal by a number of legislative acts, including Law no. 23- A/2015, of 26 March, which have amended the RGICSF (enacted by Decree-Law no. 298/92, of 31 December), including the requirements for the application of preventive measures, supervisory intervention and resolution tools to credit institutions and investment firms in Portugal.

Until 31 December 2015, Banco de Portugal was the relevant resolution authority and from 1 January 2016 the SRM applies.

In order to ensure the effectiveness of a resolution measure, the relevant resolution authority may exercise, among others, the following powers: (i) suspension of payment or delivery obligations of the institution under existing agreements; (ii) suspension of enforcement rights benefiting holders of any security over assets of the institution; (iii) suspension of the rights to accelerate, terminate, or otherwise decide the termination under existing agreements; (iv) closing of agencies of the institution; exercise of rights attached to shares and other instruments representing share capital of the affected institution; (vi) amendment of terms applicable to debt instruments and other eligible claims held vis-à-vis the institution, such as clauses on maturity dates and payable interest; (v) liquidation and termination of financial agreements and derivative agreements; (vi) suspension of the negotiation of a financial instrument (Article 145-AB of RGICSF).

The implementation of any resolution measure is not subject to the prior consent of the credit institution's shareholders nor of the contractual parties related to assets, liabilities, off-balance-sheet items and assets under management to be sold or transferred. The relevant authorities are also not required to provide any advance notice to holders of Covered Bonds of their decision to exercise any resolution power. Therefore, holders of Covered Bonds may not be able to anticipate a potential exercise of any such powers nor the potential effect of any exercise of such powers on the Issuer or the Covered Bonds.

Although the bail-in powers are not intended to apply to secured debt (such as the Covered Bonds), to the extent that the cover pool is insufficient to meet all claims of the holders of Covered Bonds, such holders of Covered Bonds will have an unsecured claim over the Issuer for the uncovered claims, thus being subject to bail-in. In addition, the determination of which securities issued by the Issuer will be subject to write-down, conversion or bail-in is likely to be inherently unpredictable and may depend on a number of factors which may be outside of the Issuer's control. There may be many factors, including factors not directly related to the Issuer, which could result in such a determination. Because of this inherent uncertainty, it will be difficult to predict when, if at all, the exercise of a bail- in power may occur which would result in a principal write off or conversion to other securities, including equity. Moreover, as the criteria that the relevant resolution authority will be obliged to consider in exercising any bail-in power provide it with considerable discretion, holders of the securities issued by the Issuer may not be able to refer to publicly available criteria in order to anticipate a potential exercise of any such power and consequently its potential effect on the Issuer and the securities issued by the Issuer. Potential investors in the securities issued by the Issuer should consider the risk that a holder may lose all of its investment, including the principal amount plus any accrued interest, if such statutory loss absorption measures are acted upon.

Other powers contained in the RGICSF and required by the BRRD may affect the value of an investment in the Covered Bonds. The exercise of these powers may impact how the Issuer is managed as well as, in certain circumstances, the rights of creditors. There can be no assurance that actions taken under the RGICSF will not adversely affect holders of Covered Bonds.

The Novo Banco Group is required to make contributions to the Resolution Fund.

The Novo Banco Group is required to make contributions to finance the Resolution Fund, which was created in 2012 for the purpose of providing financial support in case of the application of any resolution tools by the Bank of Portugal.

From 2016 onwards the Resolution Fund has been funded through: (i) contributions paid by the entities that fall outside the scope of the Single Resolution Mechanism (the "**Single Resolution Mechanism**"); (ii) additional contributions required to fulfil its obligations regarding the financing of the resolution measures applied by the Bank of Portugal before December 2014 and paid by all participating institutions, including credit institutions established in Portugal, which can either take the form of periodic contributions or special contributions (Article 14(5) of Law No 23-A/2015, of 26 March 2015); and (iii) other sources, including proceeds of the bank levy, also due by credit institutions established in Portugal, pursuant to Law No 55-A/2010, of 31 December 2010 (*contribuição sobre o sector bancário*) (the "**Bank Levy**").

The Group's contribution will vary from time to time depending on the liabilities and own funds of the Issuer and applicable members of the Group, as compared to other participating institutions. Contribution to the Resolution Fund is adjusted to the risk profile and systemic relevance of each participating institution, in consideration of its solvency profile. For the year ended 31 December 2018, the Group paid €11.0 million in contributions to the Resolution Fund, €27.3 million in Bank Levies to the Resolution Fund and € 20.7 million in contributions to the Single Resolution Fund (compared to €7.8 million, €30.8 million and €19.7 million, respectively, for the year ended 31 December 2017).

With regard to additional periodic contributions, credit institutions established in Portugal, such as the Issuer and certain other members of the Group, are required to pay such contributions to the Resolution Fund in accordance with the provisions of Decree-Law No 24/2013, of 19 February 2013. Following the agreement from the Portuguese Government and the European Commission to change the terms of the financing granted to the Resolution Fund, the Resolution Fund considered that the full payment of its liabilities, as well as its respective remuneration, was assured without the need for recourse to special contributions or any other type of extraordinary contributions by the banking sector. Despite the public announcement, there cannot be any assurance that the Group will not be required to make special contributions or any other type of extraordinary contributions to finance the Resolution Fund. Any requirement for the Issuer or the Group to make special contributions or an increase in required levels of periodic contributions to the Resolution Fund would have a material adverse effect on the Group's business, financial condition and results of operations.

Minimum Requirement for own funds and Eligible Liabilities ("MREL") could have a material effect on Novo Banco

BRRD II was implemented with the formal adoption of Regulation (EU) 2019/876 of the European Parliament and of the Council, which entered into force on 27 June 2019. BRRD II must be transposed into national law no later than 28 December 2020 with national regulators having until 1 January 2024 at the latest to impose full MREL requirements on firms. Under BRRD II banks, such as Novo Banco, shall be subject to an entity-specific MREL regime, under which they will be required to issue a sufficient amount of eligible instruments to absorb expected losses in resolution and to recapitalise the institution or the surviving part thereof.

In accordance with Portuguese law, Article 145-Y of the RGICSF, financial institutions will be required to meet certain MREL requirements. The actual size of Novo Banco's MREL has not yet been determined. The Bank expects that the Single Resolution Board ("**SRB**"), together with the Bank of Portugal, will decide and notify it of what its MREL should be, as well as the timing for its implementation, which is expected to occur by the end of this year. The current expectation is that will be granted a period of several years (to be confirmed by the SRB once its MREL requirement is known) to comply with the MREL requirement.

In order to comply with this requirement, Novo Banco may be requested, in the future, to issue own funds and additional liabilities which will be eligible to count toward the MREL requirement.

The SRB also expects larger EU banks to meet a minimum subordination requirement. G-SIIs are required to meet a minimum subordination level equal to 16 per cent. of consolidated risk exposure amount ("**REA**") plus the combined buffer requirement, pending further assessment by the SRB of "no creditor worse off than in liquidation" ("**NCWOL**") risks and the implementation of BRRD II. The subordination requirement should generally be met by own funds and subordinated MREL eligible liabilities. According to the SRB's MREL policy paper published on 16 January 2019, subordination levels will be set based on a combination of a general level, applicable buffer requirements and a metric, taking account of the bank specific nature of the assessment of NCWOL risk in the senior layer. A floor of 14 per cent. of REA plus the combined buffer requirement will apply for O-SIIs. As an O-SII, the Novo Banco is subject to the SRB subordination requirement.

If, until the applicable deadlines, the Bank is unable to issue or can only issue on unfavourable conditions own funds and additional liabilities which will be eligible to count toward the MREL requirement, this may impact the Group, its prospects and activities in terms which cannot be predicted at this stage.

Risks relating to the adoption of an harmonised deposit guarantee scheme throughout the EU

On 2 July 2014, Directive 2014/49/EU providing for the establishment of deposit guarantee schemes (the "recast DGSD") entered into force. The recast DGSD introduces harmonised funding requirements (including risk-based levies), protection for certain types of temporary high balances, a reduction in pay-out deadlines, harmonisation of eligibility categories (including an extension of scope to cover deposits by most companies regardless of size) and new disclosure requirements. The recast DGSG was implemented in Portugal by Law 23-A/2015, of 26 March 2015, which amended the RGICSF.

As a result of these developments, the Novo Banco Group may incur additional costs and liabilities which may adversely affect Novo Banco Group's results of operations and its financial condition. The additional indirect costs of the deposit guarantee systems may also be significant, even if they are much lower than the direct contributions to the fund, as in the case of the costs associated with the provision of detailed information to clients about products, as well as compliance with specific regulations on advertising for deposits or other products similar to deposits, thus affecting the activity of the relevant banks and consequently their business activities, financial condition and results of operations.

The Resolution Fund may fail to make or be prevented from making payments under the Contingent Capital Agreement ("CCA").

As part of the conditions of the sale of 75% of the share capital of the Issuer to the US private equity firm Lone Star Funds ("**Lone Star**") agreed in 31 March 2017 and completed on 18 October 2017 (the "**Lone Star Sale**"), the Resolution Fund and the Issuer have entered into the CCA. Currently there are legal proceedings filed in the Portuguese courts challenging the validity of the CCA and of the obligations of the Resolution Fund in connection with it. On 1 September 2017, Banco Comercial Português, S.A. announced that it had filed an application to obtain a judicial review of the contingent capitalisation obligation of the Resolution Fund agreed in connection with the Lone Star Sale. The Issuer is not party to such legal proceedings. In addition, in May 2018, the Issuer was notified that a preliminary injunction was sought in the Portuguese administrative court by a subordinated creditor of BES in relation to payments to be made pursuant to the CCA. The claimant argued that any such payment by the Resolution Fund would have a material adverse effect on the Resolution Fund's financial position and thus reduce the likelihood of the Resolution Fund's indemnification of the claimant should the Resolution Measure prove to be invalid or illegal. As at the date of this Base Prospectus, the request for the urgent award of the injunction has been rejected by the administrative court, however the injunction process continues. Other proceedings of a similar nature or based on similar or other grounds may be filed in the future against the Bank of Portugal, the Resolution Fund and/or the Issuer. Any court decision that considers the CCA illegal, void or otherwise invalid, in whole or in part, or that prevents the Resolution Fund from making any payments under the CCA may have a significant effect on the Group and its financial position, including as a result of any required repayment of funds already disbursed under the CCA.

Additionally, uncertainties remain as to the potential liabilities to which the Resolution Fund may be subject, notably, in respect of the Resolution Measure applied to BES and the similar measures applied to Banif – Banco Internacional do Funchal, S.A., and the indemnification mechanism established in connection with the Lone Star Sale (the "**Indemnification Mechanism**"), in the event any of these contingencies materialise and the Resolution Fund is considered liable, this may have a significant impact on the Resolution Fund's financial resources and increase the risk that it has insufficient funds to comply with its obligations under the CCA, which would have a material adverse effect on the Group and its financial position.

In addition, if, following any SREP exercise carried out by the SSM, the SREP total capital ratio of the Issuer falls below the SREP total capital requirement, and the Issuer is not able to address such shortfall through payments to be made under the CCA, the Portuguese Government has agreed in the context of the Lone Star Sale and the related state aid measures to provide additional capital to the Issuer (the "**Capital Backstop**"), and provided that: (a) Routine capital measures implemented by the Issuer to make up the shortfall within the nine months following the breach are unsuccessful; (b) Lone Star does not provide the necessary capital following a request by the Issuer; and (c) The required capital cannot be raised from market sources. Therefore, if the requirements above apply, the Issuer is subject to the Portuguese Republic's commitment to inject additional capital in the Issuer when needed.

The additional capital may take the form of a public capital injection or additional tier 1 instruments that may be (i) issued to the market with a coupon guaranteed by the Portuguese state or (ii) fully underwritten by Portugal directly, in each case with additional capital being raised in the amount necessary to ensure solvency of the Issuer in an adverse scenario. If public funds are used in the Capital Backstop, the Issuer will be obliged to further reduce the perimeter of the Bank (branches and employees) and submit a new restructuring plan.

The Group is subject to the commitments undertaken by the Portuguese State to the European Commission, and a failure to achieve the commitments may result in further corrective measures being implemented.

In connection with the state aid granted in the context of the incorporation of the Issuer in 2014, the Portuguese State undertook certain commitments towards the European Commission, including a commitment to sell the Issuer within two years of its incorporation. In December 2015, the European Commission agreed to extend the deadline for the sale of the Issuer by one year, based on a revised set of commitments agreed with the Portuguese Government. These commitments were superseded by a new set of commitments agreed in October 2017 (the Commitments, as defined above), in connection with the Lone Star Sale.

The Commitments will generally remain in place until the end of 2021 (the "Restructuring Period"). The Commitments include: (i) the requirement to sell businesses and operations which are not considered to form part of the Group's core unit, through divestment, liquidation or winding down, (ii) the establishment of certain operational and profitability targets and (iii) other behavioural commitments relating to its risk management and governance.

Compliance with certain Commitments, in particular the structural and viability commitments, may be challenging and the Issuer may be limited in its ability or may not be able to comply with the Commitments for reasons beyond its control, for example, due to market conditions, including those regarding divestments.

Non-compliance with the Commitments or failure to meet the targets and deadlines set out in them may lead the Portuguese Government to notify additional corrective measures to the European Commission, complementing or superseding the Commitments. These measures may include additional restrictive targets, including a further reduction in the number of branches and/or employees, or additional loss participation in accordance with state aid burden sharing rules, and may ultimately lead the European Commission to reassess the state aid which was granted to the Issuer and its compatibility with the EU state aid rules.

Such occurrences could materially and adversely impact the business, financial condition and results of operations of the Group, and could result in the Group being liquidated under normal insolvency proceedings.

The Issuer is subject to Targeted Review of Internal Models.

The Targeted Review of Internal Models ("**TRIM**") is an exercise initiated by the ECB in 2016 that applies to all banks supervised by the European single supervisor, to assess whether the internal models currently used by banks comply with regulatory requirements and whether their results are reliable and comparable. One major objective of TRIM is to reduce inconsistencies and unwarranted variability when banks use internal models to calculate their risk weighted assets.

The TRIM exercise entails a large number of on-site inspections performed by the ECB teams over several years. These inspections are being applied to banks with internal ratings-based model certification, such as the Issuer. Were realized two on-site inspection, starting in January 2018 for retail-secured by real estate non-SME exposure class portfolios and, in November 2018, was performed an inspection for Low Default portfolios.

In result of the first inspection, the risk weighted assets of the Issuer were subject to a material increase, already reflected on the unaudited 1st quarter 2019 Results.

Since the conclusions of the second inspection are not yet known, one potential outcome may be that the Issuer's risk weighted assets are subject to an upward adjustment. If the risk weighted assets of the Issuer are subject to a material increase as a result of the TRIM exercise, this could have a significant negative impact of the Group's business and regulatory capital position.

Risks associated with the disposal of non-performing assets.

In recent years, the supervisory authorities have focused on the value of non-performing assets ("**NPAs**") and the effectiveness and organisational structures of banks' recovery processes. The importance of reducing the ratio of NPAs to total loans has been stressed on several occasions by the supervisory authorities.

The Issuer has, mostly due to its legacy portfolio, a significantly high volume of NPAs, even when compared to its Portuguese peers, which are already considered to have a high volume of NPAs by both supervisory authorities and the market in general.

In this context and as one important pillar of its strategy, the Issuer has approved a five-year NPA reduction plan (2017 –2022), which is expected to materially reduce the stock of NPAs, including various sales to the market, potentially in the near term. The NPA strategy and reduction plan (which mostly relates to NPLs) are aligned with the ECB's draft guidance to banks on NPLs, which addresses the main aspects of the strategy, governance and operations relating to an efficient disposal of NPLs.

However, the aim of the NPA reduction plan carries risk. The completion of the disposal of NPAs could result in a significant amount of additional losses being recorded by the Issuer due to the possible differential between their book value and the value that market participants are willing to offer for the NPAs. In addition, the final terms of any sale (if completed) may be significantly different from the Issuer's expectations, as they depend on, among other things, market conditions at the time of the sale and the existence of a secondary NPL market.

On 19 July 2017, the European Council agreed an action plan to address the problems of NPLs in the banking sector. On 31 October 2016, the EBA published the final guidance on management of non-performing and forborne exposures. These guidelines specify sound risk management practices for credit institutions in their management of NPAs and forborne exposures, including requirements on NPA reduction strategies, governance and operation of NPA workout framework, internal control framework and monitoring.

The regulation amending the CRR to introduce common minimum coverage levels for potentials losses stemming from newly originated loans that become nonperforming has been published in Official Journal on 17 April 2019 (Regulation (EU) 2019/630 of the European Parliament and of the Council of 17 April 2019 amending Regulation (EU) no. 575/2013). This regulation establishes a requirement for credit institutions to build their loan loss reserve up to common minimum levels to cover the incurred and expected losses on newly originated loans that become non-performing. Where the minimum coverage requirements is not met, the different between the actual coverage level and the requirement should be deducted from a bank's own funds (CET1). The new rules should not be applied in relation to exposures originated prior to 26 April 2019.

Other risks exist in relation to further requirements that may be imposed by the ECB, through guidelines or legislation, to accelerate the reduction of NPAs, such as the following, which are currently under discussion by the ECB: (i) reforms of insolvency and debt recovery frameworks, (ii) development of secondary markets for distressed assets, (iii) accelerated loss recognition with backstop provision limits, and (iv) requirements on the use of templates for information on NPLs. Furthermore, an increase in the entry levels of new NPLs may hinder the Issuer's ability to reduce its NPL stock.

Any of the above could have negative effects on the business, results of operations, capital and financial position of Issuer and/or of the Group.

Legal Proceedings and Resolution Measure

Proceedings in connection with the resolution measure applied to Banco Espírito Santo, S.A. ("BES") and the creation of Novo Banco

Novo Banco was incorporated by deliberation of the Board of Directors of Bank of Portugal dated 3 August 2014 (8 p.m.) ("**Deliberation of 3 August 2014**") under no. 5 of article 145-G of the RGICSF (the version in force at the time), following the resolution measure applied by Bank of Portugal to Banco Espírito Santo, S.A. ("**BES**"), under the terms of paragraphs 1 and 3-c) of article 145-C of the RGICSF.

Pursuant to the Deliberation of 3 August 2014, the assets, liabilities, off-balance sheet items and assets under management of BES defined in Annex 2 to the Deliberation of 3 August 2014 (and clarified by the extraordinary meeting held by the Board of Directors of the Bank of Portugal on 11 August 2014 (5 p.m.)) were transferred to Novo Banco. Novo Banco has its registered office in Lisbon, at Avenida da Liberdade, no. 195.

The Deliberation of 3 August 2014 and the decisions of the Bank of Portugal related or in connection with the Deliberation of 3 August 2014 defined above as the Resolution Measure, including the application and impacts of the Resolution Measure and the incorporation of Novo Banco are being and may continue to be publicly and judicially challenged by several parties and creditors. These proceedings include also the challenges to the transfer of certain assets and liabilities to Novo Banco as a result of the Resolution Measure and the decisions of the Bank of Portugal, as well as proceedings requesting the set-off of liabilities that were not transferred to Novo Banco against credits transferred and held by Novo Banco. Several judicial proceedings have been initiated against the Bank of Portugal, the Resolution Fund and/ or Novo Banco and it is likely that other similar proceedings will be submitted within the applicable legal time limits.

Despite the fact that the Resolution Measure expressly determines that "*Any liabilities or contingencies related to the trading, financial intermediation and distribution of debt instruments issued by entities integrating Grupo Espírito Santo*" have not been transferred to Novo Banco and determines as well that a number of other liabilities and contingencies have not been transferred to it, there are several legal proceedings related with the placing, by BES, of debt instruments of Espírito Santo group entities (including, commercial paper) and preference shares issued by special purpose vehicles, which have been submitted by clients who are arguing that any such liability has been transferred to Novo Banco. There are also cases outside of Portugal that are somehow connected with the non-recognition of the Resolution Measure and its effects and/or related decisions of the Bank of Portugal, such as legal proceedings brought against Novo Banco related with the placement of debt instruments of Espírito Santo Group in Venezuela (where, notably, two proceedings with the nominal amount of US$37 million and US$335 million have been filed) and an arbitration in the International Chamber of Commerce which is being challenged in the French Civil Courts.

Furthermore, the Bank is a party in a proceeding in which, among other aspects, the plaintiff requires the declaration of invalidity of the financial pledge existing over the shares of Companhia de Seguros Tranquilidade, S.A. securing a credit granted to Espírito Santo Financial Group, which, according to the Bank of Portugal's decision on the Resolution Measure, has been transferred to Novo Banco, together with the related guarantee (financial pledge). The potential defective performance of the financial pledge is also mentioned in the proceedings. Also regarding this matter, the insolvency estate of Partran – former shareholder of Companhia de Seguros Tranquilidade, S.A. – has challenged the creation and enforcement of the financial pledge ("*resolução em benefício da massa insolvente*"), Novo Banco challenged this decision and initiated a proceeding against Partran in December 2015.

In addition, the European Commission's decision to approve the resolution of BES of 3 August 2014 (State aid no. SA.39250 (2014/N – Portugal, Resolution of Banco Espírito Santo, S.A.) (the "**State Aid**")) in connection with the incorporation of Novo Banco is being challenged at the Court of Justice, which, if successful, could entail adverse consequences in respect of the State Aid process, including the opening of an in-depth investigation by the European Commission.

Novo Banco is not a party in the above mentioned judicial proceeding in respect of state aid and there may be other similar pending judicial proceedings of which Novo Banco is not party; therefore, it is not possible to assess the impacts of any decision in connection thereto.

As such, any final court decision that may be issued in the context of such judicial proceedings may adversely affect the capacity of Novo Banco to carry out its obligations under the Programme Documents and/or the Covered Bonds, without prejudice to the protection granted to the holders of the Covered Bonds in the terms and subject to the limits provided for in the applicable legislation, as mentioned in the "Insolvency of the Issuer" section of this Base Prospectus.

On 29 December 2015, the Bank of Portugal adopted a decision regarding the clarification and re-transfer of liabilities and contingencies defined as being excluded from Novo Banco's determined perimeter according to the resolution measure dated 3 August 2014, as clarified and adjusted since such date. In this decision, the Bank of Portugal clarified that a wide range of BES liabilities or contingencies had not been transferred to Novo Banco, including any liabilities or off-balance sheet items of BES which were at 8 p.m. on 3 August 2014 contingent or unknown (including disputed liabilities in connection with pending litigation and liabilities or contingencies resulting from fraud or the breach of regulatory, criminal or administrative provisions or determinations) regardless of their nature (tax, labour, civil or other), and whether or not recorded in BES's books of account.

Furthermore, the Bank of Portugal decided that any liabilities of BES that had been in fact transferred to Novo Banco but did not comply with the above-mentioned criteria and decision were to be re-transferred from Novo Banco to BES with effects from 8.00 p.m. on 3 August 2014.

On 29 December 2015 the Bank of Portugal also decided to retransfer five series of senior bonds, issued originally by BES and placed with institutional investors, with a €100,000 denomination, amounting to a principal amount of approximately 2,000 million.

Following the re-transfer of senior bonds decision of 29 December 2015 mentioned above, several investors in the senior bonds retransferred to BES have filed judicial proceedings in the administrative courts challenging the validity of this decision.

On 29 December 2015, the Bank of Portugal, as resolution authority and using its legal powers to retransfer certain assets and liabilities, determined that certain senior bonds in the principal amount of approximately 2 billion euro were retransferred from the Issuer to BES. A number of institutional and non-institutional investors holding the senior bonds retransferred to BES have filed claims against the Bank of Portugal in the Lisbon Administrative Court (the Issuer is counter-interested party) seeking an annulment of the retransfer of the bonds on various grounds, including the non-fulfilment of the prerequisites for the retransfer of credits; misfeasance by the Bank of Portugal; violation of the principle of equal treatment of creditors of equal seniority; violation of the proportionality principle; violation of the equality principle favouring Portuguese nationals and the Portuguese State; and violation of the administrative rules of proceeding. Similar proceedings relating to the retransfer of senior bonds have also been filed against the Bank of Portugal. All of these proceedings are still pending or awaiting final decision (*caso julgado*).

On 1 September 2017, Banco Comercial Português, S.A. announced that it had filed an application to obtain a judicial review of the contingent capitalisation obligation of the Resolution Fund agreed in connection with the Lone Star Sale. The Issuer is not party to such legal proceedings.

Lastly, Banco Comercial Português, Banco ActivoBank S.A. and Banco de Investimento Imobiliário S.A. lodged an action for annulment against a European Commission's Decision C(2017/M) of 11 October 2017 (State aid SA.49275) insofar as it considered the CCA agreed and entered into between the Portuguese Resolution Fund and the Lone Star group in the context of the sale of Novo Banco S.A. by the former to the latter, as State aid compatible with the internal market. Novo Banco are acting as interveners in case T-298/18 in support of the European Commission and, as such, submitted a statement in intervention to the General Court on 18 February 2019. The written phase of the proceedings is now closed and the oral hearing will likely take place in the 4Q of 2019. Should the Court uphold the Applicants' order of sought in its entirety and partially annul the Commission's decision, the annulment would cause the decision to disappear from the Union legal order from the date on which the decision entered into force; i.e. the situation will be as if the Commission had not decided at all on the State aid measure.

It is not possible to determine when the relevant courts will issue final awards regarding these or future legal proceedings, or to determine or make a full assessment of the impact or likely outcomes of any such legal proceedings or of future legal proceedings or the consequences arising therefrom for Novo

Banco or the Covered Bonds.

Covered Bonds holders should be aware that the legal proceedings and consequences arising therefrom may adversely affect the incorporation, financial condition and/or the capacity of Novo Banco to carry out its obligations under the Programme Documents and/or the Covered Bonds.

Ultimately, if a court were to declare the Resolution Measure invalid and, despite its disruptive effects, determine the invalidity and ineffectiveness of all contracts and legal acts performed by Novo Banco since its incorporation, the establishment of the Programme, the security created over cover pool and the issue of the Covered Bonds would become void and investors could suffer substantial losses.

Successful claims of this or a similar nature could have a material adverse financial effect on the Issuer and the Group or cause significant reputational harm, which in turn could have a material adverse effect on the financial condition of the Group. In addition, while the Indemnification Mechanism may help mitigate economic risks arising from litigation related to the Resolution Measure and related decisions of the Bank of Portugal, there can be no assurance that it will be applied or, if applied, upheld. Even if the Indemnification Mechanism is successfully applied, such claims may result in adverse reputational impact on the Issuer and/or the Group. See also – "*Novo Banco's activity is subject to reputational risk.*"

Changes to tax legislation, regulations, higher taxes or lower tax benefits could have an adverse effect on the Bank's activity.

The Bank might be adversely affected by changes in the tax legislation and other regulations applicable in Portugal, the European Union and other countries in which it operates, as well as by changes of interpretation by the competent tax authorities of legislation and regulation. In addition, the Bank might be adversely affected by difficulties in the interpretation of or compliance with new tax laws and regulations. The materialisation of these risks may have a material adverse effect on the Bank's financial condition, results of operations and prospects.

Risk relating to changes in legislation on deferred tax assets could have a material effect on the NB Group

The CRR requires that Deferred Tax Assets ("**DTA´s**") be deducted from CET1 Capital.

However, CRR contains an exception for DTA´s that are not contingent on future profitability, foreseeing that such DTA´s are not deducted from CET1 capital. For such purposes, DTA´s are deemed to not be contingent on future profitability when:

a) They are automatically and mandatorily replaced with a tax credit, in the event that the institution reports a loss when its annual financial statements are formally approved, or in the event of its liquidation or insolvency;
b) The abovementioned tax credit may, under national tax law, be offset against any tax liability of the institution or any other undertaking included in the same consolidation as the institution for tax purposes under tax law or any other undertaking subject to supervision on a consolidated basis; and
c) Where the amount of tax credits referred to in point b) above exceeds the tax liabilities referred to in that same point, any such excess is replaced with a direct claim on the central government of the Member State in which the institution is incorporated.

The deduction of DTA´s from CET1 capital would thus have an impact on credit institutions established in Member States where national tax law imposes a time mismatch between the accounting and tax recognition of certain gains and losses.

In this regard, the Portuguese Government, through the Law No. 61/2014 of 26 August 2014 (as amended from time to time), the "Law 61/2014", enacted amendments to national tax law that allow for the conversion of DTA´s into tax credits, with the aim of fulfilling the requirements for non-deductibility of DTA´s from CET1 capital of resident credit institutions.

Law 61/2014 foresees that any DTA´s arising from loan impairment losses and from post-employment and long-term employment benefits into tax credits. These DTA´s accounted in taxable periods starting on or after 1 January 2015, or registered in the taxpayer´s accounts in the last taxable period prior to that date, can be converted into tax credits when the taxpayer: (i) reports an annual accounting loss when the institution´s annual financial statements are formally approved; (ii) enters into a liquidation procedure, as a result of voluntary dissolution, court-ordered insolvency or, if applicable, cancellation of authorization by the regulator or supervisory body.

The amount of DTA´s is declared by the Corporate Income Taxpayers in their annual Corporate Income Tax return. The amount of the declared tax credit must subsequently be certified by the auditors and confirmed by the Portuguese Tax Authorities.

The tax credits obtained with the conversion of the DTAs may be offset against any State taxes on income and on assets payable by the taxpayer.

The conversion of DTA´s entails the constitution of a special non-distributable reserve, equivalent to the amount of the tax credit obtained increased by 10 per cent., and conversely, the issuance of symmetric warrants to the Portuguese State. The warrants entitle the Portuguese State (i) to demand the increase of NB´s Share capital through conversion of the special reserve and subsequent issue a delivery of ordinary shares representing NB´s share capital; or (ii) to freely dispose of them, including by sale to third parties, which may subsequently demand such increase of NB´s share capital.

The amendments to the DTA´s conversion regime, enacted by Law No. 23/2016 of 19 August 2016, establish that the DTA´s conversion is not applicable to any DTA´s arising from the mismatch between the accounting and tax regimes from 1 January 2016 onwards, without precluding its applicability to DTA´s generated with respect to the previous fiscal years.

As at 31 December 2018, the NB Group held EUR 1,200 million of DTA´s in its accounts, of which EUR 138 million related to reported losses and EUR 1,041 million related to temporary differences. Of these, EUR 607 million are protected under the Portuguese special fiscal regime. If any DTAs are not recovered, this could have an adverse impact on the profitability and equity of Novo Banco and its Group.

DTA´s related to reported losses are deducted from regulatory capital, whereas DTA´s related to temporary differences that depend on future profitability are partially deducted to capital (the portion that exceeds the threshold of 10 per cent. of CET2) and partially weighed at 250 per cent. DTA´s related to temporary differences protected by the Portuguese special fiscal regime are weighed at 100 per cent. Any future changes to the way in which the Portuguese fiscal regime operates could result in previously protected DTAs no longer being protected.

A reduction in the Issuer's credit ratings would increase its cost of funding and adversely affect the Novo Banco Group's financial condition and results of operations.

Credit ratings affect the cost and other terms upon which the Novo Banco Group is able to obtain funding, including the availability of certain funding instruments. Rating agencies regularly evaluate the Issuer, and its long-term credit ratings are based on a number of factors, including its financial strength, the credit rating of Portugal and the conditions affecting the financial services industry generally and the Portuguese banking system in particular. On the date hereof, the Issuer's long-term credit ratings are the following: "Caa2" for senior unsecured debt with a negative outlook and "Caa1" for deposits with a positive outlook by Moody's, and "B (high)" issuer rating and senior debt rating with a positive trend and "BB (low)" deposits rating with a positive trend by DBRS Rating GmbH. There can be no assurance that the rating agencies will maintain the current ratings or outlooks.

Downgrades of the Issuer's ratings, or the perceived likelihood of such a downgrade, could increase its cost of funding or, in a scenario that combines a sharp ratings drop with a further deterioration of the credit environment, could result in increasing difficulties or the total inability of the Group to access funding in the financial markets. Additionally, this could have an adverse impact on the Issuer's contractual obligations that depend on rating triggers or the risk perception of the public in general, leading to deposit outflows.

Any such downgrade to the Issuer's credit ratings could have an adverse effect on the Issuer's liquidity position, cost of funding and net interest margin, which could adversely affect the Group's financial condition and results of operations."

Implementation of legislation relating to taxation of the financial sector could have a material adverse effect on the Bank's results of operations.

On 14 February 2013, the European Commission published a proposal (the **"Commission's Proposal"** or "**FTT Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "participating Member States"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has a very broad scope and could, if introduced, apply to certain dealings in the Covered Bonds (including secondary market transactions) in certain circumstances. The issuance and subscription of Covered Bonds should, however, be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Covered Bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

Since the Commission´s Proposal, amendment proposals have likewise presented, e.g. by potential participating Member States. The FTT Proposal, including prospective amendments, still remains under discussion and subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Covered Bonds are advised to seek their own professional advice in relation to the FTT.

There can be no assurance that a FTT or similar additional bank taxes and national financial transaction taxes will not be adopted, at any moment, by the authorities of the jurisdictions where the Bank operates.

Also, any such additional levies and taxes could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The use of standardised contracts and forms carries certain risks.

The Bank and its subsidiaries maintain contractual relationships with a large number of clients. In all of the Bank and its subsidiaries' business areas and departments, the management of such a large number of legal relationships involves the use of general terms and conditions and standard templates for contracts and forms. This standardisation implies that for subjects that need clarification, contain drafting errors or require individual terms and conditions, the use of standard contracts and forms may pose a significant risk due to the large number of contracts entered into under these conditions. In light of amendments to the applicable legal frameworks as a result of new laws or judicial decisions, it is possible that not all standard contracts and forms used by the Bank comply with every applicable legal requirement at all times.

If there are drafting errors, interpretive issues, or if the individual contractual terms or the contracts are invalid in their entirety or in part, a large number of client relationships may be affected negatively. Any resulting claims for compensation or other legal consequences may have an adverse effect on the financial condition and operating results of the Bank.

The solvency framework for insurance companies is uncertain and may negatively impact the Issuer's operations

The EU has developed a solvency framework for insurance companies, commonly known as "Solvency II", based on three pillars: minimum capital requirements, supervisory review of firms' assessment of risk and enhanced disclosure requirements, and encompasses valuations, the treatment of insurance groups, the definition of capital and the need for capital at a global level. The EC is continuing to develop the detailed rules that will complement the high-level principles of Directive 2009/138/EC, of 25 November 2009, as last amended by Directive 2014/51/EU, of 16 April 2014 ("**Solvency II**"). In parallel, Solvency II was transposed into Portuguese law through Law No. 147/2015, of 9 September 2015 (*Regime jurídico de acesso e exercício da atividade seguradora e res-seguradora*), as amended, introducing a significant change in the legal framework of the insurance business.

Solvency II implementation poses challenges for insurers that may require them to adapt to the new requirements, provide for data quality and analytics needs, revise their governance systems and develop adequate tools for recurrent reporting and disclosure of in-formation. Further regulatory developments are expected in the forthcoming years, such as review of capital requirements, long-term guarantees and macroprudential tools.

There is a risk that the effect of Solvency II implementation or any further regulatory requirements could be adverse for GNB Vida's business operations, strategy and profitability and result in an increase in capital required to support its business and a competitive disadvantage with respect to other European and non-European financial services groups. Such impact may affect the dividends policy and/or result in an increase of capital that could have a material adverse effect on the Novo Banco Group business, financial condition, results of operations and prospects.

Additionally, as referred in Novo Banco 2018 Annual Report, under IFRS 5 - Non-current assets held for sale and discontinued operations, a group of directly associated assets and liabilities are reclassified for discontinuation if their balance sheet value is recoverable through a sale transaction, with same having to be ready for immediate sale.

Thus, during financial years 2016 and 2017, the Bank transferred to this category some subsidiaries and associated companies that integrate the Group's consolidation perimeter, which the Bank intends to sell and is actively in the process of selling.

These entities are presented in the consolidated financial statements as discontinued units, in specific lines of assets and liabilities, valued according to the applicable IAS / IFRS. The net value of as-sets and liabilities is measured at the lowest between the book value and the fair value net of sale costs, namely, Banco Internacional de Cabo Verde, Banco Well Link (previous NB Ásia), Banco Delle Tre Venezie, Ecnómico FI and Greendraive.

RISKS ASSOCIATED WITH THE COVERED BONDS ISSUED UNDER THE PROGRAMME

The Covered Bonds may not be a suitable investment for all investors

Each potential investor in the Covered Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the relevant Covered Bonds, the merits and risks of investing in the relevant Covered Bonds and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Covered Bonds and the impact such investment will have on its overall investmentportfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Covered Bonds, including Covered Bonds with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the currency

in which such investor's financial activities are principally denominated;

- understand thoroughly the terms of the relevant Covered Bonds and be familiar with the behaviour of any relevant indexes and financial markets;and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Obligations under the Covered Bonds are obligations of the Issuer only

The Covered Bonds will constitute unsubordinated obligations of the Issuer secured by a special creditor privilege created under the Covered Bonds Law over the Cover Pool (as defined in *Terms and Conditions of the Covered Bonds*) maintained by the Issuer. An investment in the Covered Bonds involves a reliance on the creditworthiness of the Issuer. The Covered Bonds are not guaranteed by any person. In addition, an investment in Covered Bonds involves the risk that subsequent changes in the actual or perceived creditworthiness of the Issuer may adversely affect the market value of the relevant Covered Bonds.

Accordingly, the Covered Bonds will not represent an obligation or be the responsibility of the Arranger, the Common Representative or the Dealers or any person other than the Issuer. The Issuer will be liable solely in its corporate capacity for its obligations in respect of the Covered Bonds and such obligations will not be the obligations of its officers, members, directors, employees, security holders or incorporators.

Issuer's Repurchase Commitment

The Issuer may provide a Repurchase Commitment to purchase a Series of Covered Bonds on its Repurchase Date. Such Repurchase Commitment will be an unsecured obligation of the Issuer (for the avoidance of doubt, it will not be secured on the Assets comprised in the Cover Pool) and failure by the Issuer to comply with its Repurchase Commitment will not constitute an event of default under the Terms and Conditions of the corresponding Series of Covered Bonds.

The Repurchase Commitment will only apply to certain Series of Covered Bonds, as per the applicable Final Terms, and will be given solely for the benefit of Qualified Investors (as defined below). Accordingly, non-qualified investors or Qualified Investors of Series of Covered Bonds that do not benefit from the Repurchase Commitment should be aware that they will not benefit from the Repurchase Commitment and are therefore subject to extension risk.

Extended Maturity of the Covered Bonds

An Extended Maturity Date will be specified in the relevant Final Terms for each Series of Covered Bonds issued under the Programme. Pursuant to the Covered Bonds Law, the Extended Maturity Date may not fall later than 50 years after the Issue Date of such Series. If a Pass-through Event occurs, the maturity of all Covered Bonds issued under the Programme will automatically be extended to the Extended Maturity Date as defined in the relevant Final Terms, and all outstanding Series of Covered Bonds issued under the Programme become pass-through Covered Bonds on the Pass-through Date. In that event, the Issuer will redeem at par all or part of the principal amount outstanding of those Covered Bonds on any Interest Payment Date falling in any month after the Pass-through Date up to and including the Extended Maturity Date, subject as otherwise provided in the applicable Final Terms. In that event also, the interest payable on the principal amount outstanding of those Covered Bonds will change as provided in the applicable Final Terms and such interest may apply on a fixed or floating basis. The extension of the maturity of the principal amount outstanding of those Covered Bonds from the Pass-through Date up to the Extended Maturity Date will not result in any right of the holders of Covered Bonds to accelerate payments on those Covered Bonds or constitute an event of default for any purpose (even if the Covered Bonds are not redeemed until the relevant Extended Maturity Date) and no payment will be due to the holders of Covered Bonds in that event other than as set out in the *Terms and Conditions of the CoveredBonds*.

Risks relating to all outstanding Covered Bonds becoming pass-through Covered Bonds upon occurrence of an Insolvency Event in respect of the Issuer

If an Insolvency Event has occurred in respect of the Issuer, all outstanding Covered Bonds will become pass-through Covered Bonds. If, as a result of the occurrence of such events, all Covered Bonds become pass-through Covered Bonds, there is a risk that holders of Covered Bonds with a Maturity Date after such date receive principal repayments prior to the Maturity Date and therefore earlier than expected, which may result in a lower yield on such holder of Covered Bonds' investment than expected.

Benefit of special creditor privilege ("*privilégio creditório*")

The holders of Covered Bonds issued by the Issuer under the Programme, whether outstanding at the date hereof or in the future, benefit from a special creditor privilege ("*privilégio creditório*") over all assets comprised in the Cover Pool in relation to the payment of principal and interest on the Covered Bonds (see *Characteristics of the Cover Pool*). The Covered Bonds Law establishes that the Common Representative and any Hedge Counterparties at the date hereof and in the future are also preferred creditors of the Issuer which benefit from the above mentioned special creditor privilege ("*privilégio creditório*"). None of the assets comprised in the Cover Pool are or will be exclusively available to meet the claims of the holders of certain Covered Bonds ahead of other holders of Covered Bonds or of Other Preferred Creditors of the Issuer at the date hereof or in the future.

The value of and return on any Covered Bonds linked to a benchmark may be adversely affected by ongoing national and international regulatory reform in relation to benchmarks

Interest rates and indices which are deemed to be "benchmarks" (including LIBOR and EURIBOR) are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Covered Bonds referencing such a benchmark. Regulation (EU) 2016/1011 (the "**Benchmarks Regulation**") was published in the Official Journal of the EU on 29 June 2016 and mostly applies, subject to certain transitional provisions, from 1 January 2018. The Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. Among other things, it (i) requires benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevents certain uses by EU supervised entities (such as the BST) of benchmarks of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

The Benchmarks Regulation could have a material impact on any Covered Bonds linked to or referencing LIBOR or EURIBOR, in particular, if the methodology or other terms of LIBOR or EURIBOR are changed in order to comply with the requirements of the Benchmarks Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of LIBOR or EURIBOR.

More broadly, any of the international or national reforms, or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements.

Specifically, the sustainability of LIBOR has been questioned as a result of the absence of relevant active underlying markets and possible disincentives (including possibly as a result of benchmark reforms) for market participants to continue contributing to such benchmarks. On 27 July 2017, and in a subsequent speech by its Chief Executive on 12 July 2018, the UK Financial Conduct Authority ("**FCA**") confirmed that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the "**FCA Announcements**"). The FCA Announcements indicated that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021.

In addition, on 29 November 2017, the Bank of England and the FCA announced that, from January 2018, its Working Group on Sterling Risk-Free Rates has been mandated with implementing a broad-based transition to the Sterling Overnight Index Average ("**SONIA**") over the next four years across sterling bond, loan and derivative markets, so that SONIA is established as the primary sterling interest rate benchmark by the end of 2021.

Separate workstreams are also underway in Europe to reform EURIBOR using a hybrid methodology and to provide a fallback by reference to a euro risk-free rate (based on a euro overnight risk-free rate as adjusted by a methodology to create a term rate). On 13 September 2018, the working group on euro risk-free rates recommended Euro Short-term Rate ("**ESTR**") as the new risk free rate. ESTR is expected to be published by the ECB by October 2019. In addition, on 21 January 2019, the euro risk free-rate working group published a set of guiding principles for fallback provisions in new euro denominated cash products (including bonds). The guiding principles indicate, among other things, that continuing to reference EURIBOR in relevant contracts may increase the risk to the euro area financial system.

It is not possible to predict with certainty whether, and to what extent, LIBOR and EURIBOR will continue to be supported going forwards. This may cause LIBOR and EURIBOR to perform differently than they have done in the past, and may have other consequences which cannot be predicted. Such factors may have (without limitation) the following effects on certain benchmarks (including LIBOR or EURIBOR): (i) discouraging market participants from continuing to administer or contribute to a benchmark; (ii) triggering changes in the rules or methodologies used in the benchmark and/or (iii) leading to the disappearance of the benchmark. Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Covered Bonds linked to, referencing, or otherwise dependent (in whole or in part) upon, a benchmark.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmarks Regulation or any of the international or national reforms and the possible application of the benchmark replacement provisions of the Covered Bonds in making any investment decision with respect to any covered Bonds linked to or referencing LIBOR or EURIBOR.

Investors in Floating Rate Covered Bonds which reference EURIBOR or LIBOR should be mindful of the applicable interest rate fall-back provisions applicable to such Floating Rate Covered Bonds and the adverse effect this may have on the value or liquidity of, and return on, any Floating Rate Covered Bonds which are linked to EURIBOR or LIBOR, as applicable.

The Terms and Conditions provide that the Terms and Conditions may be varied following a Benchmark Event without any requirement for consent or approval of the holders of the Covered Bonds

In addition, any changes to the administration of a benchmark or screen rate or the emergence of alternatives to such benchmark or screen rate as a result of these potential reforms, may cause the benchmark or screen rate to perform differently from in the past or to be discontinued, or there could be other consequences which cannot be predicted. The potential discontinuation of a benchmark or screen rate or changes to its administration could require changes to the way in which the Rate of Interest is calculated on Covered Bonds referencing such benchmark or screen rate (as applicable). Uncertainty as to the nature of alternative reference rates and as to potential changes to the benchmarks or screen rates referenced by the Covered Bonds may adversely affect the return on the Covered Bonds and the trading market for securities referencing such benchmark or screen rate. The development of alternatives to benchmarks or screen rates may result in Covered Bonds referencing such benchmarks or screen rates performing differently than would otherwise have been the case if such alternatives had not developed. Any such consequence could have a material adverse effect on the value of, and return on, any Covered Bonds referencing a benchmark or screen rate.

The Terms and Conditions also provide for certain fallback arrangements in the event that a Benchmark Event occurs in relation to Covered Bonds for which Screen Rate Determination applies. Either (i) the Issuer will appoint an Independent Adviser to determine a Successor Rate or, failing which, an Alternative Reference Rate to be used in place of the Original Reference Rate or (ii) if the Issuer is unable to appoint an Independent Adviser or the Independent Adviser appointed is unable to determine the relevant rates, the Issuer may (after consulting with the Independent Adviser (if any)) determine a Successor Rate or, failing which an Alternative Reference Rate to be used in place of the Original Reference Rate. The use of any such Successor Rate or Alternative Reference Rate to determine the Rate of Interest may result in the Covered Bonds performing differently (including paying a lower Rate of Interest for any Interest Period) than they would do if the Original Reference Rate were to continue to apply.

Furthermore, if a Successor Rate or Alternative Reference Rate is determined by an Independent Adviser or the Issuer, as the case may be, the Terms and Conditions provide that the Issuer may vary the Terms and Conditions and the Set of Agency Procedures as necessary, to ensure the proper operation of such Successor Rate or Alternative Reference Rate, without any requirement for consent or approval of the holders of the Covered Bonds.

If a Successor Rate or Alternative Reference Rate is determined by an Independent Adviser or, as the case may be, the Issuer, the Terms and Conditions also provide that an Adjustment Spread may be determined by the Independent Adviser or, as the case may be, the Issuer to be applied to such Successor Rate or Alternative Reference Rate. The aim of the Adjustment Spread is to reduce or eliminate, so far as is reasonably practicable in the relevant circumstances, any economic prejudice or benefit (as the case may be) to holders of the Covered Bonds as a result of the replacement of the Original Reference Rate with the Successor Rate or the Alternative Reference Rate. However, there is no guarantee that such an Adjustment Spread will be determined or applied, or that the application of an Adjustment Spread will either reduce or eliminate economic prejudice to holders of the Covered Bonds. If no Adjustment Spread is determined, a Successor Rate or Alternative Reference Rate may nonetheless be used to determine the Rate of Interest. Furthermore, there is no guarantee that a Successor Rate or an Alternative Reference Rate will be determined or applied. Any of the foregoing could have an adverse effect on the value or liquidity of, and return on the Covered Bonds.

If, following the occurrence of a Benchmark Event, no Successor Rate or Alternative Reference Rate is determined, the ultimate fallback for the purposes of calculation of the Rate of Interest for a particular Interest Period may result in the Rate of Interest for the last preceding Interest Period being used. This may result in the effective application of a fixed rate for Floating Rate Notes based on the rate which was last observed on the Relevant Screen Page.

Any of the above matters or any other significant change to the setting or existence of the Original Reference Rate could adversely affect the ability of the Issuer to meet its obligations under the Covered Bonds and could have a material adverse effect on the value or liquidity of, and the amount payable under, the Covered Bonds.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmarks Regulation reforms in making any investment decision with respect to any Covered Bonds linked to or referencing a benchmark.

Dynamic Nature of the Cover Pool

The Cover Pool may contain mortgage credits, other eligible assets, substitution assets and hedging contracts, in all cases subject to the limitations provided for in the Covered Bonds Law. At the date hereof, the Cover Pool contains mortgage credits and other eligible assets in accordance with the Covered Bonds Law. The Covered Bonds Law permits the composition of the Cover Pool to be dynamic and does not require it to be static. Accordingly, the composition of mortgage credits (and other permitted assets) comprised in the Cover Pool will change from time to time in accordance with the Covered Bonds Law. See *The Covered Bonds Law*.

Other Assets/Hedging Contracts

The Covered Bonds Law permits the inclusion in the Cover Pool of other eligible assets and hedging contracts subject to certain restrictions under the Covered Bonds Law. The aggregate amount of other eligible assets cannot exceed 20 per cent. of the total value of the mortgage credits and other eligible assets comprised in the Cover Pool. See *Characteristics of the Cover Pool*.

Hedging Contracts

Hedging contracts can be entered into exclusively to hedge risks such as interest rate risk, exchange rate risk and liquidity risk. The Issuer is entitled but not required to enter into hedging contracts under the Covered Bonds Law, except if the Covered Bonds and the Cover Pool are denominated in different currencies, in which case the Issuer shall hedge any rate risk coverage. See *Characteristics of the Cover Pool – Hedging Contracts*.

Risk relating to the Cover Pool

As described above, the holders of Covered Bonds benefit from a special creditor privilege ("*privilégio creditório*") over all assets comprised in the Cover Pool in relation to the payment of principal and interest on the Covered Bonds (see *Characteristics of the Cover Pool*). The security for a mortgage credit included in the Cover Pool consists of, among other things, a mortgage over a property granted in favour of the Issuer. The value of this property and accordingly the level of recovery on the enforcement of the mortgage, may be affected by, among other things, a decline in the value of the relevant property and no assurance can be given that the values of the relevant properties will not decline in the future. However, the Covered Bonds Law establishes that any mortgage credits which are delinquent for over 90 days must be substituted. See *The Covered Bonds Law*.

Amortisation of Mortgage Credits

Mortgage credits which are included in the Cover Pool are and will generally be subject to amortisation of principal and payment of interest on a monthly basis. They are also subject to early repayment of principal at any time in whole or part by the relevant borrowers. Early repayments of principal on mortgage credits may result in the Issuer being required to include further mortgage credits and/or substitution assets in the Cover Pool in order for the Issuer to comply with the financial matching requirements under the Covered Bonds Law.

The new covered bonds Directive

On 12 March 2018, the European Commission published a "Proposal for a Directive of the European Parliament and of the Council on the Issue of covered bonds and covered bond public supervision and amending Directive 2009/65/EC and Directive 2014/59/EU" (the "**CBD**"). The proposed CBD will specify the core elements of covered bonds and provide a common definition as a consistent and sufficiently detailed point of reference for prudential regulation purposes, applicable across financial sectors. It will establish the structural features of the instrument, a covered bond specific public supervision, rules allowing use of the 'European Covered Bonds' label and competent authorities' publication obligations in the field of covered bonds. The proposed Regulation will mainly amend Article 129 of Regulation (EU) No 575/2013 (Capital Requirements Regulation (CRR)). The amendments build on the current prudential treatment but add requirements on minimum overcollateralisation and substitution assets. They would strengthen the requirements for covered bonds being granted preferential capital treatment. The proposed CBD defines extendable maturity structures as a mechanism providing for the possibility to extend the scheduled maturity of covered bonds for a certain period of time and in the event that a specific trigger occurs. Article 17 of the proposed CBD lays down the conditions for extendable maturity structures.

The CBD is expected to be adopted this year. Following the adoption, the principle-based directive will then have to be transposed into national law, which leaves scope for limited national discretion.

Once adopted and published, the CBD may trigger the need to make some adjustments on the Programme to make it fully compliant with the Directive. In this context, the Issuer cannot anticipate the potential impact this may have on the liquidity, pricing or marketability of the Covered Bonds.

No Due Diligence on the Cover Pool

None of the Arranger or the Dealers has or will undertake any investigations, searches or other actions in respect of any assets contained or to be contained in the Cover Pool but will instead rely on representations and warranties provided by the Issuer in the Programme Agreement.

Administrative cooperation in the field of taxation

The EC Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments (the "**Savings Directive**"), as amended by Council Directive 2014/48/EU, of 24 March 2014, was repealed by Council Directive 2015/2060, of 10 November 2015. The aim was the adoption of a single and more comprehensive cooperation system in the field of taxation in the European Union under Council Directive 2011/16/EU, of 15 February 2011.

The new regime under Council Directive 2011/16/EU, as amended by Council Directive 2014/107/EU, of 9 December 2014, introduced the automatic exchange of information in the field of taxation concerning bank accounts and is in accordance with the Global Standard released by the Organization for Economic Co-operation and Development in July 2014. This regime is generally broader in scope than the Savings Directive.

Under Council Directive 2014/107/EU, financial institutions are required to report to the Tax Authorities of their respective Member State (for the exchange of information with the State of Residence) information regarding bank accounts, including depository and custodial accounts, held by individual persons residing in a different Member State or entities which are controlled by one or more individual persons residing in a different Member State, after having applied the due diligence rules foreseen in the Council Directive. The information refers not only to personal information such as name, address, state of residence, tax identification number and date and place of birth, but also to the account balance at the end of the calendar year, and (i) in case of depository accounts, income paid or credited in the account during the calendar year; or, (ii) in the case of custodial accounts, the total gross amount of interest, dividends and any other income generated, as well as the proceeds from the sale or redemption of the financial assets paid or credited in the account during the calendar year to which the financial institution acted as custodian, broker, nominee, or otherwise as an agent for the account holder, among others.

Portugal has implemented Directive 2011/16/EU through Decree-law 61/2013, of 10 May. Also, Council Directive 2014/107/EU was implemented through Decree-law 64/2016, of 11 October, as amended from time to time.

Council Directive 2018/822/EU ("**DAC 6**") imposes mandatory reporting of cross-border arrangements affecting at least one EU Member State that fall within one of a number of "hallmarks", i.e. broad categories setting out particular characteristics identified as potentially indicative of aggressive tax planning. Under DAC 6 any person that designs, markets, organises, makes available or provides, directly or by means of other persons, aid, assistance or advice for implementation or manages the implementation of a reportable cross-border arrangement may be seen as a reporting intermediary and have to report information on the arrangement to the tax authorities of their home Member State. A bill of law on DAC 6´s transposition into Portuguese law is currently under discussion. Prospective holders of the Covered Bonds are advised to seek their own professional advice in relation to any potential consequences of DAC 6.

U.S. Foreign Account Tax Compliance Withholding

U.S. tax provisions commonly known as the Foreign Account Tax Compliance Act (FATCA) impose a new reporting and due diligence regime on (*i*) any non-U.S. financial institution (a "**foreign financial institution**" or "**FFI**" (as defined by FATCA)), and (*ii*) certain non-U.S. entities that are not FFIs (a "**non-financial foreign entity**" or "**NFFE**" (as defined by FATCA)), requiring the identification and documentation of certain U.S. Persons (as defined by FATCA).

In addition, FATCA imposes (or will impose) a 30% withholding tax on certain payments to (*i*) any FFI that is not otherwise exempt from or in deemed compliance with FATCA and that does not become a Participating FFI by entering into an agreement with the IRS to provide the IRS with certain information in respect of its account holders, investors and/or owners who are U.S. Persons, (*ii*) any NFFE that is not otherwise exempt from FATCA and that does not provide information as to whether such entity has any "substantial United States owners" (as defined by FATCA), and (*iii*) any person that fails to comply with reasonable requests from an FFI to provide the information necessary to determine if such person holds a "U.S. account" (as defined by FATCA) (a "**Recalcitrant Holder**").

The FATCA withholding began on 1 July 2014 for payments of U.S.-source income that is fixed or determinable, annual or periodic and will be phased in no earlier than 1 January 2017 to apply to (*i*) gross proceeds from the disposition of any property that can produce U.S.-source interest or dividends, and (*ii*) foreign passthrough payments (a term not yet defined). FATCA withholding would potentially apply to payments in respect of (*i*) any Covered Bonds characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are outstanding on (i.e., issued, executed, or materially modified by) the grandfathering date, which is (*a*) 1 July 2014, (*b*) the date that is six months after the date on which certain obligations are first treated under the U.S. Internal Revenue Code and/or U.S. Treasury Regulations as giving rise to dividend equivalents (for payments subject to FATCA withholding solely because the obligation is treated as giving rise to a dividend equivalent), or (*c*) the date that is six months after the date on which final

U.S. Treasury Regulations defining the term foreign passthrough payment are filed with the Federal Register (for foreign passthrough payment withholding only); and (*ii*) any Covered Bonds characterised as equity or which do not have a fixed term for U.S. federal tax purposes, whenever issued. If Covered Bonds are outstanding before the grandfathering date, and additional Covered Bonds of the same series are issued on or after that date, the additional Covered Bonds may not be treated as grandfathered, which may have negative consequences for the existing Covered Bonds, including a negative impact on market price.

The United States and a number of other jurisdictions have signed intergovernmental agreements to facilitate the implementation of FATCA (each, an IGA). Pursuant to FATCA and the "Model 1" and "Model 2" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a Reporting FI not subject to withholding under FATCA on any payments it receives. Further, an FFI in a Model 1 IGA jurisdiction would not be required to withhold under FATCA or an IGA (or any law implementing an IGA) from payments it makes (unless it has agreed to do so under the U.S. "qualified intermediary", "withholding foreign partnership" or "withholding foreign trust" regimes). The Model 2 IGA leaves open the possibility that a Reporting FI might in the future be required to withhold as a Participating FFI on foreign passthrough payments and payments that it makes to Recalcitrant Holders. Under a Model 1 IGA, a Reporting FI would still be required to report certain information in respect of its account holders, investors, and owners who are U.S. Persons to its home government. Reporting FIs in a Model 2 IGA jurisdiction would be required to enter into an agreement with the IRS to report certain information in respect of its account holders, investors, and/or owners who are U.S. Persons directly to the IRS. Furthermore, a Reporting FI will be required to register with the IRS regardless of whether such Reporting FI is in a jurisdiction that has executed a "Model 1" or a "Model 2" IGA with the UnitedStates.

The United States has reached a Model 1 Intergovernmental Agreement with Portugal, signed on 6 August 2015 and ratified by Portugal on 5 August 2016.

Portugal has implemented, through Law 82-B/2014, of 31 December, and Decree-law 64/2016, of 11 of October, both as amended from time to time, the legislation based on the reciprocal exchange of information with the United States of America on financial accounts subject to disclosure (the "Financial Reporting Regime") in order to comply with Sections 1471 through 1474 of FATCA. Under such legislation, the Issuer will be required to obtain information regarding certain accountholders and report such information to the Portuguese Tax Authorities which, in turn, would report such information to the Inland Revenue Service of the United States of America.

There can be no assurance, however, that the Issuer will be treated as a deemed-compliant FFI, or that it will in the future not be required to deduct FATCA withholding tax from payments it makes. Accordingly, the Issuer and financial institutions through which payments on the Covered Bonds are made may be required to withhold under FATCA if (i) any FFI through or to which payment on such Covered Bonds is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA or (ii) an investor is a Recalcitrant Holder.

FATCA is particularly complex and its application in Portugal is in some cases subject to a transitory period. Prospective investors should consult their tax advisers on how these rules may apply to payments they may receive in connection with the Covered Bonds.

Risks related to withholding tax

Under Portuguese law, income derived from the Book Entry Covered Bonds integrated in and held through a centralised system managed by Portuguese resident entities (such as the Central de Valores Mobiliários, managed by Interbolsa), by other European Union or European Economic Area entities that manage international clearing systems (in the latter case if there is administrative cooperation for tax purposes with the relevant country which is equivalent to that in place within the European Union), or, when authorised by the member of the government in charge of finance (currently the Finance Minister), in other centralised systems held by non-resident investors (both individual and corporate) eligible for the debt securities special tax exemption regime which was approved by Decree-law 193/2005, of 7 November 2005, as amended, ("**Decree-law 193/2005**") and in force as from 1 January 2006, may benefit from withholding tax exemption, provided that certain procedures and certification requirements are complied with.

Failure to comply with procedures, declarations, certifications or others, will result in the application of the relevant Portuguese domestic withholding tax to the payments without giving rise to an obligation to gross up by the Bank.

It should also be noted that, if interest and other income derived from the Covered Bonds issued by the Bank is paid or made available ("*colocado à disposição*") to accounts in the name of one or more accountholders acting on behalf of undisclosed entities (e.g., typically "**jumbo**" accounts) such income will be subject to withholding tax in Portugal at a rate of 35 per cent. unless the beneficial owner of the income is disclosed. Failure by the investors to comply with this disclosure obligation will result in the application of the said Portuguese withholding tax at a rate of 35 per cent. and the Bank will not be required to gross up payments in respect of any withheld accounts in accordance with Condition 7 (*Taxation*).

Further, interest and other types of investment income obtained by non-resident holders (individuals or legal persons) without a Portuguese permanent establishment to which the income is attributable that are domiciled in a country, territory or region included in the "tax havens" list approved by Ministerial order 150/2004, of 13 February 2004 (as amended from time to time) is subject to withholding tax at 35 per cent., which is the final tax on that income, unless Decree-law 193/2005 applies and the beneficial owners are central banks and government agencies, international organisations recognised by the Portuguese State, residents in a country or jurisdiction with which Portugal has entered into a double tax treaty or a tax information exchange agreement in force.

The Bank will not be required to gross up payments in respect of any such non-resident holders, in accordance with Condition 7 (*Taxation*).

See details of the Portuguese taxation regime in *Taxation—Portugal*.

Change of law

The Terms and Conditions of the Covered Bonds are governed by Portuguese law in effect as at the date of issue of the relevant Covered Bonds. No assurance can be given as to the impact of any possible judicial decision or change to Portuguese laws, including the Covered Bonds Law, or administrative practice after the date of issue of the relevant Covered Bonds.

Liquidity risk under the Covered Bonds

Covered Bonds may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Covered Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Covered Bonds that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or incorporating pass-through redemption features or that have been structured to meet the investment requirements of limited categories of investors. These types of Covered Bonds generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a material adverse effect on the market value of Covered Bonds.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Covered Bonds in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risks that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Covered Bonds, (2) the Investor's Currency-equivalent value of the principal payable on the Covered Bonds and (3) the Investor's Currency-equivalent market value of the Covered Bonds. Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Credit ratings assigned to the Covered Bonds may not reflect all the risks associated with an investment in those Covered Bonds

One or more independent credit rating agencies may assign credit ratings to the Covered Bonds. There is no obligation of the Issuer to maintain any rating for the Covered Bonds. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Covered Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be lowered, withdrawn or qualified by the rating agency at any time. In case any credit rating initially assigned to the Covered Bonds is subsequently lowered, withdrawn or qualified for any reason, no person will be obliged to provide any credit facilities or credit enhancement to the Issuer for the original rating to be restored, nor will the Issuer have any obligation to restore the original rating. Any such lowering, withdrawal or qualification of a rating may have an adverse effect on the liquidity and market value of the Covered Bonds.

European regulated institutions are in general restricted from using credit ratings for regulatory purposes under the CRA Regulation, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). Certain information with respect to the credit rating agencies and ratings referred to in this Base Prospectus and/or the Final Terms will be disclosed in the Final Terms.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (*i*) Covered Bonds are legal investments for it, (*ii*) Covered Bonds can be used as collateral for various types of borrowing and (*iii*) other restrictions apply to its purchase or pledge of any Covered Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Covered Bonds under any applicable risk-based capital or similar rules.

Reliance upon Interbolsa procedures and Portuguese law

Investments in Covered Bonds will be subject to Interbolsa procedures and Portuguese law with respect to the following:

(a) Form and Transfer of the Covered Bonds

Covered Bonds held through accounts of Affiliate Members of Interbolsa will be represented in dematerialised book-entry form (“*forma escritural*”) and may be Registered Covered Bonds ("*nominativas*") or Bearer Covered Bonds (“*ao portador*”).

Covered Bonds will be registered in the relevant issue account opened by the Issuer with Interbolsa and will be held in control accounts by the Affiliate Members of Interbolsa on behalf of the relevant holders. Such control accounts will reflect at all times the aggregate number of Covered Bonds held in the individual securities accounts opened by the clients of the Affiliate Members of Interbolsa (which may include Euroclear and Clearstream, Luxembourg). The transfer of Covered Bonds and their beneficial interests will be made through Interbolsa.

(b) Payments on Covered Bonds

All payments on Covered Bonds (including without limitation the payment of accrued interest, coupons and principal) will be (*i*) made by the Issuer to the Agent, (*ii*) transferred, in accordance with the procedures and regulations of Interbolsa, from the account held by the Agent with the Bank of Portugal to the accounts of the Affiliate Members of Interbolsa who hold control accounts on behalf of the holders of Covered Bonds and, thereafter, (*iii*) transferred by the Affiliate Members of Interbolsa from their accounts to the accounts of their clients (which may include Euroclear Bank and Clearstream, Luxembourg).

The holders of Covered Bonds must rely on the procedures of Interbolsa to receive payment under the Covered Bonds. The records relating to payments made in respect of beneficial interests in the Covered Bonds are maintained by the Affiliate Members of Interbolsa and the Issuer accepts no responsibility for, and will not be liable in respect of, the maintenance of such records.

(c) Portuguese Tax Rules

Pursuant to Decree-law 193/2005, of 7 November 2005, as amended from time to time, investment income paid to non-resident holders of Covered Bonds, and capital gains derived from a sale or other disposition of such Covered Bonds, will be exempt from Portuguese income tax only if certain documentation requirements are duly complied with, otherwise there be will a withholding of tax.

The Issuer will not gross up payments in respect of any such withholding tax in case the conditions described in detail in *Taxation* below are not fully met, including failure to deliver or incorrect filling of the certificate or declaration referred to above. Accordingly, holders of Covered Bonds must seek their own advice to ensure that they comply with all procedures to ensure correct tax treatment of their Covered Bonds.

Other Risks

The past performance of Covered Bonds or other mortgage covered securities issued by the Issuer may not be a reliable guide to future performance of the Covered Bonds.

The Covered Bonds may fall as well as rise in value.

Income or gains from Covered Bonds may fluctuate in accordance with market conditions and taxation arrangements.

Other than as set out in this Base Prospectus, it may be difficult for investors in Covered Bonds to sell or realise the Covered Bonds and/or obtain reliable information about their value or the extent of the risks to which they are exposed.

Risks related to the structure of a particular issue of Covered Bonds

A wide range of Covered Bonds may be issued under the Programme. Covered Bonds may have features which contain particular risks for potential investors, who should consider the terms of the Covered Bonds before investing.

Risks relating to Fixed Rate Covered Bonds.

Investment in Fixed Rate Covered Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Covered Bonds.

A holder of a Floating Rate Covered Bonds is exposed to the risk of fluctuating interest rate levels which make it impossible to determine the yield of Floating Rate Covered Bonds in advance and to the risk of uncertain interest income.

Floating Rate Covered Bonds bear a variable interest income. A holder of a Floating Rate Covered Bond is exposed to the risk of fluctuating interest rate levels and uncertain interest income. Fluctuating interest rate levels make it impossible to determine the yield of Floating Rate Covered Bonds in advance. Interest on Floating Rate Covered Bonds may be payable plus or minus a margin.

If the Issuer has the right to redeem the Covered Bonds at its option, this may limit the market value of the Covered Bonds concerned and an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return.

An optional redemption feature of Covered Bonds is likely to limit their market value. During any period when the Issuer may elect to redeem Covered Bonds, the market value of those Covered Bonds generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Covered Bonds when its cost of borrowing is lower than the interest rate on the Covered Bonds. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Covered Bonds being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

If the Issuer has the right to convert the interest rate on any Covered Bonds from a fixed rate to a floating rate or vice versa, this may affect the secondary market and the market value of the Covered Bonds concerned.

Fixed/Floating Rate Covered Bonds may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Covered Bonds since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Covered Bonds tends to be less favourable than then prevailing spreads on comparable Floating Rate Covered Bonds tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Covered Bonds. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate tends to be lower than then prevailing market rates.

Covered Bonds which are issued at a substantial discount or premium may experience price volatility in response to changes in market interest rates.

The market values of securities issued at a substantial discount (such as Zero Coupon Covered Bonds) or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for more conventional interest-bearing securities. Generally, the longer the remaining term of such securities, the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents, which have previously been published and have been filed with the Central Bank of Ireland, shall be deemed to be incorporated in, and to form part of, this Base Prospectus:

a) the Articles of Association (including an English language translation thereof) of the Issuer; Available at:

   https://www.novobanco.pt/site/cms.aspx?srv=207&stp=1&id=898461&fext=.pdf

b) the audited consolidated financial statements of the Issuer in respect of the financial year ended 31 December 2017, together with the auditors' reports prepared in connection therewith; Available at:

   https://www.novobanco.pt/site/cms.aspx?srv=207&stp=1&id=888629&fext=.pdf

c) the audited consolidated financial statements of the Issuer in respect of the financial year ended 31 December 2018, together with the auditors' reports prepared in connection therewith; Available at:

   https://www.novobanco.pt/site/cms.aspx?plg=27a557cb-0060-4ed4-9445-3a11a4d18359

d) the unaudited consolidated financial information of the Group for the three months ended 31 March 2019;

   Available at: https://www.novobanco.pt/site/cms.aspx?plg=bae65f31-d02d-4379-993f-7a0a85cd243b

e) information on Alternative Performance Measures contained on pages 157 to 159 of the Group's 2018 Annual Report.

   Available at: https://www.novobanco.pt/site/cms.aspx?plg=27a557cb-0060-4ed4-9445-3a11a4d18359

The information incorporated by reference in a), b) and c) above is a direct and accurate translation from their original Portuguese form. In the event of a discrepancy the original Portuguese version will prevail.

Following the publication of this Base Prospectus, a supplement may be prepared by the Issuer and approved by the Central Bank of Ireland in accordance with article 16 of the Prospectus Directive.

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of any Covered Bonds, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of Covered Bonds.

Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Base Prospectus or in a document which is incorporated by reference in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.

Copies of documents incorporated by reference in this Base Prospectus can be obtained from the registered offices of the Issuer and from the specified offices of the Agent and of the Common Representative for the time being.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Base Prospectus shall not form part of this Base Prospectus.

The Issuer confirms that any non-incorporated parts of a document referred to herein are either not relevant for an investor or are otherwise covered elsewhere in this Base Prospectus.

The content of websites and hyperlinks to which reference is made in this Base Prospectus other than in this "Documents Incorporated by Reference" section does not form part of this Base Prospectus.

FORM OF THE COVERED BONDS AND CLEARING SYSTEMS

The Covered Bonds will be held through a central securities depositary ("**CSD**") which will be the Portuguese domestic CSD, **Interbolsa** - Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A. as operator of the Central de Valores Mobiliários ("**Interbolsa**").

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Interbolsa (together with any other clearing system which may be chosen from time to time, the "**Clearing Systems**") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but none of the Arrangers or any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer, the Arrangers or any of the Dealers will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, interests in the Covered Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such interests.

Interbolsa holds securities for its participants and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective participants. Interbolsa provides various services including safekeeping, administration, clearance and settlement of domestically and internationally traded securities and securities lending and borrowing.

The address of Interbolsa is Avenida da Boavista, 3433, 4100-138 Porto, Portugal.

Any reference herein to Interbolsa shall, wherever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

The Covered Bonds have not been and will not be registered under the Securities Act and may not be offered or sold in the United States or to, or for the benefit of, US persons unless an exemption from the registration requirements of the Securities Act is available or in a transaction not subject to the registration requirements of the Securities Act (see *Subscription and Sale* and *Secondary Market Arrangements*). Accordingly, the Covered Bonds will only be issued outside the United States in reliance upon Regulation S under the Securities Act.

Covered Bonds held through Interbolsa

General

Interbolsa holds securities through a centralised system ("*sistema centralizado*") composed by interconnected securities accounts, through which such securities (and inherent rights) are held and transferred, and which allows Interbolsa to control at all times the amount of securities so held and transferred. Issuers of securities, financial intermediaries, the Bank of Portugal and Interbolsa, as the controlling entity, all participate in such centralised system.

The centralised securities system of Interbolsa provides for all the procedures required for the exercise of ownership rights inherent to the covered bonds held through Interbolsa.

In relation to each issue of securities, Interbolsa's centralised system comprises, *inter alia*, (*i*) the *issue account*, opened by the relevant issuer in the centralised system and which reflects the full amount of issued securities; and (*ii*) the *control accounts* opened by each of the financial intermediaries which participate in Interbolsa's centralised system, and which reflect the securities held by such participant on behalf of its customers in accordance with its individual securities accounts.

Covered Bonds held through Interbolsa will be attributed an International Securities Identification Number ("**ISIN**") code through the codification system of Interbolsa and will be accepted for clearing through LCH.Clearnet, S.A., the clearing system operated at Interbolsa, as well as through the clearing systems operated by Euroclear and Clearstream, Luxembourg and settled by Interbolsa's settlement system.

Form of the Covered Bonds held through Interbolsa

The Covered Bonds of each Series will be in book-entry form and title to the Covered Bonds will be evidenced by book entries in accordance with the provisions of the Portuguese Securities Code and the applicable CMVM regulations. No physical document of title will be issued in respect of Covered Bonds held through Interbolsa. The Covered Bonds shall be in registered form (*nominativas)* which means that Interbolsa, at the Issuer's request, can ask the Interbolsa Participants information regarding the identity of the holders of Covered Bonds and transmit such information to the Issuer.

The Covered Bonds of each Series will be registered in the relevant issue account opened by the Issuer with Interbolsa and will be held in control accounts by each Interbolsa Participant on behalf of the holders of the Covered Bonds. Such control accounts reflect at all times the aggregate of Covered Bonds held in the individual securities accounts opened by the holders of the Covered Bonds with each of the Interbolsa Participants. The expression "**Interbolsa Participant**" means any authorised financial intermediary entitled to hold control accounts with Interbolsa on behalf of their customers and includes any depository banks appointed by Euroclear and Clearstream, Luxembourg for the purpose of holding accounts on behalf of Euroclear and Clearstream, Luxembourg.

Each person shown in the records of an Interbolsa Participant as having an interest in Covered Bonds shall be treated as the holder of the principal amount of the Covered Bonds recorded therein.

Covered Bonds that are in book-entry form and registered with Interbolsa in its capacity as a securities settlement system, may be eligible for Eurosystem monetary policy. Registering the Covered Bonds with Interbolsa, however, does not necessarily mean that the Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue, or at any or all times during their life, as such recognition will depend upon satisfaction of the Eurosystem eligibilitycriteria.

Payment of principal and interest in respect of Covered Bonds held through Interbolsa

Whilst the Covered Bonds are held through Interbolsa, payment of principal and interest in respect of the Covered Bonds will be (*i*) credited, according to the procedures and regulations of Interbolsa, by the relevant Paying Agent (acting on behalf of the Issuer) to the TARGET2 payment current-accounts held by the Interbolsa Participants whose control accounts with Interbolsa are credited with such Covered Bonds and thereafter (*ii*) credited by such Interbolsa Participants from the aforementioned payment current-accounts to the accounts of the owners of those Covered Bonds or through Euroclear and Clearstream, Luxembourg to the accounts with Euroclear and Clearstream, Luxembourg of the beneficial owners of those Covered Bonds, in accordance with the rules and procedures of Interbolsa, Euroclear or Clearstream, Luxembourg, as the case may be.

The Issuer must provide Interbolsa with a prior notice of all payments in relation to Covered Bonds and all necessary information for that purpose. In particular, such notice must contain:

a) the identity of the Paying Agent responsible for the relevant payment; and

b) a statement of acceptance of such responsibility by the Paying Agent.

The Interbolsa Participant must, at the request of Interbolsa, inform the Paying Agent of the bank accounts to which the relevant payments shall be made. Interbolsa must notify the Paying Agent of the amounts to be settled, which Interbolsa calculates on the basis of the balances and on the tax rules governing the accounts of the Interbolsa Participants.

In the case of a partial payment, the amount held in the TARGET2 current account of the Paying Agent must be apportioned pro-rata between the accounts of the Interbolsa Participants. After a payment has been processed, whether in full or in part, the Paying Agent must confirm that fact to Interbolsa.

Transfer of Covered Bonds held through Interbolsa

Covered Bonds held through Interbolsa may, subject to compliance with all applicable rules, restrictions and requirements of Interbolsa and Portuguese law, be transferred to a person who wishes to hold such Covered Bonds. No owner of a Covered Bond will be able to transfer such Covered Bond, except in accordance with Portuguese Law and the applicable procedures of Interbolsa.

FINAL TERMS FOR COVERED BONDS

The form of Final Terms that will be issued in respect of each Tranche of Covered Bonds issued under the Programme, subject only to the deletion of non-applicable provisions, is set out below:

MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ELIGIBLE COUNTERPARTIES MARKET – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Covered Bonds has led to the conclusion that: (i) the target market for the Covered Bonds is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); and (ii) all channels for distribution of the Covered Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Covered Bonds (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.

PRIIPs / IMPORTANT – PROHIBITION OF SALE TO EEA RETAIL INVESTORS – The Covered Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II or (ii) a customer within the meaning of Directive 2016/97/UE (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended the "**PRIIPs Regulation**") for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Final Terms dated [●]

Novo Banco, S.A.

Issue of [***Aggregate Nominal Amount of Tranche***] [**[●]** per cent./Floating Rate/Zero Coupon] Covered Bonds due **[●]**

under the €10,000,000,000.00 Conditional Pass-through Covered Bonds Programme

THE COVERED BONDS (AS DESCRIBED HEREIN) ARE MORTGAGE COVERED BONDS ISSUED IN ACCORDANCE WITH DECREE-LAW 59/2006, OF 20 MARCH 2006 (AS AMENDED, THE "COVERED BONDS LAW") AND FURTHER APPLICABLE REGULATIONS. THE ISSUER HAS THE CAPACITY TO ISSUE COVERED BONDS IN ACCORDANCE WITH THE COVERED BONDS LAW. THE FINANCIAL OBLIGATIONS OF THE ISSUER UNDER THE COVERED BONDS ARE SECURED ON THE COVER POOL MAINTAINED BY THE ISSUER IN ACCORDANCE WITH THE COVERED BONDS LAW.

This document constitutes the Final Terms relating to the issue of Covered Bonds described herein.

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of the Covered Bonds (the "Terms and Conditions") set forth in the Base Prospectus dated 18 July 2019 [and the supplement dated [●]] which [together] constitute[s] a base prospectus for the purposes of Directive 2003/71/EC, as amended (the "Prospectus Directive"). [This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented].][1] Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus [and the supplement] [is] [are] available for viewing during normal business hours at Novo Banco, S.A**.,** Avenida da Liberdade, 195, 1250-142 Lisbon, and physical copies may be obtained from the same address and electronic copies from the website of the Issuer (www.novobanco.pt).

[*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Final Terms.*]

1	Issuer:	Novo Banco, S.A. (with LEI 5493009W2E2YDCXY6S81)
2	(i) Series Number:	[●]
	(ii) [Tranche Number:	[●]
		(*If fungible with an existing Series, details of that Series, including the date on which the Covered Bonds become fungible.*)]
3	Specified Currency or Currencies:	[●]

[1] Include for listed Covered Bonds only.

4	Aggregate Nominal Amount of Covered Bonds:	
	A. Series:	[●]
	B. [Tranche:	[●]]
	Specify whether Covered Bonds to be admitted to trading	[Yes (*if so, specify each Series/Tranche*) / No]
5	(i) Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*if applicable*)]
	(ii) [Net Proceeds (Required only for listed issues)]	[●]]
6	Specified Denominations:	[€100,000 / *equivalent in other currencies*] [●]
7	(i) Issue Date:	[●]
	(ii) [Interest Commencement Date:	[●] [Issue Date] [Not Applicable]]
8	Maturity Date:	(*specify date or (for Floating Rate Covered Bonds) Interest Payment Date falling in or nearest to the relevant month andyear*)
9	Extended Maturity Date:	[insert date] (*The date should not fall later than 50 years after the Issue Date of such Series.)*
10	Interest Basis:	
	(i) Period to (and including) Maturity Date or the Pass-through Date, as applicable:	[[●] per cent. Fixed Rate] [Libor/Euribor] +/- [●] per cent. Floating Rate] [Zero Coupon] (further particulars specified below)
	(ii) Period from (but excluding) the Pass-through Date up to (and including) Extended Maturity Date:	[Not Applicable] / [[●] per cent. Fixed Rate] [Libor/Euribor] +/- [●] per cent. Floating Rate]

(further particulars specified
below)

11	Redemption/Payment Basis:	Subject to any purchase and cancellation or early redemption, the Covered Bonds willbe redeemed on the Maturity Date in the following basis: [Redemption at par] [Instalment] If the maturity of the Covered Bonds is extended pursuant to Condition 6.8, redemption will be made in accordance with Condition 6.9.
12	Change of Interest or Redemption/Payment Basis	(*Specify the date when any fixed to floating rate change occurs or cross refer to paragraphs 16 and 17 below and identify there* [Not Applicable].*)*
13	Put/Call Options:	[Investor Put] [Issuer Call] [Not Applicable] [(further particulars specified below)]
14	(i) Status of the Covered Bonds:	The Covered Bonds will be direct, unconditional and unsubordinated and secured obligations of the Issuer and rank *pari passu* without any preference among themselves. The Covered Bonds will qualify as mortgage covered bonds for the purposes of the Covered Bonds Law.
	(ii) [Date of [Board] approval for issuance of Covered Bonds obtained]:	[●] [Not applicable]
15	Method of distribution:	[Syndicated / Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16 Fixed Rate Covered Bonds Provisions

- To Maturity Date or Pass-through Date, asapplicable:
- From Pass-through Date up to Extended Maturity Date:

[Applicable] / [Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)

[Applicable / Not Applicable] (*If subparagraphs (i) and (ii) not applicable, delete the remaining subparagraphs of this paragraph*)

(*State "Not Applicable" unless the Covered Bonds are Fixed Rate Covered Bonds after the Pass-through Date.*)

(i) Rate [(s)] of Interest:	
• To Maturity Date or Pass-through Date, as applicable:	[●] per cent. per annum [payable in arrear on each Interest Payment Date]
• From Pass-through Date up to Extended Maturity Date:	[Not Applicable] / [●] per cent per annum. [payable in arrear on each Interest Payment Date] (*State "Not Applicable" unless the Covered Bonds are Fixed Rate Covered Bonds after the Pass-through Date.*)
(ii) Interest Payment Date(s):	
• To Maturity Date or Pass-through Date, as applicable:	[[●] in each year up to and including the Maturity Date or Pass-through Date, as applicable / [●](*specify other*)]
• From Pass-through Date up to Extended Maturity Date:	In each month up to the Extended Maturity Date, on the same day of the month of the Pass-through Date. For the avoidance of doubt, the first Interest Payment Date after the Pass-through Date will fall on the same day of the month of the Pass-through Date in the immediately following month. (*State "Not Applicable" unless the Covered Bonds are Fixed Rate Covered Bonds after the Pass-through Date.*)
(iii) Fixed Coupon Amount [(s)]:	
• To Maturity Date or Pass-through Date, as applicable:	[[●] per [●] in nominal amount]
• From Pass-through Date up to Extended Maturity Date:	[Not Applicable] [[●] per [●] in nominal amount] (*State "Not Applicable" unless the Covered Bonds are Fixed Rate Covered Bonds after the Pass-through Date.*)
(iv) Broken Amount:	
• To Maturity Date or Pass-through Date, as applicable:	[●] (*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount [(s)] and the Interest Payment Date(s) to which they relate*)
• From Pass-through Date up to Extended Maturity Date:	[Not Applicable] [●] (*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount [(s)] and the Interest Payment Date(s) to which*

they relate)

(*State "Not Applicable" unless the Covered*

		Bonds are Fixed Rate Covered Bonds after the Pass-through Date.)
	(v) Day Count Fraction	
	• To Maturity Date or Pass-through Date, as applicable:	[30/360] [Actual/Actual (ICMA)]
	• From Pass-through Date up to Extended Maturity Date:	[Not Applicable] [30/360] [Actual/Actual (ICMA)] (*State "Not Applicable" unless the Covered Bonds are Fixed Rate Covered Bonds after the Pass-through Date.*)
	(vi) Determination Date(s):	
	• To Maturity Date or Pass-through Date, as applicable:	[[●] in each year] (*Insert day(s) and month(s) on which interest is normally paid (if more than one, then insert such dates in the alternative*)
	• From Pass-through Date up to Extended Maturity Date:	[Not Applicable] [[●] in each year] (*Insert day(s) and month(s) on which interest is normally paid (if more than one, then insert such dates in the alternative*) (*State "Not Applicable" unless the Covered Bonds are Fixed Rate Covered Bonds after the Pass-through Date.*)
17	Floating Rate Covered Bonds Provisions	
	• To Maturity Date or Pass-through Date, as applicable:	[Applicable] / [Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph.*)
	• From Pass-through Date up to Extended Maturity Date:	[Applicable] / [Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph.*) (*State "Not Applicable" unless the Covered Bonds are Floating Rate Covered Bonds after the Pass-through Date.*)
	(i) Specified Period(s)/Specified Interest Payment Dates:	
	• To Maturity Date or Pass-through Date, as applicable:	
	• From Pass-through Date up to Extended Maturity Date:	In each month up to the Extended Maturity Date, on the same day of the month of the Pass-through

Date. For the avoidance of doubt, the first Interest Payment Date after the Pass-through Date will fall on the same day of the month of the Pass-through Date in the immediately following month.

(*State "Not Applicable" unless the Covered Bonds are Floating Rate Covered Bonds after the Pass-through Date.*)

(ii) Business Day Convention:

- To Maturity Date or Pass-through Date, as applicable: [Floating Rate Convention] / [Following Business Day Convention] / [Modified Following Business Day Convention] / [Preceding Business Day Convention]

- From Pass-through Date up to Extended Maturity Date: [Not Applicable] / [Floating Rate Convention] / [Following Business Day Convention] / [Modified Following Business Day Convention] / [Preceding Business Day Convention] (*State "Not Applicable" unless the Covered Bonds are Floating Rate Covered Bonds after the Pass- through Date.*)

(iii) Additional Business Centre(s):

- To Maturity Date or Pass-through Date, as applicable:

- From Pass-through Date up to Extended Maturity Date: [Not Applicable]/ [●]

  (*State "Not Applicable" unless the Covered Bonds are Floating Rate Covered Bonds after the Pass-through Date.*)

(iv) Manner in which the Rate of Interest and Interest Amount is to be determined:

- To Maturity Date or Pass-through Date, as applicable: [Screen Rate Determination] / [ISDA Determination]

- From Pass-through Date up to Extended Maturity Date: [Not Applicable] / [Screen Rate Determination] / [ISDA Determination]

  (*State "Not Applicable" unless the Covered Bonds are Floating Rate Covered Bonds after the Pass-through Date.*)

(v) Party responsible (the "**Calculation Agent**") for calculating the Rate of Interest and Interest Amount (if not the Agent):

• To Maturity Date or Pass-through Date, as applicable:	[●]

• From Pass-through Date up to Extended Maturity Date:	[Not Applicable]/ [●] (*State "Not Applicable" unless the Covered Bonds are Floating Rate Covered Bonds after the Pass-through Date, as applicable.*)
(vi) Screen Rate Determination:	
i. To Maturity Date or Pass-through Date, as applicable:	[Applicable] / [Not Applicable]
Reference Rate:	[Libor/Euribor]
Interest Determination Date:	[●] (*Second London business day prior to start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day of on which the TARGET2 System is open prior to the start of each Interest Period if Euribor or euro LIBOR*)
Relevant Screen Page:	[●] (*in the case of Euribor, if not Reuters EURIBOR01, ensure it is a page which shows a composite rate or amend the fallback provisions accordingly*)
ii. From Pass-through Date up to Extended Maturity Date:	[Applicable] / [Not Applicable] (*State "Not Applicable" unless the Covered Bonds are Floating Rate Covered Bonds after the Pass-through Date, as applicable.*)
Reference Rate:	[Libor/Euribor]
Interest Determination Date:	[●] (*Second London business day prior to start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day of on which the TARGET2 System is open prior to the start of each Interest Period if Euribor or euro LIBOR*)
Relevant Screen Page:	[●] (*in the case of Euribor, if not Reuters EURIBOR01, ensure it is a page which shows a composite rate or amend the fallback provisions accordingly*)
(vii) ISDA Determination:	

i.	To Maturity Date or Pass-through Date, as applicable:	[Applicable] / [Not Applicable]

Floating Rate Option:	[●]
Designated Maturity:	[●]
Reset Date:	[●]
ii. From Pass-through Date up to Extended Maturity Date:	[Applicable] / [Not Applicable] (*State "Not Applicable" unless the Covered Bonds are Floating Rate Covered Bonds after the Pass-through Date.*)
Floating Rate Option:	[●]
Designated Maturity:	[●]
Reset Date:	[●]

(viii) Margin(s):

• To Maturity Date or Pass-through Date, as applicable:	[+/-] [●] per cent. per annum
• From Pass-through Date up to Extended Maturity Date:	[Not Applicable] / [[+/-] [●] per cent. per annum] (*State "Not Applicable" unless the Covered Bonds are Floating Rate Covered Bonds after the Pass-through Date.*)

(ix) Minimum Rate of Interest:

• To Maturity Date or Pass-through Date, as applicable:	[●] per cent. per annum
• From Pass-through Date up to Extended Maturity Date:	[Not Applicable] / [[●] per cent. per annum] (*State "Not Applicable" unless the Covered Bonds are Floating Rate Covered Bonds after the Pass-through Date.*)

(x) Maximum Rate of Interest:

• To Maturity Date or Pass-through Date, as applicable	[●] per cent. per annum
• From Pass-through Date up to Extended Maturity Date:	[Not Applicable] / [[●] per cent. per annum] (*State "Not Applicable" unless the Covered Bonds are Floating Rate Covered Bonds after the Pass-through Date.*)

(xi) Day Count Fraction:

• To Maturity Date or Pass-through Date, as applicable	[*Actual*/365] [Actual/365 (Fixed)] [Actual/365 (Sterling)]

		[Actual/360] [30/360] [30E/360] *(see Condition 4 (Interest) for alternatives)*
	• From Pass-through Date up to Extended Maturity Date:	[Not Applicable] [*Actual*/365] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360] [30E/360] (*see Condition 4 (Interest) for alternatives*) (*State "Not Applicable" unless the Covered Bonds are Floating Rate Covered Bonds after the Pass-through Date.*)
18	Zero Coupon Covered Bonds Provisions	[Applicable] / [Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i) Accrual Yield:	[●] per cent. per annum
	(ii) Reference Price	[●]

PROVISIONS RELATING TO REDEMPTION

19	**Call Option**	[Applicable]/[Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s) of each Covered Bond:	[●] per Covered Bond of [●] Specified Denomination
	(iii) If redeemable in part:	
	(a) Minimum Redemption Amount:	[●]
	(b) Maximum Redemption Amount:	[●]

(iv) Notice period (if other than as set	[●] (*NB – If setting notice periods which are different to those provided in the Terms and*

		out in the Terms and Conditions):	*Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent*)
20	**Put Option**		[Applicable] / [Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i)	Optional Redemption Date(s):	[●]
	(ii)	Optional Redemption Amount(s) of each Covered Bond:	[●] per Covered Bond of [●] Specified Denomination
	(iii)	Notice period:	[●] (*NB – If setting notice periods which are different to those provided in the Terms and Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent*)
21	Final Redemption Amount of each Covered Bond		[●] per Covered Bond of [●] Specified Denomination [subject to Condition 6.7 (*NB in case of Zero Coupon Covered Bonds)*]

GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

22	Form of Covered Bonds:	Book-entry form Registered (*nominativas*) Held through Interbolsa
23	Additional Financial Centre(s):	[Not Applicable] / [●] (*give details*) (*Note that this item relates to the place of payment and not Interest Period end dates to which item 17 relates*)
24	Details relating to Partly Paid Covered Bonds: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Covered Bonds and interest due on late payment:	

[Not Applicable] / [●] (*give details*)

25	Details relating to Instalment Covered Bonds:	
	(i) Instalment Amount(s):	[Not Applicable / [●] (*give details*)
	(ii) Instalment Date(s):	[Not Applicable / [●] (*give details*)
26	Redenomination applicable:	[Applicable] / [Not Applicable]

DISTRIBUTION

27	(i) If syndicated, names of Dealers:	[Not Applicable] / [●] (*give names and date of relevant agreement*)
	(ii) Stabilising Manager (if any):	[Not Applicable] / [●] (*give names*)
	(iii) Commission Payable / Selling Concession:	[●]
28	If non-syndicated, name of relevant Dealer:	[Not Applicable] / [●] (*give names and date of relevant agreement*)
29	Whether TEFRA D or TEFRAC rules applicable or TEFRA rules not applicable:	[TEFRA D/TEFRA C/TEFRA not applicable]]

LISTING AND ADMISSION TO TRADING APPLICATION

These Final Terms comprise the final terms required to list and have admitted to trading the issue of the Covered Bonds described herein pursuant to the €10,000,000,000.00 Conditional Pass-through Covered Bonds Programme of Novo Banco, S.A.

RESPONSIBILITY

The Issuer is responsible for the information contained in these Final Terms. [[*Relevant third party information*] has been extracted from [*specify source*]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:

By: ....

Duly authorised

PART B – OTHER INFORMATION

1. Listing and admission to trading

(i) Listing:	[Euronext Dublin] / [other] *(specify)* / [None]
(ii) Admission to trading:	[Application [has been made/is expected to be made] for the Covered Bonds to be admitted to trading on [Euronext Dublin]/[other] *(specify* with effect from [●].] [NotApplicable.] (*Where documenting a fungible issue need to indicate that original securities are already admitted to trading.*)
(iii) Estimate of total expenses related to admission to trading	[●]

2. Rating

Rating:	[The Covered Bonds to be issued [have been] [are expected to be] rated:] [The Covered Bonds issued under the Programme generally [have been] [are expected to be] rated:] [Moody's: [●]] [DBRS: [●]] (*The above disclosure should reflect the rating allocated to Covered Bonds of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.*)

3. [Notification

Central Bank of Ireland [has been requested to provide/has provided - *include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues*] the [*include names of competent authorities of host Member States*] with a certificate of approval attesting that the Base Prospectus has been drawn up in accordance with the Prospectus Directive.]

4. [Interests of Natural and Legal Persons Involved in the [Issue/Offer]

Save for fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the offer of the Covered Bonds has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuers and its affiliates in the ordinary course of business. (*amend as appropriate if there are other interests)*

(*When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a* *supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)*]

5. **Estimated Net Proceeds and Total Expenses**

[(i)	Estimated net proceeds	[●]]
[(ii)	Estimated total expenses:	[●]]

6. **[YIELD - Fixed Rate Covered Bonds only]**

Indication of yield:	[●]
	The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

7. **Operational Information**

(i)	ISIN Code:	[●]
(ii)	Common Code:	[●]
(iii)	CFI:	[[●]/Not Applicable]
(iv)	FISN:	[[●]/Not Applicable]
(v)	Any clearing system(s) other than Interbolsa - Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A. as operator of the *Central de Valores Mobiliários* and the relevant identification number(s) and addresses:	[Not Applicable] / [●] (give *name(s), number(s) and adresse(s))*)
(vi)	Delivery:	Delivery [against/free of] payment
(vii)	Names and addresses of additional Paying Agent(s) (if any):	[●]
(viii)	[Intended to be held in a manner which would allow Eurosystem	eligibility:]

[[Yes] [No]

[Note that the designation "yes" simply means that the Covered Bonds are intended upon issue to be registered with Interbolsa – Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A. in its capacity as a securities settlement system, and does not necessarily mean that the Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.] (*Include this text if "yes" selected*)

8. Repurchase Commitment

(i) Applicability of the Repurchase Commitment:	[Yes] [No]
(ii) Repurchase amount	[●]

TERMS AND CONDITIONS OF THE COVERED BONDS

The following are the Terms and Conditions of the Covered Bonds which will be incorporated by reference into each Covered Bond (as defined below). The applicable Final Terms (or the relevant provisions thereof) will be incorporated by reference into each Covered Bond. Reference should be made to ''Final Terms for Covered Bonds'' for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Covered Bonds.

THE COVERED BONDS (AS DEFINED IN THESE TERMS AND CONDITIONS) ARE MORTGAGE COVERED BONDS ("*OBRIGAÇÕES HIPOTECÁRIAS*") ISSUED IN ACCORDANCE WITH THE COVERED BONDS LAW (AS DEFINED). THE ISSUER (AS DEFINED IN THESE TERMS AND CONDITIONS) IS A CREDIT INSTITUTION WITH THE CAPACITY TO ISSUE COVERED BONDS PURSUANT TO THE

COVERED BONDS LAW. THE FINANCIAL OBLIGATIONS OF THE ISSUER UNDER THE COVERED BONDS LAW ARE SECURED ON THE ASSETS THAT COMPRISE THE COVER POOL (AS DEFINED BELOW) MAINTAINED BY THE ISSUER IN ACCORDANCE WITH THE COVERED BONDS LAW. THE COVER POOL IS AUTONOMOUS FROM ANY OTHER COVER POOL MAINTAINED BY THE ISSUER IN RELATION TO ANY OTHER PROGRAMMES THAT IT HAS OR MAY ESTABLISH IN THE FUTURE.

This Covered Bond is one of a Series (as defined below) of mortgage covered bonds issued by Novo Banco, S.A. (the "**Issuer**") in accordance with the procedures set out in the Set of Agency Procedures (as defined below).

References herein to the Covered Bonds shall be references to the Covered Bonds of this Series and shall mean, whilst the Covered Bonds are held through Interbolsa, the book-entries corresponding to the Specified Denomination in the Specified Currency (as specified in the applicable Final Terms).

The Covered Bonds have the benefit of a set of agency procedures (such set of agency procedures as amended and/or supplemented and/or restated from time to time, the "**Set of Agency Procedures**") dated 5 October 2015 and made and agreed by Novo Banco, S.A. (acting in its capacity as Agent and Paying Agent, which expressions shall include any successors, and as Issuer) and by any subsequent agent, paying agent, transfer agent and/or agent bank appointed by the Issuer.

Any reference to "**holders of Covered Bonds**" shall mean, while the Covered Bonds are held through Interbolsa, the person or entity registered as such in the relevant individual securities account held with the relevant Interbolsa Participant.

As used herein, Tranche means Covered Bonds which are identical in all respects (including as to listing) and Series means a Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates, interest rates and/or IssuePrices.

Copies of the Set of Agency Procedures are available for inspection during normal business hours at the specified office of each of the Paying Agents (such Paying Agents being together referred to as the "**Agents**"). Copies of the applicable Final Terms are obtainable during normal business hours at the specified office of each of the Agents and at the Euronext Dublin's website – www.ise.ie, save that, if these Covered Bonds are unlisted, the applicable Final Terms will only be obtainable by a holder holding one or more unlisted Covered Bonds and such holder must produce evidence satisfactory to the Issuer and the relevant Agent as to its holding of such Covered Bonds and identity. The Covered Bonds holders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Set of Agency Procedures and the applicable Final Terms which are applicable to them. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Set of Agency Procedures.

Words and expressions defined in the Set of Agency Procedures or used in the applicable Final Terms shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Set of Agency Procedures and the applicable Final Terms, the applicable Final Terms will prevail.

As used herein, **outstanding** means in relation to the Covered Bonds all the Covered Bonds issued other than:

(a) those Covered Bonds which have been redeemed and cancelled pursuant to these Terms and Conditions;

(b) those Covered Bonds in respect of which the date for redemption under these Terms and Conditions has occurred and the redemption moneys (including all interest (if any) accrued to the date for redemption and any interest (if any) payable under these Terms and Conditions after that date) have been duly paid to or to the order of the Agent in the manner provided in the Set of Agency Procedures (and, where appropriate, notice to that effect has been given to the Covered Bonds holders in accordance with these Terms and Conditions);

(c) those Covered Bonds which have been purchased and cancelled under these Terms and Conditions;

(d) those Covered Bonds which have become prescribed under these Terms and Conditions;

(e) (for the purpose only of ascertaining the principal amount of the Covered Bonds outstanding and without prejudice to the status for any other purpose of the relevant Covered Bonds) those Covered Bonds which are alleged to have been lost or destroyed and in respect of which replacements have been issued under these Terms andConditions.

In connection with the issue of any Tranche (as defined in *General Description of the Programme*), the Dealer or Dealers (if any) named as the stabilising manager(s) (the "**Stabilising Manager(s)**") (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Covered Bonds or effect transactions with a view to supporting the market price of the Covered Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake any stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche is made and, if begun, will be in compliance with all relevant laws and regulations and may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche and 60 days after the date of the allotment of the relevant Tranche. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or person(s) acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws andrules.

1. FORM, DENOMINATION AND TITLE

The Covered Bonds are in registered form (*nominativas*). Covered Bonds of one Specified Denomination may not be exchanged for Covered Bonds of another Specified Denomination.

The Covered Bonds held through Interbolsa will be in book-entry form and title to the Covered Bonds will be evidenced by book entries in accordance with the provisions of Portuguese Securities Code and the applicable CMVM regulations. No physical document of title will be issued in respect of the Covered Bonds. Each person shown in the records of an Interbolsa Participant as having an interest in Covered Bonds shall be treated as the holder of the principal amount of the Covered Bonds recorded therein. Book Entry Covered Bonds shall be registered covered bonds ("*nominativas*") which means that Interbolsa, at the Issuer's request, can ask the Affiliated Members of Interbolsa for information regarding the identity of the holders of Covered Bonds.

This Covered Bond may be a Fixed Rate Covered Bond, a Floating Rate Covered Bond, a Zero Coupon Covered Bond or a combination of any of the foregoing, depending upon the Interest Basis shown and as specified in the applicable Final Terms.

Terms applicable to other types and structures of Covered Bonds that the Issuer and any Dealer(s) may agree to issue under the Programme will be set out in the applicable Final Terms.

The Covered Bonds may be Fixed Rate Covered Bonds, Floating Rate Covered Bonds or Zero Coupon Covered Bonds in respect of the period from the Issue Date to and including the Maturity Date or the Pass-through Date, as applicable, and Fixed Rate Covered Bonds or Floating Rate Covered Bonds in respect of the period from the Pass-through Date up to and including the Extended Maturity Date, subject as specified in the applicable FinalTerms.

The Covered Bonds may be Instalment Covered Bonds depending upon the Redemption/Payment Basis shown, and as specified, in the applicable Final Terms.

The Covered Bonds to be issued on or after the date hereof will be issued in denomination per unit equal to or higher than €100,000 (or if the Covered Bonds are denominated in a currency other than euro, the equivalent amount in such currency) as may be agreed between the Issuer and the relevant dealer(s), as specified in the relevant Final Terms and provided that each series of Covered Bonds will have one denomination only.

2. TRANSFERS OF COVERED BONDS

The transferability of the Covered Bonds is not restricted.

Covered Bonds held through Interbolsa may, subject to compliance with all applicable rules, restrictions and requirements of Interbolsa and Portuguese law, be transferred to a person who wishes to hold such Covered Bond. No owner of a Covered Bond will be able to transfer such Covered Bond, except in accordance with Portuguese Law and with the applicable procedures of Interbolsa.

Subject as set out below, title to the Covered Bonds will be evidenced by book entries in accordance with the provisions of Portuguese Securities Code, the applicable CMVM regulations and the provisions of the Set of Agency Procedures. The Issuer, the Paying Agent and the Common Representative will (except as otherwise required by law) deem and treat the registered holder of any Covered Bond as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes.

Any reference herein to Interbolsa shall, wherever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms. The holders of Covered Bonds will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

3. STATUS OF THE COVERED BONDS

The Covered Bonds issued under the Programme and any interest thereon, if applicable, constitute direct, unconditional, unsubordinated and secured obligations of the Issuer and rank *pari passu* without any preference among themselves. The Covered Bonds are mortgage covered securities issued in accordance with the Covered Bonds Law, which are secured by a Cover Pool maintained by the Issuer in accordance with the terms of the Covered Bonds Law.

4. INTEREST

4.1 Interest on Fixed Rate Covered Bonds

Each Fixed Rate Covered Bond bears interest on its Principal Amount Outstanding from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Subject as provided in Condition 4.4, interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date or the Pass-through Date, as applicable (as specified in the relevant Final Terms).

Except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in these Terms and Conditions, **"Fixed Interest Period"** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If interest is required to be calculated for a period other than a Fixed Interest Period, such interest shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest in accordance with this Condition 4.1:

(i) if "**Actual/Actual (ICMA)**" is specified in the applicable Final Terms:

(a) in the case of Covered Bonds where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the "**Accrual Period**") is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or

(b) in the case of Covered Bonds where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

1. the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

2. the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(ii) if "**30/360**" is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In these Terms and Conditions:

(i) "**Determination Period**" means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

(ii) "**Principal Amount Outstanding**" means in respect of a Covered Bond the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant holder of the Covered Bond in respect thereof.

(iii) "**sub-unit**" means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

4.2 Interest on Floating Rate Covered Bonds

(A) Interest Payment Dates

Each Floating Rate Covered Bond bears interest on its Principal Amount Outstanding from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

(i) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or

(ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an "**Interest Payment Date**") which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Terms and Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any

Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

(i) in any case where Specified Periods are specified in accordance with Condition 4.2.(ii) above, the Floating Rate Convention (as specified in the applicable Final Terms), such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or

(ii) the Following Business Day Convention (as specified in the applicable Final Terms), such Interest Payment Date shall be postponed to the next day which is a Business Day; or

(iii) the Modified Following Business Day Convention (as specified in the applicable Final Terms), such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

(iv) the Preceding Business Day Convention (as specified in the applicable Final Terms), such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Terms and Conditions, "**Business Day**" means a day which is both:

(i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and Lisbon and any Additional Business Centre(s) specified in the applicable Final Terms; and

(ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and Lisbon and any Additional Business Centre(s)) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

(B) Rate of Interest

The rate of interest payable from time to time in respect of Floating Rate Covered Bonds ("**Rate of Interest**") will be determined in the manner specified in the applicable Final Terms.

(i) *ISDA Determination for Floating Rate Covered Bonds:* Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph, "**ISDA Rate**" for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent or other person specified in the applicable Final Terms under an interest rate swap transaction if the Agent or that other person were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Covered Bonds (the "**ISDA Definitions**") and under which:

   1. the Floating Rate Option is as specified in the applicable Final Terms;

   2. the Designated Maturity is the period specified in the applicable Final Terms; and

   3. the relevant Reset Date is either (A) if the applicable Floating Rate Option is based on the London inter-bank offered rate (LIBOR) or the Euro-zone inter-bank offered rate (EURIBOR) for a currency, the first day of that Interest Period, or (B) in any other case, as specified in the applicable Final Terms.

For the purposes of this sub-paragraph 4.2.(B), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**" and "**Reset Date**" have the meanings given to those terms in the ISDA Definitions.

(ii) *Screen Rate Determination for Floating Rate Covered Bonds*: Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

1. the offered quotation (if there is only one quotation on the Relevant Screen Page); or

2. the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent or, where the applicable Final Terms specifies a Calculation Agent, the Calculation Agent so specified. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) or, as applicable, the relevant Calculation Agent, of such offered quotations.

The Set of Agency Procedures contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (i) above, no such offered quotation appears or, in the case of (ii) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Covered Bonds is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Covered Bonds will be determined as provided in the applicable Final Terms.

(C) Minimum Rate of Interest and/or Maximum Rate of Interest

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph 4.2 above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest. If no minimum interest rate is specified or if the minimum interest rate is specified as Not Applicable in the applicable Final Terms, then the minimum interest rate shall be zero.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph 4.2 above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate ofInterest.

(D) Determination of Rate of Interest and calculation of Interest Amounts

The Agent or, where the applicable Final Terms specifies a Calculation Agent, the Calculation Agent so specified, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Agent or, where the applicable Final Terms specifies a Calculation Agent, the Calculation Agent so specified, will calculate the amount of interest payable on the Floating Rate Covered Bonds in respect of each Specified Denomination (each an "**Interest Amount**") for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest for any Interest

Period:

(i) if "**Actual/365"** or "**Actual/Actual**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by365);

(ii) if "**Actual/365 (Fixed)**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;

(iii) if "**Actual/365 (Sterling)**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(iv) if "**Actual/360**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;

(v) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and

(vi) if "**30E/360**" or "**Eurobond Basis**" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).

(E) Benchmark discontinuation

(i) Independent Adviser

Notwithstanding the provisions in Condition 4.2 above, if a Benchmark Event occurs in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Original Reference Rate the Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, but no later than 10 days prior to the Interest Determination Date relating to the next Interest Period for which the Rate of Interest (or the relevant component part thereof) is otherwise to be determined by reference to the Original Reference Rate (the "**IA Determination Cut-Off Date**", at its own costs to determine a Successor Rate, failing which an Alternative Rate (in accordance with Condition 4.2(E) (ii) and, in either case, an Adjustment Spread and any Benchmark Amendments (in accordance with Condition 4.2(E)(v) and (vi), respectively). In making such determination, Independent Adviser appointed pursuant to this Condition 4.2(E) shall act in good faith as an expert. In the absence of bad faith or fraud, the Independent Adviser shall have no liability whatsoever to the Issuer, the Agents or the Noteholders for any determination made by it pursuant to this Condition 4.2(E).

(ii) Issuer Determination

If (a) the Issuer is unable to appoint an Independent Adviser; or (b) the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with this Condition 4.2(E) prior to the relevant IA Determination Cut-Off Date /Interest Determination Date, the Issuer acting in good faith and in a commercially reasonable manner may itself determine (but shall not be obliged to determine) (1) a Successor Rate or Alternative Rate and (2) in either case an Adjustment Spread and/or any Benchmark Amendments in accordance with this Condition 4.2(E) (with the relevant provisions in this Condition 4.2(E) applying mutatis mutandis to allow such determinations to be made by the

Issuer without consultation with the Independent Adviser). In the event that the Issuer decides to make a determination in accordance with this condition 4.2(E), without prejudice to the definitions hereof, for the purpose of determining any Successor Rate, Alternative Rate, Adjustment Spread and/or Benchmark Amendments (as the case may be), the Issuer shall take into account published guidance from relevant associations involved in the establishment of market standards and/or protocols in the international debt capital markets.

(iii) Issuer's failure to determine a Successor Rate or Alternative Rate

If the Issuer fails to determine a Successor Rate or, failing which, an Alternative Rate, or otherwise decides not to determine a Successor Rate or Alternative Rate in accordance with the Condition 4.2(E)(ii) prior to the relevant IA Determination Cut-Off Date, the Rate of Interest applicable to the next succeeding Accrual Period shall be equal to the Rate of Interest last determined in relation to the Covered Bonds in respect of the immediately preceding Accrual Period. If there has not been a first Interest Payment Date, the Rate of Interest shall be the initial Rate of Interest. Where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Accrual Period from that which applied to the last preceding Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Accrual Period shall be substituted in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Accrual Period. For the avoidance of doubt, this paragraph shall apply to the relevant next succeeding Accrual Period only and any subsequent Accrual Periods are subject to the subsequent operation of, and to adjustment as provided in, the first paragraph of this Condition 4.2(E).

(iv) Successor Rate or Alternative Rate

If the Independent Adviser, determines that:

(i) there is a Successor Rate, then such Successor Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Covered Bonds (subject to the operation of this Condition 4.2(E)); or

(ii) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Covered Bonds (subject to the operation of this Condition 4.2(E)).

(v) Adjustment Spread

The Adjustment Spread (or the formula or methodology for determining the Adjustment Spread) shall be applied to the Successor Rate or the Alternative Rate (as the case may be).

(vi) Benchmark Amendments

If any Successor Rate or Alternative Rate and, in either case, the applicable Adjustment Spread is determined in accordance with this Condition 4.2(E) and the Independent Adviser or Issuer, as the case may be, acting in good faith and in a commercially reasonable manner, determines (1) that amendments to these Conditions are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and/or (in either case) the applicable Adjustment Spread (such amendments, the "Benchmark Amendments") and (2) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 4.2(E)(vii), without any requirement for the consent or approval of Noteholders, vary these Conditions to give effect to such Benchmark Amendments with effect from the date specified in such notice.

In connection with any such variation in accordance with this Condition 4.2(E)(vi), the Issuer shall comply with the rules of any stock exchange on which the Covered Bonds are for the time being listed or admitted to trading.

(vii) Notices, etc.

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any

Benchmark Amendments determined under this Condition 4.2(E) will be notified promptly by the Issuer to the Common Representative, the Agent, the Calculation Agent and, in accordance with Condition 11, the Noteholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Common Representative of the same, the Issuer shall deliver to the Common Representative a certificate signed by Authorised Signatories of the Issuer:

a) confirming (i) that a Benchmark Event has occurred, (ii) the Successor Rate or, as the case may be, the Alternative Rate, (iii) the applicable Adjustment Spread and (iv) the specific terms of the Benchmark Amendments (if any), in each case as determined in accordance with the provisions of this Condition 4.2(E); and

b) certifying that the Benchmark Amendments (if any) are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread.

Each of the Common Representative, the Calculation Agent and the Agent shall be entitled to rely on such certificate (without liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination of the Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) and without prejudice to the Common Representative's or the Calculation Agent's or the Agent's ability to rely on such certificate as aforesaid) be binding on the Issuer, the Common Representative, the Calculation Agent, the Agent and the Noteholders.

(viii) Survival of Original Reference Rate

Without prejudice to the obligations of the Issuer under Condition 4.2(E), the Original Reference Rate and the fall back provisions provided for in Condition 4.2(E) will continue to apply unless and until a Benchmark Event has occurred.

(ix) Definitions:

As used in this Condition 4.2(E):

"**Adjustment Spread**" means either (a) a spread (which may be positive, negative or zero) or (b) a formula or methodology for calculating a spread, which the Independent Adviser or, as the case may be, the Issuer, in each case acting in good faith and in a commercially reasonable manner, determines is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

i. in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or (if no such recommendation has been made, or in the case of an Alternative Rate);

ii. the Independent Adviser, failing which, the Issuer determines, is customarily applied to the relevant Successor Rate or the Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate; or (if Independent Adviser, failing which, the Issuer determines that no such spread is customarily applied);

iii. the Independent Adviser, failing which, the Issuer, determines is recognised or acknowledged as being the industry standard for over-the-counter in international debt capital markets transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be).

"**Alternative Rate**" means an alternative benchmark or screen rate which the Independent Adviser, failing which, the Issuer determines has replaced the Original Reference Rate in accordance with Condition 4.2(E) is customarily applied in international debt capital markets transactions for the purposes of determining rates of interest (or the relevant component part thereof) in the same Specified Currency as the Covered Bonds and with an interest period of a comparable duration to the relevant Interest Period.

"**Benchmark Amendments**" has the meaning given to it in Condition 4.2 (E) (i).

"**Benchmark Event**" means:

i. the Original Reference Rate ceasing to be published for a period of at least 5 Business Days or ceasing to exist; or

ii. a public statement by the administrator of the Original Reference Rate that it has ceased or that it will cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate); or

iii. a public statement by the supervisor of the administrator of the Original Reference Rate, that the Original Reference Rate has been or will be permanently or indefinitely discontinued; or

iv. a public statement by the supervisor of the administrator of the Original Reference Rate as a consequence of which the Original Reference Rate will be prohibited from being used either generally, or in respect of the Covered Bonds; or

v. it has become unlawful for the Agent, the Calculation Agent, the Issuer or other party to calculate any payments due to be made to any Noteholder using the Original Reference Rate; or

vi. the making of a public statement by the supervisor of the administrator of such Original Reference Rate announcing that such Original Reference Rate is no longer representative or may no longer be used,

provided that in the case of sub-paragraphs (2), (3) and (4), the Benchmark Event shall occur on the date of the cessation of publication of the Original Reference Rate, the discontinuation of the Original Reference Rate, or the prohibition of use of the Original Reference Rate, as the case may be, and not the date of the relevant public statement.

"**Independent Adviser**" means an independent financial institution of international repute or an independent financial adviser with appropriate expertise in the international debt capital markets transactions appointed by the Issuer under Condition 4.2 (E).

"**Original Reference Rate**" means the originally-specified benchmark or screen rate (as applicable) used to determine the Rate of Interest (or any component part thereof) on the Covered Bonds in respect of any Interest Period(s).

"**Relevant Nominating Body**" means, in respect of a benchmark or screen rate (as applicable):

i. the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or

ii. any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof.

"**Successor Rate**" means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

(F) Notification of Rate of Interest and Interest Amounts

The Agent, or where the applicable Final Terms specifies a Calculation Agent for this purpose, the Calculation Agent so specified, will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and to any Stock Exchange or other relevant competent listing authority or quotation system on which the relevant

Floating Rate Covered Bonds are for the time being listed, quoted and/or traded and notice thereof to be published in accordance with Condition 11 (*Notices*) as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. Any such amendment or alternative arrangements will be promptly notified to the Common Representative and each Stock Exchange or other relevant authority on which the relevant Floating Rate Covered Bonds are for the time being listed or by which they have been admitted to listing and to the holders of Covered Bonds in accordance with Condition 11 (*Notices*). For the purposes of this paragraph, the expression "**London Business Day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(G) Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4.2, whether by the Agent or the Calculation Agent (if applicable) shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent, the other Paying Agents, any Calculation Agent, the Common Representative and all holders of Covered Bonds and (in the absence of wilful default or bad faith) no liability to the Issuer, any Calculation Agent, the holders of Covered Bonds shall attach to the Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

4.3 Accrual of interest

Subject as provided in Condition 4.4, interest (if any) will cease to accrue on each Covered Bond (or in the case of the redemption of part only of a Covered Bond, that part only of such Covered Bond) on the due date for redemption thereof unless payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until (i) the date on which all amounts due in respect of such Covered Bond have been paid; and (ii) five days after the date on which the full amount of the moneys payable in respect of such Covered Bond has been received by the Agent, as the case may be, and notice to that effect has been given to the holders of Covered Bonds in accordance with Condition 11 (*Notices*).

4.4 Interest rate and Payments from the Pass-through Date in the event of extension of maturity of the Covered Bonds up to the Extended Maturity Date

(A) If the maturity of the Covered Bonds is extended beyond the Maturity Date in accordance with Condition 6.8, the Covered Bonds shall bear interest from (and including) the Pass- through Date to (but excluding) the earlier of the relevant Interest Payment Date after the Pass-through Date on which the Covered Bonds are redeemed in full or the Extended Maturity Date, subject to Condition 4.3. Interest shall be payable on each Interest Payment Date following the Pass-through Date on those Covered Bonds at the rate determined in accordance with Condition 4.4(B) on the principal amount outstanding of the Covered Bonds in respect of the Interest Period ending immediately prior to such relevant Interest Payment Date, or as otherwise provided in the applicable Final Terms, in accordance with the provisions of Condition 6.9. The final Interest Payment Date shall fall no later than the Extended Maturity Date.

(B) If the maturity of the Covered Bonds is extended beyond the Maturity Date in accordance with Condition 6.8, the rate of interest payable from time to time in respect of the principal amount outstanding of the Covered Bonds on each Interest Payment Date after the Pass- through Date in respect of the Interest Period ending immediately prior to the relevant Interest Payment Date will be as specified in the applicable Final Terms and, where applicable, determined by the Agent or, where the applicable Final Terms specifies a Calculation Agent, the Calculation Agent so specified, two Business Days after the Pass- through Date in respect of the first such Interest Period and thereafter as specified in the applicable Final Terms.

5. PAYMENTS

5.1 Method of payment

Payments of principal and interest in respect of Covered Bonds held through Interbolsa may be made in Euro, United States Dollar, Pound Sterling, Japanese Yen, Swiss Franc, Australian Dollar and Canadian Dollar or in any other currency as may be accepted from time to time by Interbolsa and payments in a currency other than euro, will be settled through the Non-euro Currency Settlement System (SLME) of Interbolsa.

Whilst the Covered Bonds are held through Interbolsa, payment of principal and interest in respect of the Covered Bonds will be (i) credited, according to the procedures and regulations of Interbolsa, by the relevant Paying Agent (acting on behalf of the Issuer) to the relevant TARGET2 payment current-accounts of the Affiliate Member of Interbolsa whose control accounts with Interbolsa are credited with such Covered Bonds and thereafter (ii) credited by such Interbolsa Participants from the aforementioned payment current-accounts to the accounts of the owners of those Covered Bonds, in accordance with the rules and procedures of Interbolsa.

Payments will be subject in all cases to the provisions of Condition 7 (*Taxation*), to (i) any tax or other laws and regulations applicable thereto in any jurisdiction, and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "Code") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or law implementing an intergovernmental approach thereto. Any such amounts withheld or deducted will be treated as paid for all purposes under the Covered Bonds, and no additional amounts will be paid on the Covered Bonds with respect to any such withholding ordeduction.

5.2 Payment Day

If the date for payment of any amount in respect of any Covered Bond or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, Payment Day means any day which (subject to Condition 8 (*Prescription*)) is:

(i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:

  (A) the relevant place of presentation; or

  (B) any Additional Financial Centre specified in the applicable Final Terms; and

(ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation and any Additional Financial Centre) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

5.3 Interpretation of principal

Any reference in these Terms and Conditions to principal in respect of the Covered Bonds shall be deemed to include, as applicable:

(i) the Final Redemption Amount of the CoveredBonds;

(ii) the Optional Redemption Amount(s) (if any) of the Covered Bonds;

(iii) in relation to Covered Bonds redeemable in instalments, the Instalment Amounts (as specified in the applicable Final Terms); and

(iv) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Covered Bonds.

5.4 Reserve Account

While Covered Bonds are outstanding, the Covered Bonds will have the benefit of a Reserve Account held by the Issuer with the Account Bank on behalf of the Programme and which will form part of the Cover Pool and be subject to the same legal requirements and legal regime as any Other Assets which are part of the Cover Pool. The Issuer shall ensure that the legal requirements as required by the Covered Bonds Law for the Reserve Account to qualify as Other Assets of the Cover Pool are met at all times.

The Issuer will be required to maintain at all times in the Reserve Account funds in an amount equal to or in excess of the Total Target Reserve Amount. As long as the funds in the Reserve Account equal or exceed the Total Target Reserve Amount, the Issuer will not be required to transfer any additional amounts to the Reserve Account. If the amounts standing in the Reserve Account exceed the Total Target Reserve Amount, the Issuer may release the excess amounts, without prejudice to the obligation of compliance with the maintenance of overcollateralisation obligation pursuant to Condition 15.1.

Upon redemption of all Series of Covered Bonds, any funds remaining to the credit of the Reserve Account will be paid to the Issuer.

The Account Bank will at all times have the minimum rating and comply with other requirements as required by the Covered Bonds Law for the Reserve Account to qualify as Other Assets of the Cover Pool. The Reserve Account will form part of the Cover Pool, over which the holders of the relevant Covered Bonds have a statutory special creditor privilege, provided that the amounts standing to the credit of such Reserve Account (together with the remaining Other Assets) do not at any time exceed 20 per cent. of the value of the mortgages loans and other eligible assets allocated to the Cover Pool.

Funds held in the Reserve Account, given their nature of Cover Pool assets, are available to meet amounts due in relation to the Covered Bonds and shall not be applied towards a partial principal redemption of the Covered Bonds prior to their Extended Maturity Date, subject to Conditions 6.8 and 6.9.

At the Issuer's option, the Reserve Account may be replaced by a liquidity facility, through a Liquidity Facility Agreement to be settled with a Liquidity Facility Provider pursuant to which the Issuer, or any entity managing the Cover Pool, will be entitled to make liquidity drawings equal to the interest payable on the Covered Bonds on any Interest Payment Dates following the occurrence of a Liquidity Event up to a maximum amount equal to Total Target Reserve Amount. This replacement will be subject to the confirmation that it will not result in any credit rating then assigned to the Covered Bonds by the Rating Agencies being reduced, removed, suspended or placed on credit watch.

6. REDEMPTION AND PURCHASE

6.1 Final redemption

Subject to Condition 6.8, unless previously redeemed or purchased and cancelled or extended as specified below, each Covered Bond will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms, in the relevant Specified Currency on the Maturity Date. Currently the Covered Bonds Law establishes that Covered Bonds may not be issued with a maturity term shorter than two years or in excess of 50 years.

6.2 Redemption at the option of the Issuer (Call Option)

If Issuer Call Option is specified in the applicable Final Terms, the Issuer may, having given (unless otherwise specified, in the applicable Final Terms) not less than 30 nor more than 60 days' notice to the Common Representative, the Agent and, in accordance with Condition 11 (*Notices*), the holders of Covered Bonds (which notice shall be irrevocable) redeem all or some only (as specified in the applicable Final Terms) of the Covered Bonds then outstanding on any Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date(s). Upon expiry of such notice, the Issuer shall be bound to redeem the Covered Bonds accordingly. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Covered Bonds, whilst the Covered Bonds are held through Interbolsa, the nominal amount of all outstanding Covered Bonds will be redeemed proportionally.

6.3 Redemption at the option of the holders of Covered Bonds (Put Option)

If Investor Put Option is specified in the applicable Final Terms, upon the holder of any Covered Bond giving to the Issuer in accordance with Condition 11 (*Notices*) not less than 30 nor more than 60 days' notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, such Covered Bond on the Optional Redemption Date and at the Optional Redemption Amount as specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date, subject to a Pass-through Event not having occurred in the terms provided for in Conditions 6.8 and 6.9. To exercise the right to require redemption of this Covered Bond the holder of this Covered Bond must deliver, at the specified office of any Paying Agent while the Covered Bonds are held through Interbolsa at any time during normal business hours of such Paying Agent falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a Put Notice) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition. Any Put Notice given by a holder of any Covered Bond pursuant to this paragraph shall be irrevocable. If the Covered Bonds are held through Interbolsa, the right to require redemption will be exercised directly against the Issuer, through the relevant Paying Agent.

6.4 Instalments

Instalment Covered Bonds will be redeemed in the Instalment Amounts and on the Instalment Dates.

6.5 Purchases

The Issuer or any of its subsidiaries may at any time purchase or otherwise acquire Covered Bonds at any price in the open market or otherwise. Such Covered Bonds may be held, reissued, resold or, at the option of the Issuer, cancelled by Interbolsa.

6.6 Cancellation

All Covered Bonds which are redeemed will forthwith be cancelled. All Covered Bonds so cancelled and any Covered Bonds purchased and cancelled pursuant to Condition 6.5 above cannot be held, reissued or resold.

6.7 Zero Coupon Covered Bonds

Following the occurrence of a Pass-through Event or in case of a late payment of any Zero Coupon Covered Bonds pursuant to paragraph 6.8 below upon redemption of any Zero Coupon Covered Bond pursuant to paragraph 6.1, 6.2 or 6.3 above, the amount due and repayable in respect of such Zero Coupon Covered Bond shall be the amount calculated according to the following formula:

$$RP \times (1 + AY)^{y}$$

where:

RP means the Reference Price; and

AY means the Accrual Yield expressed as a decimal; and

y is a fraction, the denominator of which is 360 and the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Covered Bonds to (but excluding) the date which is the earlier of:

(i) the date on which all amounts due in respect of such Zero Coupon Covered Bond have been paid;

(ii) the date on which the full amount of the moneys payable in respect of such Zero Coupon Covered Bonds has been received by the Agent and notice to that effect has been given to the holders of Covered Bonds either in accordance with Condition 11 (*Notices*) or individually; and

(iii) for the purpose of determining the Final Redemption Amount, the Pass-through Date.

6.8 Extension of Pass-through Date up to Extended Maturity Date

(A) Each Series of Covered Bonds issued under the Programme will be issued with an Extended Maturity Date. Pursuant to the Covered Bonds Law, the Extended Maturity Date may not fall later than 50 years after the Issue Date of such Series.

(B) Such Extended Maturity Date, as defined in the relevant Final Terms for each Series of Covered Bonds, will apply if the Issuer fails to redeem any Series of Covered Bonds in full on the Maturity Date or within two Business Days thereafter or if an Insolvency Event in respect of the Issuer occurs (both constituting a "**Pass-through Event**"). Following such Pass-through Event, the maturity of all Covered Bonds issued under the Programme and the date on which the Covered Bonds will be due and repayable for the purposes of these Terms and Conditions will be automatically extended up to but no later than the relevant Extended Maturity Date. In that event, the Issuer will redeem all or any part of the principal amount outstanding of the Covered Bonds on an Interest Payment Date falling in any month after the Pass-through Date up to and including the Extended Maturity Date in accordance with the Pass-through provision set out in Condition 6.9.. The Issuer or any entity appointed to manage the Cover Pool shall give to the holders of Covered Bonds (in accordance with Condition 11(*Notices*)), the Agent and the other Paying Agents, notice of its intention to redeem the principal amount outstanding of the Covered Bonds in full at least five Business Days prior to the relevant Interest Payment Date or, as applicable, the Extended Maturity Date. Any failure by the Issuer to notify such persons shall not affect the validity or effectiveness of any redemption by the Issuer on the relevant Interest Payment Date or as applicable, the Extended Maturity Date or give rise to rights in any suchperson.

(C) In the case of Covered Bonds which are Zero Coupon Covered Bonds up to (and including) the Pass-through Date for the purposes of this Condition 6.8 the principal amount outstanding shall be the amount calculated in accordance with Condition6.7.

(D) Any extension of the maturity of Covered Bonds under this Condition 6.8 shall be irrevocable. Where this Condition 6.8 applies, any failure to redeem the Covered Bonds on the Maturity Date or any extension of the maturity of Covered Bonds under this Condition 6.8 shall not constitute an event of default for any purpose or give any holder of Covered Bonds any right to receive any payment of interest, principal or otherwise on the relevant Covered Bonds other than as expressly set out in these Terms andConditions.

(E) In the event of the extension of the maturity of Covered Bonds under this Condition 6.8, interest rates, interest periods and interest payment dates on the Covered Bonds from (and including) the Pass-through Date to (but excluding) the Extended Maturity Date shall be determined and made in accordance with the applicable Final Terms and Condition4.4.

(F) After the Pass-through Date, the redemption shall be made rateably across all Covered Bonds and the principal amount outstanding on the Covered Bonds shall be reduced by the level of that redemption.

(G) If the maturity of any Covered Bonds is extended in accordance with this Condition 6.8, subject to otherwise provided for in the applicable Final Terms, for so long as those Covered Bonds remain in issue, the Issuer shall not issue any further mortgage covered bonds, unless the proceeds of issue of such further mortgage covered securities are applied by the Issuer on issue in redeeming in whole or in part the relevant Covered Bonds in accordance with the terms hereof.

(H) For the sake of clarity, a failure to redeem the Covered Bonds at the relevant Maturity Date or within two Business Days thereafter or the occurrence of any other Pass-through Event will not constitute any event of default under the Covered Bonds of any Series.

6.9 Pass-through Provision

(i) Pursuant to the occurance of a Pass-through Event, all outstanding Series of Covered Bonds issued under the Programme will be mandatorily redeemed, *pro rata* and *pari passu*, on each Interest Payment Date falling after the Pass-through Date in an amount equal to the Available Principal Distribution Amount, and the Interest Distribution Amount will be used to pay *pro rata* and *pari passu*, the Interest Amount due under the Covered Bonds and any amounts payable to Other Preferred Creditors due on such Interest PaymentDate.

(ii) For the purposes of these Conditions, as of a given Interest Payment Date falling after the Pass-through Date:

"**Interest Distribution Amount**" means the aggregate of the amount required to pay:

1. the Interest Amount due under the Covered Bonds on such Interest Payment Date; and

2. any sums payable to Other Preferred Creditors due on such Interest Payment Date.

"**Available Principal Distribution Amount**" means, in respect of such Interest Payment Date ("**the**

relevant Interest Payment Date"), the result of:

1. the principal component of the assets comprised within the Cover Pool, *plus*

2. the interest component of the assets comprised within the CoverPool,

in both cases, (a) which are received by the Issuer between, and including, the sixth Business Day prior to the Interest Payment Date immediately preceding the relevant Interest Payment Date up to, but excluding, the sixth Business Day prior to the relevant Interest Payment Date and (b) including, for the avoidance of doubt, the proceeds arising from any disposal thereof,

3. less the Interest Distribution Amount payable on such Interest Payment Date.

The Issuer and/or any entity managing the Cover Pool will be obliged to use and employ its best efforts to sell (in whole or in part) the assets comprised in the Cover Pool along commercial acceptable terms then possible in order to redeem, to the extent possible, the Covered Bonds prior to the relevant Extended Maturity Date, provided such sale and subsequent redemption of the respective Covered Bonds will not result in a reduction in Overcollateralisation under the prescribed Overcolateralisation Percentage outlined in Condition 15.1. Failure by the Issuer and/or any entity managing the Cover Pool to sell or refinance the assets comprised in the Cover Pool will not constitute an event of default.

The Interest Distribution Amount and the Available Principal Distribution Amount will be calculated by the Agent, pursuant to the terms of the Set of Agency Procedures.

The pass-through provision applies without prejudice to the obligation of compliance with the maintenance of overcollateralisation obligation at all times pursuant to Condition 15.1.

7. TAXATION

7.1. Payments free of taxes

All payments of principal and interest in respect of the Covered Bonds shall be made free and clear of, and without withholding or deduction for, any Taxes unless the Issuer or any Paying Agent (as the case may be) is required by law to make any such payment subject to any such withholding or deduction. In that event, the Issuer or any Paying Agent (as the case may be) shall be entitled to withhold or deduct the required amount for or on account of Tax from such payment and shall account to the relevant Tax Authorities for the amount so withheld or deducted.

7.2 No payment of additional amounts

Neither the Issuer nor the Paying Agent will be obliged to pay any additional amounts to the holders of Covered Bonds in respect of any Tax Deduction made in accordance with Condition 7.1 above.

7.3 Taxing Jurisdiction

If the Issuer becomes subject at any time to any taxing jurisdiction other than the Portuguese Republic, references in these Terms and Conditions to the Portuguese Republic shall be construed as references to the Portuguese Republic and/or such other jurisdiction.

7.4 Tax Deduction not event of default

Notwithstanding that the Issuer or any Paying Agent is required to make a Tax Deduction in accordance with Condition 7.1 above, this shall not constitute an event of default by the Issuer.

8. PRESCRIPTION

The Covered Bonds will become void unless presented for payment within 20 years (in the case of principal) and 5 years (in the case of interest) in each case from the Relevant Date therefor, subject in each case to the provisions of Condition 5 (*Payments*). As used in these Terms and Conditions, "Relevant Date" means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent, as the case may be, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the holders of Covered Bonds in accordance with Condition 11 (*Notices*).

9. INSOLVENCY EVENT AND ENFORCEMENT

9.1 Insolvency Event

If an Insolvency Event in respect of the Issuer occurs, the provisions of Conditions 6.8 and 6.9 apply. Notwithstanding the foregoing, pursuant to the Covered Bonds Law, the holders of Covered Bonds may approve a Resolution, by a majority of 2/3 of the Principal Amount Outstanding of the Covered Bonds of all Series then outstanding, for which purpose the Covered Bonds held by the Issuer or on its behalf shall not be counted nor entitle voting rights, to determine the serving of an Acceleration Notice, in which case all outstanding Covered Bonds shall immediately become due and payable each at their Early Redemption Amount together with accrued interest. For the sake of clarity, the serving of such an Acceleration Notice will supersede the provisions of Conditions 6.8 and 6.9, the Covered Bonds becoming immediately due and payable as aforementioned.

For the purposes of these Terms and Conditions: "**Insolvency Event**" means the winding-up and dissolution of the Issuer under any applicable laws and regulations (including under Decree-law 199/2006, of 25 October 2006, as amended, the RGICSF, and/or (if applicable) under the Code for the Insolvency and Recovery of Companies introduced by Decree-law 53/2004, of 18 March 2004, as amended). Investors should see the *Insolvency of the Issuer* section.

9.2 Enforcement

(A) Following the approval of a Resolution as described in Condition 9.1, the holders of the Covered Bonds (or the Common Representative on their behalf, provided it has been indemnified and/or secured to its satisfaction) may at any time after service of an Acceleration Notice, at its discretion and without further notice, take such proceedings against the Issuer, and/or any other person as it may deem fit to enforce the provisions of the Covered Bonds.

(B) In exercising any of its powers and discretions the Common Representative shall only have regard to the interests of the holders of Covered Bonds of all Series.

(C) No holder of Covered Bonds shall be entitled to proceed directly against the Issuer or to take any action with respect to the Common Representative Appointment Agreement, the Covered Bonds or any other Programme Document unless the Common Representative, having become bound so to proceed, fails so to do within a reasonable time and such failure shall be continuing.

10. AGENT AND PAYING AGENTS

(A) The names of the Agent and the Paying Agent and their initial specified offices are set out below. In the event of the appointed office of any such bank being unable or unwilling to continue to act as the Agent, or failing duly to determine the Rate of Interest, if applicable, or to calculate the Interest Amounts for any Interest Period, the Issuer shall appoint such other bank to act as such in its place.

(B) The Agent may not resign its duties or be removed from office without a successor having been appointed as aforesaid. The Issuer is entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

(i) there will at all times be an Agent;

(ii) the Issuer will, so long as any of the Covered Bonds is outstanding, maintain a Paying Agent (which may be the Agent) having a specified office in a city approved by the Common Representative in continental Europe;

(iii) so long as any of the Covered Bonds are listed on any Stock Exchange or admitted to trading by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant Stock Exchange or as the case may be, other relevant authority.

11. NOTICES

All notices regarding the Covered Bonds shall be published in a manner which complies with the applicable listing rules of the Euronext Dublin and also with the rules and regulations of any other stock exchange (or any other relevant authority) on which the Covered Bonds are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication.

All notices regarding the Covered Bonds shall comply with the applicable Portuguese law requirements, notably CMVM Regulation 5/2008, as amended.

12. MEETINGS OF HOLDERS OF COVERED BONDS

(A) The Portuguese Companies Code contains provisions for convening meetings of the holders of Covered Bonds to consider any matter attributed to them by law and in their common interest (which provisions are described and supplemented in the Common Representative Appointment Agreement), including the modification by Resolution of these Terms and Conditions or the provisions of the Common Representative Appointment Agreement.

(B) The quorum at any meeting convened to vote on: (i) a Resolution not regarding a Reserved Matter will be any person or persons holding or representing whatever the Principal Amount Outstanding of the Covered Bonds then outstanding; or (ii) a Resolution regarding a Reserved Matter of the Covered Bonds, will be any person or persons holding or representing at least 50 per cent. of the Principal Amount Outstanding of the Covered Bonds then outstanding so held or represented or, at any adjourned meeting, any person being or representing whatever the Principal Amount Outstanding of the Covered Bonds then outstanding. Each Covered Bond grants its holder one vote.

(C) The majorities required to approve a Resolution at any meeting convened in accordance with the applicable rules shall be: (i) if in respect to a Resolution not regarding a Reserved Matter, the majority of the votes cast at the relevant meeting; (ii) if in respect to a Resolution regarding a Reserved Matter except for the one set out in (iii) below, at least 50 per cent. of the Principal Amount Outstanding of the Covered Bonds then outstanding or, at any adjourned meeting 2/3 of the votes cast at the relevant meeting or (iii) if in respect to a Resolution regarding an increase in the obligations of the holders of Covered Bonds, all holders of the relevant Series of Covered Bonds.

For the purposes of these Terms and Conditions, a "Reserved Matter" means any proposal: (i) to change any date fixed for payment of principal or interest in respect of the Covered Bonds of all or of a given Series, (ii) to reduce the amount of principal or interest due on any date in respect of the Covered Bonds of all or of a given Series or to alter the method of calculating the amount of any payment in respect of the Covered Bonds of all or of a given Series on redemption or maturity; (iii) to effect the exchange, conversion or substitution of the Covered Bonds of all or of a given Series into, shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed; (iv) to change the currency in which amounts due in respect of the Covered Bonds of all or of a given Series are payable; (v) to alter the priority of payment of interest or principal in respect of the Covered Bonds of all or of a given Series; (vi) to amend this definition; and (vii) any other matter required by law to be approved by the majorities set out in Conditions 12(C)(ii) and 12(C)(iii);

A Resolution approved at any meeting of the holders of Covered Bonds of a Series shall, subject as provided below, be binding on all the holders of Covered Bonds of such Series, whether or not they are present at the meeting. Pursuant to the Common Representative Appointment Agreement, the Common Representative may convene a single meeting of the holders of Covered Bonds of more than one Series if in the opinion of the Common Representative there is no conflict between the holders of such Covered Bonds, in which event the provisions of this paragraph shall apply thereto *mutatis mutandis*.

(D) Notwithstanding the provisions of the immediately preceding paragraph, any Resolution to direct the Common Representative to accelerate the Covered Bonds pursuant to Condition 9 (*Insolvency Event and Enforcement*) or to direct the Common Representative to take any enforcement action (each a "**Programme Resolution**") shall only be capable of being passed at a single meeting of the holders of Covered Bonds of all Series the outstanding.

(E) Any such meeting to consider a Programme Resolution may be convened by the Common Representative or, if it refuses to convene such a meeting, by the Chairman of the General Meeting of Shareholders of the Issuer; if both the Common Representative and the Chairman of the General Meeting of Shareholders of the Issuer refuses to convene the meeting, then 5 per cent. of the holders of Covered Bonds of any Series may petition the court to order a meeting to be convened.

(F) A Programme Resolution passed at any meeting of the holders of Covered Bonds of all Series shall be binding on all holders of Covered Bonds of all Series, whether or not they are present at the meeting.

(G) In connection with any meeting of the holders of Covered Bonds of more than one Series where such Covered Bonds are not denominated in euro, the nominal amount of the Covered Bonds of any Series not denominated in euro shall be converted into euro at the relevant exchange rate at the date of the meeting.

13. INDEMNIFICATION OFTHE COMMON REPRESENTATIVE CONTRACTING WITH THE ISSUER

(A) If, in connection with the exercise of its powers and discretions, the Common Representative is of the opinion that the interests of the holders of Covered Bonds of any one or more Series would be materially prejudiced thereby, the Common Representative shall not exercise such powers and discretions without the approval of such holders of Covered Bonds by a Resolution or by a written resolution of such holders of Covered Bonds of at least the majority of the Principal Amount Outstanding of Covered Bonds of the relevant Series then outstanding.

(B) The Common Representative shall not be required to expend its own funds or otherwise incur or risk incurring any liability in the performance of its duties or in the exercise of any of its rights, powers, authorities or discretions if it has grounds for believing the repayment of such funds is not reasonably assured to it under the Covered Bonds Law or if it has not been provided with adequate indemnity against or security for such risk or liability. Notwithstanding any Programme Resolution or any other Resolution approved at any meeting or any written resolution of any holders of Covered Bonds, the Common Representative may (i) refrain from taking any action until it has been provided with sufficient funds or adequate indemnity against or security for any liability it may incur as a result of any such actions and (ii) refrain from doing anything which might in its opinion be contrary to any law of any jurisdiction or which might otherwise render it liable to any person and (iii) do anything which is in its opinion necessary to comply with any such law, and in no circumstances shall be liable to the holders of Covered Bonds for any consequences of such actions or inaction. The Common Representative Appointment Agreement contains further provisions for the indemnification of the Common Representative and for its relief from responsibility.

14. REPLACEMENT OF COVEREDBONDS

Should any Covered Bond be lost or destroyed, it may be replaced, in accordance with article 51 of the Portuguese Securities Code.

15. OVERCOLLATERALISATION, VALUATION OF COVER POOLAND ISSUER COVENANTS

15.1 Maintenance of overcollateralisation

For so long as the Covered Bonds are outstanding, the Value (determined in accordance with the Covered Bonds Law and the Bank of Portugal Regulations) of the Cover Pool shall at all times be a minimum of 105.26 per cent. of the aggregate Value of all outstanding Covered Bonds issued under the Programme less any Covered Bonds held by the Issuer pursuant to article 21.2 of the Covered Bonds Law and not cancelled or such other percentage under such other conditions as may be selected by the Issuer from time to time and notified to the Cover Pool Monitor (the "**Overcollateralisation**"), provided that the Overcollateralisation Percentage shall not, for so long as there are Covered Bonds outstanding, be reduced by the Issuer below the applicable legal percentage applicable from time to time pursuant to article 19 of the Covered Bonds Law (or other provision that amends or substitutes the same).

15.2 Issuer Covenants

For so long as any of the Covered Bonds are outstanding, the Issuer shall ensure that:

(A) Loan to Value: the Value of a Mortgage Credit granted by the Issuer may not exceed either 80 per cent. of the Current Property Value, in case of a Property intended primarily for residential purposes, or 60 per cent. of the Current Property Value, in case of a Property intended primarily for commercial purposes;

(B) Asset Cover: the aggregate value of the Other Assets may not exceed 20 per cent. of the aggregate value of the Cover Pool;

(C) Average Maturity: the remaining average Maturity of all outstanding Covered Bonds is at all times shorter than the remaining average Maturity of the Cover Pool entered in the Register;

(D) Interest Cover: the total amount of interest receivable on the Cover Pool will at all times be at least equal to or exceed the total amount of interest payable on the outstanding Covered Bonds;

(E) Valuations: all the required valuations of Covered Bonds, Mortgage Credits, Hedging Contracts, Other Assets and Properties will be made in compliance with the requirements of the Covered Bonds Law and the Bank of Portugal Regulations (in particular Regulation 5/2006 and Regulation 6/2006);

(F) Cover Pool Monitor: the Cover Pool Monitor will be provided with all necessary elements and information to monitor compliance by the Issuer of this Condition 14 in accordance with the Covered Bonds Law;

(G) Mortgage Credits: the Mortgage Credits included in the Cover Pool are not Non-Performing Mortgage Credits; and

(H) Liabilities: The net present value of the liabilities arising from issues of Covered Bonds cannot exceed the net present value of the Cover Pool, including any Hedging Contracts. This ratio must also be met for 200 basis points parallel shifts of the yieldcurve.

16. FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the holders of Covered Bonds to create and issue further securities with the same terms and conditions of the Covered Bonds of any Series or the same in all respects save for the amount and date of the first payment of interest thereon, issue date and/or purchase price and so that the same shall be consolidated and form a single Series with the outstanding Covered Bonds of such Series.

17. GOVERNING LAW AND JURISDICTION

The Common Representative Appointment Agreement, the Set of Agency Procedures, the Covered Bonds, and the other Programme Documents (including any non-contractual obligations arising out of, or in connection with said documents), except for the Reserve Account Agreement, are governed by, and shall be construed in accordance with, Portuguese law unless specifically stated to the contrary.

The courts of Lisbon shall have exclusive jurisdiction to settle any disputes which may arise out of or in connection with this Agreement and accordingly any suit, action or proceedings (together referred to as **Proceedings**) arising out of or in connection with this Agreement (including any Proceedings relating to any non-contractual obligations arising out of or in connection with this Agreement) may be brought in such courts, subject to mandatory applicable laws.

18. DEFINITIONS

In these Terms and Conditions, the following defined terms have the meanings set out below:

"**Acceleration Notice**" means a notice served on the Issuer pursuant to Condition 9 (*Insolvency Event and Enforcement*).

"**Account Bank**" means Société Générale London Branch, in its capacity as Account Bank, with its head office at SG House, 41 Tower Hill, London, EC3N 4SG, or any successor account bank, appointed from time to time by the Issuer in connection with the Reserve Account and under the Reserve Account Agreement, when applicable.

"**Agent**" means Novo Banco, S.A., in its capacity as Agent with head office at Avenida da Liberdade, 195, 1250-142 Lisbon, Portugal.

"**Bank of Portugal Regulations**" means the secondary legislation passed by the Bank of Portugal regulating certain aspects of the Covered Bonds Law, namely Regulation 5/2006, Regulation 6/2006, Instruction 13/2006 and Regulation 8/2006 and any relevant regulations or instructions that may be issued by the Bank of Portugal in the future.

"**Book Entry Covered Bonds**" means any Covered Bonds issued in book entry form.

"**Clearstream, Luxembourg**" means Clearstream Banking société anonyme, Luxembourg.

"**CMVM**" means the *Comissão do Mercado de Valores Mobiliários*, the Portuguese Securities Market Commission.

"**Common Representative**" means BNP Paribas Trust Corporation UK Limited, in its capacity as representative of the holders of the Covered Bonds pursuant to Article 14 of the Covered Bonds Law in accordance with the Terms and Conditions and the terms of the Common Representative Appointment Agreement, having its registered office at 10 Harewood Avenue, London NW1 6AA, United Kingdom.

"**Cover Pool**" means the pool of assets maintained by the Issuer and allocated to the issue of Covered Bonds under the Programme, held to the benefit of the holders of Covered Bonds and the Other Preferred Creditors, and including the Mortgage Credits, the Hedging Contracts and the Other Assets, as specified in the Register. The Cover Pool is autonomous from any other cover pool maintained by the Issuer in relation to any other programmes that it has or may establish in the future.

"**Cover Pool Monitor**" means Ernst & Young, Audit & Associados – SROC, S.A., registered in the Portuguese Securities Market Commission ("**CMVM**") under number 20161480 and in the Portuguese Institute of Statutory Auditors ("**OROC**") under number 178and with registered office at Av. da República no. 90, 1700-157 Lisbon.

"**Covered Bond**" means any conditional pass-through mortgage covered bond issued by the Issuer pursuant to the Covered Bonds Law in the form specified in the applicable Final Terms and "**Covered Bonds**" shall be construed accordingly.

"**Covered Bonds Law**" means the Portuguese legal framework applicable to the issuance of covered bonds, enacted by Decree-law 59/2006, of 20 March 2006, as amended from time to time.

"**CRA Regulation**" means Regulation (EU) no. 1060/2009, of the European Parliament and of the Council, of 16 September 2009, as amended from time to time.

"**Current Property Value**" means, in relation to a Property securing a Mortgage Credit, the updated Property Valuation of such Property;

"**DBRS**" means DBRS Ratings Limited;

"**Dealers"** means J.P. Morgan Securities plc, Novo Banco, S.A. and any other Dealer(s) appointed from time to time by the Issuer in accordance with the Programme Agreement.

"**Euro**", "**€**" or "**euro**" means the lawful currency of Member States of the European Union that adopt the single currency introduced in accordance with the Treaty.

"**Euroclear**" means Euroclear Bank S.A./N.V.

"**Extended Maturity Date**" has the meaning given in the relevant Final Terms.

"**Final Terms**" means, in relation to each Tranche, the final terms applicable to such Covered Bonds.

"**Fixed Interest Period**" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

"**Hedging Contracts**" means the hedging contracts entered into by the Issuer in accordance with the Covered Bonds Law for the purpose of hedging interest rate, exchange or liquidity risks in relation to the Cover Pool.

"**Instruction 13/2006**" means the regulatory instruction ("*Instrução*") 13/2006 issued by the Bank of Portugal relating to certain information duties applicable in relation to the issue of mortgage covered bonds in accordance with the Covered Bonds Law.

"**Interbolsa**" means Interbolsa - Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A., as operator of the Central de Valores Mobiliários.

"**Interbolsa Participant**" means any authorised financial intermediary entitled to hold control accounts with Interbolsa on behalf of their customers and includes any depository banks appointed by Euroclear and Clearstream, Luxembourg for the purpose of holding accounts on behalf of Euroclear and Clearstream, Luxembourg.

"**Interest Amount**" means, as applicable, the amount of interest payable on the Floating Rate Covered Bonds in respect of each Specified Denomination, calculated by the Calculation Agent pursuant to Condition 4 (*Interest*).

"**Liquidity Event**" means the Interest Payment Date of any Covered Bond in relation to which the Issuer has given a 5 day prior notice to the Liquidity Facility Provider of not having enough available funds to make the payment of the Interest Amount due on the Covered bonds.

"**Liquidity Facility Provider**" means an eligible entity the short-term unsecured debt obligations of which are rated as required by the Covered Bonds Law for liquidity facility providers or such other rating that will not result in a reduction or qualification of the ratings then assigned to the Covered Bonds or is otherwise approved by these rating agencies for the purposes of entering into any Liquidity Facility Agreement, in any case in compliance with the Covered Bonds Law.

"**Loan to Value**" means, in respect of a Mortgage Credit, the ratio of the aggregate Value of such Mortgage Credit to the Current Property Value of the Property securing such Mortgage Credit.

"**Maturity**" means the final legal maturity of any outstanding Covered Bonds, Mortgage Credits, Hedging Contracts or Other Assets, as applicable;

"**Maturity Date**" has the meaning given in the relevant Final Terms;

"**Moody's**" means Moody's Investors Service España, S.A.;

"**Mortgage**" means, in respect of any Mortgage Credit, the charge by way of legal mortgage over the relevant Property together with all other encumbrances or guarantees the benefit of which is vested in the Issuer as security for the repayment of that Mortgage Credit.

"**Mortgage Credit**" means the pecuniary credit receivables secured by a Mortgage and/or any Additional Security which is comprised in the Cover Pool and which complies with the following eligibility criteria established in the Covered Bonds Law:

(a) it is a pecuniary receivable not yet matured, which is neither subject to conditions nor encumbered, judicially seized or apprehended and which is secured by first ranking mortgages over residential or commercial real estate located in an EU Member State;

(b) notwithstanding (a) above, it is a pecuniary receivable secured by a junior mortgage but where all Mortgage Credits ranking senior thereto are held by the Issuer and also allocated to the Cover Pool;

(c) it is a receivable secured by (i) a personal guarantee granted by a credit institution, or (ii) an appropriate insurance policy, in any case together with a mortgage counter guarantee evidencing (a) or (b) above.

"**Non-Performing Mortgage Credits**" means, with respect to a Mortgage Credit, that such Mortgage Credit:

(a) is in the course of being foreclosed or otherwise enforced; or

(b) has one or more payments of principal or interest payable on the related credit in arrears and those payments are referable to a period of 90 days or more.

"**Other Assets**" means all assets other than Mortgage Credits and Hedging Contracts which comply with the eligibility criteria established in the Covered Bonds Law and which are included in the Cover Pool as specified in the Register, including:

(a) deposits with the Bank of Portugal in cash or securities eligible for credit transactions in the Eurosystem (which is the monetary authority of the euro area which comprises the ECB and the national central banks of the Member States whose currency is the euro);

(b) current or term account deposits with credit institutions (which are not in a control or group relationship with the Issuer) having a rating as required pursuant to the Covered Bonds Law and which will include, for the avoidance of doubt, funds standing to the credit of the Reserve Account which are subject to the same legal requirements and regime as such other deposits (and which compliance at all times the Issuer shall ensure); and

(c) other assets complying simultaneously with the requisites of low risk and high liquidity as defined by the Bank of Portugal;

For the avoidance of doubt, the Other Assets do not include any cash collateral that may be transferred under the Hedging Contracts.

"**Other Preferred Creditors**" means the Common Representative (or any successor thereof) and the counterparties under the Hedging Contracts.

"**Overcollateralisation**" has the meaning given in Condition 15.1.

"**Overcollateralisation Percentage**" means 105.26 per cent. or such other percentage as may be selected by the Issuer from time to time pursuant and subject to the terms of Condition 15.1 and notified to the Cover Pool Monitor.

"**Pass-through Date**" means the date which falls 15 days after the date in which a Pass-through Event occurs.

"**Pass-through Event**" means the occurrence of any of the following events: a) the Issuer fails to repay any Series of Covered Bonds in full on its Maturity Date or within two Business days thereafter, or b) an Insolvency Event in respect of the Issuer.

"**Paying Agents"** means the paying agents named in the Set of Agency Procedures together with any successor or additional paying agents appointed from time to time in connection with the Covered Bonds under the Set of Agency Procedures.

"**Programme Resolution**" means any Resolution directing the Common Representative to accelerate the Covered Bonds pursuant to Condition 9 (*Insolvency Event and Enforcement*) or directing the Common Representative to take any enforcement action and which shall only be capable of being passed at a single meeting of the holders of Covered Bonds of all Series then outstanding.

"**Property**" means, in relation to any Mortgage Credit, the property upon which the repayment of such Mortgage Credit is secured by the corresponding Mortgage and "**Properties**" means all of them.

"**Property Valuation**" means, in relation to any Property:

(a) the amount determined as the commercial value or the market value (as applicable) of such Property in accordance with the most recent independent valuation of such Property, at the time or after the relevant Mortgage Credit was originated, in accordance with Regulation 5/2006; and

(b) the amount determined by resorting to the use of adequate and recognized indices or statistical methods, whenever an independent valuation of the Property is not required pursuant to the Covered Bonds Law and Regulation 5/2006.

"**Rating Agencies**" means Moody's and DBRS.

"**Register**" means the register of the Cover Pool and associated collateral maintained by the Issuer in accordance with the Covered Bonds Law and the Bank of Portugal Regulations;

"Regulation 5/2006" means the regulatory notice ("*Aviso*") 5/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the valuation of real estate assets serving as security for mortgage credits comprised in cover pools allocated to the issue of mortgage covered bonds in accordance with the Covered Bonds Law.

"Regulation 6/2006" means the regulatory notice ("*Aviso*") 6/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the prudential limits applicable in relation to the issue of mortgage covered bonds in accordance with the Covered Bonds Law.

"**Regulation 8/2006**" means the regulatory notice ("*Aviso*") 8/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the insolvency, winding-up or dissolution of a credit institution which has issued covered bonds issued in accordance with the Covered Bonds Law.

"**Regulation S**" means Regulation S under the Securities Act.

"**Relevant Date**" means the date on which a payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the holders of Covered Bonds in accordance with Condition 11 (*Notices*).

"**Reserve Account**" means the account held by the Issuer with the Account Bank, as set out in Condition 5.4.

"**Reserve Account Agreement**" means the agreement so designated entered into between the Issuer and the Account Bank in relation to the creation, operation and maintenance of the Reserve Account, on 6 October 2015 (as amended from time to time).

"**Reserved Matter**" means any proposal: (i) to change any date fixed for payment of principal or interest in respect of the Covered Bonds of all or of a given Series, (ii) to reduce the amount of principal or interest due on any date in respect of the Covered Bonds of all or of a given Series or to alter the method of calculating the amount of any payment in respect of the Covered Bonds of all or of a given Series on redemption or maturity; (iii) to effect the exchange, conversion or substitution of the Covered Bonds of all or of a given Series into, shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed; (iv) to change the currency in which amounts due in respect of the Covered Bonds of all or of a given Series are payable; (v) to alter the priority of payment of interest or principal in respect of the Covered Bonds of all or of a given Series; (vi) to amend this definition; and (vii) any other matter required by law to be approved by the majorities set out in Conditions 12(C)(ii) and12(C)(iii).

"**Resolution"** means a resolution adopted at a duly convened meeting of holders of Covered Bonds and approved in accordance with the applicable provisions.

"Securities Act" means the United States Securities Act of 1933, as amended.

"**Set of Agency Procedures**" means the set of agency procedures (such set of agency procedures as amended and/or supplemented and/or restated from time to time) dated 5 October 2015 and made and agreed by Novo Banco, S.A., in its capacity as Agent, Paying Agent and the Issuer and agreed to by any subsequent agent, paying agent, transfer agent, agent bank and/or registrar appointed by the Issuer.

"**Stock Exchange**" means Euronext Dublin or any other stock exchange where Covered Bonds may be listed as per the relevant Final Terms.

"**TARGET2 Day**" means any day on which the TARGET2 System is open.

"**TARGET2 System**" means the Trans-European Automated Real-time Gross Settlement Express Transfer System.

"**Tax**" shall be construed so as to include any present or future tax, levy, impost, duty, charge, fee, deduction or withholding of any nature whatsoever (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same) imposed or levied by or on behalf of any Tax Authority and "**Taxes**", "**taxation**", "**taxable**" and comparable expressions shall be construed accordingly.

"**Tax Authority**" means any government, state, municipal, local, federal or other tax, revenue, customs or excise authority, body or official anywhere in the world exercising a tax, revenue, customs or excise function.

"**Tax Deduction**" means any deduction or withholding on account of Tax.

"**Terms and Conditions**" means in relation to the Covered Bonds, the terms and conditions applicable to the Covered Bonds and any reference to a particular numbered Condition shall be construed in relation to the Covered Bonds accordingly.

"**Total Target Reserve Amount**" means on any date, the amount equal to the Interest Amount payable on the Covered Bonds on the three months following such date plus € 100,000.00.

"**Treaty**" means the treaty establishing the European Communities, as amended by the Treaty on European Union.

"**Value**" means:

(a) in relation to a Mortgage Credit, (i) for the purpose of the Overcollateralisation, an amount equal to the book value of such Mortgage Credit entered on the Register, together with accrued interest; and (ii) for the purpose of Loan to Value calculation, an amount equal to the book value of such Mortgage Credit entered on the Register;

(b) in relation to any Other Assets:

  i. the aggregate amount of any deposits together with any matured and accrued interest, as entered on the Register;

  ii. the value resulting from the rules regarding valuation of margins defined by the Eurosystem for securities eligible for Eurosystem credit transactions or, if lower, the nominal value of such securities, including matured and accrued interests.

CHARACTERISTICS OF THE COVER POOL

INTRODUCTION – CAPACITY TO ISSUE COVERED BONDS

In general, only duly licensed credit institutions allowed by law to grant mortgage loans, and having own funds not lower than €7,500,000, may issue covered bonds. The Issuer complies with these requirements and is thus allowed to issue covered bonds under the Covered Bonds Law.

ISSUER REQUIRED TO MAINTAIN COVER POOL

The Issuer may issue Covered Bonds only if it maintains a related Cover Pool in compliance with the Covered Bonds Law. As per the Covered Bonds Law, the Cover Pool may contain mortgage credit assets, substitution assets and other eligible assets (including hedging contracts), subject to the limitations provided for therein. The Covered Bonds Law allows for the composition of the Cover Pool to be dynamic and does not require it to be static. Accordingly, the mortgage credit assets (and other permitted assets) to be comprised in the Cover Pool may change from time to time after the date hereof in order to ensure compliance with the requirements of the Covered Bonds Law and with the Bank of Portugal Regulations (as defined in *Definitions*).

To enable it to issue Covered Bonds, the Issuer has established and will maintain a segregated register (the "**Register**") in relation to the Cover Pool for the purposes of the Covered Bonds Law.

The Issuer plans to issue from time to time Covered Bonds under the Programme and will include in the Cover Pool Mortgage Credits, Hedging Contracts and Other Assets as security for those Covered Bonds, in accordance with relevant provisions of the Covered Bonds Law, as further detailed below.

The Issuer is required, as soon as practicable after becoming aware that it has contravened the provisions of the Covered Bonds Law, to take all possible steps to prevent the contravention from continuing or being repeated.

ELIGIBILITY CRITERIA FOR ASSETS COMPRISED IN THE COVER POOL

Only mortgage credits or receivables which comply with the legal eligibility criteria described below may be included in the Cover Pool:

Mortgage Credits Eligibility Criteria

Mortgage Credits should be pecuniary receivables of the Issuer not yet matured, which are neither subject to conditions nor encumbered, judicially seized or apprehended and which a) are secured by first ranking mortgages over residential or commercial real estate located in an EU member state; or

b) are secured by a junior mortgage but where all mortgage credits ranking senior thereto are held by the Issuer and also allocated to the relevant cover pool; or c) are secured by (*i*) a personal guarantee granted by a credit institution, or (*ii*) an appropriate insurance policy, in any case together with a mortgage counter guarantee evidencing the characteristics described above.

"Other Assets" Eligibility Criteria:

The following assets may also be included in the Cover Pool as Other Assets:

a) deposits with the Bank of Portugal in cash or securities eligible for credit transactions in the Eurosystem (which is the monetary authority of the euro area which comprises the ECB and the national central banks of the Member States whose currency is the euro);

b) current or term account deposits with credit institutions (which are not in a control or group relationship with the Issuer) having a rating equal to or higher than the minimum rating required at any time by the Covered Bonds Law; and

c) other assets complying simultaneously with the requisites of low risk and high liquidity as defined by the Bank of Portugal.

For the sake of clarity, on the date hereof the legal minimum rating requirement in respect of b) above is “A-” or equivalent.

The aggregate value of the Other Assets may not exceed 20 per cent. of the aggregate value of the mortgage assets and other assets allocated as collateral to all Covered Bonds issued by the Issuer.

At the date of this Base Prospectus, the Issuer intends to include in the Cover Pool mortgage credits which are located in Portugal and secured primarily on residential property for the purposes of the Covered Bonds Law and a deposit to be held with the Account Bank. The Cover Pool may also include mortgage credit that has been granted under the subsidised credit regime, pursuant to Decree Law 349/98, of 11 November 1998 (as amended).

The Issuer does not intend at the date of this Base Prospectus to include either (*i*) Mortgage Credits which have their primary security over commercial property or (*ii*) Mortgage Credits in respect of which the associated Property is located for the purposes of the Covered Bonds Law outside Portugal, without first notifying (in each case for so long as the Covered Bonds are rated by such rating agency) Moody’s and DBRS to ascertain whether any such action will not result in a downgrade of the rating then ascribed by such rating agency to the Covered Bonds.

HEDGING CONTRACTS

The Covered Bonds Law allows the Cover Pool to include hedging contracts aimed exclusively at hedging risks, namely interest rate, exchange rate or liquidity risks. These hedging contracts will form part of the Cover Pool and may be taken into account in the assessment of the financial ratios and requirements of the Covered Bonds Law and described in this section.

Pursuant to the requirements of the Covered Bonds Law, any such hedging contract can only be entered into (*i*) in a regulated market of an EU Member State, or (*ii*) recognised market of an OECD country, or (*iii*) with a counterparty which is a credit institution with a rating of at least “A-” or equivalent. The Covered Bonds Law empowers the Bank of Portugal to develop, by regulatory notice (“*Aviso*”), the eligibility criteria for hedging contracts to form part of the Cover Pool.

Also pursuant to the Covered Bonds Law, the Register shall, in relation to each Hedging Contract, identify (*i*) the Covered Bonds to which the relevant Hedging Contract relates; (*ii*) the corresponding Cover Pool; (*iii*) the nominal value of the Hedging Contract; (*iv*) the Hedge Counterparty; and (*v*) the commencement date and the maturity date of such Hedging Contract.

If a particular Tranche of Covered Bonds is issued in a denomination other than the euro, the Issuer must enter into Hedging Contracts for the purpose of hedging any currency exchange risk.

Interest rate exposure of the Issuer relating to Mortgage Credits, as and when comprised in the Cover Pool, will be managed through Hedging Contracts. Interest rate swaps will be entered into with a Hedge Counterparty relating to both the Cover Pool and the Covered Bonds issued by the Issuer. The Hedging Contracts will qualify as derivative financial instruments for the purposes of the Covered Bonds Law.

The terms of any Hedging Contracts to be entered into with a Hedge Counterparty, will include, among other termination events, provisions that provide that if the rating of any Hedge Counterparty long-term unsecured, unsubordinated debt obligations falls below “A3” by Moody’s and “A (low)” by DBRS (or ceases to be rated) at any time, the Hedge Counterparty will be required to take certain remedial measures which may include: (*i*) providing collateral for its obligations under the Hedging Contract, subject to any applicable Rating Agencies’ criteria regarding Hedge Counterparty exposures; (*ii*) arranging for its obligations under the Hedging Contracts to be transferred to an entity with ratings given pursuant to the criteria of the relevant rating agency; (*iii*) procuring another entity with ratings given pursuant to the criteria of the relevant rating agency to become co-obligor in respect of its obligations under the Hedging Contracts; or (*iv*) taking such other action as it may agree with the relevant rating agency. A failure to take such steps will allow the Issuer to terminate the Hedging Contracts.

LOAN-TO-VALUE RESTRICTIONS

Pursuant to the Covered Bonds Law, the amount of any mortgage credit asset included in the Cover Pool may not exceed (*i*) the value of the corresponding Mortgage, and (*ii*) 80 per cent. of the value of the Property, if it is residential property, or 60 per cent. of the value of the Property, if it is commercial property. See *Valuation of Cover Pool* below.

WEIGHTED AVERAGE TERM TO MATURITY

The Covered Bonds Law sets out certain criteria, including matching weighted average term to maturity, which is required to be met by the Issuer in respect of its Cover Pool. In any case, the average maturity of the outstanding Covered Bonds may not exceed, at any time, the average maturity of the Mortgage Credits and Other Assets allocated to the relevant issuance.

OVERCOLLATERALISATION

Pursuant to the Covered Bonds Law, the nominal principal amount of any Covered Bonds outstanding may not exceed 95 per cent. of the aggregate nominal amount of the Cover Pool less any Covered Bonds acquired by the Issuer pursuant to the Covered Bonds Law and not cancelled. In addition, the aggregate amount of interest payable to the holders of Covered Bonds may not exceed, at any time, the amount of interest to be collected under the Cover Pool (including both the Mortgage Credits and the Other Assets) allocated to the Covered Bonds.

In compliance with the above legal requirements, Condition 15 (*Overcollateralisation, Valuation of Cover Pool and Issuer Covenants*) requires the Issuer to over-collateralise the Cover Pool at at all times at a minimum of 105.26 per cent. of the aggregate Value of all outstanding Covered Bonds issued under the Programme less any Covered Bonds held by the Issuer pursuant to article 21.2 of the Covered Bonds Law and not cancelled or such other percentage under such other conditions as may be selected by the Issuer from time to time and notified to the Cover Pool Monitor (the "**Overcollateralisation**"), provided that the Overcollateralisation Percentage shall not, for so long as there are Covered Bonds outstanding, be reduced by the Issuer below the applicable legal percentage applicable from time to time pursuant to article 19 of the Covered Bonds Law (or other provision that amends or substitutes the same).

For the purposes of the calculation by the Issuer and the Cover Pool Monitor of the level of overcollateralisation referred to above:

a) Mortgage Credits shall be included at their outstanding principal amount, together with any accrued but unpaid interest;

b) the Covered Bonds shall be accounted according to the nominal value of outstanding principal, together with accrued but unpaid interest;

c) in relation to any Other Assets:

    i. deposits shall be accounted for according to their amount together with any accrued but unpaid interest; and

    ii. securities eligible for Eurosystem credit transactions shall be accounted for by one value resulting from the rules regarding margin valuation laid down by the Eurosystem or, if lower, according to their nominal value, including accrued but unpaid interests.

Also for the purpose of these calculations the Issuer and the Cover Pool Monitor shall use the exchange rates published by the ECB as a reference.

In addition, the net present value of the liabilities arising from issues of Covered Bonds cannot exceed the net present value of the Cover Pool, including any Hedging Contracts. This ratio must also be met for 200 basis point parallel shifts in the yieldcurve.

COMPLIANCE WITH FINANCIAL REQUIREMENTS

The Cover Pool Monitor must monitor the Issuer's compliance with the financial requirements established in the Covered Bonds Law and in the Bank of Portugal Regulations described in this section. The Issuer must, as soon as practicable after becoming aware that it has failed to comply with any provisions of the Covered Bonds Law summarised herein (or when it is reasonable to expect that they will not be complied with), take all steps to comply with that provision, by undertaking one or more of the following procedures:

a) allocating new mortgage credit assets, with or without substitution of those already allocated to the Covered Bonds; and/or

b) allocating additional Other Assets; and/or

c) acquiring Covered Bonds in the secondarymarket.

VALUATION OF COVER POOL

The Covered Bonds Law sets out certain requirements and criteria which are required to be met by the Issuer in respect of the valuation of Mortgage Credits comprised in the Cover Pool.

The Covered Bonds Law empowers the Bank of Portugal to specify, by regulatory notice ("*Aviso*"), requirements in relation to the valuation basis and methodology, time of valuation and any other matters that it considers relevant for determining the value of mortgage credit assets or Other Assets for the purposes of the Covered Bonds Law. The Covered Bonds Law also empowers the Bank of Portugal to specify, by regulatory notice, requirements in relation to the valuation basis and methodology, time of valuation and any other matter that it considers relevant for determining the value of substitution assets that are to be comprised in the Cover Pool. These requirements are set out in Regulations 5/2006 and 6/2006.

Valuation of Properties

General Overview

The value of each Property associated with a Mortgage Credit comprised in the Cover Pool corresponds to the commercial value of such Property, determined in accordance with prudent criteria and taking into consideration (*i*) the sustainable long term characteristics of such Property, (*ii*) the standard conditions of the local market, (*iii*) the current use of the relevant Property, and (*iv*) any alternative uses of the Property in question.

Pursuant to the requirements of Regulation 5/2006, the commercial value awarded by the Issuer to each of the Properties related to Mortgage Credits comprised in the Cover Pool may not be higher than the market value of such Property. For these purposes, the "**market value**" of each Property shall correspond to the price by which the relevant Property can be purchased by a third party able to complete such purchase on the date of the valuation of the Property, assuming that (*i*) the Property is publicly put on sale, (*ii*) the market conditions allow for a regular transfer of such Property, and (*iii*) there is a normal period of time to, considering the nature of the Property in question, negotiate the purchase and sale of such Property.

Valuation by expert

Prior to the inclusion in the Cover Pool of the related Mortgage Credit, each Property must be valued by a real estate valuation expert. Such valuation shall be reviewed by a real estate valuation expert whenever (*i*) the information available to the Issuer indicates that there may have been a substantial decrease in the value of the Property or (*ii*) the value of the Property may have materially decreased in relation to general market prices.

A valuation made by a real estate valuation expert prior to the enactment of Regulation 5/2006 may, however, be used by the Issuer provided that:

a) the valuations are carried out by a valuation expert who is independent from the credit analysis and credit decision process within the Novo Banco Group;

b) the valuations are subject to a written report from the valuation expert that includes in a clear and accurate way elements that allow the understanding of the analysis and conclusions of the valuation expert;

c) the Properties have been valued in light of the corresponding market value or the value of the mortgaged Property, as established by Regulation 5/2006; and

d) there has been no evidence that the relevant Property is over-valued at the time of allocation of the relevant Mortgage Credit to the issue of CoveredBonds.

The real estate valuation experts appointed from time to time by the Issuer to conduct the required valuation of Properties shall be independent and be adequately qualified and experienced for the performance of their functions. The Issuer may not appoint a real estate valuation expert with any potential conflicts of interest, notably where there is (*i*) any specific interest of the real estate valuation expert in the Property subject to the valuation, (*ii*) any relationship, commercial or personal, with the borrower of the Mortgage Credit related to the Property subject to valuation, or (*iii*) where the remuneration of the valuation expert is dependent on the valuation of the relevant Property.

The Issuer may appoint a valuation expert within the Novo Banco Group, provided such valuation expert is independent from the credit analysis and decision making process within the Novo Banco Group.

The selection of real estate valuation experts by the Issuer must ensure adequate diversification and rotation, and the Issuer shall maintain a permanent and updated list of selected valuation experts, setting out the criteria which have led to the respective selection, as well as the Properties valued by each valuation expert. This list shall be sent to the Bank of Portugal by the end of January in each year, indicating, if applicable, any changes made to such list from the list submitted the previous year.

Under Regulation 5/2006, the Bank of Portugal may, in relation to a given Property, require the Issuer to appoint another valuation expert, in particular when the value resulting from the previous valuation raises doubts as to its correctness.

Methods of valuation

The Issuer must ensure that each real estate valuation expert it appoints uses one of the following methods of valuation, which shall be chosen in light of the specific characteristics of the Property subject to valuation, as well as of the specific conditions of the local market:

a) Cost method;

b) Income method; or

c) Comparison method.

Valuation report

Each real estate valuation expert appointed by the Issuer shall prepare a report in relation to the valuation of each Property, setting out, in a clear and detailed manner, all the elements relevant for the full understanding of the analysis and conclusions of such valuation, in particular:

a) the identification of the relevant Property, with a detailed description of its characteristics;

b) a description and basis of the method(s) of valuation, any parameters used and/or assumptions adopted, identifying the manner in which the volatility effects of the short term market or the market temporary conditions were taken intoaccount;

c) a description of possible qualifications to theanalysis;

d) the valuation of the Property, in terms of both the value of the mortgaged Property and of the market value of the Property;

e) a statement of the valuation expert that he has effected the valuation according to the applicable requirements set out in the Covered Bonds Law and in the Bank of Portugal Regulations;

f) the date of the valuation and the identification and the signature of the valuation expert.

Subsequent valuations of Properties and subsequent update of the value of Properties

In respect of Mortgage Credits that exceed (*i*) 5 per cent. of the own funds of the Issuer or (*ii*)

€500,000, in the case of residential Properties, or €1,000,000, in the case of commercial Properties, the valuation of the relevant Property shall be reviewed by a real estate valuation expert at least every three years.

The Issuer shall also perform any internal check of the value of each of the Properties once every three years, for residential Properties, and at least once a year for commercial Properties.

The Issuer may be required to conduct Property valuations whenever there is relevant information that indicates that a substantial decrease of the Property value has taken place or that the Property value may have suffered a material decline in relation to standard market prices.

For the purpose of conducting an update of the valuation of the Properties, the Issuer may resort to recognised indices or statistical methods. In this case, the Issuer shall send the Bank of Portugal a report with the detailed description of such indices and statistical methods, as well as the grounds for their use, together with an opinion on the adequacy of such indices and statistical methods produced by a reputable independent valuation expert.

All subsequent updates of the value of the Properties shall be documented by the Issuer, setting out the description of the relevant criteria and the frequency of thereview.

The Issuer shall provide the Cover Pool Monitor with all information necessary for the Cover Pool Monitor to supervise compliance by the Issuer with the requirements set forth in the Covered Bonds Law and in Regulation 5/2006 relating to the valuation of the Properties securing the Mortgage Credits comprised in the Cover Pool.

Valuation of Other Assets

Pursuant to Regulation 6/2006, the Other Assets shall be valued as follows:

a) the deposits shall be accounted for according to their amount together with any accrued but unpaid interest; and

b) the securities eligible for Eurosystem credit transactions shall be for by the value resulting from the rules regarding margin valuation laid down by the Eurosystem or, if lower, according to the nominal value of such securities, including accrued but unpaid interest.

Insurance

Pursuant to the Covered Bonds Law, if any property mortgaged as security for payment of interest and principal in relation to a mortgage credit asset comprised in the Cover Pool does not have an adequate insurance policy contracted by the relevant owner, the Issuer must obtain such insurance coverage adequate to the risks inherent to the relevant property. The Issuer must bear the costs of such insurance. In any case, the insurance policy attached to any property included in the Cover Pool must provide for a full coverage, allowing, in case of total loss, for such property to be rebuilt. Any compensation due under any such insurance policies must be paid directly to the Issuer, up to the limit of the relevant MortgageCredit.

COVER POOL SEGREGATED REGISTER AND SPECIAL CREDITOR PRIVILEGE

Autonomous pool of assets and segregated register

Pursuant to the Covered Bonds Law, the Cover Pool constitutes an autonomous pool of assets ("*património autónomo*"), not liable for any general indebtedness incurred by the Issuer until all amounts due to the holders of Covered Bonds and the Other Preferred Creditors are fully paid and discharged.

The Covered Bonds Law provides that the appropriate particulars of each asset comprised in the Cover Pool (including Mortgage Credits, Other Assets and Hedging Contracts) must be recorded in a segregated register within, and maintained by, the Issuer. Such register must record the following:

a) the outstanding principal amount;

b) the applicable interest rate;

c) the applicable maturity;

d) the notary's office where the relevant mortgage was entered into, when applicable;and

e) the reference regarding the definitive inscription of the mortgages in the corresponding real estate registry.

Pursuant to article 4, no. 3 of the Covered Bonds Law, the Cover Pool is identified in the transaction documents by a code. The key to such code is deposited with the Bank of Portugal which has promulgated, by regulatory notice ("*Aviso*"), the conditions under which the holders of Covered Bonds may have access to the segregated register of the Cover Pool.

Special creditor privilege

Under the Covered Bonds Law, the holders of Covered Bonds enjoy a special creditor privilege over the Cover Pool (including the Mortgage Credits, the Other Assets and the Hedging Contracts) with preference over any other general creditor, in relation to the repayment of principal and payment of interest due under the Covered Bonds. Pursuant to the Covered Bonds Law, this special creditor privilege applies automatically for the benefit of the holders of Covered Bonds, the Common Representative and the Hedge Counterparties and is not subject to registration.

The mortgages created as security for the mortgage credit assets comprised in the Cover Pool shall prevail over all other real estate preferential claims.

DOCUMENTS AVAILABLE REGARDING THE COVER POOL

On a quarterly basis, the Issuer produces an investor report (the "Investor Report") containing key information regarding characteristics of the Cover Pool, outstanding Covered Bonds and Other Assets, as at the last business day of each calendar quarter. The Investor Report is produced and distributed by the end of the calendar month following each calendar quarter, and distributed to the Rating Agencies and Cover Pool Monitor, via electronic mail. The Issuer makes the Investor Report available to investors by publishing it in on the Issuer's corporate website(www.novobanco.pt).

INSOLVENCY OF THE ISSUER

The Covered Bonds Law governs, to a certain extent, the impact on the Covered Bonds of a possible insolvency or winding-up of the Issuer, so as to ensure due protection to the holders of Covered Bonds. In the event of dissolution and winding-up (including on grounds of insolvency) of the Issuer, the Covered Bonds Law establishes that the Cover Pool shall be segregated from the insolvency estate of the Issuer and will not form part thereof until full payment of any amounts due to the holders of Covered Bonds. The amounts corresponding to payment of interest and repayment of principal of the Mortgage Credits and Other Assets will not form part of the insolvency estate of the Issuer.

The Cover Pool will, in such an event, be separated from the Issuer's insolvency estate so as to be autonomously managed until full payment of the amounts due to the holders of Covered Bonds and the Other Preferred Creditors. In this situation, pursuant to the Covered Bonds Law, the holders of Covered Bonds are entitled to adopt a resolution approving the immediate acceleration of the Covered Bonds by a majority of at least two thirds of the votes of the holders of Covered Bonds then outstanding, in which case the entity appointed to manage the Cover Pool shall provide for the liquidation thereof to the benefit of the holders of Covered Bonds.

If an Insolvency Event occurs in relation to the Issuer, the plan for the voluntary dissolution and winding-up of the Issuer, which shall be submitted to the Bank of Portugal pursuant to article 35-A of the Credit Institutions General Regime, shall identify a Substitute Credit Institution appointed to (i) manage the Cover Pool allocated to the outstanding Covered Bonds and (ii) ensure that the payments of any amounts due to the holders of such Covered Bonds are made. Such plan shall also describe the general framework and conditions under which those actions will be rendered by the Substitute Credit Institution.

In addition, if the authorisation of the Issuer to act as a credit institution in Portugal is revoked, the Bank of Portugal is required, simultaneously with the decision to revoke such authorisation, to appoint a Substitute Credit Institution to manage the Cover Pool allocated to the Covered Bonds outstanding and to ensure that payments due to the holders of such Covered Bonds are made.

The fees to be paid to the appointed Substitute Credit Institution shall be determined by the Bank of Portugal at the time of such appointment and shall be paid out of the Cover Pool.

In accordance with Regulation 8/2006, any Substitute Credit Institution appointed by the Bank of Portugal to service the Cover Pool following an Insolvency Event of the Issuer shall:

(i) immediately upon being appointed, prepare an opening balance sheet in relation to the Cover Pool, supplemented by the corresponding explanatory notes;

(ii) perform all acts and things necessary or desirable for the prudent management of the Cover Pool and respective guarantees in order to ensure the timely payment of all amounts due to holders of Covered Bonds including, without limitation:

    a. selling the Mortgage Credits comprised in the Cover Pool;

    b. ensuring the timely collection in respect of the Mortgage Credits comprised in the Cover Pool; and

    c. performing administrative services in connection with such Mortgage Credits;

(iii) maintain and keep updated a segregated register of the Cover Pool in accordance with the Covered Bonds Law; and

(iv) prepare an annual financial report in relation to the Cover Pool and the outstanding Covered Bonds, which report shall be the subject of an audit report produced by an independent auditor. The independent auditor shall be appointed as Cover Pool Monitor by the Substitute Credit Institution in accordance with article 34 of the Covered Bonds Law.

Furthermore, any Substitute Credit Institution appointed by the Bank of Portugal to service the Cover Pool following an Insolvency Event of the Issuer shall perform all acts and things necessary or convenient for maintaining the relationship with the borrowers under such Mortgage Credits.

REPURCHASE COMMITMENT

If the repurchase commitment is specified as applicable in the Final Terms relating to a particular Series of Covered Bonds, the Issuer will irrevocably and unconditionally undertake to repurchase such Series of Covered Bonds on its Repurchase Date at par plus accrued interest, or at such other repurchase amount as specified in, or determined in the manner specified in, the relevant Final Terms, if so requested by any holders of such Series which are Qualified Investors and subject to such Series of Covered Bonds not being redeemed up to two Business Days after the Maturity Date (the "**Repurchase Commitment**").

This undertaking shall be provided at the Issue Date in a letter issued to the benefit of the holders of certain Series of Covered Bonds which will be acknowledged on behalf of all such holders by the Common Representative.

This undertaking does not form part of the Terms and Conditions of the Covered Bonds and, accordingly, non-compliance by the Issuer with such undertaking will not constitute an event of default under such Terms and Conditions. This undertaking is a senior unsecured obligation and non- compliance by the Issuer with this undertaking will, nonetheless, constitute a default in respect of the Issuer's senior unsecured obligations vis-à-vis the holders of the relevant Series who have exercised their right to request the Issuer to buy the relevant Covered Bonds. Such holders will have recourse to the general legal remedies applicable to breach of obligations under Portuguese law. For the avoidance of doubt, a breach of the Repurchase Commitment will not in itself result in an acceleration of the Covered Bonds or a realisation of the Cover Pool assets.

The right of the holders of the relevant Series to request the Issuer to buy the Covered Bonds they hold pursuant to the Issuer's undertaking shall be exercised individually by each holder, by delivering to the Affiliate member of Interbolsa through which it holds the Covered Bonds a written notice, in the form available from any specified office of any Paying Agent or in another form accepted by such Affiliate Member of Interbolsa for such purpose (a Repurchase Notice), no less than 10 and no more than 60 days after the Maturity Date. Each such holder of the Covered Bonds shall so submit irrevocable sale instructions to the relevant Affiliate Member of Interbolsa for the transfer of its Covered Bonds to the Issuer against payment of the applicable Repurchase Price (in the form and according to the procedures of Interbolsa). Such holder of Covered Bond shall also represent and warrant (in the Repurchase Notice) that it is a Qualified Investor. If investors hold the Covered Bonds through Euroclear and Clearstream (or otherwise indirectly), they shall comply with the applicable Clearing System procedures.

For purposes of this commitment, "Qualified Investor" shall mean any qualified investor (*investidor qualificado*) in accordance with and for the purposes of the public offers regime of the Portuguese Securities Code and/or in accordance with and for the purposes of other applicable laws, to whom an offer can be lawfully made under circumstances which are not deemed to be a public offer in any relevant jurisdiction. Following the implementation of MiFID II in Portugal, by Law 35/2018, of 20 July 2018, the term "qualified investors" for the foregoing purposes shall, in respect of the Portuguese jurisdiction, correspond to the term "professional investors" (*investidores profissionais*) as defined in article 30(1) of the Portuguese Securities Code.

For purposes of this commitment, Repurchase Date will be the date which falls on the 90th day after the Maturity Date of the relevant Series of Covered Bonds.

COMMON REPRESENTATIVE OF THE HOLDERS OF COVERED BONDS

BNP Paribas Trust Corporation UK Limited has been appointed by the Issuer as representative of the holders of the Covered Bonds pursuant to article 14 of the Covered Bonds Law and in accordance with the Terms and Conditions of the Covered Bonds and the terms of the Common Representative Appointment Agreement.

The Issuer has appointed the Common Representative to represent the holders of Covered Bonds. According to the Covered Bonds Law and to the relevant provisions of the Portuguese Commercial Companies Code, the Common Representative may be entitled to perform all the necessary acts and actions in order to ensure protection of the holders of Covered Bonds, notably: (a) to represent the holders of Covered Bonds in respect of all matters arising from the issuance of the Covered Bonds and to enforce on their behalf their legal or contractual rights; (b) to enforce any decision taken by the general meetings of the holders of Covered Bonds, in particular those where the acceleration of the Covered Bonds may be decided; (c) to represent the holders of Covered Bonds in any judicial proceedings, including judicial proceedings against the Issuer and, in particular, in the context of any winding-up, dissolution or insolvency commenced by or against the Issuer; (d) to collect and examine all the relevant documentation in respect of the Issuer which is provided to its shareholders; and (e) to provide the holders of Covered Bonds with all relevant information regarding the issuance of the Covered Bonds it may become aware of by virtue of its role as Common Representative under the Common Representative Appointment Agreement.

The holders of the Covered Bonds may at any time, by means of resolutions passed in accordance with the Terms and Conditions of the Covered Bonds and the Common Representative Appointment Agreement, remove the Common Representative and appoint a new common representative.

COVER POOL MONITOR

APPOINTMENT OF A COVER POOL MONITOR

The Covered Bonds Law requires that the Board of Directors of the Issuer appoints a qualified person or entity to be the monitor of the Cover Pool (the "**Cover Pool Monitor**") who shall be responsible, for the benefit of the holders of Covered Bonds, for monitoring the compliance by the Issuer of the requirements contained in the Covered Bonds Law and the Bank of Portugal Regulations.

Pursuant to the Covered Bonds Law, the Cover Pool Monitor must be an independent auditor registered with the CMVM. For these purposes, an independent auditor must be an auditor which is not related with or associated to any group of specific interests within the issuing entity and is not in a position that hinders its ability to make independent analysis and decisions. In particular, such independent auditor shall not (*i*) hold 2 per cent. or more of the share capital of the Issuer, either directly or on behalf of a third party; or (*ii*) have been re-elected for more than two terms either consecutive or not.

The Issuer is responsible for paying any remuneration or other money payable to the Cover Pool Monitor in connection with the Cover Pool Monitor's responsibilities in respect of the Issuer and the holders of Covered Bonds.

ROLE OF THE COVER POOL MONITOR

Pursuant to the Cover Pool Monitor Agreement, dated 7 January 2019, the Issuer appointed Ernst & Young, Audit & Associados – SROC, S.A., registered in the CMVM under number 20161480 and in the OROC under number 178.

The Cover Pool Monitor Agreement reflects the requirements of the Covered Bonds Law in relation to the appointment of a monitor in respect of the requirements (notably, financial requirements and the requirements set forth in Condition 15 (*Overcollateralisation, Valuation of Cover Pool and Issuer Covenants*)) concerning the Cover Pool and the Covered Bonds. The Cover Pool Monitor Agreement provides for certain matters such as overcollateralisation (see *Characteristics of the Cover Pool*), valuation of assets comprised in the Cover Pool, the payment of fees and expenses by the Issuer to the Cover Pool, the resignation of the Cover Pool Monitor and the replacement by the Issuer of the Cover Pool Monitor.

DUTIES AND POWERS OF THE COVER POOL MONITOR

In accordance with the Covered Bonds Law, the Cover Pool Monitor is required to monitor, for the benefit of the holders of the Covered Bonds, compliance by the Issuer of the financial and prudential requirements established in the Covered Bonds Law and in the Bank of Portugal Regulations in respect of the Cover Pool. In particular, the Cover Pool Monitor shall be engaged to assess compliance by the Issuer with the requirements set forth in Condition 15 (*Overcollateralisation, Valuation of Cover Pool and Issuer Covenants*), including in respect of the operation of the Reserve Account.

Pursuant to the Covered Bonds Law and the Bank of Portugal Regulations, the Cover Pool Monitor is entitled to be provided with all information required to monitor compliance by the Issuer with the requirements relating to outstanding Covered Bonds and the Cover Pool.

In the performance of its duties, the Cover Pool Monitor must produce an annual report with an assessment of the Issuer's compliance with the requirements established in the Covered Bonds Law and in the Bank of Portugal Regulations, in particular those requirements relating to the level of collateralisation, the loan-to-value ratios limitations and the valuation of assets comprised in the Cover Pool. The Cover Pool Monitor must also prepare opinions certifying the statements of the management body of the Issuer, relating to information and documentation filed with the Bank of Portugal.

The Cover Pool Monitor must notify the Issuer, as soon as reasonably practicable, after becoming aware that the Issuer has contravened any of the provisions of the Covered Bonds Law and/or that any of the Requirements of the Cover Pool are not being complied with. If the situation remains unremedied within 10 business days after such notification, the Cover Pool Monitor will notify the Arrangers and the relevant Dealers of the contravention or non-compliance. For the purposes of this notification, the Cover Pool Monitor will develop quarterly procedures to be defined with the Issuer.

The Covered Bonds Law empowers the Bank of Portugal to promulgate, by regulatory notice ("*Aviso*"), requirements applicable to the content and disclosure of any reports of the Cover Pool Monitor.

REMUNERATION AND TERMINATION OF THE APPOINTMENT OF THE COVER POOL MONITOR

In accordance with the Cover Pool Monitor Agreement, the Cover Pool Monitor shall be remunerated by the Issuer for its services as Cover Pool Monitor at a rate as may from time to time be agreed between the Issuer and the Cover Pool Monitor.

The Issuer may at any time terminate the appointment of the Cover Pool Monitor and appoint a new entity to act in such capacity. Any such termination shall not become effective until a new cover pool monitor is appointed in accordance with the terms of the Cover Pool Monitor Agreement. Additionally, the Cover Pool Monitor may retire at any time upon giving not less than three calendar months' notice in writing to the Issuer. Such retirement shall not become effective until the appointment of a new cover pool monitor.

DESCRIPTION OF THE ISSUER AND GROUP

ORIGIN AND OVERVIEW

Novo Banco, S.A. ("**Novo Banco**" or "**Bank**" or "**Issuer**") is the main entity of the Novo Banco financial group ("**Novo Banco Group**" or "**Group**"), which mainly centres its activity on banking business. Novo Banco was incorporated by deliberation of the Board of Directors of Bank of Portugal dated 3 August 2014 (8 p.m.) ("**Deliberation of 3 August 2014**") under no. 5 of article 145-G of the General Law on Credit Institutions and Financial Companies (*Regime Geral das Instituições de Crédito e Sociedades Financeiras*, "**RGICSF**"), approved by Decree-Law no. 298/92, of 31 December (the version in force at the time), following the resolution measure applied by Bank of Portugal to Banco Espírito Santo, S.A. (BES), under the terms of paragraphs 1 and 3-c) of article 145-C of the RGICSF (together with the decisions adopted by the Bank of Portugal in connection with the Deliberation of 3 August 2014, defined above as the Resolution Measure). Pursuant to the Resolution Measure, the assets, liabilities, off-balance sheet items and assets under management of BES defined in Annex 2 to the Deliberation of 3 August 2014 (and clarified by the extraordinary meeting held by the Board of Directors of the Bank of Portugal on 11 August 2014 (5 p.m.)) were transferred to Novo Banco. Novo Banco has its registered office in Lisbon, at Avenida da Liberdade, no. 195.

As a result of the Deliberation of 3 August 2014 applied, Fundo de Resolução ("**Resolution Fund**") became the sole owner of the share capital of Novo Banco, in the amount of Euro 4 900 million, which was incorporated as a bridge bank.

On 29 December 2015 the Board of Directors of Bank of Portugal approved a deliberation (hereafter "**Deliberation of 29 December 2015**"), which resulted in a revised and consolidated version of Annex 2 to the Deliberation of 3 August 2014, and consolidated the perimeter of assets, liabilities, off-balance sheet items and assets under management of Novo Banco.

On 31 March 2017, the Resolution Fund signed the sale agreement of Novo Banco.

On 18 October 2017 the sale process of Novo Banco to Nani Holdings, S.G.P.S., S.A., a company indirectly held by investment funds managed by the Lone Star Group, was concluded ("**Lone Star Sale**"). Once the sale was concluded and after carrying out two capital increases, the first in the amount of 750 million euro (on the date of the sale), and the second in the amount of 250 million euro (on 21 December 2017), the share capital of Novo Banco increased to 5,900,000,000.00 euro, represented by 9,799,999,997 dematerialized registered shares with no nominal value, of which 75% were fully subscribed, paid up and held by Nani Holdings S.G.P.S., S.A. and 25% by the Resolution Fund.

With the conclusion of the Lone Star Sale, Novo Banco ceased to be considered a bridge bank and began to operate normally, although still being subject to certain measures restricting its activity, imposed by the European Competition Authority (Directorate-General for Competition) in the context of the state aid process.

Novo Banco develops its banking activity directly and through its branch in Spain and its subsidiaries Banco Eletrónico de Serviço Total S.A. (Banco Best, fully owned) and Novo Banco dos Açores, S.A. (NBA, where it holds a 57.53% stake). Additionally, it also operates in asset management, through its subsidiary GNB - Gestão de Ativos, S.G.P.S., S.A. (GNB GA) of which it owns 100% (offering mutual fund management, real estate fund management, pension fund management and wealth management). Finally, Novo Banco has equity holdings in companies operating in venture capital, real estate, insurance, renting and corporate services.

GROUP STRUCTURE

Group companies in which the bank has a direct or indirect holding higher or equal to 20%, over which the bank exercises control or significant influence, and that were included in the consolidation perimeter, are presented below. Companies directly consolidated into Novo Banco, as at 31 December 2018:

	Year incorporated	Year acquired	Registered office	Activity	% Economic Interest	Consolidation method
NOVO BANCO, SA	2014	-	Portugal	Bank		
Novo Banco Servicios Corporativos, SL	1996	1997	Spain	Insurance distrib. & real estate management	100,00%	Full consolidation
Novo Vanguarda, SL	2011	2011	Spain	Services provider	100,00%	Full consolidation
Novo Banco dos Açores, SA (NB Açores)	2002	2002	Portugal	Bank	57,53%	Full consolidation
BEST - Banco Electrónico de Serviço Total, SA (BEST)	2001	2001	Portugal	Electronic banking	100,00%	Full consolidation
NB África, SGPS, SA	2009	2009	Portugal	Holding	100,00%	Full consolidation
BES Beteiligungs, GmbH (BES GMBH)	2006	2006	Germany	Holding	100,00%	Full consolidation
Espírito Santo, plc. (ESPLC)	1999	1999	Ireland	Non banking financing	100,00%	Full consolidation
GNB - Gestão de Ativos, SGPS, SA (GNB GA)	1992	1992	Portugal	Holding	100,00%	Full consolidation
ES Tech Ventures, S.G.P.S., SA (ESTV)	2000	2000	Portugal	Holding	100,00%	Full consolidation
NB Finance, Ltd. (NBFINANCE)	2015	2015	Cayman Islands	Issue and distribution of securities	100,00%	Full consolidation
GNB - Recuperação de Credito, ACE (GNBREC)	1998	1998	Portugal	Debt collection	99,15%	Full consolidation
GNB Concessões, SGPS, SA (GNB CONCESSÕES)	2002	2003	Portugal	Holding	100,00%	Full consolidation
GNB - Serviços de Suporte Operacional, ACE (GNB ACE)	2006	2006	Portugal	Services	88,36%	Full consolidation
Espírito Santo Representações, Ltda. (ESREP)	1996	1996	Brazil	Representation services	99,99%	Full consolidation
Fundo de Capital de Risco NOVO BANCO PME Capital Growth	2009	2009	Portugal	Venture capital fund	100,00%	Full consolidation
Fundo FCR PME / NOVO BANCO	1997	1997	Portugal	Venture capital fund	56,78%	Full consolidation
Fundo de Gestão de Património Imobiliário - FUNGEPI - Novo Banco	1997	2012	Portugal	Real estate fund management	100,00%	Full consolidation
Fundo de Gestão de Património Imobiliário - FUNGEPI - Novo Banco II	2011	2012	Portugal	Real estate fund management	100,00%	Full consolidation
FUNGERE - Fundo de Gestão de Património Imobiliário	1997	2012	Portugal	Real estate fund management	95,28%	Full consolidation
ImoInvestimento – Fundo Especial de Investimento Imobiliário Fechado	2012	2012	Portugal	Real estate fund management	100,00%	Full consolidation
Prediloc Capital – Fundo Especial de Investimento Imobiliário Fechado	2006	2012	Portugal	Real estate fund management	100,00%	Full consolidation
Imogestão – Fundo de Investimento Imobiliário Fechado	2006	2013	Portugal	Real estate fund management	100,00%	Full consolidation
Arrábida - Fundo Especial de Investimento Imobiliário Fechado	2006	2013	Portugal	Real estate fund management	100,00%	Full consolidation
Invesfundo VII – Fundo de Investimento Imobiliário Fechado	2008	2013	Portugal	Real estate fund management	100,00%	Full consolidation
NB Logística - Fundo Especial de Investimento Imobiliário Aberto	2007	2012	Portugal	Real estate fund management	85,80%	Full consolidation
NB Património - Fundo de Investimento Imobiliário Aberto	1992	2014	Portugal	Real estate fund management	54,74%	Full consolidation
Fundes - Fundo Especial Investimento Imobiliário Fechado	2008	2015	Portugal	Real estate fund management	100,00%	Full consolidation
NB Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	2009	2012	Portugal	Real estate fund management	100,00%	Full consolidation
Orey Reabilitação Urbana - Fundo de Investimento Imobiliário Fechado	2006	2012	Portugal	Real estate fund management	100,00%	Full consolidation
Fimes Oriente - Fundo de Investimento Imobiliário Fechado	2004	2012	Portugal	Real estate fund management	100,00%	Full consolidation
Fundo de Investimento Imobiliário Fechado Amoreiras	2006	2015	Portugal	Real estate fund management	94,16%	Full consolidation
Fundo de Investimento Imobiliário Fechado Solid	2004	2015	Portugal	Real estate fund management	100,00%	Full consolidation
ASAS Invest - Fundo Especial de Investimento Imobiliário Fechado	2010	2013	Portugal	Real estate fund management	100,00%	Full consolidation
Febagri-Actividades Agropecuárias e Imobiliárias SA	2006	2012	Portugal	Real estate development	100,00%	Full consolidation
Autodril - Sociedade Imobiliária, SA	1998	2012	Portugal	Real estate development	100,00%	Full consolidation
JCN - IP - Investimentos Imobiliários e Participações, SA	1995	2012	Portugal	Real estate development	95,28%	Full consolidation
Portucale - Sociedade De Desenvolvimento Agro - Turistico, SA	1990	2012	Portugal	Agricultural holdings	94,80%	Full consolidation
Greenwoods Ecoresorts empreendimentos imobiliários, SA	2012	2012	Portugal	Real estate development	100,00%	Full consolidation
Sociedade Imobiliária Quinta D. Manuel I, SA	2012	2012	Portugal	Real estate development	100,00%	Full consolidation
Quinta da Areia - Sociedade Imobiliária, SA	2012	2012	Portugal	Real estate development	100,00%	Full consolidation
Sociedade Agrícola Turística e Imobiliária da Várzea da Lagoa, SA	2012	2012	Portugal	Real estate development	100,00%	Full consolidation
Imalgarve - Sociedade de Investimentos Imobiliários, SA	1986	2014	Portugal	Real estate development	100,00%	Full consolidation
Promotur - Empreendimentos Turístico, SA	1983	2014	Portugal	Real estate development	99,875%	Full consolidation
Herdade da Boina - Sociedade Imobiliária	1999	2012	Portugal	Real estate development	100,00%	Full consolidation
Ribagolfe - Empreendimentos de Golfe, SA	1995	2012	Portugal	Golf course operations	100,00%	Full consolidation
Benagil - Promoção Imobiliária, SA	1970	2012	Portugal	Real estate development	100,00%	Full consolidation
Imoascay - Promoção Imobiliária, SA	2011	2012	Portugal	Real estate development	100,00%	Full consolidation
Herdade do Pinheirinho Resort, SA	2007	2017	Portugal	Real estate development	100,00%	Full consolidation
Herdade do Pinheirinho II - Investimento Imobiliário, SA	2008	2017	Portugal	Real estate development	100,00%	Full consolidation
Fundo de Investimento Imobiliário Fechado Quinta da Ribeira	2006	2017	Portugal	Real estate fund management	100,00%	Full consolidation
R Invest - Fundo Especial de Investimento Imobiliário Fechado	2009	2017	Portugal	Real estate fund management	100,00%	Full consolidation
Promofundo - Fundo Especial de Investimento Imobiliário Fechado	2008	2018	Portugal	Real estate fund management	100,00%	Full consolidation
GNB - Companhia de Seguros, SA (GNB SEGUROS)	1996	1996	Portugal	Insurance	25,00%	Equity method
ESEGUR - Empresa de Segurança, SA (ESEGUR)	1994	2004	Portugal	Private security services	44,00%	Equity method
Locarent - Companhia Portuguesa de Aluguer de Viaturas, SA (LOCARENT)	1991	2003	Portugal	Renting	50,00% b)	Equity method
UNICRE - Instituição Financeira de Crédito, SA	1974	2010	Portugal	Non banking financing	17,50% a)	Equity method
Ijar Leasing Algérie	2011	2011	Algeria	Leasing	35,00%	Equity method
Edenred Portugal, SA	1984	2013	Portugal	Services provider	50,00% b)	Equity method
Multipessoal Recursos Humanos - SGPS, S.A	1993	1993	Portugal	Holding	22,52%	Equity method

a) The percentage presented above reflects the Group's economic interest. These entities were included in the consolidated balance sheet via the equity method as the Group exercises significant influence over their activities

b) Entities consolidated under the equity method as the voting rights grant control to the other shareholders

Subgroups:

	Year incorporated	Year acquired	Registered office	Activity	% Economic Interest	Consolidation method
BES Beteiligungs, GmbH (BES GMBH)	**2006**	**2006**	**Germany**	**Holding**	**100,00%**	**Full consolidation**
Bank Espírito Santo International, Ltd. (BESIL)	1983	2002	Cayman Islands	Commercial banking	100,00%	Full consolidation
GNB - Gestão de Ativos, SGPS, SA (GNB GA)	**1992**	**1992**	**Portugal**	**Holding**	**100,00%**	**Full consolidation**
GNB - Sociedade Gestora de Fundos de Investimento Mobiliário, SA	1987	1987	Portugal	Investment fund management	100,00%	Full consolidation
GNB - International Management, SA	1995	1995	Luxembourg	Investment fund management	100,00%	Full consolidation
GNB - Sociedade Gestora de Fundos de Investimento Imobiliário, SA	1992	1992	Portugal	Investment fund management	100,00%	Full consolidation
GNB - Sociedade Gestora de Fundos de Pensões, SA	1989	1989	Portugal	Investment fund management	100,00%	Full consolidation
Espírito Santo International Asset Management, Ltd.	1998	1998	British Virgin Islands	Investment fund management	50,00% b)	Equity method
GNB - Sociedade Gestora de Patrimónios, SA	1987	1987	Portugal	Wealth management	100,00%	Full consolidation
Novo Activos Financieros, SA	1988	2000	Spain	Asset management	100,00%	Full consolidation
Novo Banco Gestión, SGIIC, S.A	2001	2001	Spain	Asset management	100,00%	Full consolidation
Novo Banco Pensiones, SGFP, SA	2001	2001	Spain	Pension fund management	100,00%	Full consolidation
ES Tech Ventures, S.G.P.S., SA (ESTV)	**2000**	**2000**	**Portugal**	**Holding**	**100,00%**	**Full consolidation**
Yunit Serviços, SA	2000	2000	Portugal	Internet portal management	33,33%	Equity method
Fundo de Capital de Risco - BES PME Capital Growth	**2009**	**2009**	**Portugal**	**Venture capital fund**	**100,00%**	**Full consolidation**
Righthour, SA	2013	2013	Portugal	Services	100,00%	Full consolidation
Imbassaí Participações, SA	2009	2013	Brazil	Holding	100,00%	Full consolidation
Lírios Investimentos Imobiliários, Ltda	2007	2013	Brazil	Real estate management	100,00%	Full consolidation
UCH Investimentos Imobiliários, Ltda	2007	2013	Brazil	Real estate management	100,00%	Full consolidation
UCS Participações e Investimentos, Ltda	2004	2013	Brazil	Real estate management	100,00%	Full consolidation
UR3 Investimentos Imobiliários, Ltda	2007	2013	Brazil	Real estate management	100,00%	Full consolidation
Fundo FCR PME / NOVO BANCO	**1997**	**1997**	**Portugal**	**Venture capital fund**	**56,78%**	**Full consolidation**
Enkrott SA	2006	2006	Portugal	Water treatment and management	16,07% a)	Equity method
Logic C - Logística Integrada, SA	2005	2016	Portugal	Logistics	20,74%	Equity method
Epedal, SGPS, SA	2007	2015	Portugal	Holding	12,22% a)	Equity method
Nexxpro - Fábrica de Capacetes, S.A.	2001	2015	Portugal	Helmet manufacturing	33,83% a)	Equity method
Cristalmax – Indústria de Vidros, S.A.	1994	2017	Portugal	Glass manufacturing	18,96% a)	Equity method
Ach Brito & Ca, SA	1918	2015	Portugal	Soap manufacturing	8,77% a)	Equity method
M. N. Ramos Ferreira, Engenharia, SA	1983	2013	Portugal	Engeneering	8,11% a)	Equity method
GNB Concessões, SGPS, SA (GNB CONCESSÕES)	**2002**	**2003**	**Portugal**	**Holding**	**100,00%**	**Full consolidation**
Lineas – Concessões de Transportes, SGPS, SA	2010	2010	Portugal	Holding	40,00% a)	Equity method
Portucale - Sociedade De Desenvolvimento Agro - Turistico, SA	**1990**	**2012**	**Portugal**	**Agricultural holdings**	**94,80%**	**Full consolidation**
Herdade da Vargem Fresca VI - Comércio e Restauração SA	1997	2012	Portugal	Catering	94,80%	Full consolidation

a) The percentage presented above reflects the Group's economic interest. These entities were included in the consolidated balance sheet via the equity method as the Group exercises significant influence over their activities
b) Entities consolidated under the equity method as the voting rights grant control to the other shareholders

The Novo Banco Group's consolidation perimeter includes the following structured entities:

	Year incorporated	Year acquired	Registered office	Share-holding %	Consolidation method
Lusitano Mortgages No.6 plc (*)	2007	2007	Ireland	100%	Full consolidation
Lusitano Project Finance No.1, FTC (*)	2007	2011	Portugal	100%	Full consolidation
Lusitano Mortgages No.7 plc (*)	2008	2008	Ireland	100%	Full consolidation
Lusitano SME No. 3 (*)	2016	2016	Portugal	100%	Full consolidation
Lusitano Synthetic Ltd (*)	2012	2012	Ireland	100%	Full consolidation

(*) - Structured entities set up in the scope of securitisation operations, recorded in the consolidated financial statements in accordance with the continued involvement of the Group in these operations, determined based on the percentage of the equity pieces held of the respective vehicles

OWNERSHIP STRUCTURE (INCLUDING GOVERNMENT RELATIONSHIP)

As at the date of this Base Prospectus, the Issuer's share capital is €5,900,000,000, represented by 9,799,999,997 nominative and dematerialised shares with no nominal value, fully subscribed and paid up.

Holdings in the Issuer's share capital as at the date of this Base Prospectus are as follows:

Shareholder	**Number of shares**	**% of share capital**
Nani Holdings S.G.P.S., S.A.	7,349,999,998	75%

Shareholder	Number of shares	% of share capital
Fundo de Resolução (Resolution Fund)	2,449,999,999	25%

In view of the Commitments undertaken by the Portuguese State to the European Commission in the context of the approval of the sale of the share capital of Novo Banco under EU rules on state aid, the Resolution Fund as shareholder should refrain from exercising its non-equity rights (such as voting rights).

EUROPEAN COMMISSION COMMITMENTS

In the context of the Lone Star Sale, additional commitments by the Portuguese authorities have been adopted, which supersede those contained in the previous state aid decisions of 2014 and 2015 by the European Commission ("**Commitments**"). The Commitments were approved by the European Commission on 11 October 2017 and will remain in place until 31 December 2021 (the "**Restructuring Period**"). An independent monitoring trustee has been appointed in order to monitor the full compliance of the Commitments which have been undertaken by the Portuguese Government but which are binding on the Issuer.

For further information see the decision of the European Commission State Aid no. SA.49275 (2017/N).

Structural Commitments

Novo Banco segregated its existing activities into core unit and non-core unit. Those units are not separate legal entities therefore the funding, liquidity and solvency will be shared across both units.

Particularly with regard to the non-core unit, the Issuer is required, under the Commitments, during the Restructuring Period (with different deadlines depending on the assets), to divest or wind-down certain of its non-core assets in line with its strategy.

The Commitments impose certain targets for the deleveraging of the non-core assets throughout the Restructuring Period, which by the end of such period should not be greater than an established target. In addition, certain subsidiaries and business activities, including most international operations classified as non-core assets, must be divested, liquidated or wound-down before the end of the Restructuring Period, by specific pre-defined deadlines. See also "Risk Factors—Risks Related to the Issuer's Business—The Novo Banco Group is subject to the Commitments undertaken by Portugal to the European Commission, and a failure to achieve the Commitments may result in further corrective measures being implemented".

Behavioural Commitments

In addition to structural commitments, certain behavioural commitments have been established. These include remuneration limits put in place until 30 June 2020 (or until the end of the Restructuring Period if the viability targets are not achieved), such that no employee, director or manager of the Issuer may be paid a total annual remuneration higher than ten times the average employee salary.

The Issuer must also enter into all new business using a return on equity ("**RoE**") pricing tool, such that any new business must meet pre-tax RoE pricing targets. The Issuer is also subject to a prohibition on acquisitions (with certain exceptions, such as the assets required for the ordinary course of business in the management of existing claims towards ailing borrowers, including the conversion of existing debt into equity instruments or any other work-out strategy which does not increase the exposure of the Issuer but results in equity ownership, the enforcement of collateral or where the purchase price paid by the Issuer for any acquisition is less than 0.01% of the balance sheet size of the Novo Banco Group at the effective date of the commitment and where the cumulative purchase prices paid by the Issuer for all such acquisitions as at the effective date of the commitment is less than 0.025% of the total balance sheet size of the Novo Banco Group at the effective date of the commitment), and a prohibition on the payment of dividends (which limitation continues to apply post Restructuring Period, until 31 December 2025, or if the CCA maturity date is also extended until such date, until 31 December 2026 at the latest). Additionally, the Issuer shall refrain from any advertising which refers to state support during the Restructuring Period and from using commercial strategies that would not take place without governmental support.

Viability Commitments

The Issuer has also committed to progressively reduce the number of its employees and branches over the Restructuring Period and to reaching prescribed cost-to-income ratios and pre-provision income targets by specific dates within the Restructuring Period. Failure to comply with these targets, if not corrected in the subsequent year, will require the Issuer to comply with additional targets for reduction of the number of employees and branches.

The Issuer is required to comply with best lending practices, in particular to avoid preferential treatment of connected borrowers, and to ensure that certain exposures will undergo a regular credit (re-)rating process and set up risk management systems allowing for improved management reporting and risk management overview. Additionally, the Issuer shall refrain from proprietary trading beyond activities necessary for the normal operations of a commercial bank and set up specific Value-at-Risk limits for both treasury and market making activities.

The Issuer was required to change its auditor as part of its ordinary rotation procedures (this occurred with the appointment of Ernst & Young in December 2017) and to exercise prudence in its cumulative loan loss provisions and ensure that losses are provisioned. The Issuer is subject to a minimum amount for the cumulative loan loss provisions recorded by it. If the cumulative amount of the loan loss provisions (excluding CCA Assets (as defined below under "—*Contingent Capital Agreement*")) recorded up until an agreed date is lower than the reference minimum amount, the Issuer will register the difference as additional provisions, unless such additional provisions are not considered by the Issuer's auditor to be in accordance with the applicable IFRS framework.

In addition, if, following any SREP exercise carried out by the Single Supervisory Mechanism, the SREP total capital ratio of the Issuer falls below the SREP total capital requirement, and the Issuer is not able to address such shortfall through payments to be made under the CCA, the Portuguese Government has agreed in the context of the Lone Star Sale and the related state aid measures to provide additional capital to the Issuer, and provided that:

(a) Routine capital measures implemented by the Issuer to make up the shortfall within the nine months following the breach are unsuccessful;

(b) Lone Star does not provide the necessary capital following a request by the Issuer; and

(c) The required capital cannot be raised from market sources.

The additional capital may take the form of a public capital injection or additional tier 1 instruments that may be (i) issued to the market with a coupon guaranteed by the Portuguese state or (ii) fully underwritten by Portugal directly, in each case with additional capital being raised in the amount necessary to ensure solvency of the Issuer in an adverse scenario. If public funds are used in the Capital Backstop, the Issuer will be obliged to further reduce the perimeter of the Bank (branches and employees) and submit a new restructuring plan.

CONTINGENT CAPITAL AGREEMENT

The CCA is the contingent capital agreement entered into on 18 October 2017 by the Resolution Fund and the Issuer as part of the conditions of the Lone Star Sale. Under the CCA, in case (i) the Novo Banco Group's capital ratios decrease below the Minimum Capital Condition (as defined below) and (ii) losses are recorded in relation to the CCA Assets (as defined below) or other CCA covered losses (the "**CCA Losses**"), the Resolution Fund has undertaken, up to an aggregate maximum amount of 3,890 million euro, to make payments to the Issuer corresponding to the lower of the CCA Losses and the amount needed to restore the capital ratios to the Minimum Capital Condition, until 31 December 2025 (the "**CCA Maturity Date**"), which date can be extended until 31 December 2026 under certain conditions as mentioned further below in this section. This maximum amount shall be reduced by any amounts which the Resolution Fund provides in the underwriting of Tier 2 instruments (if any) pursuant to its underwriting commitment in respect of up to 400 million euro of Tier 2.

The "**CCA Assets**" comprise a predefined portfolio of assets which had an initial book value net of impairment, as of 30 June 2016, of approximately 7.9 billion euro, which included: 5.9 billion euro of loans to customers, 1.1 billion euro of restructuring funds, 0.1 billion euro of securities and 0.8 billion euro of other assets. As at 31 December 2018, the CCA Assets had a net book value of 4.0 billion euro, which included: 2.1 billion euro of loans (of which 90% were NPLs), 1.0 billion euro of restructuring funds and 0.9 billion euro of other assets (the "**CCA Assets**"). In addition, CCA Assets also include undrawn exposures relating to guarantees, committed credit lines and other commitments, which amounted to 1.3 billion euro and 0.6 billion euro as at 30 June 2016 and 31 December 2018, respectively, and provisions recorded as liabilities which amounted to 0.1 billion euro as at 30 June 2016 and 31 December 2018, in relation to such exposures. As at 30 June 2016 and 31 December 2018, the impairment related to the CCA Assets amounted to 4.8 billion euro and 3.5 billion euro, respectively.

The ability of the Issuer to claim payments under the CCA is subject to a capital ratio threshold (the "**Minimum Capital Condition**") and accumulated CCA Losses having been registered. The Minimum Capital Condition means that no payments shall be made unless (i) the Issuer's CET1 or Tier 1 ratio have fallen below the minimum required regulatory (SREP) CET1 or Tier 1 ratio plus a buffer, during the first three calendar years, 2017-2019; or (ii) the Issuer's CET1 ratio has fallen below 12%. Such threshold was 12.75% on 31 December 2017. Payments pursuant to the CCA are limited to the amount needed to restore the CET1 and Tier 1 ratios back to the relevant trigger level, provided that there are accumulated CCA Losses.

As a result of the CCA Losses recorded by the Issuer as at 31 December 2017 and as at 31 December 2018, and the resulting decrease of the capital ratios below the Minimum Capital Condition, the contingent capital mechanism of the CCA was triggered in relation to the year ended 31 December 2017 and 31 December 2018 and a payments by the Resolution Fund of 791.7 million euro and 1,149.3 million euro were made on 24 May 2018 and 6 May 2019, respectively.

The Articles of Association of the Issuer foresee a committee to function as a consulting body in the context of the CCA (the "**Monitoring Committee**"). The Monitoring Committee consists of three people, elected by the general meeting of shareholders of the Issuer, two of whom are appointed by the Resolution Fund, one of whom shall be a registered chartered accountant, and the third member shall be an independent member jointly appointed by the parties to the CCA. Either the Resolution Fund or the Issuer can request an opinion from the Monitoring Committee in respect of any relevant matter pertaining to the CCA Assets. The Resolution Fund has the right to take all decisions in respect of the CCA Assets, unless a pre-defined ratio of the then remaining aggregate net book value of the CCA Assets to the aggregate starting reference values is not verified (in which case the CCA Maturity Date may be extended to 31 December 2026), at which point the Issuer would need to inform the Resolution Fund in respect of most material management decisions with respect to these assets.

The powers of the Resolution Fund and delegation of powers to the Issuer (and the limits to such delegation) in respect of the CCA Assets are defined in a Servicing Agreement entered into on 14 May 2018 between the Resolution Fund and the Issuer, under which the Issuer acts as servicer in respect of the daily management of the CCA Assets.

STRATEGY

Following the approval of the restructuring plan agreed in the context of the Commitments assumed with the Directorate-General for Competition (DG COMP), a set of Transformation Projects were created for Novo Banco Group at the end of 2016, which focused on (i) maximizing cost efficiency through adjustments to the installed capacity - rationalization of the structure (central services and retail network) and processes, and cost optimization - and (ii) optimization of revenues.

The Bank's Strategic Plan for 2018/2020 - the first strategic plan drawn up after the sale of the Bank at the end of 2017 - was defined in 2018. This plan which draws on the Novo Banco Group's DNA, is founded on four structural and structuring pillars, comprising a set of Operational Programmes:

1. **The Distribution Model**– consisting of programmes aimed at achieving the intelligent evolution of the distribution model, entailing deep changes in the branch model and the adjustment to the digital clients' new requirements, to ensure omni-channel proximity to the clients;
2. **The Talent and Merit**– consisting of programmes that aim to produce a deep evolution in human capital management in terms of rejuvenation, motivation and retention, and ensure the alignment between incentives and transformational evolution;
3. **The IT and Processes**– includes a set of programmes aiming to ensure a far-reaching technological

transformation, both preserving the current platforms and creating an agile IT environment;

4. **The Risk Adjustment**– consisting of programmes intended to ensure a fine-tuned risk management, namely through segmented adjustments to risk appetite, with a decisive influence on pricing and leading to the continuous improvement of governance.

All of these pillars, which comprise a set of operational programmes, were developed based on the following priorities **optimization, digitalization and differentiation.**;

In 2018 priority was given to the programmes relating to optimisation, striving to attain improved levels of efficiency and customer service.

These programmes were designed to ensure compliance with the objectives set in the agreement signed between the Portuguese State and the European Commission, to guarantee the necessary restructuring of the Bank and a high level of operating profitability.

In 2018 the successful deployment of these programmes allowed for a considerable reduction in the high level of NPL, both through individual recoveries and through a significant sale of a non-performing loan portfolio. At the end of 2018, the NPL portfolio net of impairments had already dropped below 3.0 billion euro.

At the same time, the sale of non-productive real estate was accelerated. In the fourth quarter a total of 9 thousand properties were sold, in the amount of over 700 million euro.

The normalization of the cost of liabilities was also under focus, entailing several operations with high-interest rate liability products, while ensuring a client resource retention level of more than 80%.

But 2018 was also marked by decisive steps for the current activity that will reshape Novo Banco, going forward.

The Bank's capital was reinforced, through the effect of the compensation received under the contingent capital agreement agreed with the Resolution Fund in the scope of the sale of Novo Banco, and also through a 400 million euro Tier 2 subordinated bond issue, which earned the 'Europe Financial Bond' award from the International Financing Review (IFR).

In terms of the Commercial Activity, the Bank resumed the process of recovering market share, in both the corporate and the individual client segments, while maintaining the net interest margin at an adequate level.

At the operations level, the Bank was able to contain costs, reduce the network to the number of branches agreed with the DG COMP, and sell or close down non-core operations, such as Banco Internacional de Cabo Verde, BES Vénétie and the branch in Venezuela.

2019 will see the start of a phase of transformation, of a markedly digital nature, which will seek to maintain the Novo Banco Group's positioning as a reference universal bank in the domestic market, with a strong franchise in corporate and retail banking and standing out for the quality of the service provided.

In 2019 the priority will go to the programmes related to digitalisation, which will permit to transform the Novo Banco Group into a customer-centric, straightforward and low risk multi-channel provider with a strong digital component. One of the initiatives within the digitalisation effort, was the recent creation of Novo Banco Digital.

2019 will also see major steps into the differentiation priority, which lays out the differentiation of Novo Banco Group and will add to the proposals of the units in Spain, Banco Best and Asset Management those of the Real Estate Financing and Principal and Alternative Lending business units, currently under implementation. All these will add up to ensure the differentiation of the Novo Banco Group.

All that was done in 2018 will be further deepened in 2019, so as to materialize the strategic destiny of Novo Banco.

It should also be noted that the Bank has decided to report its main financial indicators in 2018 separated by recurrent and legacy activity. The legacy activity includes customer loans, namely those included in the Contingent Capital Agreement, approximately 92% of the total, and also non-strategic loans, securities, restructuring funds, and a Real Estate Owned portfolio (non-yielding).

Activity in 2019 will thus be shaped by the objectives of the Strategic Plan, translating into the adequate growth of the recurrent loan portfolio, a significant improvement in commercial banking income and in the cost of risk, and the continuous reduction of operating costs.

COMMERCIAL ACTIVITY AND BUSINESS MODEL

The Novo Banco Group ("**NBG**") develops its activity centred on the financial industry sector and focused on the corporate, institutional and private individual clients.

The domestic commercial banking segment, including retail, corporate and institutional banking sub-segments, along with the Novo Banco Group's international commercial banking segment, forms the Novo Banco Group's commercial banking operations, which are complemented by the Novo Banco Group's asset management business and a Markets segment. The Novo Banco Group also has a life insurance business which is currently subject to a sale process.

In Portugal, the Novo Banco Group operates through a network of 381 branches and 23 Corporate Centres. Given the adverse environment surrounding the creation of the Novo Banco Group, its commercial dynamism was key to the resilience of the Bank's competitive positioning.

Commercial Banking

Retail Banking

2018 represented another important step in the consolidation of Novo Banco as a reference bank at the various stages in the life of Portuguese families. In a market already very competitive and moreover, undergoing a process of change, Novo Banco has been able to strengthen its market shares in the main product lines thanks to its commitment to differentiation based on service quality and a customer-centric approach, supported by a platform of digital channels which is the favourite amongst Portuguese users[1]. This robust evolution is the result of the continuous recognition earned from Individual, Entrepreneur and Small Business clients.

Always driven by the aim to raise the standard of the service provided and its capacity to respond to the needs of its Retail Clients, Novo Banco promoted several commercial initiatives with a recognized innovative nature:

- Renewal of the image of the NB 360º Segment, stressing its lines of differentiation vis-à-vis other segments of the Bank and the Portuguese banking market;
- Launch of the innovative 'Moving to Portugal' website, designed to present Portugal as a destination for foreign citizens wishing to move to the country, comprising integrated financial solutions for potential clients and information on topics such as taxation, finance, health, education, housing and leisure;
- New Investment Solutions, featuring high quality products of Novo Banco Group and International Managers, to allow a diversified and optimised management of customers' savings;
- Reinforced role as expert in Residential Mortgage Loans, through the setting up of a Residential Loans Laboratory, where clients can adjust their loans to their specific situation (extending or shortening maturities, swapping variable to fixed rate, exchanging homes, investing for rental and many other functionalities with proper solutions for the objectives of the customers);
- Support campaign to the National Football Team, through the creation of the 'NB Seleção' account, an account for new clients featuring a broad package of financial products and services, namely debit and credit cards, free-of-charge transactions in the digital channels, among others, all free of maintenance fees for one year;
- Development of more than 20 new functionalities in the NB Smart App (from which it should be highlighted the Family Budget, Signature of Documents previously uploaded by the account manager and subscription of the Salary Solution), the leading app in Portuguese Banking, as ranked by both Google Play and the Apple Store.

To help its Clients choose the best alternatives for their savings, Novo Banco reinforced its offer of Investment Solutions with investment funds from International Fund Managers, which, together with GNB Gestão de Ativos's offer of Funds, permit to design multiple investment strategies adjusted to the risk profile and of each client's goals. Moreover, the introduction of new financial insurance solutions and the launch of new structured products contributed to a high level of Customer recognition and satisfaction.

The innovative, wide-ranging, and flexible offer, of recognised superior quality, met with significant adherence by Novo Banco's clients, with Investment Solutions more than doubling its production in 2018.

Novo Banco once again asserted its position as the expert in Retail Loans in which the Portuguese can trust, leading

[1] According the App punctuation achieved in Android Store (4,6) and App Store (4,5).

to the reinforcement of its market share in the main products. The proximity of the Network and the high efficiency of the process of approval and disbursement of Residential Mortgage Loans is consensually recognised by credit intermediaries, supporting a 20% increase in production, with a spread comfortably above market spreads. In Personal Loans, a partnership entered with Samsung made available to Clients exclusive products of this South-Korean brand, at special credit conditions (interest-free). The vigour displayed by Novo Banco allowed for an expansion of the portfolio of around 27%, underpinned by a significant increase in new production levels (+17% YoY).

In the Small Businesses segment monitored by the Retail area, production of medium- and long-term loans and leasing registered a year-on-year increase of 26%. The active support given to the Clients in the preparation and submission of loan applications allowed Novo Banco to achieve a prominent position in the ranking of the 'Capitalizar' sub-line for small and micro companies, with the acquisition of new clients in this segment accordingly showing a strong increase (above 30% YoY). In addition, in order to widen the scope of the product offer to the Small Business Clients, Novo Banco launched a Workers Compensation and Multi-Risk Insurance package designed for the segment.

Finally, it is worth stressing the loyalty and trust which the Clients have placed in Novo Banco for the management of their day-to-day financial needs. In 2018, the number of Clients with Income Domiciliation surpassed the 535 thousand mark, the highest in the last five years, while those subscribing to the Salary Solution increased by more than 20%.

Novo Banco dos Açores, S.A.

In 2018 Novo Banco dos Açores pursued its effort to attract new Clients through various actions targeting individuals, companies, services, institutions and public entities, with the objective of increasing the market share and bolstering the activity in terms of both funding and lending, thus supporting the Azorean economy and families. Novo Banco dos Açores continues to be the only bank with its registered office in the Autonomous Region of the Azores.

Regarding the activity of Novo Banco dos Açores, the year-end value of both Customer loans and Customer deposits increased relative to the previous year, by 1.6% and 5.1%, respectively.

Banking income increased by 3.2% year-on-year, mainly underpinned by the growth of net interest income (+15.2%). In 2018 operating costs contracted by around 22.8% relative to 2017 as a result of a strong cost-cutting policy.

Novo Banco dos Açores closed the year with net assets of 548 million euro, reporting a net profit for the year of 3.8 million euro, an increase over the previous year of 1.8 million euro (+92.4%) that reflects a very positive performance.

Banco Best

Banco Best reported a net profit of 3.6 million euro in 2018, which represents a year-on-year increase of 18.2%. The Bank maintained very positive prudential and financial strength ratios, namely a loan to deposit ratio of 26%. At operational level Banco Best also showed a favourable evolution, with the cost to income ratio dropping to 69%, from 71% in 2017.

Assets under management totalled 2 billion euro, with customer deposits rising by 11% year-on-year, to 546 million euro. In a year marked by strong volatility in the financial markets, especially in the last quarter, trading activity, through the Best Trading Pro (BTP) service, was very dynamic, driving an increase in the market share of online derivatives from 13% in 2017 to 17% in 2018%.

Banco Best continued to strive for leadership in digital banking and innovation in the offer of financial products and services in Portugal, across all their spectrum, having achieved the following results in 2018:

- Banco Best pioneered the facility permitting to open an account by video call and in June presented to the market a new website, more appealing, with new functionalities and using digital marketing tools;
- In Asset Management, Banco Best received in February the Euronext award in the Financial Innovation category, due to its introduction in Portugal of the first artificial intelligence managed fund (Acatis AI Global Equities Fund). The Bank also pioneered the introduction in Portugal of the Exchange-Traded Funds

(ETFs) issued by UBS, reinforcing its liabilities management offer, and brought Rubrics Asset Management, Carmignac, and Optimize, Nova Seguradora: Una, to the Portuguese investment funds market;

- Under a joint venture with Advicefront, a national startup, Banco Best launched a user-friendly investment advice tool;
- Financial literacy was promoted through the Best Trading Pro training cycles, which aim to foster investors' financial expertise under the motto "More Knowledge, Better Investment", and were developed in 9 sessions across the various Investment Centers in the country;
- Banco Best launched BEA - Best Electronic Assistant, an artificial intelligence-based chatbox that answers users' questions about products and services;
- With partners in the Fintech area and international and international fund managers, Banco Best coordinated the first subscription of a foreign fund in Portugal in Blockchain environment;
- Offer of the Open Banking solution for institutional clients, allowing connection to the Best domain via APIs and access to information, thus anticipating the changes that will occur through the PSD 2 regulations;
- Also in 2018, Banco Best restructured its entire offer of sight accounts and cards, keeping the 100% digital accounts fully exempt from management fees, in line with its business rationale.

Corporate Banking

Novo Banco has a strong franchise in the corporate market: 52% of the companies with turnover above 2.5 million euro are clients of Novo Banco (Simplified Business Information - 2017 database). This percentage increases to 57% when we look at the sub-group of exporting companies.

A study to the market of Non-financial companies showed that in December 2018, Novo Banco had a market share[2] of 15.0% in Deposits and 17.2% in Loans.

In Corporate Banking Novo Banco has segmented the network as follows:

- 20 Corporate Centres distributed throughout the country, with dedicated teams that serve Medium-Sized Companies with turnover (at individual or group level) between 2.5 million euro and 200 million euro; at the end of 2018 there were more than 15.5 thousand such clients, accounting for circa 8.4 billion euro of financial flow;
- Corporate Segment that serves companies with turnover (at individual or group level) of more than 200 million euro; at the end of 2018 there were more than 1.7 thousand clients in this segment, accounting for circa 8.2 billion euro of financial flow.

Within this segment, production of medium and long-term loans reached 1.8 billion euro in 2018, upholding Novo Banco's reference role in supporting the development of companies and economic activity in Portugal. Moreover, it is also worth noting the level of production under the 'NB FEI Inovação IV' (under a partnership with the European Investment Fund), 'Capitalizar' and 'Capitalizar Mais' (under a partnership with the Mutual Guarantee System) and 'NB Corporate Invest' Lines, under which disbursements reached 420 million euro between January and December 2017. This set of instruments has proven an important pillar of support to Small and Medium-sized Enterprises (SMEs), namely in terms of investment and reinforcement of permanent capital, where we note the projects approved under the Portugal 2020 programme.

As regards the day-to-day support provided to companies, through Treasury Solutions, Novo Banco has developed an offer tailored to the needs of each client, with the factoring and confirming portfolio reaching 706 million euro at year-end in the Medium-sized Companies and Corporate segment.

In Leasing, a specialised credit instrument designed to support our clients' investments, the portfolio grew by 12.6%, with production reaching 325.4 million euro.

The services provided to corporate clients also include solutions targeting their employees. In this area, we should stress the good response to the solutions that afford social and tax benefits to corporate clients' staff, in

[2] Non-Financial Companies based in countries of the Monetary Union, for operations in Euro; NB Perimeter: domestic activity, excluding NB Açores and Best; Market: Bank of Portugal information.

particular Meal Cards and Life Insurance, as well as the partnership protocols designed for these employees.

Trade Finance is an important business area of Novo Banco. The Bank's commitment to this area finds an echo in Portugal's economic scenario, where exports have shown sustained growth over the last few years (+5.6% in the 11 months to November 2018), and the weight of exports in GDP reached 43% in 2017. Novo Banco provides a wide range of products and specialised advice designed to support international trade. The Bank's know-how in this segment is valued by companies, as shown by a market share of around 22% in December (measured by the number of swift messages), which represents a year-on-year increase of 0.8 pp.

In January 2019 Novo Banco was considered the 'best trade finance bank" in Portugal by the Global Finance international magazine, based on its activity in 2018. This award highlights the international recognition of the Bank's capabilities in this important business area.

Because it is keen on creating value for its corporate clients, Novo Banco offers them innovative and added-value products and services, including, among others, the Fine Trade service: based on the analysis of potential markets this tool identifies global export opportunities for Portuguese companies, matching the tradable goods produced or sold by these companies to up to 20 countries where sales of such goods are more likely to succeed. The Fine Trade service is available for free at NBnetwork, providing valuable information on markets and export opportunities for the Portuguese companies.

According to DATAE's-Business Financial Services Barometer - Banks (BFinBanks), a study whose main objective is to characterise, from businesses' point of view, the Portuguese banking sector in terms of the products and services provided, Novo Banco is 2nd Main Bank of companies in the sub-group of companies with turnover above 2 million euro, having improved its position relative to 2017. The main reasons that lead clients to choose Novo Banco are tradition, quality and speed of service. This choice reveals the importance of the relationship with the client and of a customer-centric approach, as well as the Bank's commitment to innovation and service efficiency.

As to the assessment made by the corporate clients of Novo Banco and its team, the level of "Customer Service Satisfaction" reached 90.7% (percentage of responses of 8 to 10 in a scale of 1 to 10) in 2018, which represents an increase of 1.8pp relative to 2017. Moreover, the results of other surveys conducted, namely relating to "Global Satisfaction with the Bank" "Trust", "Repurchase intention" and "Recommendation", have also improved steadily since 2015.

International Commercial Banking

Within the defined strategy Novo Banco develops its business activities for the corporate and retail segments focused in the domestic market but not neglecting its Iberian nature.

In line with its strategy of divesting from non-strategic assets, in 2018 Novo Banco carried out:

- the sale in March 2018 of the assets and liabilities of the Venezuela branch to BANCAMIGA, Banco Universal, CA. With the completion of this transaction Novo Banco ceased to have any banking activity in Venezuela;
- the sale in July 2018 of 90% of the share capital of Banco Internacional de Cabo Verde, S.A., held by NB África, SGPS S.A. and by Novo Banco, S.A., to IIBG Holdings B.S.C.;
- the sale in December 2018 of the 87.5% equity holding in BES Vénétie to the Cerberus Capital Management, L.P. fund;
- During the last quarter of 2018 the London Branch (United Kingdom) remained focused on its closing-down process, with all operations having been transferred to other Branches of the Bank. The closing-down process was concluded at the end of January 2019.

2018 was primarily marked by the drawing up, approval and start-up of implementation of a Strategic Plan for Novo Banco's Branch in Spain, to be deployed over 2018-2022.

The Plan lays down a set of activity guidelines that, considering the scope and dynamics of the Spanish economy, and several specific characteristics of this country (such as, among others, the consolidation of the banking sector, or the fact that Novo Banco is the only Portuguese bank with activity in Spain), will permit to harness the existing opportunity by pursuing an ambitious goal of expanding the commercial activity.

To drive the Branch's growth and profitability goal, the Plan will be deployed on several fronts, both at commercial activity level and at the level of the necessary operational transformation.

The commercial organization model was optimized to serve in the most adequate manner the Branch's strategic segments, with a particular focus on the corporate segment. To this end, four branches were closed while an aggressive programme of reinforcement of the sales teams in priority regions was launched, again with a stronger focus on the corporate area. In addition, to ensure the continuous optimization of the cost-to-serve, specific groups of clients are being transferred to a digital structure, thus releasing manpower at the branches for a closer and more personalized service to the target client base.

The Iberian business centre was also reactivated. This entailed incorporating international business experts, creating a base of Iberian clients and preparing the entire commercial monitoring model.

A structural enabler for the development of the strategic plan is the effectiveness of the credit decision process. Accordingly, (i) a project viewing the development of rating models adjusted to the local circumstances and the Corporate segment, and ensuring greater and faster response capacity, was initiated, and (ii) a model to measure the profitability of credit operations, in line with the parent company's policies and practices, was implemented.

In addition to the initiatives described, it should also be stressed that a significant effort was made in 2018 to steadily improve the cost of funding, which as a consequence decreased by 40 bps during the year.

In terms of the operational efficiency pillar, an ambitious process of change towards the "Software as a Service" paradigm was launched, which involved starting the implementation of a new information system, with all the systems and communication infrastructures having been consolidated under the new approach during the year.

To evolve towards the continuous improvement of the operational structure, a business process outsourcing (BPO) process was launched in the Branch, yielding productivity, efficiency and service level gains in the management of clients.

Finally, and also viewing the enhancement of operating efficiency, the move of the branch's central services to new corporate offices was initiated at the end of 2018. The new building, which has earned awards for its unique environmental efficiency characteristics, boasts outstanding conditions in terms of ergonomics, flexibility, light and modernity, thus being perfectly in step with the new phase in the life of this Branch. Moreover, it will afford very significant savings in costs with general and administrative costs.

The Luxembourg Branch focused its activity on holding the booking of its current operations' portfolio, given the imposed limitations by the European competition authority on the taking on of new business, also carrying out the transfer of some operations from the London Branch. The Branch's total assets amounted to 1.8 billion euro, which represents a year-on-year decrease of 0.4%.

Digital Banking

A major achievement in 2018 was the creation of Novo Banco Digital (NB Digital), a new area created to promote and orchestrate the Bank's Digital Transformation, under the lead of the new Chief Digital Officer.

NB Digital brings together the Bank's main digital competencies and is already working with all business areas, and Corporate and Retail segments, to achieve the transition into a new acceleration phase. Focused on the excellence of the experience to be delivered to the final Client, NB Digital strives to assert sharp market differentiation, boost the digital contribution, optimize commercial productivity, minimize the cost-of-serve and produce constant innovation translating into actual value for the Client and for the Bank.

The ambition in this area is strong: Novo Banco aims to attain the highest level of service delivery and quality in commercial digital banking, providing its Clients with solutions aligned to the best global standards of usability, service level and satisfaction.

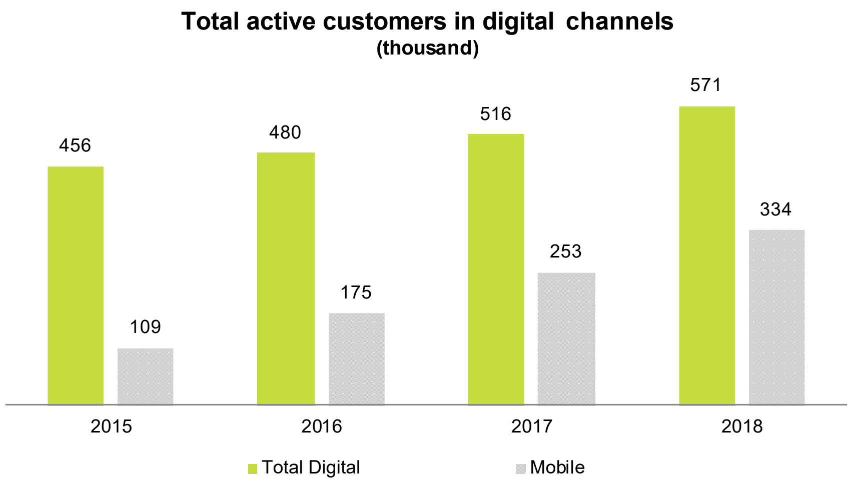
In a market environment in fast change, driven either by the entry into force of new regulatory frameworks, the emergence of disruptive technological solutions enabling new offers and solutions, or an enlarged competition arena where fintechs, large technology firms and other players vie with the traditional financial sector for dominance of the relationship with people and companies, NB Digital stands as Novo Banco's strategic arm to tackle these new challenges and contribute to the deep renovation which the Bank is undertaking in its processes, systems and offer.

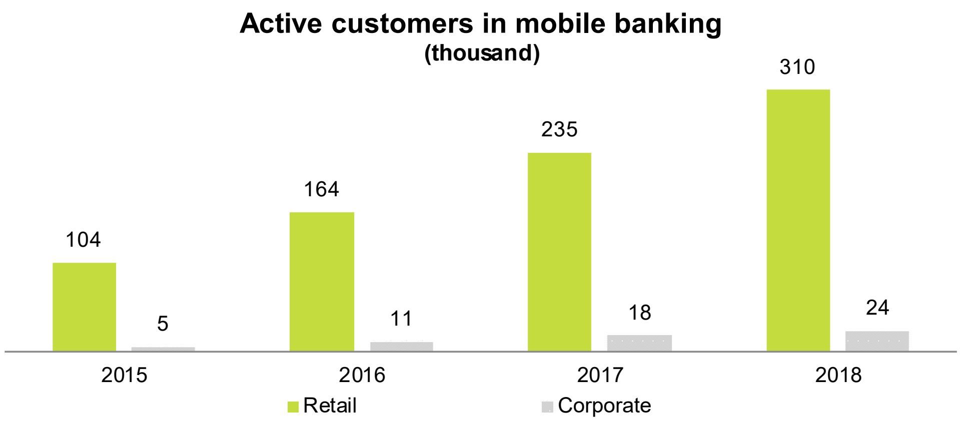
The challenge is to offer richer, more intelligent and customized multichannel experiences, standing at the

Customers' side daily and through their life, pre-empting needs and delivering individualized and effective solutions.

NB Digital also has the mission to challenge the existing methodologies and processes, prompting the adoption of more agile, collaborative and effective forms of work that enable the Bank to provide a more dynamic response to the market's new challenges. Another aspect of great relevance concerns the capture and development of talent in areas as diverse and fundamental as Data Science, Digital Marketing, Design Thinking, or Agile & Scrum, to name just a few.

From the standpoint of the evolution of the digital activity of the Bank and its Clients, 2018 was once again a year of strong growth, particularly in the use of the mobile apps. At the end of the year frequent users of the digital channels numbered more than 570 thousand, which represents a year-on-year increase of around 11%. The number of mobile banking active clients reached 334 thousand at the end of the year, representing an increase of more than 32% relative to December 2017, and this figure was even more expressive in the small businesses and corporate segments, where growth reached around 39% year-on-year.





The NB smart app leads the ranking of national banks' apps, as measured by Clients' assessments in the Google and Apple app stores. NB smart's average score at the end of 2018 (resulting from more than 6 thousand user assessments) was 4.6 at Google's Play Store and 4.4 at Apple's App Store.

This high level of customer satisfaction is further confirmed by the scores obtained in the surveys conducted at the end of 2018, which were the best ever since customer satisfaction surveys were started at the beginning of the millennium, not only for NB's smart app, but also for all the Bank's other channels. Hence the percentage of very satisfied clients reached 90% while the Net Promoter score was 67, both scores attesting to the Clients' very positive image of this solution.

2018 was also marked by the extremely high pace of introduction of new and innovative solutions for use by the Clients, which included the possibility of activating the Bank's Digital Channels through the NB website in a very simple process that gives the Client immediate access via PC or app, or the introduction of the Family Budget in the NB smart, featuring a wide range of tools to support the day-to-day management of personal and family expenses. On average, three new functionalities per month were introduced in Novo Banco's digital channels. This clearly shows the Bank's pledge to innovation and the enhancement of the tools made available to its Clients, which contribute to assert the distinctive and leading positioning which the Bank aims to achieve and maintain in its digital solutions.

Asset Management

GNB Gestão de Ativos, which operates in Portugal, Luxembourg and Spain, closed the year with a total of 10.5 billion euro in assets under management.

In Portugal, the volume of assets under management dropped by 0.5% (to 9,492 million euro, from 9,544 million euro in 2017), despite an increase of 6.1% in Mutual Funds (to 358 million euro, from 337 million euro in 2017) and of 5.7% in Real Estate Funds (to 1.5 billion euro, from 1.4 billion euro in 2017). The growth in Mutual Funds reversed the trend observed in the last few years, with GNB Gestão de Ativos standing as the only one amongst the five largest mutual fund managers in Portugal to post growth in 2018 (the market contracted by 8.7%). This was due to net subscriptions totalling 36 million euro during the year. In Real Estate Funds, we note the Viriato Project, which consisted in the sale of a portfolio of real estate assets, including 1,200 properties owned by seven real estate funds managed by GNB Sociedade Gestora de Fundos de Investimento Imobiliários, with the first deeds being signed in the last quarter of 2018.

The Luxembourg unit reported a fall of 1.8% in assets under management (to 245 million euro, from 250 million euro in 2017), while the unit in Spain registered a slump of 16.7% (to 808 million euro, from 969 million euro in 2017).

The net profit for the year was 10.1 million euro, representing a year-on-year increase of 26.3%. To these results the domestic units contributed with 8.6 million euro (of which 4.4 million euro from GNB SGFII and 3.2 million euro from GNB SGFP) and the international units with 1.5 million euro (of which 1.8 million euro from the Luxembourg unit).

Equity increased by 17.3% relative to the previous year, totalling 63 million euro at the end of the year.

Responsible Investment Funds

Responsible investment is an approach to traditional investment that recognises the importance of environmental, social and governance factors for the success of investment and for long-term stability.

Novo Banco Group, through subsidiary Banco Best, sells responsible investment funds from third-party asset managers with a diversified investment strategy and geographic allocation.

In 2018 client subscriptions of Banco Best's range of 160 responsible investment funds (42 more than in 2017) totalled approximately 12.96 million euro, which represents a year-on-year increase of 63%.

During the year Banco Best also offered 12 Exchange Traded Funds (ETFs) with environmental, social and governance concerns, with a total investment of 24,500 euro.

The list of funds offered is available in Novo Banco's corporate website:

www.novobanco.pt/institucional, under Sustainability / Environment Products.

Life Insurance

This business segment includes the activity developed by GNB – Companhia de Seguros de Vida, S.A. ("**GNB Vida**")[3], that operates with traditional life insurance products, capitalization products and pension and retirement plans.

3 Novo Banco also holds a shareholding of 25% on GNB Seguros, a non-life insurance company.

As consequence of the Commitments made between the Portuguese State and European Competition Commission, after the conclusion of Lone Star Sale, the group launched in 2017 an organized sale process of 100% of the share capital of GNB Vida. Therefore, this entity was considered as a discontinued operation on 31 December 2017.

GNB Vida assets represented 4,076 million euro of the Novo Banco Group's total assets as at 31 December 2018.

As at 12 September 2018, the group has entered into a sale and purchase agreement with Bankers Insurance Holdings, S.A in respect of the entire share capital of GNB Vida, which also included a 20 year agreement to distribute life insurance products in Portugal. In May 2019, the shareholder structure of the purchaser has changed and is now owned by funds advised by Apax Partners. Completion of the sale of GNB Vida is subject to the verification of certain conditions, including the authorizations from the relevant regulatory authorities. On 13 June of 2019, the European Commission approved the proposed acquisition of GNB Vida by APAX Parners LLP.

Markets

This segment includes the overall financial management of the Novo Banco Group, including the taking and placement of funds on the financial markets, as well as the investment and risk management of credit financial instruments, interest rate, currency and securities financial instruments, whether of a strategic nature or related to the current activity of the markets area. It includes also the effects of strategic decisions with a transversal impact on the Novo Banco Group.

LIQUIDITY AND FUNDING MANAGEMENT

Novo Banco manages liquidity risk in accordance with all the regulatory rules, guaranteeing that all its responsibilities are met, whether in normal market conditions or under stress conditions.

Novo Banco's liquidity risk is managed under the following perspectives:

- Short-term liquidity;
- Structural liquidity; and
- Contingency liquidity.

Short-term liquidity levels are monitored through daily mismatch reports, prepared in accordance with pre-established guidelines and internally defined metrics, which permit to detect any signals of crisis with potential impacts on the Bank, namely through idiosyncratic risk, contagion risk (due to market tensions) or the risk of repercussions of an economic crisis on the Bank. This process ensures an ongoing and active role in liquidity risk management and risk assessment from the Executive Board of Directors. In addition, the liquidity position is also regularly reported to the Bank of Portugal and the European Central Bank (ECB).

The Executive Board of Directors monitors the evolution of the liquidity position, namely eligible assets and liquidity buffers, main cash inflows and outflows, deposits' evolution, medium- and long-term funding, central banks funding, the treasury gap evolution by business unit, as well as the warning signals pre-established for the purpose.

In terms of the structural liquidity, Novo Banco prepares a monthly liquidity report, taking into account not only the effective maturity but also behavioural maturity of the various products, which allows to determine the structural mismatches for each time bucket. Based on this information, the activity funding annual plan is prepared taking into account the established budget targets. This plan, which is regularly reviewed, favours, as far as possible, stable funding instruments.

The Capital and Asset Liability Committee (CALCO), which meets monthly, also analyses the liquidity position of the Bank, namely the balance sheet evolution, broad analysis of the gaps and key indicators of the activity (liquidity ratios, liquidity and commercial gaps, deposit and credit rates). To sum up, CALCO performs a comprehensive analysis of the liquidity risk and its evolution, with special focus on current liquidity buffers and generation / maintenance of eligible assets for rediscount with the ECB and respective impacts on the liquidity ratios.

For the liquidity contingency plan, the Bank has defined a set of measures that, when triggered, allow to manage and/or minimise the effects of a liquidity crisis. These measures aim to address additional liquidity needs and boost the resilience of Novo Banco in a potential situation of stress. The contingency measures and procedures were triggered in early August 2014 in response to the crisis that led to the application of the Resolution Measure and the creation of the Bank, and were withdrawn in February 2018. Besides measuring accurately the liquidity risks faced by the Bank, these procedures also take in consideration liquidity and funding shortages.

Novo Banco’s funding policy is one of the major components of the Bank’s liquidity risk management, which stresses the diversification of funding sources. Novo Banco's strategy has from its incorporation largely relied on boosting customer deposits as its major source of funding, insofar as since the Resolution Measure was implemented access to the financial markets has not yet been normalised.

At the end of 2017, following the conclusion of the Lone Star Sale, Novo Banco showed a comfortable liquidity surplus, with approximately 3.8 billion euro deposited with the ECB, namely as a result of the favourable evolution of customer deposits. With the subsequent normalisation of the Bank's activity, liquidity management in 2018 involved the rationalisation of its funding sources, with a special focus on improving profitability. To this end, an effort was made to reprice the offer of deposits, and several initiatives were taken to achieve the early redemption of liabilities paying high rates of interest. This allowed for a significant reduction in the average cost of liabilities, however it also led to a contraction in the amount of customer deposits.

Hence at the end of 2018 customer deposits with Novo Banco totalled 28.4 billion euro, a year-on-year reduction of 1.3 billion euro that mainly resulted from the referred effort to adjust the price of liabilities.

Despite said reduction, at the end of 2018 customer deposits remained the Bank's main funding source, accounting for roughly 58.6% of its funding structure (57% at the end of 2017), and of this, 70% were deposits from the retail segment.

On the other hand, Novo Banco pursued its strategy of deleveraging non-core and non-productive assets, focusing in particular in the loans portfolio, which in gross terms was reduced by 2.7 billion euro in 2018, mainly in corporate loans.

This reduction did not have a significant impact on liquidity as it essentially resulted from the write-off of loans and the sale of a non-performing loan portfolio, whose financial settlement will only take place in 2019. With no significant impact on liquidity either, Novo Banco concluded other relevant transactions in 2018 within the scope of its deleveraging policy, namely the sale of a portfolio of real estate assets and the sale of the equity holding in BES Vénétie and of 90% of Banco Internacional de Cabo Verde.

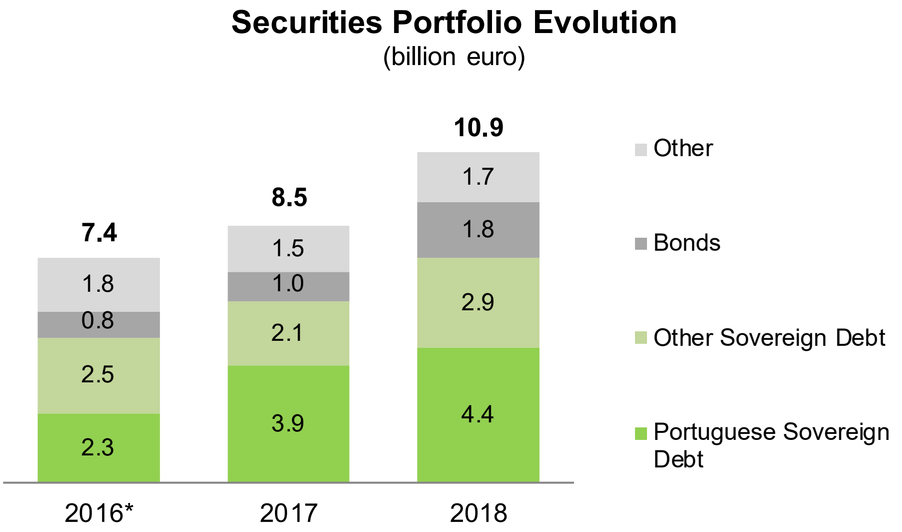
In terms of capital, and with a positive impact on the liquidity position, we would stress, in May 2018 and 2019, the payment of 791.7 million euro and 1,149.3 million euro, respectively, made by the Resolution Fund under the Contingent Capital Agreement, and the issuance of subordinated debt (Tier 2) in the amount of 400 million euro with financial settlement in July 2018. It should be noted that the Tier 2 bond issue marked the return of the Bank to the international financial markets, having earned the ‘Europe Financial Bond Award’ from the International Financing Review (IFR).

The issue of subordinated debt was made in conjunction with tender and exchange offers addressed to senior bondholders of Novo Banco, prioritizing the allocation of the new Tier 2 issue to investors participating in the exchange offer (65%) over the allocation to new investors (35%). The tender and exchange offers permitted to extinguish approximately one billion euro in senior bonds (nominal value). The impact of this operation on liquidity was therefore moderately positive. This restructuring of liabilities (extinction of expensive long-term senior debt) will permit to achieve relevant savings in the net interest margin, going forward.

In terms of medium and long-term funding, as a result of the cancellation of senior bonds repurchased within the scope of the tender and exchange offer, together with the repurchase and reimbursement of securitisation operations and other medium- and long-term debt operations, in 2018 Novo Banco reduced market financing by around 650 million euro, this amount being partially offset by the Tier 2 bond issue.

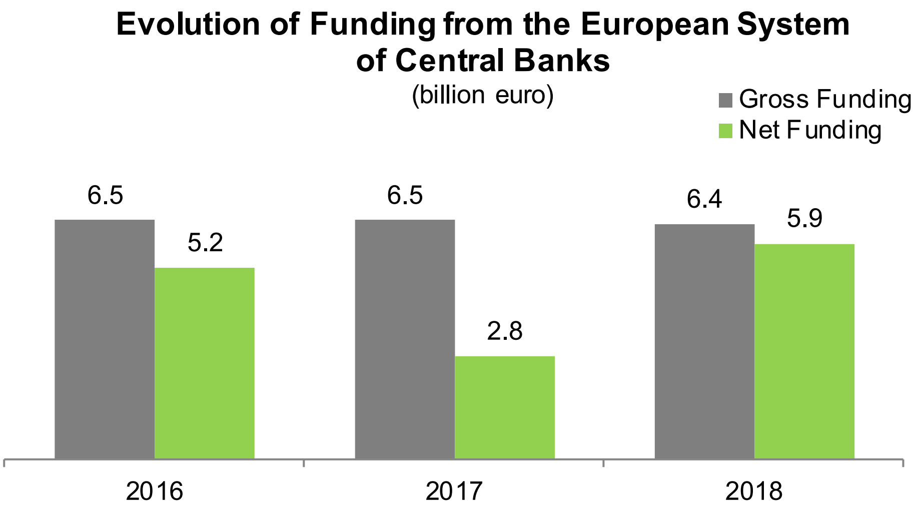
As a result of the tender and exchange offers carried out in 2017 and 2018, Novo Banco has a low debt reimbursement schedule in the next few years. Therefore, with reduced funding needs, no liquidity strains are to be expected in the near future.

On the other hand, the securities portfolio increased by around 2.4 billion euro, largely through the strategy of investing in other high-quality liquid assets (HQLAs), which led to an increase of 1.4 billion euro in sovereign debt securities in portfolio and 1 billion euro in other securities, namely from supranational and corporate issuers.

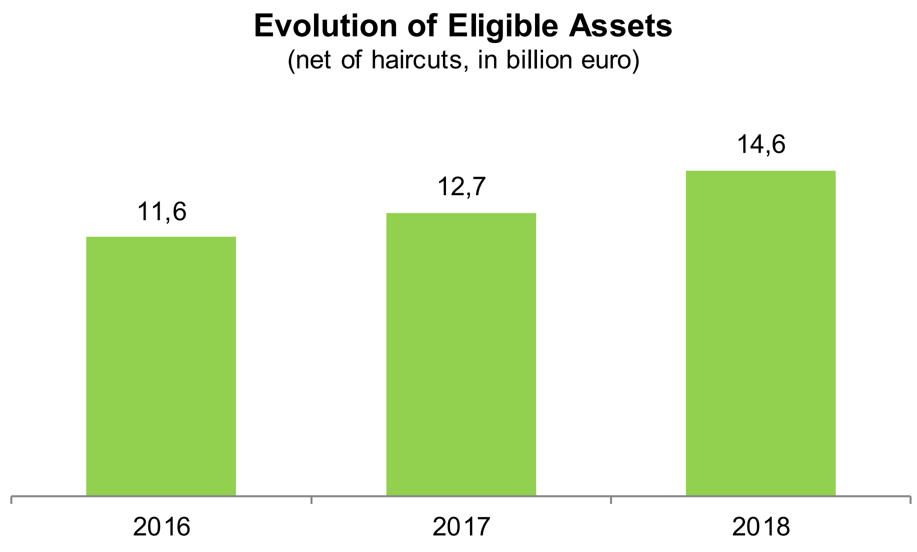


* For comparability reasons, it is presented without the portfolio of GNB Vida

In this context, and in view of the reduction in the amount of cash placed with the ECB, to 0.7 billion euro, net funding from the ECB increased to 5.9 billion euro at the end of 2018. Gross funding remained flat at 6.4 billion euro, consisting entirely of funds obtained through targeted longer-term refinancing operations (TLTRO II).



As a result of its strategy of investment in the securities portfolio, Novo Banco maintained a high liquidity buffer. At the end 2018, the portfolio of eligible securities for rediscount with the ECB totalled 14.6 billion euro (net of haircuts), which compares with 12.7 billion euro at the end of 2017.



Novo Banco thus maintained a comfortable liquidity position, with the regulatory Liquidity Coverage Ratio (LCR) improving to 125% at the end of 2018, from 124% at the end of 2017. In addition, the Net Stable Funding Ratio (NSFR) remained relatively stable, at 106% at the end of 2018 (108% at the end of 2017).

RISK AND CAPITAL MANAGEMENT

Main Risks and Uncertainties

2019 will see the closing of the phase of resolution of the main problems from the past, with the strategic lines of the new Novo Banco Group that is being built gaining increasing visibility.

The activity to be developed by Novo Banco Group will naturally be influenced by several risk factors, and in particular by the following:

i) Regulatory risks, namely stemming from capital requirements (SREP), various On-Site Inspections (OSIs) from the European Central Bank (ECB), Liquidity Risk Stress Tests, implementation of the new definition of default, the MREL requirements ("**Minimum Requirement for Own Funds and Eligible Liabilities**") and the various guidelines from the European Banking Authority (EBA), the ECB and the European Commission;

ii) Compliance with the Commitments established at the end of 2017 between the Portuguese State and the European Commission, namely concerning profitability, the reduction of staff and branches and divestment from non-core areas;

iii) The still high stock of Non-Performing Assets (NPAs) and the execution of the NPA Plan, in particular as concerns REO (real estate owned);

iv) Reputational, legal and compliance risks, arising both from the Novo Banco Group's current activity and from legacy issues;

v) Risks related to the national and international macroeconomic situation, namely linked to the effects of Brexit, the trade tensions between the US and China and the deceleration of the Portuguese economy;

vi) All other factors linked to the various types of risk described in this chapter.

Novo Banco is naturally exposed to the various types of risk inherent to the banking system, arising from external and internal factors, namely from the nature of the markets in which it operates. The risks faced by the Bank include credit risk, market risk, liquidity risk and operational risk.

The risk management function, key to the development of Novo Banco's activity, aims to identify, assess, monitor and report all the material risks faced by the Bank, both internally and externally. The risk management function operates independently from the functional areas, providing advice on risk management to the Executive Board of Directors (EBD). The evolution of risk levels is reported on a monthly basis in the Risk

Committee meetings, and to the General and Supervisory Board by the Risk Committee.

Novo Banco develops its Risk Management function with the ultimate objective of internalizing a risk culture and pre-empting the materialization of risks across all levels of the Organization.

Organisation

At operational level, the Risk Management Function is centralized in the Global Risk Department (GRD) and Rating Department (RTD), being independent from the business areas.

The functions of the Global Risk Department include:

- To identify, assess, monitor and report on the different types of risk assumed, thus ensuring the holistic management of the overall risk exposure, ensuring compliance with internal and regulatory rules, and promoting and monitoring mitigation actions;
- To implement the risk policies defined by the EBD;
- To implement and monitor the Risk Appetite Framework;
- To contribute to the value creation targets through the development and monitoring of methodologies for the identification and quantification of risks, such as internal rating models and liquidity ratios, and support tools for the structuring, pricing and approval of operations;
- To develop the risk component of the Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP) and stress tests.

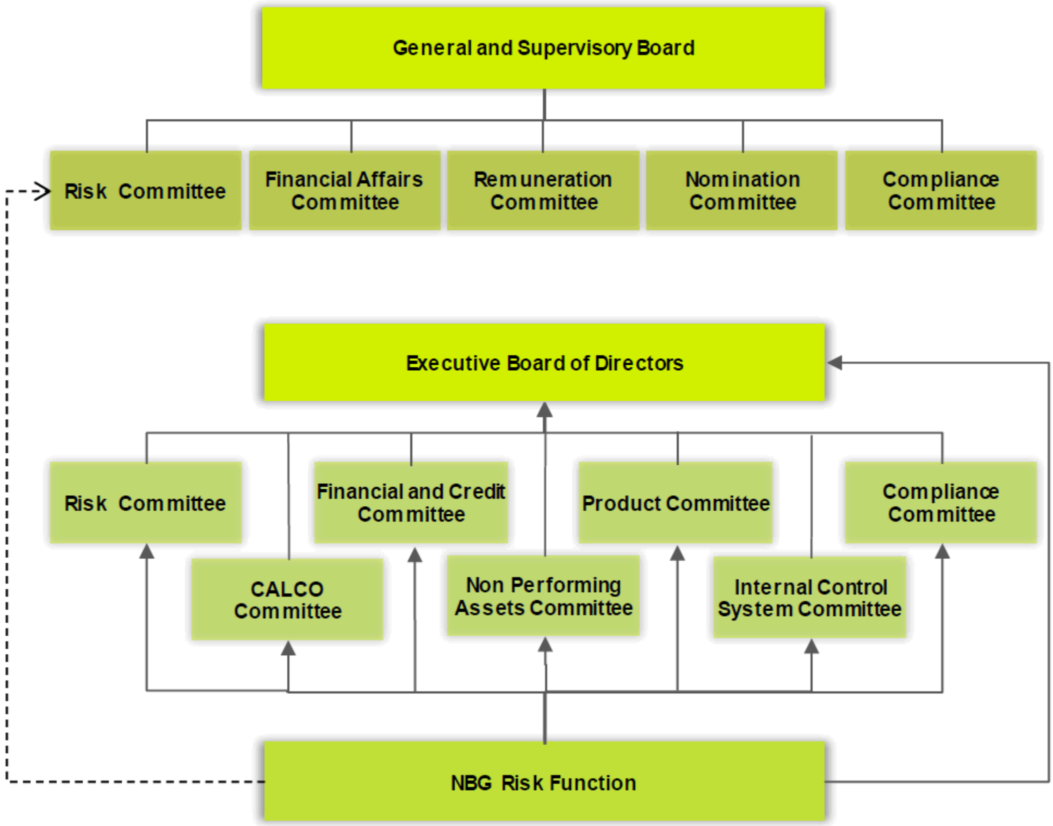
The Head of the Risk Management Function is the Head of the Global Risk Department. To ensure maximum efficiency in the articulation with the Global Risk Department, a local Risk Function Officer was appointed in each relevant entity of the Novo Banco Group. The GRD acts either directly or as coordinator, in articulation with the units in charge of the local Risk Management Function.

The Novo Banco Group's Risk Management Function is ruled by the following premises:

- Centralisation of the responsibilities assumed, providing services to the various institutions of the Novo Banco Group;
- Independence vis-à-vis the business areas.

Independence and Autonomy are essential to ensure that the risk control function is at all times steered and supported.

At the Novo Banco Group risks are controlled and managed through Specialised Committees, which play a relevant role in the area of risk management and control, in line with the decisions of the EBD. The following chart presents the structure of the Novo Banco Group's relevant risk function committees in 2018:



Corporate Bodies	
General and Supervisory Board	Responsible for overseeing all matters related to risk management, compliance and internal audit, for providing constant monitoring and assessment of the Novo Banco Group's performance, especially in regard to the institution's strategy and general policies, the Novo Banco Group's business structure and the decisions deemed strategic, owing to the sum or risk involved or their special nature, including compliance with capital requirements, and for electing or removing the members of the EBD. Also responsible, directly or through the delegation of powers in its committees, for issuing a prior opinion on certain matters, including the risk policy of the Novo Banco Group
Executive Board of Directors	Responsible for defining the target risk profile, establishing global and specific limits. Its responsibility also includes establishing the general principles of risk management and control and ensuring that the Novo Banco Group has the necessary skills and resources for that purpose.

The General and Supervisory Board (GSB) has set up a set of Committees to follow up on certain matters, namely the Risk Committee, to advise it and support it in the monitoring of the Novo Banco Group's current and future risk appetite, risk strategy and the effectiveness of the internal control system and risk management and the Financial and Credit Committee.

In its activity, the GSB is directly supported by 5 (five) Committees, where certain decisions of the GSB are delegated, namely the Financial Affairs Committee, the Risk Committee, the Compliance Committee, the Appointments Committee and the Remuneration Committee. See also "*—Management and Supervisory Corporate Bodies – General and Supervisory Board*".

At the level of the EBD, several specialized Committees have been created, which aim to ensure a more efficient monitoring of its strategic decisions and their preparation, and assume an important role in risk management and control.

Specialized Committees

Risk Committee	Responsible for issuing an opinion on, approving, under the powers delegated by the EBD, and monitoring the Novo Banco Group's policies and risk levels. In this context, the Risk Committee is responsible for monitoring the evolution of the Novo Banco Group's integrated risk profile, and for analyzing and proposing methodologies, policies, procedures and instruments to deal with all types of risk, namely credit, market, liquidity and operational.
Capital, Assets and Liabilities Committee – ("**CALCO**")	Responsible for defining the balance sheet management policies (capital, prices, and interest rate, liquidity and foreign exchange risk) and for monitoring their impact at the Novo Banco Group level. Also responsible for setting and monitoring the guidelines on business policies and financial measures; banking book interest rate risk and foreign currency hedging policies.
Financial and Credit Committee	Responsible for approving the credit operations in which the Novo Banco Group intervenes, in accordance with the risk policies defined for the Novo Banco Group; it is the top body, with delegated powers, in these operations' decision chain. In this context, it is also responsible for monitoring those operations, for periodically reviewing the main investment and risk quality indicators (non-performing and overdue loans rates, number and amount of irregular situations, etc.), and for monitoring clients with warning signals indicating a potential deterioration in their credit standing, close to entering into default or irregular situations involving larger amounts.
Non-Performing Assets (NPA) Committee	Responsible for ensuring the monitoring of the Strategic Plan relating to NPAs, the development and enhancement of its Operational Plan, and for defining and monitoring divestment strategies of this type of assets.
Product Committee	Responsible for approving, from a compliance standpoint, products and services to be developed and/or distributed by Novo Banco, issuing an opinion on all of them within the scope of the sign-off process of products and services. In this context, and among others, it is up to the Committee to make sure that the products and services in question comply with the applicable legislation and regulations, and were duly analyzed and validated by the competent structures of the Bank.
Internal Control System Committee	Responsible for the oversight and monitoring of the Novo Banco Group's Internal Control System in a group-wide and integrated way, notwithstanding the powers of the Corporate Bodies and of the other Committees of the Novo Banco Group.
Compliance Committee	Responsible for the analysis and approval of all relevant Compliance matters, with particular emphasis on the analysis of new legislation and regulations, assessing their impacts and promoting compliance therewith, the analysis of any situations or indications of breach or risk or non-compliance with legal obligations or rules of conduct, and matters related to conflicts of interest / conduct.

Risk Committee delegated Committees

Operational Risk Committee	Responsible for providing advice and recommendations to support decision-taking by the EBD, keeping track of its responsibilities regarding the strategy, model, policies and risks related with Operational Risk in the Novo Banco Group.
Models Committee	Responsible for approving new models (regulatory models and models to support the decision process) or changes to the existing models, and for their periodic validation. Sign off of the implementation of the mitigation measures identified for the use of the models.

Other Support Committees to the Executive Board of Directors

Credit Risk Analysis Committee (CRAC)	The main objective of the process developed by the Credit Risk Analysis Committee (CRAC) is the regular monitoring of current credit risk in the Retail segment.
Credit Risk Monitoring Group (CRMG)	Monthly process of analysis and assessment of clients showing symptoms of worsening credit worthiness and definition and monitoring of their strategic options, with the participation and intervention of technical areas of the Bank
Impairment Committee	Analysis and setting of the most appropriate impairment rate for each credit client. This is carried out through an individual analysis of the selected clients, based on the information provided by the Commercial Structures regarding the client / the Novo Banco Group framework, historical and forecast cash flows (when available) and existing collaterals.

Credit Risk

Credit Risk represents the potential financial loss arising from the failure of a borrower or counterparty to honour the contractual obligations established with Novo Banco within the scope of credit granting activity. Management and control of this type of risk are based on an internal risk identification, assessment and quantification system.

The intervenients in the credit risk management process are the Credit Department (CD), as the credit decision maker, the Rating Department (DRT), which makes the financial analysis of clients, and the GRD, which defines the risk monitoring and control policies and activities.

The CD is entrusted with implementing the credit decision function of Novo Banco, ensuring the separation between the functions of managing the commercial relation with the clients - in charge of the Novo Banco Group's commercial departments - and the decision on the credit operations on these clients.

This organisational structure reinforces the functional specialisation within the Novo Banco Group, while increasing the weight of technical and risk analysis in the decision-making process.

The CD's scope of action covers all the Bank's commercial areas in general, namely loans to individuals, loans to companies and operations originating in the international units of the Novo Banco Group, as well as the operations of the credit monitoring and recovery departments (corporate).

The credit decision process uses as key support elements the clients' credit risk scorings and ratings and the analyses and recommendations issued by the DRT and the Credit Risk Monitoring Group (CRMG). The current credit decision model thus includes a system of checks and balances that allocates the decision-making process to three distinctive areas with well-defined roles: commercial area, credit area and risk area.

Novo Banco has been reducing its risk appetite through the definition of more restrictive customer exposure concentration rules and more robust policies in sectors such as real estate development and construction. Clients' credit ratings are a key element supporting the decision-making process.

The function of the DRT is to assess the credit risk of the Novo Banco Group's clients through the assignment of ratings, the issuance of non-binding technical opinions and the determination of credit impairments at a client individual basis, to advise the EBD on the management of the credit risk of Large Clients, and to monitor single name exposures' credit risk. The separation of the credit risk areas from the credit risk monitoring areas allowed for greater focus and better monitoring of clients' risk, strengthened the credit decision process, and ensured full segregation between the risk assessment and the risk control areas.

Credit Risk Rating Systems

Given the specific characteristics of the Novo Banco Group's different clients, internal rating systems and risk parameters were developed for both corporate and individuals.

The assignment of ratings is centralized in the RTD, in the Ratings area, which, despite being an organizational unit of Novo Banco, also serves its branches (Luxembourg and Spain), through the centralized validation of all internal ratings assigned to risk groups monitored by the RTD. It should be noted that the functions of the RTD cover all the financial institutions controlled by the Novo Banco Group.

Internal models used for credit risk assessment

Novo Banco holds the IRB (Internal Ratings-Based) certification, using internally developed risk models that cover the main corporate and individual credit portfolios: Medium-sized Companies, Small Companies, Start-Ups, Entrepreneurs, Residential Mortgage Loans, Consumer Credit and Credit Cards. In addition, the Bank uses the templates developed by the company Risk Solutions, customised to the Portuguese market, to assign internal ratings to the Large Corporates, Municipalities, Financial Institutions, exposures to the Real Estate Sector, Project Finance and Acquisition Finance, among other portfolios.

Novo Banco also developed models of Loss Given Default (LGD), Expected Loss Best Estimate (ELBE) and Credit Conversion Factors (CCF) for the retail portfolios, based on internal data.

In 2018 the following activities were carried out within the GRD's modelling area:

- Implementation of the IFRS9 risk parameters in the process of Determination of Impairment Losses;
- Preparation and monitoring of the TRIM (Targeted Review of Internal Models) exercises, launched by the European Central Bank on the following models:
    - Behavioural Model of the Residential Mortgage Loans portfolio (scoring model and respective calibration);
    - Model applied to Large Companies;
- Definition of the plan of changes to the IRB model in the next two years, as well as the roll-out plan for the next three years;
- Amendment of the IRB method governance model to accommodate the regulatory requirements defined in the European Commission Delegated Regulation no. 529;
- Improvement of the management information supporting the developments in the PD (Probability of Default) and LGD parameters;
- Preparation of the application to the new default definition, in accordance with the applicable regulatory requirements.

A specific approach to the implementation of the new process of determining impairment losses was justified in 2018, following the new accounting standard that came into force at the beginning of the year (IFRS9), the Targeted Review of Internal Models (TRIM) exercise undertaken by the European Central Bank, and the new definition of default, to which the Bank applied under the Two Step-Approach defined by the European Central Bank (ECB).

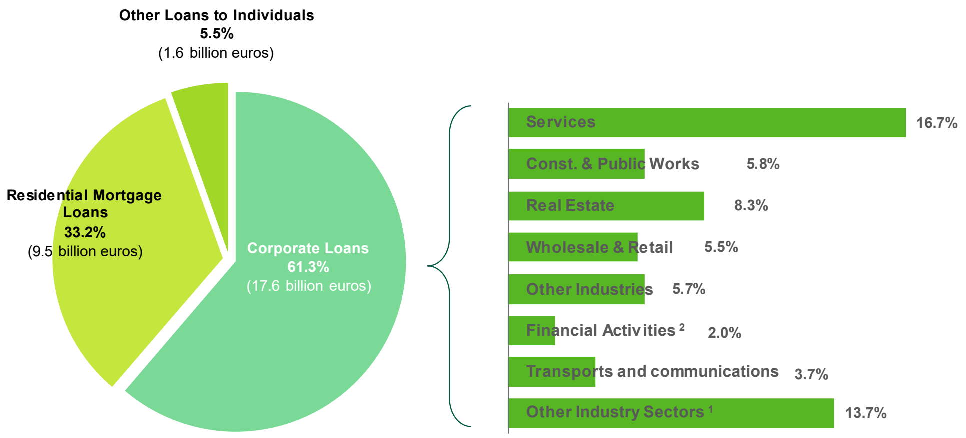
Global analysis of the credit portfolio risk profile

In the Novo Banco Group, credit portfolio management is an ongoing process that requires interaction among the various teams involved in the management of risk during the different stages of the credit process. The risk profile of credit portfolios, specifically in what concerns the evolution of credit exposure and the monitoring of credit losses, is reported on a monthly basis to the Risk Committee and the Financial and Credit Committee. Compliance with the approved credit limits and the correct functioning of the mechanisms for approval of credit lines used by the commercial areas in their day-to-day activity, are also regularly subject to analysis.

Credit Portfolio Breakdown by Industry Sector

The breakdown of the credit portfolio by industry sector shows not only the Novo Banco Group's continued support to the business community but also that concentration levels by industry sector remained within prudent levels.

Gross loan portfolio as of 31 December 2018 (gross exposure of 28.7 billion euro):



[1] Represents other sectors of the economy none representing more than 3.5% on an individual basis.

[2] Includes investment funds.

Asset Quality

The table below shows the evolution of Novo Banco Group's main loan loss ratios and provisioning levels.

Asset Quality

	31-Dec-17	31-Dec-18	Change 17/18	
Balances (millions of euro)			**Abs.**	**Rel.(%)**
Gross Loans	31 422	28 712	(2 710)	(9)
Gross Loans, including securitized	33 142	30 236	(2 905)	(9)
Total Overdue Loans	5 215	3 539	(1 677)	(32)
Overdue loans > 90 days	5 127	3 464	(1 663)	(32)
Non-Performing Loans (NPL) *	10 130	6 739	(3 391)	(33)

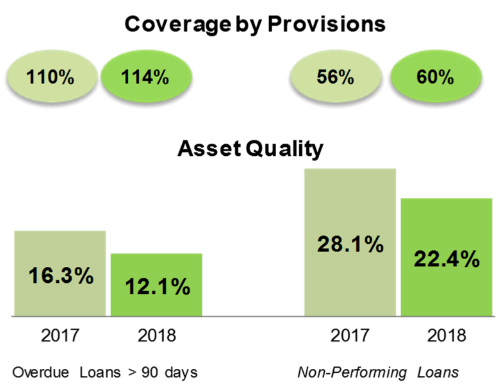
Provisions for Customer Loans	5 631	3 958	(1 674)	(30)
Loan provision charge (cumulative)	1 229	264	(966)	(79)
Ratios (%)				
Overdue Loans > 90 days / Gross Loans	16.3	12.1	-4 p.p.	
Overdue Loans / Gross Loans	16.6	12.3	-4 p.p.	
NPL / Gross Loans and Cash and Deposits with Banks	28.1	22.4	-6 p.p.	
Credit Provisions / Overdue Loans > 90 days	109.8	114.3	4 p.p.	
Credit Provisions / Overdue Loans	108.0	111.8	4 p.p.	
Credit Provisions and Cash and Deposits with Banks / NPLs	56.3	59.9	4 p.p.	
Credit Provisions / Gross Loans	17.9	13.8	-4 p.p.	
Cost of Risk (%)	3.9	0.9	-3 p.p.	

* - NPL according with European Banking Authority (EBA) definition, that is, including cash and deposits with Banks

All the non-performing loan ratios registered a sharp reduction in 2018, underpinned by a systematic work of deleveraging non-productive assets. Hence the overdue loans >90 days / gross loans ratio decreased to 12.1%, from 16.3% on 31 December 2017. The corresponding coverage ratio remained high, having risen by 4.5 pp since December 2017, to 114%.

The 3.4 billion euro reduction in non-performing loans, from 10.1 billion euro in December 2017 to 6.7 billion euro in December 2018, was particularly noticeable, with the respective asset quality ratio improving by more than 6 p.p. to 22.4%. This improvement did not affect the coverage ratio, which remained comfortably above 50% (having increased by 4 pp in 2018, from 56% to 60%).

Asset Quality and Provisions Coverage



Non-Performing Loans (NPL)* by Type of Loan and
Total Coverage by Credit Provision

	Asset Quality (a)		**Coverage** (b)	
	Dec-17	Dec-18	Dec-17	Dec-18
Total Loans	**28.1%**	**22.4%**	**56%**	**60%**
Corporate*	36.2%	33.3%	58%	61%
Residential mortgage	6.7%	2.7%	25%	20%
Individuals (other)	24.0%	15.1%	70%	63%

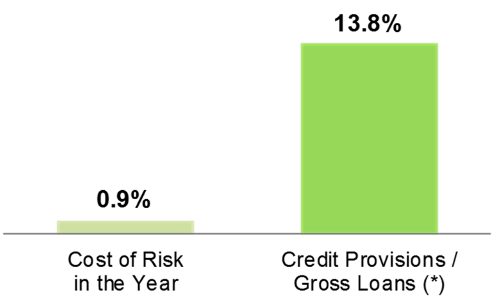
*Includes cash and deposits with Banks

(a) Non-Performing Loans / Gross Loans and Cash and Deposits with Banks

(b) Total credit provision / Non-Performing Loans

Credit provisions were reinforced by 264 million euro, corresponding to a provision charge of 0.9% in 2018. This represented a significant reduction in the provision charge relative to 2017, both in absolute and in relative terms (-966 million euro and -300 bps, respectively).

Credit Provisions in 2018



* On Balance Sheet Credit Provisions / Gross Loans

Market and Liquidity Risks

Novo Banco has in place a risk management framework that includes the definition of the Risk Appetite and the approval of the Risk Appetite Framework (RAF) and Risk Appetite Statement (RAS), involving the definition of the most relevant metrics and objectives, which are regularly monitored and controlled in accordance with the pre-established limits and objectives.

The market and liquidity risks are managed in accordance with the three lines of defence principle, with the interaction between the Bank's treasury and financial area and the risk area being defined in such a way as to separate the management of the risk monitoring, control and reporting functions. The audit area, acting as the third line of defence, is responsible for reviewing the processes implemented against existing legal standards and guidelines, producing recommendations to ensure their integrity, quality and compliance.

The management of market and liquidity risks is centralised at the Novo Banco Group's head office in Lisbon and is presented to and discussed on a monthly basis at the CALCO, and monitored on a monthly basis by the Risk Committee.

Market Risk

Market risk represents the potential loss resulting from an adverse change in the value of a financial instrument due to fluctuations in interest rates, foreign exchange rates, equity prices, commodity prices, real estate prices, volatility and credit spreads.

Market Risk is monitored on a short-term perspective (10 days) for the trading book and liquidity management portfolio, and on a medium-term perspective (1 year) for the remaining banking book.

- Trading Book and Liquidity Management Portfolio Risks

The main measure of market risk is given by the assessment of potential losses under adverse market conditions, for which the Value at Risk (VaR) methodology is used. VaR is calculated using the Monte Carlo simulation, with a 99% confidence level and an investment period of 10 business days. Volatilities and correlations are historical, based on an observation period of one year and applying a decay factor in order to give more weight to the more recent observations.

To calibrate the VaR assessment, daily backtesting exercises are performed, allowing the comparison of losses foreseen by the VaR model with theoretical losses given by the model. For the more relevant portfolios, backtesting exercises are also carried out to compare the losses foreseen by the VaR model with actual losses. These exercises allow the model to be fine-tuned and its predictive capacity improved. As a complement to the VAR model, stress testing is also carried out to assess the potential losses under extreme scenarios. These analyses are performed either based on a real stress period (stressed VaR - sVaR), or through sensitivity analysis, applying extreme individual shocks to risk factors.

The Novo Banco Group’s portfolios are subject to VaR and stop loss limits, in order to limit potential losses. There are pre-established limits for the trading areas and banking book - the liquidity management portfolio, which includes sovereign debt securities and others considered High Quality Liquid assets. Market risk compared with its defined limits is reported daily to the business areas and respective managers, to the risk department managers and to the regulator.

Novo Banco Group's value at risk (VaR) at 31 December 2018 was 38.7 million euro in its trading portfolio positions in equities, interest rate instruments, volatility and credit spreads, commodities as well as FX positions and liquidity management portfolios. On 31 December 2017 this value was 34.4 million euro. The increase in risk observed in 2018 was mostly driven by the increase in interest rate risk and credit spread risk due to the growth of the liquidity management portfolio and the extension of its maturity.

million euro

Value at Risk 99% 10 days					
	31-12-2017	**31-12- 2018**	**Change**	**Maximum**	**Minimum**
FX	1.2	0.4	-0.8	2.2	0.4
Interest Rate	21.4	37.4	+16.0	102.1	32.5
Equities and Commodities	0.9	0.2	-0.7	0.4	0.2
Credit	34.0	42.7	+8.7	184.7	33.8
Volatility	0.1	0.1	0.0	0.3	0.1
Diversification effect	-23.2	-42.1	-18.9	-194.8	-31.3
Total	**34.4**	**38.7**	**+4.3**	**100.7**	**34.8**

- Banking Book Risks

For the other banking book risks, and in accordance with the RAS, there are general position limits, which are assessed through stressed VaR (sVaR) at 99.9% for a selected stress period of one year within the historical series, with the respective annual shocks being applied to the portfolio.

- Banking Book Interest Rate Risk

Interest Rate Risk may be understood in two different but complementary ways, namely as the effect on the net interest margin, or as the impact on capital, resulting from interest rate movements that affect the institution's banking book.

Fluctuations in market interest rates impact the net interest margin of the Bank through changes in the revenue and costs associated with interest rate products, and on the other hand, impact economic value through changes in the underlying value of its interest-sensitive assets, liabilities and off-balance sheet elements other than in the trading book. At the Novo Banco Group the interest rate risk of the banking book results mainly from the mismatch between the repricing of long-term fixed rate credit and bonds and the repricing of liabilities represented by long-term fixed-rate securities and of customer funds.

In addition to the parallel shocks, the yield curve is also subject to non-parallel shocks in order to measure the impact of the resulting variations on economic capital.

Additionally, every month the Novo Banco Group measures the banking book interest rate risk in stress situations, based on the one-year historical VaR, with a 99.9% confidence level, and applying a floor on the simulation of rates. On 31 December 2018 this value was 151 million euro, which compares with 129 million euro on 31 December 2017. This change mainly reflects the increase and extension of maturity of the liquidity management securities portfolio.

- Other Banking Book Risks

The other banking book risks include credit spread risk, equity risk, real estate risk, foreign-exchange risk in structural exposures and pension fund risk.

An asset’s credit spread risk reflects the difference between the interest rate associated to that asset and the interest rate of a risk-free asset in the same currency. The credit spread risk is associated to the value decrease of positions in bonds due to changes in that spread.

The risk of equity holdings, the risk of mutual funds and the real estate risk can be described as the probability of loss resulting from an adverse change in the market value of these assets.

The foreign exchange rate risk in structural exposures arises from the potential loss resulting from the estimated devaluation of the currencies in which exposures in equity holdings are denominated.

- Pension Fund Risk

The pension fund risk results from the possibility of the value of the fund’s liabilities (the responsibilities of the fund) exceeding the value of its assets (the fund’s investments). In this situation, the Bank must cover the difference and incur in the respective loss (the Novo Banco Group contributions to the fund).

To monitor the limits and quantify the pension fund risk the Novo Banco Group uses the same models and methodologies used to determine the material risks incurred by its assets.

The Novo Banco Group's pension fund risk is measured based on the fund's asset portfolio and the estimated cash flows related to the fund's liabilities, assuming for these a stress scenario on the reference date.

Liquidity Risk

Liquidity risk arises from an institution’s present or future inability to face its liabilities as they mature without incurring in excessive losses.

Banks are subject to liquidity risk due to their business of transformation of maturities (providing long term loans and receiving short term deposits) and therefore a prudent management of liquidity risk is crucial.

In addition to the implementation of the Risk Appetite framework, the centralisation of risk management in the

Bank's head office and the governance model covering all market and liquidity risks, the liquidity risk framework also includes the following:

- Management of Collaterals:

  The management of collaterals is a process that aims to maximize the potential for financing through the balance sheet assets.

- Funding adequacy and diversification:

  In line with its prudent liquidity management policy, the Novo Banco Group strives for an adequate diversification of its funding sources, stressing in particular the increase in customer deposits and funding - either secured or not by collaterals - with market counterparties.

- Definition of a transfer pricing policy:

  The defined transfer pricing structure supports a relationship between customer loans and customer deposits according to the principles defined in the annual budget. As such it is possible to allocate to each transaction/business unit the Bank’s funding costs so that the pricing of each transaction is correctly defined.

- Implementation of internal liquidity stress tests:

  The Bank has in place a process to identify and regularly review the material liquidity risk drivers to which it is or may be exposed, which are part of the liquidity stress scenarios. These scenarios also take into account the historical perspective of the Novo Banco Group and combine idiosyncratic, regional and market stress events that are considered plausible and sufficiently severe in terms of their material impact on the Bank's liquidity position.

- Development of a liquidity contingency plan

  The liquidity contingency plan (LCP) makes the link between the liquidity needs of the Novo Banco Group and the maximum level of liquidity required in a stress scenario. The LCP has two main components: the early detection of liquidity crises; and the strategy of response to such crises.

  The Novo Banco Group continues to follow all changes in the legislation in order to comply with regulatory requirements, such as the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), as well as to meet all regulatory reporting requirements in terms of liquidity, namely through the development and analysis of information in connection to the Additional Liquidity Monitoring Metrics (ALMM), Liquidity Risk Monitoring Tool (LRMT), Single Supervisory Mechanism Liquidity Exercise (Crisis Management Liquidity Template), and the Liquidity Stress Test (LiST), a liquidity risk sensitivity exercise that will be introduced by the European Central Bank in February 2019. These reports are intended, respectively, to complement the liquidity reporting previously carried out with additional liquidity monitoring measures, to allow the regulator to assess weekly the liquidity ratios, survival periods, and liquidity gaps of the institutions, and to endow banks with liquidity tools for temporary and opportune use in real crisis situations, as well as to assess banks’ resilience to an idiosyncratic liquidity shock.

The Novo Banco Group's liquidity risk was stable during 2018, on the one hand due to the deleveraging of non-liquid assets and the reduction in deposits with central banks, this being on the other hand partly offset by an increase in liquid securities, with prudential liabilities decreasing by 2.7 billion euro, underpinned by a reduction in deposits of 1.3 billion euro. Due to the balance sheet reduction, available liquid assets decreased by 1.1 billion euro.

Gross funding from the European Central Bank remained flat in 2018, at 6.4 billion euro. At the end of 2018 the portfolio of assets eligible as collateral (after haircuts) for rediscounting operations with the ECB totalled 14.6 billion euro, which compares with 12.7 billion euro in 2017.

As a result, the Liquidity Coverage Ratio (LCR) rose by 1 p.p., from 124% on 31 December 2017 to 125% at the end of 2018 (average of 131% in the last 12 months). The Net Stable Funding Ratio (NSFR) changed from 108% on 31 December 2017 to 106% on 31 December 2018, mainly underpinned by the deleveraging of non-liquid assets.

The loan to deposit ratio was stable, 88% in 2017 and 89% at the end of 2018, driven by a reduction in both loans and deposits.

With regard to the internal liquidity stress test, the Novo Banco Group's balanced liquidity position would allow it to survive a severe market and idiosyncratic shock in the conditions defined for twelve months, using only its available liquid assets and with no need to resort to additional mitigation measures.

Operational Risk

Operational risk may be defined as the probability of occurrence of events with negative impacts on results or equity, resulting from inadequacies or weaknesses in procedures or information systems, staff behaviour, or external events, including legal risk. Operational risk is, therefore, understood to be the sum of the following risks: operational, information systems, compliance and reputational.

Consequently, Operational Risk is inherent to all the activities of the Novo Banco Group, with no exception, i.e., to all businesses, processes, and systems. Therefore, all the employees are responsible for the management and control of operational risk within their sphere of responsibility. The Operational Risk Appetite defined reflects the unfeasibility of eliminating this Risk from a cost-benefit perspective. Hence the occurrence of events with immaterial net individual losses is therefore tolerable. As to material losses, whose frequency tends to be low, the Novo Banco Group, based on an analysis of the root causes, seeks to identify and implement measures to either eliminate, or transfer or mitigate the underlying risk, reducing it to an acceptable level. The Operational Risk Appetite established for the Novo Banco Group reflects this unquestionable reality in the management and control of this risk.

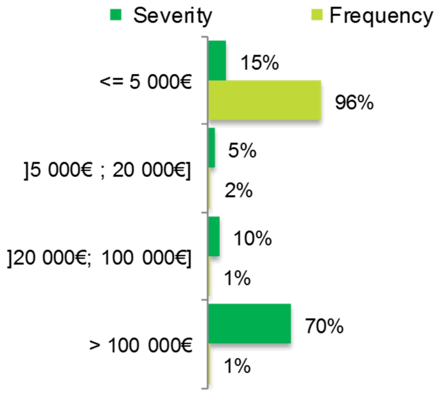
Operational risk is managed through the application of procedures that standardise, systematise and regulate the frequency of actions aimed at the identification, monitoring, control and mitigation of this risk. The management methodologies in place are supported by principles and approaches to operational risk management, namely those issued by the Basel Committee and the EBA, recognised as translating the best practices in this area.

The priority in operational risk management is to identify, measure, control, mitigate or eliminate, and report risk sources, even if these have not resulted in financial losses.

The operational risk management model implemented is in line with the 3 Lines of Defence principles and is supported by a specific structure within the GRD exclusively dedicated to designing, monitoring and maintaining the model. This structure guarantees the dissemination, implementation and standardisation of the Operational Risk Management Model within the various entities of the Novo Banco Group, in compliance with the methodologies approved by the EBD. For the model to be effective, permanent coordination between the GRD and the Representatives of Operational Risk Management appointed at each organisational unit of Novo Banco and at the branches and subsidiaries of the Novo Banco Group - who must guarantee that the established procedures are implemented and are responsible for the day-to-day management of Operational Risk within their sphere of responsibility - is crucial.

The Novo Banco Group's operational risk profile shows a high frequency of incidents with low financial impact, and very few incidents with a material impact. In 2018, 96% of the incidents had a net financial impact of less than 5 thousand euro each, representing 15% of the total reported losses related to Operational Risk. Incidents with an impact above 100 thousand euro were few and represented 70% of the total impact. Measures were taken to solve the problems identified.

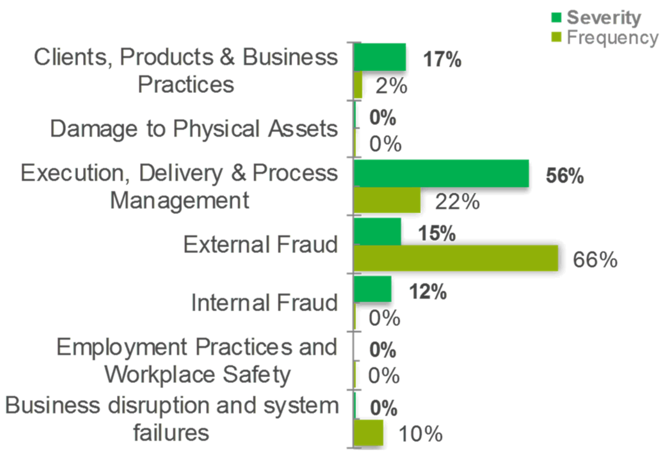
Operational Risk Profile by severity levels



The operational risk incidents identified and reported are classified in the corporate information system in accordance with the operational risk taxonomy approved for the Novo Banco Group and with Basel's Business Lines and Risk Types.

The 'External Fraud' incidents (mostly involving credit cards) registered the highest score in terms of frequency, with 66% of the incidents representing 15% of the lost amount, which is broadly in line with the average in the financial system. The "Execution, delivery & process management" events registered the highest score in terms of severity (56%), corresponding to 22% of the reported incidents. Events related to 'Clients, Products and Business Practices' accounted for 17% of the financial losses incurred.

Types of Operational Risk by frequency and severity



Solvency

Capital Management and Regulatory Solvency

The main objective of Novo Banco Group's capital management is to ensure compliance with the Novo Banco Group's strategic targets in terms of capital adequacy, respecting and enforcing the rules regarding the calculation of risk weighted assets and own funds, and ensuring compliance with the solvency and leverage levels set by the supervisors, namely the European Central Bank and the Bank of Portugal, and with the risk appetite internally established for capital metrics.

The capital adequacy strategy is defined by the Executive Board of Directors as part of Novo Banco Group's global setting of objectives.

Novo Banco Group's capital ratios are calculated based on the rules stipulated in Directive 2013/36/EU (CRD IV) as transposed to the Portuguese system by Decree-Law no. 157/2014 of 24 October (which changed

RGICSF) and Regulation (EU) no. 575/2013 (CRR), which define the criteria for access to the activity of credit institutions and investment firms and determine the prudential requirements for these institutions, namely regarding the calculation of the aforementioned ratios.

Novo Banco Group is authorised to use the internal ratings based approach (IRB) for the calculation of risk weighted assets for credit risk. For the calculation of risk weighted assets for market and operational risk it uses the standardised approach.

Under the terms of the above-mentioned rules, the capital ratios of Novo Banco Group, as of 31 December 2017 and 31 December 2018, were as follows:

Capital ratios

	31-Dec-17	**31-Dec-18**	
	Phased-in	**Phased-in**	**Fully implemented**
Common Equity Tier I Ratio	12.8%	12.8%	11.9%
Tier 1 Ratio	12.8%	12.8%	11.9%
Solvency Ratio	13.0%	14.5%	13.6%
Leverage Ratio	8.2%	8.2%	7.6%

The phased-in Common Equity Tier 1 (CET 1) ratio for 31 December 2018 was 12.8%. This ratio remained flat compared to the end of 2017, on the one hand as the minimum CET 1 ratio to be observed at the end of 2018 was maintained, and on the other because a significant part of the year's negative results is offset by the amount to be requested within the scope of the Contingent Capital Agreement. The fully implemented CET 1 ratio for 31 December 2018 was 11.9%.

The phased-in solvency ratio (or total capital ratio) for 31 December 2018 reached 14.5%. This significant increase in the ratio compared to the end of 2017 (13.0%) is explained by the issuance at the end of the first half of 2018 of subordinated bonds eligible for Tier 2 in the amount of 400 million euro.

The phased-in leverage ratio remained stable at 8.2% on 31 December 2018.

Regulatory Capital

The regulatory capital elements considered in the calculation of solvency ratios are Common Equity Tier I capital (CET 1), Additional Tier 1 capital, which, added to CET 1 makes up Tier 1 Capital, and Tier 2 capital, which, added to Tier 1 capital, makes up total own funds.

Novo Banco Group's total own funds essentially consist of CET 1 elements and Tier 2 elements.

The main phased-in regulatory capital items and accounting capital items (from a prudential perspective) are as follows:

		million euros
	Consolidated	
	31-Dec-17	31-Dec-18
Realised ordinary share capital, issue premiums and own shares	5 900	5 900
Reserves and Retained earnings	1 169	(569)
Net income for the year attributable to shareholders of the Bank	(2 291)	(1 428)
Non-controlling interests (minorities)	52	16
A - Equity (prudential perspective)	**4 830**	**3 919**
Non-controlling interests (minorities)	(29)	(10)
Adjustments of additional valuation	(12)	(12)
Transitional period to IFRS9	-	251
Goodwill and other intangibles	(26)	(14)
Insufficiency of provisions given the expected losses	(45)	(34)
Deferred tax assets and shareholdings in financial companies	(651)	(226)
Other	(21)	(68)
B - Regulatory adjustments to equity	**(783)**	**(111)**
C - Common Equity Tier 1 - CET 1 (A+B)	**4 047**	**3 808**
Eligible instruments for additional Tier 1	-	-
Other eligible instruments for additional Tier 1	3	1
Regulatory adjustments to additional Tier 1	(3)	-
D - Additional Tier 1	**(0)**	**1**
E - Tier 1 (C+D)	**4 047**	**3 809**
Subordinated liabilities eligible for Tier 2	-	398
Other instruments eligible for Tier 2	139	131
Regulatory adjustments to Tier 2	(69)	(10)
F - Tier 2	**70**	**519**
G - Total Own Funds (E+F)	**4 117**	**4 328**

The decrease in equity in 2018 was to a large extent offset by the phasing in of the impacts resulting from the coming into force of IFRS9, and by the significant reduction in other prudential adjustments to equity, in particular in deductions for deferred tax assets.

Risk Weighted Assets

As of 31 December 2018, risk weighted assets totalled 29,874 million euro, of which 27,473 million euro (92% of the total) resulted from credit, counterparty and Credit Valuation Adjustment (CVA) risks, 895 million euro from market risk, and 1,506 million euro from operational risk.

- Credit Risk and Counterparty Risk

As stated above, Novo Banco Group uses the Internal Rating Based (IRB) approach for calculating risk weighted assets for credit risk in accordance with the rules stipulated in the CRR.

As of 31 December 2018, the 'corporate' risk class was the main contributor to risk weighted assets (61% of the total).

Risk Weighted Assets for Credit Risk
by risk class

million euros

	31-Dec-17	31-Dec-18	
	Risk Weighted Assets	Risk Weighted Assets	Risk Weighting Factor [1]
Central Administrations or Central Banks	12	27	0%
Institutions	3,525	2,864	79%
Corporate	16,424	16,465	65%
Retail	1,936	2,029	16%
Other	7,947	6,089	32%
Total	**29,844**	**27,473**	**52%**

[1] Risk Weigthing Factor: Risk Weighted Assets / Position in Original Risk

Credit risk weighted assets decreased by 2,371 million euro in 2018 as a result of the effort to divest from non-strategic assets, notably involving the sale and derecognition of BES Vénétie in December 2018.

- Market Risk

Market risk weighted assets are calculated using the standardised approach.

As of 31 December 2018, market risk weighted assets amounted to 895 million euro, with the main contributor being the general interest rate risk resulting from the exposure to debt instruments (92% of the total).

Change in the year in market risk weighted assets

million euros

		31-Dec-17	31-Dec-18	Change
Debt Instruments	Specific Risk	0	0	0
	General Risk	335	825	489
	Non-Delta Risk*	2	0	-2
	CIE**	0	0	0
Equity Instruments	Specific Risk	2	1	-1
	General Risk	4	3	-2
	Non-Delta Risk*	8	8	1
	CIE**	0	0	0
Commodity Risk	General Risk	0	0	0
	Non-Delta Risk*	0	0	0
Foreign Exchange Risk	General Risk	66	56	-9
	Non-Delta Risk*	1	2	1
Total		**418**	**895**	**476**

* Risk applied to non-linear products (options) and includes the gama and vega risks. The gama risk corresponds to the risk of the subjacent asset (second derivative) and the vega risk to the volatility risk

** Collective Investment Entities - Investment Funds

The change in market risk weighted assets mainly resulted from the increase in the general interest rate risk, by 489 million euro between the end of 2017 and the end of 2018.

- Operational Risk

Operational risk weighted assets are calculated according to the standardised approach. This approach considers the average, of the last three years, of the sum of the risk weighted relevant indicators, which are determined on a yearly basis, related to the regulatory activity segments foreseen in the CRR.

From December 2017 to December 2018, operational risk weighted assets increased by 29 million euro.

Change in the year in regulatory capital requirements and operational risk weighted assets

million euros

	31-Dec-17		31-Dec-18	
	Capital Requirements	Risk Weighted Assets	Capital Requirements	Risk Weighted Assets
NOVO BANCO Group	**118**	**1 477**	**120**	**1 506**
Corporate financing	-	-	-	-
Trading and sales	-33	-411	-14	-177
Retail brokerage	1	11	1	7
Commercial banking	107	1 336	95	1 192
Retail banking	38	478	34	427
Payment and settlement	-	-	-	-
Agency services	0	3	0	2
Asset management	5	61	4	54

LEGAL, ADMINISTRATIVE AND ARBITRATION PROCEEDINGS

Save as disclosed below, neither the Issuer nor any other member of the Novo Banco Group, is, or during the 12 months preceding the date of this Base Prospectus has been, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware), which may have significant effects on the Novo Banco Group's financial position or profitability.

Where the Novo Banco Group is subject to threatened or ongoing proceedings, management determines on the basis of applicable accounting principles and in accordance with the perimeter of assets and liabilities arising from the Resolution Measure and subsequent decisions of the Bank of Portugal the level of provisions to be recorded in its accounts regarding such proceedings. As at 31 December 2018, no provisions have been made at the level of the Issuer with respect to proceedings related to the Resolution Measure.

As a large financial institution, the Novo Banco Group is the subject of actual and threatened litigation and other proceedings in the ordinary course of its banking and financial intermediary business.

According to the Resolution Measure and related decisions of the Bank of Portugal, the Issuer should only be liable in respect of matters or claims arising on or after 3 August 2014, which is the date on which the Issuer was established, or that were otherwise transferred to the Issuer pursuant to the Resolution Measure and related decisions of the Bank of Portugal.

Currently, there are still pending a relevant number of proceedings that seek to challenge the application of the Resolution Measure to BES and the related decisions of the Bank of Portugal, the establishment of the Issuer and the resulting impact on other parties and their rights, including shareholders, members of corporate bodies, senior and subordinated creditors and clients. Should any or all of such proceedings be successful and the Indemnification Mechanism (as defined below) not be available or be insufficient to fully compensate the Novo Banco Group, the resulting costs and/or damages could materially and adversely affect the Novo Banco Group's financial position, results of operations and reputation, even in situations where the Issuer is not a party to such proceedings.

In addition, as regulated entities, the Issuer and the Novo Banco Group are, from time to time, the subject of supervisory and administrative inquiries, inspections and investigations by regulators in the jurisdictions in which they operate. So far as the Issuer is aware, and except as disclosed below, none of the Issuer or other Group entities is, as at the date of this Base Prospectus, subject to any such inquiries, inspections or investigations that may have a significant effect on the Novo Banco Group's financial position or profitability. See also "Risk Factors—Regulatory Risks—The Novo Banco Group operates in a highly regulated industry".

Proceedings Relating to the Resolution Measure

On 3 August 2014, the Bank of Portugal, acting as resolution authority, applied a resolution measure approved by the Deliberation of 3 August 2014 to BES, resulting in a transfer of activities and most assets and liabilities of BES to the Issuer, which was set up as a bridge bank specifically for this purpose. The Bank of Portugal subsequently adopted further decisions, including with respect to the perimeter of the assets and liabilities that were transferred to the Issuer.

The impact of the Resolution Measure includes the status of the assets, liabilities, contingencies or other items transferred to the Issuer or retransferred back to BES, on the date of the Resolution Measure or later, or that should have been or should be deemed transferred or retransferred according to the decisions of the Bank of Portugal. Actual, pending and threatened proceedings filled by shareholders, subordinated creditors, senior creditors, former members of BES corporate bodies, BES related parties or other affected entities against the Bank of Portugal and/or the Resolution Fund are based on allegations that the Resolution Measure was illegal or unconstitutional. In the proceedings that have been filed in the administrative courts, the Issuer is only a "counter-interested" party and not directly a party thereto. Moreover, there may be other actual, pending or threatened proceedings of which the Issuer is not currently aware, or to which the Novo Banco Group is neither a party nor a counter-interested party, but which may nevertheless have a significant impact on the Issuer.

The Resolution Measure expressly stated that disputed liabilities or contingencies related to matters arising before 3 August 2014 were not transferred to the Issuer, and such determination was supported and further detailed in subsequent decisions by the Bank of Portugal. Nevertheless, there is a significant number of proceedings against the Bank of Portugal and/or the Issuer seeking to assign liability for such legacy matters to the Issuer.

Furthermore, numerous legal proceedings have been initiated in Portuguese administrative courts against the Bank of Portugal and/or the Resolution Fund that challenge the Resolution Measure and seek that it is declared void by the courts. The Issuer is a counter-interested party ("*contra-interessado*") in several of these proceedings. The claims lodged include demands for relief, including:

- The Bank of Portugal's decisions regarding the Resolution Measure and its subsequent decisions to be declared void;
- the split and the transfer of assets and liabilities between BES and the Issuer to be declared void;
- the liquidation of the Issuer;
- compensation of losses to be repaid;
- annulment of the retransfer of certain bonds retransferred back to BES pursuant to the Decision of 29 December 2015 on Retransfer;
- blocking of bank account funds that remained at BES;
- compensation for losses and damages; and
- the sale of the Issuer and related arrangements, such as the Contingent Capital Agreement and its implementation. See "*—Administrative and Arbitral Proceedings*" below.

Among the legal proceedings in the Portuguese courts relating to the Resolution Measure, there are two legal proceedings, one initiated by a shareholder of BES and another by several holders of subordinated bonds issued by BES, before the Lisbon Administrative Court (Tribunal Administrativo de Círculo (TAC) de Lisboa), which where aggregated and designated as pilot-proceedings (*processos-piloto*). In both legal proceedings the plaintiffs challenged the validity of the Resolution Measure applied to BES on the basis of alleged illegalities and unconstitutionalities. Novo Banco is counter-interested party in both proceedings. On 12 March 2019, the Lisbon Administrative Court fully dismissed the claims of the plaintiffs. This court decision is without prejudice to the plaintiffs' right of appeal.

Indemnification Mechanism Relating to the Resolution Measure

Pursuant to the indemnification mechanism established in connection with the Lone Star Sale (the "Indemnification Mechanism"), which was preceded by a similar mechanism established by decision of the national resolution authority in the Decisions of 29 December 2015, in accordance with the resolution framework, the Resolution Fund is responsible, upon the fulfilment of certain conditions (including, defending the legal proceedings with the diligence of a prudent defendant), for compensating the Issuer, at any time and with no limitation of amount, for losses arising from non-appealable judicial decisions in the Portuguese courts or any other courts on the validity, implementation, effectiveness or enforcement of the Resolution Measure in any jurisdiction, including, but not limited to, the perimeter of the assets, liabilities, off-balance-sheet items, and assets under management of the Issuer or holding the Issuer responsible for any liability of BES, thereby not respecting the Resolution Measure. While the Indemnification Mechanism may help mitigate economic risks arising from certain litigation relating to the Resolution Measure, there can be no assurance that it will be applied or, if applied, upheld. In addition, even if the Indemnification Mechanism is successfully applied, this may result in an adverse reputational impact on the Issuer and/or the Novo Banco Group or be highly disruptive to the Issuer and a significant distraction for management.

Relevant Legal Proceedings

According to the Resolution Measure and the Decision of 29 December 2015 on contingencies ("**Decision of 29 December 2015 on Contingencies**"), any liabilities or off-balance sheet items of BES that were, as at 8:00 p.m. (Lisbon time) on 3 August 2014, contingent or unknown (including disputed liabilities in connection with pending litigation and liabilities or contingencies resulting from fraud or the breach of regulatory, criminal or administrative provisions or determinations), regardless of the nature (tax, labour, civil or other) and whether or not the proceedings were recorded in BES' books of account, were not transferred to the Issuer.

Considering that the establishment of the Bank results from the application of a Resolution Measure to BES, which had a significant impact on the net worth of third parties, and notwithstanding the deliberations of Bank of Portugal of 29 December 2015, there are still relevant litigation risks, albeit mitigated, namely regarding the various disputes relating to the US$835 million loan made by Oak Finance to BES, the placement of BES and GES debt instruments directly and indirectly in BES retail clients and regarding the senior bond issues retransmitted to BES, as well as the risk of the non-recognition and/or non-implementation of the various decisions of Bank of Portugal by Portuguese or foreign courts (as it is the case of the courts in Spain where there are several unfavourable decisions) in disputes related to the perimeter of the assets, liabilities, off-balance sheet items and assets under management transferred to Novo Banco.

In addition, there are several proceedings pending against the Issuer outside of Portugal which could also indirectly result in non-recognition of the Resolution Measure and its effects and/or of related decisions of the Bank of Portugal. These include claims brought against the Issuer in Venezuela (for approximately US$335 million and US$37 million of principal, and a total claimed amount, as of March 2016, of US$871 million and US$96 million, respectively) and the annulment of an arbitration decision of the International Chamber of Commerce (a claim of approximately 108 million euro), the latter two arising from the placement of debt instruments of GES. In order for a foreign judgment or award to be enforceable in Portugal against the Issuer, a decision resulting from such proceedings would need to be recognised in Portugal.

Bond retransfers of 29 December 2015

On 29 December 2015, the Bank of Portugal, as resolution authority and using its legal powers to retransfer certain assets and liabilities, determined that certain senior bonds in the principal amount of approximately 2 billion euro were retransferred from the Issuer to BES. A number of institutional and non-institutional investors holding the senior bonds retransferred to BES have filed claims against the Bank of Portugal in the Lisbon Administrative Court (the Issuer is counter-interested party) seeking an annulment of the retransfer of the bonds on various grounds, including the non-fulfilment of the prerequisites for the retransfer of credits; misfeasance by the Bank of Portugal; violation of the principle of equal treatment of creditors of equal seniority; violation of the proportionality principle; violation of the equality principle favouring Portuguese nationals and the Portuguese State; and violation of the administrative rules of proceeding. Similar proceedings relating to the retransfer of senior bonds have also been filed against the Bank of Portugal. All of these proceedings are still pending.

Companhia de Seguros Tranquilidade, S.A. ("Tranquilidade") pending proceedings regarding a pledge

agreement

There are two pending proceedings regarding the sale of the shares of Tranquilidade by the Issuer in enforcement of a pledge agreement. The first proceeding was filed in 2015 by Partran SGPS, S.A., the insolvency estate of Espírito Santo Financial Group, S.A., and the insolvency estate of Espírito Santo Portugal, SGPS, S.A. against the Issuer and the purchaser of the shares in Tranquilidade, requesting that a financial pledge over Tranquilidade's shares be declared null and void and that the shares be consequently returned to Partran SGPS, S.A. or, alternatively, indemnification. The second proceeding relates to a 2015 decision to annul the execution of a pledge taken by the insolvency administrator of Partran's SGPS Estate against the Issuer; the Issuer has challenged the decision of the insolvency administrator in courts.

Proceedings pending in Venezuelan Courts

Two proceedings were filled in the Superior Court of Venezuela in early 2016, by Banco de Desarrollo Económico y Social ("**BANDES**") and by Fondo de Desarrollo Nacional ("**FONDEN**"), against the Issuer and BES regarding the subscription in 2014 by BANDES and FONDEN of debt instruments issued by Espírito Santo International ("**ESI**") in the nominal amount of US$37 million and US$335 million, and total amounts claimed in March 2016 of US$871 million and US$96 million, respectively. These entities are claiming: (i) the nullity of the sale of the debt instruments and the payment by BES and the Issuer (jointly) of the amount of principal, together with costs, interests and inflation rate; or (ii) the payment by BES and the Issuer (on a joint basis) of such amounts as a result of the obligations assumed in the comfort letters allegedly issued by BES for the benefit of FONDEN and BANDES in June 2014. In both proceedings, and despite the opposition of the Issuer, the Superior Court of Venezuela has considered that the Venezuelan courts have jurisdiction to decide on these proceedings. In addition, the claimants have requested the Superior Court of Venezuela to apply a preliminary injunction over certain assets of BES and the Issuer. The Issuer has submitted its opposition in both proceedings on the basis that any liability that could have existed regarding the sale of debt instruments issued by GES entities was not transferred to the Issuer in accordance with the Resolution Measure and the separation of assets and liabilities contained in such decision.

Proceedings related with the sale of Novo Banco

Following the conclusion of the sale agreement of Novo Banco's share capital, signed between the Resolution Fund and Lone Star on 31 March 2017, certain legal suits have been lodged, related to the conditions of the sale, namely the administrative action brought by Banco Comercial Português, SA (BCP) against the Resolution Fund, of which Novo Banco is not a party, and according to the public disclosure of inside information made by BCP on the website of the CMVM on 1 September 2017, it requested the legal assessment of the contingent capitalization obligation assumed by the Resolution Fund within the CCA.

In addition, Novo Banco was informed by the publication in the Official Journal of the European Union of 16 July 2018, of the existence of an appeal to the General Court by Banco Comercial Português, SA and other entities of the group seeking the annulment of the decision of the European Commission C (2017 / N) of 11 October 2017 which considers the contingent capital agreement agreed between the Resolution Fund and the Lone Star Group in connection with the sale of Novo Banco, compatible with the internal market. Novo Banco submitted a request to intervene in the proceeding, which was admitted by the General Court in December 2018. The proceeding is pending hearing to be scheduled.

MANAGEMENT AND SUPERVISORY CORPORATE BODIES

Under the terms of the Company's Articles of Association, the corporate and statutory bodies of Novo Banco are the Board of the General Meeting, the General and Supervisory Board, the Executive Board of Directors, the Monitoring Committee, the Statutory Auditor and the Company Secretary.

The members of the corporate bodies are elected for four-year terms of office and they may be re-elected once or more than once.

Also in accordance with the Articles of Association, the members of the Board of the General Meeting, General and Supervisory Board, and Monitoring Committee are elected by the General Meeting. The General Meeting also has the powers to appoint and replace the Bank's Statutory Auditor, upon a proposal of the General and

Supervisory Board. The members of the Executive Board of Directors are appointed by the General and Supervisory Board. The Company Secretary and Alternate Secretary are appointed by the Executive Board of Directors, after consulting with the General and Supervisory Board. See also "—*Risk and Capital Management – Organisation*".

Board of the General Meeting

- Chairman: Rui Manuel Pinto Duarte
- Vice-Chairman: Miguel João Valente da Costa Madeira
- Secretary: Pedro Moreira de Almeida Queiroz de Barros

General and Supervisory Board

The General and Supervisory Board is the supervisory body of Novo Banco and its members are elected by the General Meeting.

At the date of this Base Prospectus five of the nine members of the General and Supervisory Board, including its Chairman, are independent.

The General and Supervisory Board (GSB) has the powers that are granted to it by law and by the Articles of Association, having as main functions the support and supervision in a regular way of the management of Novo Banco and of the companies of the Group, supervisioning also the Executive Board of Directors (EBD) in what regards the compliance with the relevant regulatory requirements of the banking activity. Additionally, the GSB has specific powers to elect the members of the Executive Board of Directors and responsibilities in granting previous consents to the approval by the Executive Board of Directors of certain subjects established in the Articles of Association, namely in what concerns the approval of (i) credit, risk and accounting policies, (ii) business plan, budget and activity plan, (iii) change of registered address or of representation structure abroad, (iv) capital expenditure, debt or refinancing, sales or acquisition, creation of burdens or granting of loans above certain limits and within certain conditions, (v) practice or omission of any material act related with the Contingent Capital Mechanism; and (vi) hiring of employees with annual remunerations above certain limits.

In its activity, the GSB is directly supported by 5 (five) Committees, where certain decisions of the GSB are delegated, namely the Financial Affairs Committee, the Risk Committee, the Compliance Committee, the Appointments Committee and the Remuneration Committee.

These Committees are composed of and chaired by members of the GSB. Their meetings may also be attended by members of the EBD responsible for the matters that are dealt with by said committees.

The following table sets out the members of the General and Supervisory Board, as at the date of this Base Prospectus, with an indication of name, position and principal activities of the Directors outside of the Group:

Name	**Position**	**Principal activities outside of the Group**
Byron James Macbean Haynes	Chairman	- Chairman of the Board of Directors at Saffron Brand Consultants, SA
Karl-Gerhard Eick	Vice-Chairman	- Chairman of the Board of Directors at IKB Deutsche Industriebank AG
Donald John Quintin	Member	- Non-Executive Director at following entities: - Lone Star Europe Acquisitions Limited; - MRH (GB) Limited; - LS9 Robin Topco Limited; - LS9 Robin Newco 1 Limited; - LS9 Robin Newco 2 Limited; - LS9 Robin Midco Limited; - LS9 Robin Investments Limited;
Kambiz Nourbakhsh	Member	- Board of Directors at LSF10 Wolverine Bidco Aps

Mark Andrew Coker	Member	- Member of the Supervisory Board of IKB Deutsche Industriebank AG; - European General Counsel for Hudson Advisers UK Limited;
Benjamin Friedrich Dickgiesser	Member	- Member of the Supervisory Board of IKB Deutsche Industriebank AG - Managing Director for Hudson Advisors Portugal, Lda
John Ryan Herbert	Member	- Director at Caliber Home Lones, Inc, - Director of DFC Corp; - Director of Quintain Limited
Robert Alan Sherman	Member	- Non-Executive Director at Opportunity Network; - Senior Counsel of Greenberg Traurig; - Member of the Advisory Board of Rasky Partners
Carla Antunes da Silva	Member	- Director at Lloyds Banking Group; - Non-Executive Director at Lloyds Bank Corporate Markets; - Non-Executive Member of the Board of Directors at Maze Impact SA - Chairman of the General Meeting of Associação Laboratório de Investimento Social.

Financial Affairs (Audit) Committee

This Committee is chaired by Karl Gerhard Eick; Byron Haynes and Kambiz Nourbaksh are also members. The Committee advises and supports the General and Supervisory Board in monitoring the effectiveness of the Issuer's internal control system, the risk management system and the internal audit system, in each case with regard to the Issuer, its parent undertakings and the Issuer's and the parent undertakings' subsidiaries, in each case only within the Issuer's scope of consolidation for regulatory purposes.

Risk Committee

The Committee advises and supports the General and Supervisory Board in monitoring the Issuer's overall actual and future risk appetite and risk strategy as well as the effectiveness of the internal control system and the risk management system, in each case with regard to the Issuer, its parent undertakings and its and the parent undertakings' subsidiaries, in each case only within the Issuer's scope of consolidation for regulatory purposes.

The Chairman of this Committee is Byron Haynes, the remaining members being Karl Gerhard Eick, Kambiz Nourbakhsh and Benjamin Dickgiesser.

Compliance Committee

The Compliance Committee is chaired by Robert Sherman, the other two members being John Herbert and Mark Coker.

The Committee has, amongst others, the following tasks with regard to the Issuer, its parent undertakings and its and the parent undertakings' subsidiaries, in each case only within the Issuer's consolidation for regulatory (not accounting) purposes:

a) monitoring of the Executive Board of Directors' measures that ensure the Issuer's, the members' of the Issuer's corporate bodies and the Issuer's employees' compliance with legal requirements, authorities' regulations and requirements and the Issuer's own internal policies, processes, rules and decisions;

b) regularly reviewing the Issuer's business conduct and ethics policy;

c) monitoring the compliance function of the Issuer.

Nomination Committee

The Chairman of the Nomination Committee is John Herbert and the other members are Robert Sherman, Donald Quintin and Mark Coker.

The Committee supports the General and Supervisory Board by identifying candidates to fill positions on the Issuer's Executive Board of Directors, and by preparing election recommendations for the election of members of the General and Supervisory Board, as well as by the regular assessment of the structure, size, composition and performance of the Management Board and of the General and Supervisory Board and the regular assessment of the knowledge, skills and experience of the individual members of the Executive Board of Directors and General and Supervisory Board and the respective body collectively.

Remuneration Committee

This Committee is chaired by Byron Haynes and has Karl Gerhard Eick and Benjamin Dickgiesser as members.

The Remuneration Committee supports the General and Supervisory Board in the appropriate structuring of the remuneration systems for the members of the Management Board and key function holders and monitors the remuneration systems for all employees, in particular those who have a material influence on the overall risk profile of the Bank and the group as well as for the Management Board members and key function holders.

Executive Board of Directors

The members of the Executive Board of Directors (EBD) are appointed by the General and Supervisory Board, which also appoints the Chief Executive Officer (CEO).

Pursuant to the Issuer's Articles, the Executive Board of Directors must be composed of a minimum of five and a maximum of nine members (each a "**Director**"), among whom shall be appointed, by the General and Supervisory Board, the Chairman and the Vice Chairman.

The Executive Board of Directors is the corporate management body of the Issuer and it is responsible for defining the general policies and strategic objectives of the Issuer and the Group. Its responsibility also includes establishing the general principles of risk management and control and ensuring that the Group has the necessary skills and resources, according to the management powers set out in the Articles.

The Executive Board of Directors meets on a weekly basis and extraordinarily whenever convened by its Chairman, either on his own initiative or upon the request of two board members.

The following table sets out the members of the Executive Board of Directors, as at the date of this Base Prospectus, with an indication of name, position and principal activities of the Directors outside of the Group:

Name	**Position**	**Principal activities outside of the Group**
António Manuel Palma Ramalho	Chief Executive Officer (CEO)	- Member of the Board of APB - Associação Portuguesa de Bancos; - Director at BCSD – Conselho Empresarial para o Desenvolvimento Sustentável; - OBIN – Observatório Imobiliário

Vítor Manuel Lopes Fernandes	Chief Commercial Officer (CCO - Corporate)	- Member of the Board of APB - Associação Portuguesa de Bancos; - Member of the Board of SIBS Forward Payment Solutions, SA; - Member of the Board of SIBS SGPS, SA; - Member of the Executive Committee of CCILE – Câmara do comércio Luso Espanhola; - CISP – Comissão Interbancária de Sistemas de Pagamentos;
Mark Bourke	Chief Financial Officer (CFO)	-
Jorge Telmo Maria Freire Cardoso	Chief Recovery and Investment Officer (CRIO)	- Member of the Board of Pharol, SGPS, SA; - Member of the Board of Enternext, SA
Luís Miguel Alves Ribeiro	Chief Commercial Officer (CCO - Retail)	-
Luísa Marta Santos Soares da Silva Amaro de Matos	Chief Legal and Compliance Officer (CLCO)	-
José Eduardo Fragoso Tavares de Bettencourt	Chief Operating Officer (COO)	-
Rui Miguel Dias Ribeiro Fontes	Chief Risk Officer (CRO)	-

The business address of all the Directors of the Issuer is the Issuer's registered office at Avenida da Liberdade, 195, 1250 142 Lisbon, Portugal.

The Issuer monitors the existence of conflicts, between the interests of the Issuer and of those of the above listed persons. As at the date of this Base Prospectus, the Issuer is not aware of any existing conflicts of interest between the duties to the Issuer of the above listed persons and their private interests and/or other duties.

Monitoring Committee

- Chairman: José Rodrigues de Jesus
- Member: José Bracinha Vieira

The Monitoring Committee is a statutory body ruled by the Articles of Association and exists due to the Contingent Capital Agreement entered into between Novo Banco and Fundo de Resolução and is composed by three members elected by the General Meeting, one of whom to act as Chairman. The composition of the Monitoring Committee shall respect the following criteria: one of its members shall be independent from the parties to the Contingent Capital Agreement, and another shall be a registered charter accountant.

The Committee has as main tasks to discuss and issue (non-binding) opinions on any Relevant Issue concerning the Contingent Capital Agreement upon which it is requested to issue an opinion. The members of the Monitoring Committee are entitled to attend as observers and speak (but note vote) at all meetings of the

General and Supervisory Board.

Statutory Auditor

Ernst & Young, Audit & Associados – SROC, S.A., registered in the Portuguese Securities Market Commission ("**CMVM**") under number 20161480 and in the Portuguese Institute of Statutory Auditors ("**OROC**") under number 178, represented by António Filipe Dias da Fonseca Brás, registered in the CMVM under number 20161271 and in the OROC under number 1661, and by João Carlos Miguel Alves, as alternate statutory auditor, registered in the CMVM under number 20160515 and in the OROC under number 896.

Company Secretary

- Pedro Moreira de Almeida Queiroz de Barros
- Mário Nuno de Almeida Martins Adegas (Alternate Secretary)

SUPERVISION AND REGULATION

The Issuer is subject to EU regulation, to the Portuguese Companies Code which comprises commercial laws applicable to joint-stock companies (*sociedades anónimas*) and, in particular, to the RGICSF, to the Portuguese Securities Code ("**CVM**") and to other related legislation. Such regulations relate to, amongst others, liquidity, capital adequacy and permitted investments, ethical issues, money laundering, privacy, securities (including debt instruments) issuance and offering/placement, financial intermediation issues, record-keeping, marketing and selling practices.

Membership in the EU subjects Portugal to compliance with European legislation which may either be in the form of regulations, which are directly enforceable in any member state, or directives addressed to the member states, which may require the enactment of implementing legislation or which, as established by the European Court of Justice in several decisions, may be deemed to be directly enforceable in a member state in the event that they are clear, precise and unconditional. In addition, the EC and the Council of Ministers issue non-binding recommendations to member states. The Portuguese authorities have introduced EU directives and recommendations into legislation to adapt Portuguese laws to European regulatory standards.

Generally, Novo Banco's activity is under the supervision of the Bank of Portugal, as a credit institution, of the CMVM, as an issuer and as a financial intermediary, and the Portuguese Insurance and Pension Funds Supervisory Authority, as an insurance agent.

European Central Bank

In order to ensure financial stability and lay foundations for sustained economic growth, the EU Member States have created a banking union. This union provides that, from November 2014 onwards, the European Central Bank (**"ECB"**) becomes responsible for the prudential supervision of the credit institutions considered significant which operate in the European Union (the "**Single Supervisory Mechanism**," or "**SSM**"). Behavioural supervision of these credit institutions shall remain with their respective national regulators. Credit institutions from European Union countries outside of the Eurozone may elect to be supervised by the ECB, under the banking union, having to ensure that their national regulator cooperates closely with the ECB.

Single Supervisory Mechanism

Council Regulation (EU) No 1024/2013 of 15 October 2013 established the SSM for Eurozone banks and other credit institutions. The SSM maintains an important distinction between significant and non- significant entities, which are subject to different supervisory regimes. The ECB carries out the prudential supervision of significant entities and Novo Banco has been included in the list of significant supervised entities published by the ECB on 4 September 2014 and as last updated on 5 May 2019 (as of 1 April 2019). As a result, the ECB has been granted certain supervisory powers as from 4 November 2014, which include:

- the authority to grant and revoke authorisations regarding credit institutions;
- with respect to credit institutions incorporated in a participating Member State establishing a branch or providing cross border services in Member States that are not part of the Eurozone, to carry out the tasks of the competent authority of the home Member State;
- the power to assess notifications regarding the acquisition and disposal of qualifying holdings in credit institutions;
- the power to ensure compliance with requirements relating to own funds, securitisation, large exposure limits, liquidity, leverage, as well as reporting and public disclosure of information on those matters;
- the power to ensure compliance with respect to corporate governance, including fit and proper requirements for the persons responsible for the management of credit institutions,

risk management processes, internal control mechanisms, remuneration policies and practices and effective internal capital adequacy assessment processes (including internal ratings-based models);

- the power to carry out supervisory reviews, including, where appropriate and in coordination with the EBA, stress tests, which may lead to the imposition of specific additional own funds requirements, specific publication requirements, specific liquidity requirements and other measures;
- the power to supervise credit institutions on a consolidated group basis, extending supervision over parent entities established in one of the Member States; and
- the power to carry out supervisory tasks in relation to recovery plans, provide early intervention where a credit institution or group does not meet or is likely to breach the applicable prudential requirements and, only in the cases explicitly permitted under law, implement structural changes to prevent financial stress or failure, excluding any resolution powers.

The SSM framework Regulation (EU) No 468/2014 of the ECB of 16 April 2014 sets out the framework for cooperation within the SSM between the ECB and the relevant national authorities, while Regulation (EU) No 1163/2014 of the ECB of 22 October 2014 lays down the calculation methodology and the collection procedure regarding the annual supervisory fees which are born by the supervised credit institutions.

The ECB directly supervises significant banks, including the Issuer, whereas each national competent authority ("**NCA**", as is the case of the Bank of Portugal in Portugal) is in charge of supervising other banks within its jurisdiction. The ECB has the right to impose pecuniary sanctions and set binding regulatory standards. Notably, the relevant entities are subject to continuous evaluation of their capital adequacy by the SSM and can be requested to operate with higher than minimum regulatory capital and/or liquidity ratios.

As regards the monitoring of financial institutions, the NCAs, in addition to supporting the ECB in day-to-day supervision of significant banks and supervising directly other banks, is responsible for supervisory matters not conferred on the ECB, such as consumer protection, money laundering, payment services, and branches of third country banks. The ECB, on the other hand, is exclusively responsible for prudential supervision of credit institutions with the abovementioned supervisory powers.

In order to foster consistency and efficiency of supervisory practices across the Eurozone, the EBA is continuing to develop the EBA rulebook, a single supervisory set of rules applicable to the Eurozone Member States (the "**EBA Rulebook**").

CRD IV (as defined below) contains specific mandates for the EBA to develop draft regulatory or implementing technical standards as well as guidelines and reports, in order to enhance regulatory harmonisation in Europe through the EBA Rulebook. A series of regulations concerning regulatory or implementing technical standards have been published.

Single Resolution Mechanism

The European Commission established the Single Resolution Mechanism through Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014, which came into effect on 1 January 2016 and establishes uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund. Amendments to the Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 entered into force in the course of June following the adoption on 14 May 2019 of a comprehensive legislative package to reduce risks in the banking sector and further reinforce banks' ability to withstand potential shocks, by the European Council (although most of the new rules will start applying in mid-2021). The Single Resolution Mechanism is responsible for coordinating the application of resolution tools within the Eurozone and, from 1 January 2016, is responsible for the resolution of credit institutions, which shall be funded through the Single Resolution Fund and not by any national resolution fund, such as the Resolution Fund. However, in Portugal the Resolution Fund will remain responsible for funding decisions, taken by the Bank of Portugal as the national resolution authority, that occurred until 31 December 2015, including those relating to the Resolution Measure applied to BES and the resolutions regarding Banif – Banco Internacional do Funchal, S.A., as well as for funding resolution decisions of certain financial institutions that fall outside the scope of the Single Resolution Fund.

The Commission Delegated Regulation (EU) 2017/2361 of 14 September 2017 further establishes the final system of contributions to the administrative expenditures of the Single Resolution and the Commission Delegated Regulation (EU) 2017/747 of 17 December 2015 establishes the criteria relating to the calculation of contributions (*ex ante* and *ex post* contributions).

<u>Bank of Portugal</u>

The Bank of Portugal is part of the European system of Central Banks ("**ESCB**"), which was created in connection with the European Monetary Union ("**EMU**"). The EMU implements a single monetary policy, the main features of which are a single currency – the euro – and the creation of the ECB and the ESCB. According to the EU Treaty, the primary objective of the ESCB is to maintain price stability through monetary policy.

The Bank of Portugal is committed to providing for the stability of the domestic financial system and performs for this purpose the function of lender of last resort (as set forth in Law 5/98, 31 January 1998, as amended). This goal is achieved through the supervision of credit institutions, financial companies and other entities subject to the supervision of the Bank of Portugal, as mentioned below.

According to the RGICSF, and subject to the powers conferred upon the ECB in the context of the SSM and to the cooperation between the ECB and the Bank of Portugal where applicable, the Bank of Portugal authorises the establishment of credit institutions and financial companies based on technical-prudential criteria, monitors the activity of the institutions under its supervision and their compliance with the rules governing their activities, issues recommendations for the correction of any deviations from such rules, sanctions breaches should they occur and possesses the ability to take extraordinary measures of reorganisation. See "*–European Central Bank – Single Supervisory Mechanism*" for more information on the role the Bank of Portugal plays as Portugal's NCA.

The Bank of Portugal has established and/or is responsible for supervising and monitoring, subject to the powers conferred upon the ECB in the context of the SSM and to the cooperation between the ECB and the Bank of Portugal where applicable, rules governing solvency ratios, reserve requirements, control of major risks and provisions for specific and general credit risks. Subject to the same terms, it monitors compliance with these rules through periodic inspections, review of regularly filed financial statements and reports, and continuing assessment of adherence to current legislation.

The Bank of Portugal is also charged with the duty to regulate, oversee and promote the smooth operation of payment systems within the scope of its participation in the ESCB.

Bank Recovery and Resolution Directive

The Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms (the "**BRRD**") was transposed into Portuguese law by Law no. 23-A/2015, of 26 March 2015 and Law no. 66/2015, of 6 July 2015. BRDD was amended by Directive (EU) 2017/1132 of the European Parliament and of the Council of 14 June 2017 and by Directive (EU) 2017/2399 of the European Parliament and of the Council of 12 December 2017, which was transposed into Portuguese law by Law no. 23/2019, of 13 March 2019. Amendments to the BRRD entered into force in the course of June following the adoption on 14 May 2019 of a comprehensive legislative package to reduce risks in the banking sector and further reinforce banks' ability to withstand potential shocks, by the European Council (although most of the new rules will start applying in mid-2021).

The provisions of the BRRD aim to harmonise the resolution procedures of, among other things, credit institutions of European Union Member States and provide the authorities of such Member States with tools that aim to prevent insolvency or, when insolvency occurs, to mitigate its adverse effects, by maintaining the systemically key functions of said institutions.

The BRRD implemented into Portuguese law through Law no. 23-A/2015, of 26 March 2015 and Law no. 66/2015, of 6 July 2015 provides among others for the following:

(i) **Preparation and planning stage**: Preparation for adopting measures of recovery and resolution, including (a) drawing up and submitting recovery plans by credit institutions to the Competent Authority for evaluation, which shall provide for the measures to be taken for restoring their financial position following a significant deterioration of their financial position and (b) drawing up of a resolution plan for each credit institution or group;

(ii) **Early intervention stage**: If an institution breaches the applicable legal requirements governing its activity or is likely to breach them in the near future, the competent authority is conferred with the power to:

a) require that the board of directors of the credit institution draws up an action plan, with a specific timeline,

b) require that the chair of the general meeting of the credit institution convenes a general meeting of its shareholders or, in case the chair of the general meeting does not comply, promptly convene itself a general meeting of the shareholders of the credit institution,

c) require that one or more members of the board of directors or the supervisory board be removed or replaced if they are considered unsuitable in light of the applicable provisions to perform their duties,

d) require that the credit institution draws up and submits for consultation a plan for debt restructuring with its creditors according to the recovery plan,

e) require changes in the legal or business structures of the credit institutions, and

f) collect (including through on-site inspections) all necessary information for the update of the resolution plan and the preparation of the potential resolution of the credit institution and the valuation of its assets and liabilities for the resolution purposes.

In case of significant deterioration of the financial condition of an institution due to significant infringements of the law, regulatory acts or the constitutional documents of the institution or in case the competent authority believes that significant administrative irregularities have taken place, that the current shareholders and board of directors of the institution are unable to ensure its prudent management or its financial recovery or that there are other reasons to suspect of irregularities that put into serious risk the interests of depositors and creditors, and provided that the above early intervention measures listed above in subparagraph (ii) are not sufficient to reverse the deterioration of the institution, the competent authority may require the removal of the board of directors of the institution. When the competent authority considers the removal of the management body as insufficient for addressing any of the above-mentioned situations, one or more temporary directors may be appointed to the institution.

(iii) **Resolution measures:** The resolution authority shall take action only if it considers that all of the following conditions are met:

a) The competent authority or the resolution authority considers that the institution is failing or is likely to fail;

b) having regard to timing and other relevant circumstances, no alternative private sector measures or supervisory action, including early intervention measures or the exercise of the powers to write-down or convert own funds instruments, would prevent the failure of the institution within a reasonable timeframe;

c) a resolution action is necessary for public interest reasons, as it is required for the achievement of and is proportionate to one or more of the resolution objectives established by law; and

d) winding up the institution under normal insolvency proceedings would not meet those resolution objectives more effectively.

The resolution measures that may be implemented by the resolution authority, either individually or in conjunction, are the following:

(i) **Sale of business tool**: transfer to a purchaser, by virtue of a decision of the resolution authority, of shares or other instruments of ownership or of some or all of the rights and obligations, corresponding to assets, liabilities, off-balance sheet items and assets under management, of the institution under resolution, without the consent of the shareholders of the institution under resolution or of any third party other than the acquirer.

(ii) **Bridge institution tool**: establishment of a bridge institution by the resolution authority, to which shares or other instruments of ownership or some or all of the rights and obligations, corresponding to assets, liabilities, off-balance sheet items and assets under management, of the institution under resolution are transferred without the consent of the shareholders of the institution under resolution or of any third party.

(iii) **Asset separation tool (to be used only in conjunction with another resolution measure**): transfer, by virtue of a decision of the resolution authority, of rights and obligations, corresponding to assets, liabilities, off-balance sheet items and assets under management, of an institution under resolution or of a bridge institution to one or more asset management vehicles, without the consent of the shareholders of the institutions under resolution or of any third party other than the bridge institution. The asset management vehicles are legal persons wholly or partially owned by the relevant resolution fund.

(iv) **Bail-in tool**: write-down or conversion by the resolution authority of any obligations of an institution under resolution, except for the following obligations, as defined under the applicable law:

a) covered deposits;

b) secured obligations;

c) obligations arising from holding of clients' assets or money;

d) obligations to credit institutions and investment firms, excluding the members of the group, with an original maturity of less than seven days;

e) obligations with a remaining maturity of less than seven days towards payment and securities settlement systems, to its administrators or to its participants, arising from the participation in said systems;

f) obligations towards (i) employees, except for the variable component of their remuneration which is not regulated by a collective agreement, (ii) commercial or trade creditors, connected to the provision of goods and services to the institution which are critical for its daily operation, (iii) tax authorities and social security authorities, provided that these obligations are privileged according to the applicable law, and (iv) deposit guarantee schemes arising from contributions due to those schemes; and

g) obligations towards a beneficiary in the context of a fiduciary relationship, provided that such beneficiary is protected under the application insolvency or civil law.

In exceptional circumstances, when the bail-in tool is implemented, the resolution authority may exclude or partially exclude certain liabilities from the application of the write-down or conversion powers. This exception shall apply in case it is strictly necessary and proportionate and shall fall under the specific requirements provided by law.

Further to the above resolution measures, the resolution authority shall exercise the write-down or conversion powers in respect of own funds instruments of the institution, either independently from the resolution measures implemented by the resolution authority or in combination with those resolution measures, under the circumstances provided under the applicable law, when for example it is established that the conditions for resolution are met or when the resolution authority establishes that if said power is not exercised, the institution will cease to be viable.

The application of the resolution measures shall ensure that the shareholders of the institution bear losses first, followed by creditors of the institution in accordance with the order of priority of their claims under normal insolvency proceedings. Additionally, creditors of the same class should be treated in an equitable manner and covered deposits should be fully protected. In any case, no creditor should incur greater losses than it would have incurred if the institution had been wound up under normal insolvency proceedings in accordance with the "no creditor worse off" principle.

To ensure the effective application of the resolution tools, the resolution authority may use financing arrangements, notably for the following purposes:

(i) to guarantee the assets or the liabilities of the institution under resolution, its subsidiaries, a bridge institution or an asset management vehicle;

(ii) to grant loans to the institution under resolution, its subsidiaries, a bridge institution or an asset management vehicle;

(iii) to purchase assets of the institution under resolution;

(iv) to make contributions to a bridge institution and an asset management vehicle;

(v) to pay compensation to shareholders, creditors of the institution under resolution or the Deposit Guarantee Fund;

(vi) to make a contribution to the institution under resolution in lieu of the write down or conversion of liabilities of certain creditors, when the bail-in tool is applied and the resolution authority decides to exclude certain creditors from the scope of bail-in.

In addition to the resolution tools (such as the general bail-in tool), the BRRD provides for resolution authorities to have the further power to permanently write-down or convert into equity capital instruments at the point of non-viability and before any other resolution action is taken ("**non-viability loss absorption**").

For the purposes of the application of any non-viability loss absorption measure, the point of non-viability under the BRRD is the point at which (i) the relevant authority determines that the relevant entity meets the conditions for resolution (but no resolution action has yet been taken) or (ii) the relevant authority or authorities, as the case may be, determine(s) that the relevant entity or its group will no longer be viable unless the relevant capital instruments are written-down or converted or (iii) extraordinary public financial support is required by the relevant entity or its group other than, where the relevant entity is an institution, for the purposes of remedying a serious disturbance in the economy of a Member State of the EEA and to preserve financial stability.

On 3 September 2016, the European Commission adopted Delegated Regulation (EU) 2016/1450, of 23 March 2016, supplementing the BRRD regulatory technical standards, which entered into force on 23 September 2016, specifying the criteria relating to the methodology for setting the minimum requirement for own funds and eligible liabilities. This required that institutions meet the MREL to avoid excessive reliance of forms of funding that are excluded from bail-in or other resolution measures and prevent the risk of contagion to other institutions and "bank run" situations, since failure to meet the MREL would negatively impact the institutions' loss absorption and recapitalization capacity and the overall effectiveness of the resolution.

Capital and Capital Ratios

In the wake of the financial crisis and due to insufficiencies in existing regulatory capital structures, as well as the lack of adequate capital reserves in systemically important financial institutions, the issue of capital requirements has been subject to numerous national and international initiatives. In December 2010, the Basel Committee published two recommendations to reform the global regulatory framework applicable to credit institutions ("**Basel III**: A global regulatory framework for more resilient credit institutions and banking systems", and "Basel III: International framework for liquidity risk measurement, standards and monitoring", both of which have been subsequently updated). These recommendations, known as "Basel III", revised certain aspects of the recommendations contained in Basel II which introduced new rules on capital and liquidity. In the EU, these recommendations were implemented through new banking regulations adopted on 26 June 2013: a) Directive 2013/36/EU of the European Parliament and of the European Council on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (the "**CRD IV Directive**"), which has been transposed into Portuguese law by Decree-Law No 157/2014 of 24 October 2014, and

b) Regulation (EU) no 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (the "**CRD IV Regulation**" or "**CRR**" and, together with the CRD IV Directive, "**CRD IV**"), which is legally binding and directly applicable in all EU Member States. Implementation began on 1 January 2014, while particular elements being phased in over a period of time, to be fully effective by 2024.

On 23 November 2016, the European Commission presented legislative proposals for amendments to the CRR, the CRD IV Directive, the BRRD and the Single Resolution Mechanism (collectively, the "**Reforms**"). After the European Parliament confirmed its position on the Reforms, the European Parliament and Council of the EU reached agreement on the main elements of the Reforms. The agreed text was endorsed on 16 April 2019 by the European Parliament and sets out a comprehensive set of reforms to strengthen further resilience and resolvability of EU banks.

On 14 May 2019, the European Council announced that it had adopted the Reforms. The Reforms were published in the Official Journal in the course of June and entered into force, although most of the new rules will start applying in mid-2021. As per the European Council's press release, the Reforms include the following key measures:

- a leverage ratio requirement for all institutions as well as a leverage ratio buffer for all global systemically important institutions;
- a net stable funding requirement;
- a new market risk framework for reporting purposes, including measures reducing reporting and disclosure requirements and simplifying market risk and liquidity rules for small non-complex banks in order to ensure a proportionate framework for all banks within the EU;
- a requirement for third-country institutions with significant activities in the EU to have an EU intermediate parent undertaking;
- a new total loss absorbing capacity (TLAC) requirement for global systemically important institutions;
- enhanced Minimum Requirement for own funds and Eligible Liabilities (MREL) subordination rules for global systemically important institutions (G-SIIs) and other large banks;
- a new moratorium power for the resolution authority.

In addition, on 7 December 2017, the Basel Committee and the GHOS presented reforms to the Basel III regulatory framework also known as "Basel IV". The final Basel III reforms include several policy and supervisory measures that aim to enhance the reliability and comparability of risk-weighted capital ratios and to reduce the potential for undue variation in capital requirements for banks across the globe. The measures comprise revisions to the standardised approach for credit risk, internal ratings-based approaches for credit risk, the credit valuation adjustment risk framework, the operational risk framework, the leverage ratio framework and a revised output floor. The proposals contained in the Basel III reforms are intended to be applied from 2022 with a transitional period for the output floor until 2027, although these timelines remain unclear until such rules are implemented into draft European and Portuguese legislation.

The Directive (EU) 2017/2399 of the European Parliament and of the Council of 12 December 2017 (regarding the ranking of unsecured debt instruments in insolvency hierarchy), which amended BRDD, was implemented in Portugal through Law no. 23/2019, of 13 March 2019 creating a new asset class of "non-preferred" senior debt that ranks in insolvency above own-funds instruments and subordinated liabilities that do not qualify as own funds, but below other senior liabilities. Further, it confers a preferential claim to generally all deposit *vis-à-vis* senior debt.

Capital Requirements

CRD IV amended existing regulatory capital items which are divided as described below, subject to certain further deductions as described in CRD IV:

- Common Equity Tier 1 ("**CET1**"): This category includes share capital, share premiums, eligible reserves and the net profit for the year retained when certified and non-controlling interests adjusted in proportion to the risk of entities that give rise to them; goodwill, intangible assets, negative actuarial deviations arising from liabilities related to post-employment benefits to employees and, when applicable, the negative results for the year are also deductible;
- Additional Tier 1 ("**AT1**", together with CET1 items, "**Tier 1**"): This category includes certain preferred shares and hybrid capital instruments; and
- Tier 2 ("**Tier 2**"): essentially incorporates subordinated eligible debt.
- Total Own Funds is Tier 1 and Tier 2 ("**Total Own Funds**").

Subject to any applicable transitional periods, the CRD IV general Total Own Funds requirement is 8% of the total risk-weighted assets, while at least 6% and 4.5% of the minimum Total Own Funds shall be composed by Tier 1 and CET1, respectively. Accordingly, the maximum eligible capital that can be covered through Tier 2 instruments is 2%. The above may be subject to additional capital requirements as a result of the SREP and is subject to capital conservation and other buffers, as indicated below and which, where applicable, need to be covered by CET1 amounts.

Regulatory Notice ("*Aviso*") 6/2013 issued by the Bank of Portugal regulates the transition provided in CRD IV and has determined a minimum CET1 ratio of 7.0%, calculated under the transitional periods requirements, to be complied with from 1 January 2014 onwards. Regulatory Notice ("*Aviso*") 6/2013 has been revoked and replaced by the Regulatory Notice ("*Aviso*") 10/2017 issued by the Bank of Portugal that entered into force in 1 January 2018 and regulates the exercise of a range of options available within the prudential framework established by the CRD IV Regulation and Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 following the publication of Guideline (EU) 2017/697 (ECB / 2017/9) of 4 April 2017 and Recommendation ECB / 2017/10 of 4 April 2017, both of the European Central Bank.

CRD IV required credit institutions to hold additional CET1 capital buffers as fixed by the relevant supervisory authorities:

- A "conservation buffer" of 2.5% that is being phased in until 2019. In September 2015, the Bank of Portugal determined a conservation buffer of 2.5% (Regulatory Notice ("*Aviso*") 1/2015) to be applied from January 2016, whereas the applicable minimum capital ratios were 7% for CET1, 8.5% for Tier 1 and 10.5% for Total Capital. On 31 May 2016, the Bank of Portugal issued Notice ("*Aviso*") 6/2016 revoking Notice 1/2015, which determined the conservation buffer to be 0.625% in 2016, with an increase of 0.625% per year until 2019. As of January 2017, the buffer was set at 1.25%, as of 1 January 2018 it was set at 1.875%, and as of 1 January 2019 at 2.5%. In case of non-compliance, the regulator will impose the constraints on dividends distribution and executive bonuses inversely proportional to the level of the actual CET1 ratio;

- A "countercyclical capital buffer" which varies by jurisdiction. The buffer is being phased in and, when fully phased-in, is expected to range between 0% and 2.5% depending on macroeconomic factors. In Portugal, at its most recent revision, pursuant to the decision of the Bank of Portugal of 26 March 2019, the countercyclical buffer rate remains at 0% of the total risk exposure amount, with effect from 1 April 2019;
- A "systemic risk buffer" of at least 1% set at the discretion of national authorities of EU Member States to be applied to institutions at consolidated or individual level, or even at the level of exposures in certain countries at which a banking group operates. Currently no systemic risk buffer has been set by the Bank of Portugal;
- Additional buffers are applied to O-SIIs. For global systemically important institutions, the additional buffer ranges between 1% and 3.5%, whereas for O-SIIs it could reach 2%. The Bank of Portugal, through Regulatory Notice 4/2015 on 29 December 2015, imposed O-SII capital buffers which, in the case of the Company, will be 0.75%. On 29 July 2016, the Bank of Portugal specified that a two-year phase-in regime would apply for this buffer. In case of the Company, the applicable buffer for O-SIIs shall be 0.25% from 1 January 2019 until 31 December 2019, 0.375% from 1 January 2020 until 31 December 2020 and 0.5% from 1 January 2021 onwards;
- According to Council Regulation (EU) no. 1024/2013 of 15 October 2013 and based on the SREP conducted pursuant to Article 4(1)(f) of Regulation (EU) No 1024/2013 with reference date 31 December 2015, the ECB communicated to Novo Banco in 27 March 2017 that the Novo Banco Group should comply with an own funds requirement of 4% to be held in excess of the minimum own funds requirement, to be made up entirely of CET 1 capital. Novo Banco is currently waiting for the ECB to communicate an updated SREP requirement.

As at 30 March 2019, Novo Banco's CET1 ratio was 13.5% (phased in) and 12.7% (fully phased in) (12.8% (phased in) and 11.9% (fully implemented) as at 31 December 2018).

Local capital requirements

In addition, members of the Novo Banco Group, which are subject to local supervision in their respective countries of incorporation may, on an individual and on a consolidated basis, be required to comply with applicable local Regulatory Capital Requirements. It is therefore possible that individual entities within the Novo Banco Group or sub-groups require additional own funds, even though the own funds of the Novo Banco Group on a consolidated basis are sufficient.

Liquidity Requirements

With respect to liquidity requirements, CRD IV changed requirements related to liquidity, including the provision for near and medium/long-term liquidity and financing requirements referred to as the liquidity coverage requirement (the "**liquidity coverage requirement**") and net stable funding ratio ("**NSFR**").

The liquidity coverage requirement seeks to ensure that institutions maintain levels of liquidity buffers which are adequate to face possible imbalances between liquidity inflows and outflows under gravely stressed conditions, and does so by defining an amount of unencumbered, high quality liquid assets that must be held by a credit institution to offset estimated net cash outflows over a 30 day stress scenario. Under the CRD IV framework, the liquidity coverage requirement is being phased in gradually. In relation to the liquidity coverage requirement, the EBA:

- Defined assets as "extremely high" and of "high" quality;
- Put in place operational requirements for the holdings of liquid assets;
- Recommended that all types of bonds issued or guaranteed by Member States' central governments and central banks in local currency as well as those issued or guaranteed by supranational institutions should be considered transferrable extremely high quality assets;
- Stated that the credit quality standards and eligibility of covered bonds, bonds, RMBS and bonds issued by local government entities should be considered highly liquid and credit quality assets; and
- Recommended that common equity shares should be considered high quality liquid assets.

As at 31 December 2018, the Novo Banco Group had a liquidity coverage ratio (LCR) of 125% (124% as at 31 December 2017).

CRD IV also provides for the NSFR, the implementation of which was recommended for 2018, which requires that institutions maintain a stable funding profile in relation to the composition of their assets and off-balance-sheet activities over a one-year period. The EBA published on 17 December 2015 its report on the impact assessment and calibration of the NSFR, recommending the introduction of the NSFR in the EU to ensure stable funding structures. The EBA analysis did not find strong statistical evidence of significant negative impacts of the NSFR on bank lending, financial assets markets or trading book positions. The NSFR is expected to become a minimum standard, following the adoption of the Reforms on 14 May 2019 by the European Council. Moreover, the Bank of Portugal establishes minimum provisioning requirements regarding loans, non- performing loans, overdue loans, impairment for securities and equity holdings, sovereign risk and other contingencies.

In both cases, EU Member States may maintain or introduce national provisions until binding minimum standards are introduced by the European Commission or otherwise become fully effective, or as an addition to those standards, depending on the relevant legislative measures at EU level.

Leverage Ratios

With respect to leverage requirements, CRD IV also introduced a leverage ratio aimed at monitoring possible under-estimations of risk-weighted assets and avoiding excess leverage through a simple calculation. This ratio is calculated by dividing the total Tier 1 capital by the total exposure measure of all assets and off-balance sheet items not deducted when determining the Tier 1 capital, and shall be expressed as a percentage, as defined in CRD IV. Stricter requirements may be demanded only from G-SIIs.

Following the adoption of the Reforms on 14 May 2019 by the European Council, a minimum of 3% Tier 1 leverage ratio for all CRR firms in the EU should be endorsed. The Reforms have entered into force in the course of June, although most of the new rules will start applying in mid-2021.

Risk Weighted Assets

Risk-weighted assets ("**RWAs**") is a metric used to reflect components of risk in an asset, including credit, market and operational risk. RWAs are used to calculate key capital adequacy ratios, including CET1 ratio and Tier 1 Ratio. Under CRD IV, credit institutions in Portugal may calculate the risk weighting of their assets, insofar as credit risk is concerned, according to a standard-based approach or based on their own internal risk-management models, in the latter case subject to authorisation by the banking supervisor. However, in March 2016, the Basel Committee proposed standards to prohibit credit institutions from using internal risk management models to calculate credit risk with respect to, amongst others, large corporations; requiring, instead, the use of the standard-based approach.

Supervisory Review and Evaluation Process

In December 2014, the EBA published its final guidelines on the procedures and methodologies that will form its SREP assessments. The Issuer is subject to an annual SREP assessment by the SSM to determine the adequacy of its capital, to identify risks that are not covered by its own funds requirements and to identify the need for Pillar 2 capital requirements. The SREP assessments include capital assessment, business model analysis, assessment of internal governance and control, liquidity assessment and broader stress testing. The purpose of these SREP assessments is to evaluate whether institutions have adequate arrangements, strategies, processes and mechanisms as well as capital and liquidity to ensure a sound management and coverage of risks, to which they are or might be exposed, including those revealed by stress testing. Where the results of a SREP assessment identify areas of risks which are not adequately covered by the Pillar 1 capital requirements or the combined buffer requirement, competent authorities can determine the appropriate level of the institution's own funds requirement under CRD IV and assess whether additional own funds shall be required.

Own Funds and Large Exposures

Credit institutions are required by Portuguese law to maintain an adequate level of own funds, which shall be at least equal to the minimum share capital. The relevant criteria to determine the level of own funds are determined by the Bank of Portugal.

As per the CRD IV Regulation and the Bank of Portugal Notice ("*Aviso*") no. 10/2017, a credit institution shall not have exposure to a customer or group of connected customers exceeding 25% of its own funds. In terms of the exposure to the economic group on which a credit institution is incorporated, this limit is not applicable to the exposure assumed by an institution to entities included within the scope of the supervision of the Bank of Portugal on a consolidated basis and which all have their head offices located in Portugal. Under prior authorisation of the Bank of Portugal, this exemption may be extended to other entities that have the same characteristics as those described above but whose head office is located in a thirdcountry.

Similarly, the Bank of Portugal Notice ("*Aviso*") no. 10/2017, as amended, permits the exemption limit of 25% of a credit institution's own funds for exposures to certain assets, including assets constituting credits and other risks on central governments, central banks (as minimum reserve requirements expressed in the relevant central bank's currency) or the risks over well-established stock exchanges (whenever the risks in question have a duration which is no longer than the following business day), among other exemptions.

Minimum Reserve Requirements

Credit institutions are required to maintain mandatory deposits with national central banks in order to comply with minimum reserve requirements. According to the ECB Regulation (EC) no. 1358/2011, of 14 December 2011 (ECB/2003/9) that changes the ECB Regulation (EC) no. 1745/2003, of 12 September 2003 (ECB/2003/9), minimum cash requirements kept as deposits with the Bank of Portugal earn interest and correspond to 1% of deposits and issued debt certificates with a maturity of less than two years, excluding responsibilities towards the ECB, national central banks and other institutions subject to minimum cash reserves requirements as further set out in Regulation (EU) 2016/1705 of the European Central Bank of 9 September 2016.

The failure of a bank to maintain adequate liquidity may result in (i) an increase in the cash amount required (of up to three times the original amount) or (ii) payment of interest over the amount of deposits not made up to double the rediscount rate or up to five percentage points over the market rate.

Deposit Guarantee Fund

The Deposit Guarantee Fund was established in 1992 and started operating in December 1994 and has administrative and financial autonomy. Credit institutions with head offices in Portugal that accept deposits must participate in this fund. The financial resources of the Deposit Guarantee Fund are mainly composed of initial contributions from the Bank of Portugal and participating credit institutions and, thereafter, periodic contributions from the participating credit institutions.

On 16 April 2014, the European Parliament and the Council adopted Directive 2014/49/EU providing for the establishment of deposit guarantee schemes and the harmonisation of such deposit guarantee systems throughout the EU (the "**recast DGSD**"), which was implemented into Portugal through Law no. 23-A/2015, of 26 March, that amended the RGICSF.

The annual contributions to the Deposit Guarantee Fund are calculated according to the monthly average of the deposits balance accepted in the previous year. An annual contributions rate is determined annually by the Bank of Portugal. The rate plus a multiplicative factor is determined in accordance with the solvency situation of each institution (the higher an institution's average solvency ratio, the lower its contribution). The factor is defined in Notice 11/94 of the Bank of Portugal, as amended. The basic contribution rateset for 2019 is 0.0003%.

The Bank of Portugal may determine that the payment of up to 75% of the annual contributions may be partly replaced by an irrevocable undertaking to make full or partial payment upon request from the fund at any moment, guaranteed where necessary by securities having a low credit risk and high liquidity. The Bank of Portugal determined that this limit would be 10% for the 2011 annual contribution. On 15 October 2013, the Bank of Portugal issued Instruction 23/2013 which established the annual contribution rate (0.03% for all territory) and the minimum contribution amount (€17,500) for 2014, and it also issued Instruction 24/2013, which established that in 2014 the participating credit institutions could not replace their annual contributions by irrevocable undertakings. In January 2015, Bank of Portugal issued Instruction 32/2014 which established the annual contribution rate (0.005% for all territory) and the minimum contribution (€4,000) for 2015, and also Instruction 32/2014, which established that in 2015 the participating credit institutions could not replace their annual contributions by irrevocable undertakings. In January 2016, Bank of Portugal issued Instruction 21/2015 which established the annual contribution rate (0.0001% for all territory) and the minimum contribution (€80) for 2015, and also established that in 2016 the participating credit institutions could not replace their annual contributions by irrevocable undertakings. The Bank of Portugal issued Instruction no. 21/2017 which established the annual contribution rate (0.0003% for all territory) and the minimum contribution (€235.00) for 2018, and it also established that in 2018 the participating credit institutions cannot replace their annual contributions by irrevocable undertakings. On 19 December 2018, the Bank of Portugal issued Instruction no. 30/2018 which established the annual contribution rate (0.0003%) and the minimum contribution (€235.00) for 2019, and it also established that in 2019 the participating credit institutions cannot replace their annual contributions by irrevocable undertakings.

Without prejudice to the foregoing, account may in the future need to be taken of EBA's guidelines on methods for calculating contributions to deposit guarantee schemes (EBA/GL/2015/10), dated 22 September 2015 and last amended on 13 June 2016.

When a credit institution is unable to comply with its commitments, the Deposit Guarantee Fund guarantees the repayment to depositors of up to €100,000 per depositor, subject to certain statutory exceptions, as mentioned below. The deposits made on Portuguese territory are guaranteed regardless of the currency in which they are denominated, and whether the depositor is resident or non-resident in Portugal. However, some deposits are excluded from the deposit guarantee scheme, such as those made by credit institutions, financial companies, insurance companies, investment funds, pension funds, pension fund management companies, and central or local administration bodies, among others, in their own name and for their own account, with exception of those made by (i) pension funds whose associates are small and medium enterprises and (ii) local authorities with an annual budget equal to or less than €500,000.

Also excluded from the guarantee scheme are certain deposits relating to anti-money laundering criminal convictions or where its holder has not been properly identified in accordance with the anti-money laundering and prevention of terrorism law. Finally, deposits of persons and entities that, in the two years before the date on which deposits become unavailable, or a resolution has been adopted, held, directly or indirectly, 2% or more of the share capital of the credit institution or have been members of its corporate bodies are also excluded, unless it is clearly established that they did not cause the financial difficulties of the credit institution, through act or omission, and did not contribute through act or omission to the worsening of the situation.

Borrowing from the Bank of Portugal

The Bank of Portugal has followed a policy of intervening as a lender of last resort in cases of liquidity shortfalls in the banking system. The basic method of lending used takes the form of advances and overdrafts against collateral. For this purpose, the Bank of Portugal discloses a list of securities eligible as collateral. The rediscount rate is now by the ECB.

International Capital Flows

The Portuguese authorities have established a programme of liberalisation of international capital flows in furtherance of the country's integration into the single market of the EU.

Investment in Non-Financial Companies

The Legal Framework of Credit Institutions and Financial Companies (article 101) also provides that no credit institution may directly or indirectly own more than 25% of voting rights in any single non-financial company for a period longer than three years (five years for shareholdings held through venture capital companies and holding companies). These limitations are not applicable to holdings in other credit institutions, financial companies and ancillary services companies.

Conduct Supervision

The Bank of Portugal has supervisory powers relating to the conduct of credit institutions. These powers are supported by supervision, decision-making and sanction powers relating to the rules on the conduct of business, customer relationships, professional secrecy, conflicts of interest and competition, to which credit institutions are subject. The conduct supervision rules on customer relationships consist of information obligations, rules relating to the management of customer complaints, a requirement to adopt a code of conduct and rules relating to the publicity of credit institutions.

Granting Credit to Members of the Corporate Bodies

In general, credit institutions are not authorised to grant credit in any way, including the granting of guarantees, to members of their board of directors or board of auditors or people and entities related to them, or to companies or other legal entities directly or indirectly controlled by them.

This limitation does not apply to (i) operations with a social nature or purpose or those deriving from personnel policy; (ii) credit granted as a result of the use of credit cards associated with deposit accounts, in conditions similar to the ones applicable to other customers with a similar profile and risk; (iii) the credit granting operations of certain entities within the supervisory ambit of the relevant credit institution.

The members of the board of directors or supervisory body of a credit institution cannot participate in the analysis and decision-making process relating to operations where they may have a conflict of interest.

__Breach of Rules under the Bank of Portugal's Supervision__

Breaches of rules under the Bank of Portugal's supervision constitute misdemeanours and may result in the Bank of Portugal imposing fines of up to approximately €5 million. In certain cases, the maximum amount of the fine applicable is increased to 10% of the total net annual turnover for the financial year preceding the date of the decision, including gross income consisting of interest and similar income, income from shares and other variable or fixed income securities and commissions. If the double of the economic benefit obtained by the offender is determinable and exceeds the maximum limit of the applicable fine, such fine is raised to that value. Ancillary sanctions may also be imposed, such as, among others, disgorgement of the proceeds obtained through the offence, public censure, prohibition against exercising management functions in credit institutions and the suspension of voting rights of the shareholders of credit institutions.

__Other Controls__

The Bank of Portugal imposes a number of other controls covering various aspects of a bank's business. It administers these controls through reporting requirements and ongoing supervision, including periodic examinations of the operations and asset portfolios of individual banks and consolidated banking groups.

CMVM Supervision

The regulation and supervision of the securities markets and financial intermediation activities in Portugal are carried out by the central government, acting through the Ministry of Finance and the CMVM.

The CMVM is the regulatory entity in charge of the supervision and regulation of the securities markets and financial intermediation services. This includes the supervision of a wide range of activities and entities that fall under the scope of a number of EU Directives and Regulations, including Directive 2014/65/EU of 15 May 2014 (MiFID II) and Regulation (EU) No. 600/2014 of 15 May 2014 (MiFIR) and supplementary acts.

The CMVM is an autonomous administrative entity overseen by the Ministry of Finance, and by law and regulations not subject to direct intervention by the Ministry of Finance. Its Directors are appointed by the Minister of Finance for a 6-year, non-renewable term. In particular, the responsibilities of the CMVM include the supervision of certain conduct of business rules relating to financial intermediation activities and markets in financial instruments and the prudential supervision of certain entities.

For this purpose, the CMVM may issue regulations on matters within the scope of its powers of supervision, including the conduct of business rules for providers of investment services, the recognition of markets for financial instruments and the establishment of rules for the operation of such markets as well as rules on public offers and prospectus requirements. The CMVM has also the responsibility to evaluate claims presented by investors, regarding the misconduct of financial intermediaries, and may determine compensations to an investor or group of investors.

The CMVM may, within the course of its supervision activities, carry out inspections, issue information requests, conduct hearings, require the collaboration of other persons or entities, including police authorities, disclose information, including in substitution of supervised entities, conduct investigations and organise a registration system, carry out enforcement actions and impose administrative sanctions.

The Bank is subject to the CMVM's supervision both as a financial intermediary and an issuer of securities admitted to trading on a regulated market.

The Ministry of Finance may establish policies relating to markets in financial instruments, investor protection, financial intermediation activities and generally any matters regulated by the

Portuguese Securities Code. The Ministry of Finance also oversees the CMVM and coordinates the supervision and regulation relating to financial instruments when powers have been delegated to more than one public entity. When a disturbance in the markets in financial instruments puts the national economy at serious risk, the Ministry of Finance may, by means of a joint Ministerial Order by the Prime Minister and the Minister of Finance, impose necessary measures. These may include the temporary suspension of: (i) the regulated markets and certain categories of transactions or activities of their management entities; (ii) multilateral trading facilities; (iii) settlement systems; (iv) clearing houses or central counterparties; and (v) central securities depositaries.

Supervisory Rules Applicable to the Issuer as a Financial Intermediary

The Issuer and some of its Portuguese subsidiaries are authorised as financial intermediaries. They are subject to the supervision by the CMVM in relation to their performance of financial intermediation and asset management activities.

The conduct of business rules applicable to financial intermediaries are laid out in the Portuguese Securities Code, CMVM regulations and legislation applicable to specific financial intermediation activities.

Conduct of Business Rules

For the provision of regulated activities, financial intermediaries such as the Issuer must comply with conduct of business rules set out in the Legal Framework of Credit Institutions and Financial Companies and the Portuguese Securities Code, as well as those which may be established by CMVM regulation or special legislation.

As a general principle, financial intermediaries must conduct their activity in a manner which protects the legal interests of their customers and the efficiency of the market. In their dealings with other market parties, financial intermediaries must observe the dictates of good faith, in accordance with high standards of diligence, loyalty and transparency.

The main conduct of business rules applicable to financial intermediaries carrying out financial intermediation activities relate to: (i) "know your customer" obligations and suitability requirements; (ii) the financial intermediaries' human, material and technical resources; (iii) complaint procedures; (iv) segregation of customers' assets; (v) recordkeeping and reporting; (vi) conflicts of interest policy; (vii) information duties and (viii) product governance.

CMVM's Powers

As stated above, the CMVM supervises the activities and participants in the financial markets in Portugal. The CMVM has the power to issue binding regulations, take appropriate enforcement measures in respect of these regulations and the Portuguese Securities Code, and to sanction such breaches.

In the exercise of its powers, the CMVM has the right, without limitation, to request non-public information, including information otherwise subject to professional confidentiality obligations, hold hearings, undertake investigations and summon people to cooperate with such investigations, and to provide information to the market on behalf of the supervised entities.

The CMVM also operates an information disclosure system which can be used by parties subject to disclosure rules as a cheap and efficient means of complying with information rules.

Breach of Rules under the CMVM's Supervision

A breach of the rules laid out in the Portuguese Securities Code may constitute a crime or misdemeanour.

Crimes

Market manipulation and the abuse of privileged information are punishable with prison sentences of up to eight and five years, respectively, and with ancillary administrative sanctions that include the prohibition against exercising any intermediation activity, prohibition against participating in the management of a publicly traded company or financial intermediary, the publication of the crime and the disgorgement of any proceeds of the illegal activity.

Misdemeanours

Different levels of misdemeanour are punishable by different penalties. Very serious misdemeanours, such as the disclosure of untrue or misleading information to the market or undertaking an offer without the disclosure of an approved prospectus, are punishable by a fine of up to €5.0 million or 10% of the turnover according to the latest consolidated or individual accounts approved by the relevant management body (whichever is higher). Serious misdemeanours, such as the failure to disclose publicly traded companies' shareholder agreements or the breach of the obligation to launch a mandatory public offer, are punishable by fines of up to €2.5 million, and less serious misdemeanours are punishable by fines of up to €500,000.

Portuguese Insurance and Pension Funds Supervisory Authority

Novo Banco is also subject to the supervision of the *Autoridade de Supervisão de Seguros e Fundos de Pensões* ("**ASF**", the Portuguese Insurance and Pension Funds Supervisory Authority) insofar as it is registered as an insurance agent, for both Life and Non-Life segments. Novo Banco dos Açores, S.A. is also subject to ASF's supervision as it is registered as an insurance agent, for both Life and Non-Life segments. ASF is also the supervisory authority of Novo Banco's subsidiary GNB Vida[4], a life insurance company, which sale process is still pending.

ASF is the national authority responsible for the regulation and supervision of insurance, reinsurance, pension funds and their management companies and also insurance mediation activity, both from a prudential and a market conduct perspective.

Supervision of Insurance and Reinsurance Activity

Law no. 147/2015, of 9 September 2015, as amended, approved the current Legal Framework for Access and Development of the Insurance and Reinsurance Activity, which came into force in 1 January 2016 and implemented Directive 2009/138/EC of the European Parliament and of the Council, of 25 November 2009 (Solvency II Directive) (the "**Insurance Legal Framework**").

The Insurance Legal Framework contains, *inter alia*, the main rules applying to:

- The authorisation process for the incorporation of insurance and reinsurance undertakings;
- Capital and solvency requirements which such undertakings are subject to;
- Governance structure and risk assessment;
- Disclosure of information;
- Market conduct;
- Development of cross border activities (through the incorporation of a branch or on free provision of services basis);
- Group supervision;
- Recovery and liquidation measures and procedures;

[4] GNB Seguros, the non-life insurance company held in 25% by Novo Banco, is also subject to ASF's supervision.

- Insurance related misdemeanours and criminal infractions.

Financial and Solvency Requirements of Insurance Undertakings

According to the Insurance Legal Framework, insurance and reinsurance undertakings shall, among other obligations set forth therein:

- establish and calculate technical provisions corresponding to the liabilities arising from insurance contracts and operations of such undertakings in accordance with certain actuarial and statistical methodologies and rules;
- comply with specific rules for the valuation of assets and liabilities;
- ensure the availability of eligible own funds to cover the following risk-sensitive requirements: (i) the Solvency Capital Requirement ("**SCR**"), which reflects a level of eligible own funds that enables insurance and reinsurance undertakings to absorb significant losses and that gives reasonable assurance to policyholders and beneficiaries that payments will be made as they fall due based on a prospective calculation and ensures an accurate and timely intervention by supervisory authorities; and (ii) the Minimum Capital Requirement ("**MCR**"), i.e., the minimum level of security below which the amount of financial resources should not fall.
- adopt the prudent management principle with regard to their investments.

GNB Vida is the only entity of the Novo Banco Group subject to such requirements.

Insurance Distribution

The Directive on Insurance Distribution ((EU) 2016/97) (commonly known as the Insurance Distribution Directive or IDD), which revokes and replace the Directive 2002/92/EC, was designed to improve EU regulation in the insurance market. The IDD came into force on 22 February 2016 and was transposed into the Portuguese jurisdiction by Law no. 7/2019, of 16 January ("**Insurance Distribution Law**").

The objective of the IDD and of its implantation legislation is to ensure a level playing field among all participants involved in the sale of insurance products, to make it easier for firms to trade cross-border, and to strengthen policyholder protection. The Insurance Distribution Law, as the IDD itself, is based on the principle that the consumers should benefit from the same level of protection regardless of the differences between distribution channels. To guarantee that the same level of protection applies, and that the consumer can benefit from comparable standards, in particular in the area of disclosure of information, a level playing field between distributors is deemed to be essential.

The Insurance Distribution Law, among other modifications, revokes and replaces the legal regime set out in Decree-Law no. 144/2006, of 31 July, establishing a new insurance and reinsurance distribution legal regime.

Anti-money Laundering

The Novo Banco Group is subject to extensive regulation on anti-money laundering and terrorism financing due to the performance of the Novo Banco Group entities' activities as a credit institution, financial intermediary and insurance company, broker and relating to asset management. Compliance with anti-money laundering and anti-terrorist financing rules entails significant cost and effort. Non-compliance with these rules may have serious consequences, including adverse legal and reputational consequences.

Under Law 83/2017, of 18 August 2017, which implemented Directives 2015/849/EC of 20 May 2015 and 2016/2258/EC of 6 December 2016 in Portugal ("**Law 83/2017**"), focus has been placed on the prevention of the use of the financial system and specially designated activities and professions for the purposes of money laundering and terrorist financing. Law 83/2017 comprises the following compliance duties: (i) duty of identification of the customer and of its representative; (ii) a general obligation of due diligence, according to which entities subject to it are required to take adequate measures to understand the ownership and control structure of the client ("know your customer"), obtain information about the purpose and nature of its business, as well as the source and destination of funds moved in the context of that business; (iii) duty to refuse to execute any operation, or begin any business relation or any specific transaction whenever the client information duty has not been fully complied with; (iv) duty to keep records of the documentation and information provided; (v) duty to examine with special caution and care any conduct, activity or operation which, according to the professional experience of the financial institution, bear elements that are liable to raise suspicion on its relation with a money-laundering operation; (vi) entities subject to Law 83/2017 shall refrain from executing any operation whenever they are aware or suspect it is related with money-laundering; (vii) cooperation duty, under which entities subject to Law 83/2017 are required to cooperate with the General Attorney of the Portuguese State (*Procurador Geral da República*) and the Financial Information Unit (*Unidade de Informação Financeira*), as so requested; (viii) duty of professional secrecy, which determines that the fact that information requested by the competent authorities has been so given is not disclosed to the client; (ix) control duty, which requires that such entities shall implement adequate internal procedures so as to ensure compliance with anti-money duties; and (x) duty to provide adequate anti-money laundering training to its employees and managers.

In addition to the aforementioned duties, according to the applicable reporting obligations, entities subject to Law 83/2017 have a reporting duty, under which the General Attorney of the Portuguese State and the Financial Information Unit shall be promptly informed, on their own initiative, when an operation likely to constitute a money laundering or terrorism financing offense that is being or has been committed or attempted comes to its knowledge or raises a suspicion. Moreover, a special reporting duty is applicable to transactions which present a special risk of money laundering or terrorist financing when they are related to a specific country or jurisdiction subject to additional counter-measures decided by the Council of the European Union. In such cases, the competent supervisory authorities may determine the obligation of immediately reporting those transactions to the General Attorney of the Portuguese State and the Financial Information Unit, when they amount to €5,000 or more.

Applicable measures and sanctions for breach of rules on anti-money laundering prevention include the application of fines ranging between €50,000 and €5,000,000 and, in the case of credit institutions, of up to 10% of the total annual turnover (according to the latest accounts approved by the management body) if such amount is higher than €5.0 million and, always depending on the seriousness of the infraction and the degree of fault involved, ancillary penalties, including the interdiction from exercising the activity in question for a period of up to three years, prohibition from holding management, direction, leadership or supervisory roles in the entities subject to Law 83/2017, and the publication of the penalty.

Notice 2/2018 of the Bank of Portugal establishes the conditions of exercise, procedures, instruments, mechanisms, enforcement formalities, reporting obligations and other aspects necessary to ensure compliance with the anti-money laundering and terrorist financing.

Regulation 10/2005-R ("**Regulation 10/2005-R**") of ASF lays down anti-money laundering rules applicable to insurance intermediaries carrying out activity in the life insurance branch. Consequently, companies within group´s providing services within the life insurance branch shall comply with the comprehensive set of compliance requirements established by Regulation 10/2005-R.

The CMVM is currently preparing a specific regulation on anti-money laundering and terrorist financing with specific rules applicable to entities subject to its supervision. On 1 February 2019, the draft regulation was published for the purposes of receiving input from the public.

Overall, the fact that a very significant portion of the Portuguese legal framework on anti-money laundering is a result of the implementation of EU legal frameworks, mitigates regulatory differences across various EU Member States where Group operates or may operate in the future. However, more significant differences may apply, entailing the applicable compliance costs, in respect of non-EU jurisdictions.

Additionally, Law no. 89/2017 approved in Portugal the legal framework of the Central Register of Beneficial Ownership, implementing the Chapter III of EU Directive 2015/849, which consists of a database managed by the Institute for Registrations and Notaries with updated information on the natural person(s) who, directly or indirectly, own or control entities subject to registration.

Data protection and privacy

The processing of personal data by Novo Banco and the Novo Banco Group is subject to: (i) the General Data Protection Regulation ("**GDPR**"), approved by Regulation (EU) 2016/679 of 27 April 2016; (ii) Law no. 67/98, of 26 October 1998, as long as it is in force and in everything that it does not conflict with the GDPR; (iii) any law approved for the adaptation of specific rules of the GDPR to the Portuguese jurisdiction; (iv) Directive 2002/58/EC, of 12 July 2002, on privacy and electronic communications; and (v) Law no. 41/2004, of 18 August 2004.

The Portuguese authorities will have to approve legislation to adapt the Portuguese legal order to the GDPR. That legislation has not yet been adopted.

Failure to comply or inadequate compliance with data protection and privacy obligations may result in several types of liabilities, ranging from tort liability in relation to the data subject, to significant administrative fines.

Evolution of the Regulatory Environment

As part of the EU's internal market programme, the EC and the European Council have proposed and adopted a number of regulations, directives and recommendations relating to the provision of banking and financial services. These include existing and proposed legislation concerning capital movements, depositors' guarantees, payment systems, collective investment companies, investment firms, public disclosure of acquisitions and dispositions of holdings in listed companies, prospectuses for the public issuance of securities, shareholders' rights, consumer credit, insider trading, mortgage credit, insurance, publication of annual accounting documents and taxation. Such legislation promotes greater competition in the provision of financial services, including areas in which the Issuer operates, such as securities brokerage, dealing and underwriting, and the provision of investment advice.

MiFID II

Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments, as amended ("**MiFID II**"), which came into force on 3 January 2018, provides for the regulation of EU securities and derivatives markets. MiFID II is comprised of (i) a substantially revised Markets in Financial Instruments Directive (2014/65/EU); (ii) the Markets in Financial Instruments Regulation ((EU) No 600/2014); and (iii) secondary legislation in the form of Delegated Acts made thereunder. The implementation of MiFID II in Portugal was concluded with the enactment of Law no. 35/2018 of 20 July, amending the rules on the marketing of financial products and on the organization of financial intermediaries.

MiFID II sets out detailed and specific requirements in relation to organisational and conduct of business matters for investment firms and securities and derivatives trading venues. In particular, MiFID II makes specific provision in relation to, among other things, organisational requirements, outsourcing, customer classification, conflicts of interest, best execution, client order handling, suitability and appropriateness, product governance, telephone taping, investment research and financial analysis, pre- and post-trade transparency obligations, transaction reporting, commodity derivative position limits and reporting, and the ability of MiFID investment firms authorised in one EU Member State to use 'passports' to conduct MiFID investment services in other EU Member States.

MiFID II is more wide ranging than the previous MiFID regime (under the EU Markets in Financial Instruments Directive (2004/39/EC)) and has direct impact on MiFID investment firms and indirect impact on non-MiFID financial services firms who deal in EU securities and derivatives markets.

PRIIPs Regulation

Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") relates to consumer protection and aims to establish a common standard for key information documents for packaged retail and insurance-based investment products (PRIIPs) and became applicable in EU member states on 1 January 2018. The EU Commission adopted amended regulatory technical standards (RTS) on key information documents (KIDs) during the first half of 2017 and like the regulation itself, the delegated regulation has applied since 1 January 2018.

Payment Services

On 12 November 2018, Portugal implemented EU Directive 2015/2366 (the Directive on Payment Services ("**PSD**")) through Decree-Law no. 91/2018. PSD creates new types of payment services and enhances customer protection and security. Banks are required to provide free access to customer data and account information to be licensed third-party businesses, in cases where the customer has given explicit consent. Decree-Law no. 91/2018 further details the access to the activity of payment institution and the provision of payment services, as well as access to the activity of digital currency institutions and the provision of digital currency-issuing services.

STS regulation

EU Regulation 2017/2402, which establishes a general securitization framework entered into force on 17 January 2018 and is applicable to securitization products from 1 January 2019 onwards. In Portugal, the draft law amending the current Portuguese securitization law is currently under discussion, having been subject to a public consultation which ended on 14 December 2018.

Benchmark regulation

Regulation (EU) no. 2016/1011 ("**Benchmarks Regulation**") was published in the Official Journal of the European Union on 29 June 2016 and has applied, subject to certain transitional provisions, from 1 January 2018. The Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the European Union. It, among other things, (i) requires benchmark administrators to be authorised or registered (or, if non-European based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevents certain uses by European Union supervised entities of "benchmarks" of administrators that are not authorised or registered (or, if non-European Union based, not deemed equivalent or recognised or endorsed).

Interest rates and indices which are deemed to be "benchmarks" (such as LIBOR or EURIBOR) are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such "benchmarks" to perform differently than in the past, to disappear entirely or to have other consequences which cannot be predicted.

FINANCIAL STATEMENTS OF NOVO BANCO, SA

NOVO BANCO, S.A.

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2018 AND AS AT 31 DECEMBER 2018

thousand€

	31.12.2018	31.12.2017 *
ASSETS		
Cash and deposits with central banks	701 883	3 788 027
Deposits with other banks	275 789	380 601
Securities held for trading	257 270	367
Derivatives held for trading	516 336	577 153
Loans and advances to banks	423 058	581 901
Loans and advances to customers	24 754 445	25 790 943
Securities portfolio	10 617 312	8 478 428
Derivatives held for risk management purposes	71 404	170 588
Non-current assets held for sale	1 888	5 448
Non-current assets held for sale - discontinued operations	4 090 358	5 130 956
Investment properties	1 098 071	1 144 432
Other tangible assets	142 494	157 497
Intangible assets	5 425	8 682
Investments in associated companies	118 698	146 251
Current tax assets	6 689	6 014
Deferred tax assets	1 196 525	1 964 017
Other assets	3 996 257	3 723 544
TOTAL ASSETS	**48 273 902**	**52 054 849**
LIABILITIES		
Deposits from central banks	6 410 461	6 410 123
Financial liabilities held for trading	492 953	559 765
Deposits from other banks	1 945 099	2 015 044
Due to customers	28 695 268	30 314 005
Debt securities issued	689 252	1 216 780
Financial liabilities related to transferred assets	44 450	-
Derivatives held for risk management purposes	36 150	76 212
Non-current liabilities held for sale	-	3 277
Non-current liabilities held for sale - discontinued operations	4 438 001	5 525 962
Provisions	425 935	416 670
Current tax liabilities	12 050	13 887
Deferred tax liabilities	6 403	6 193
Subordinated debt	414 903	-
Other liabilities	740 616	775 663
TOTAL LIABILITIES	**44 351 541**	**47 333 581**
CAPITAL		
Share Capital	5 900 000	5 900 000
Other reserves and retained earnings	(600 343)	1 040 105
Net Income for the period attributable to the shareholders of the Bank	(1 412 642)	(2 298 049)
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK	3 887 015	4 642 056
Non-controlling interests	35 346	79 212
TOTAL EQUITY	**3 922 361**	**4 721 268**
TOTAL LIABILITIES AND EQUITY	**48 273 902**	**52 054 849**

* Data as at 31 December 2017 was restated to reflect in Other reserves and retained earnings the triggering of the Contingent Capital Agreement and the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017

The Certified Accountant

The Executive Board of Directors

NOVO BANCO, S.A.

CONSOLIDATED INCOME STATEMENT AS AT 31 DECEMBER 2018 AND 2017

thousand €

	31.12.2018	31.12.2017 *
Interest and similar income	758 691	888 313
Interst expense and similar charges	304 349	484 649
Net Interest Income	**454 342**	**403 664**
Dividend Income	8 974	6 156
Fee and Commission income	366 068	387 245
Fee and Commission expense	59 734	71 792
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	(68 675)	(56 571)
Net gains / (losses) from assets at fair value through profit or loss mandatory	(32 877)	-
Net gains / (losses) from financial assets at fair value through other comprehensive income	34 472	57 245
Net gains / (losses) from foreign exchange revaluation	42 503	26 387
Net gains / (losses) from the sale of other assets	(176 004)	(39 284)
Other operating income and expenses	(78 951)	(50 942)
Operating Revenues	**490 118**	**662 108**
Staff Costs	266 138	275 740
General and Administrative Costs	198 989	215 409
Depreciation and amortisation	22 149	58 057
Provisions, net of reversals	238 870	190 931
Impairment losses on loans, net of reversals	263 500	1 229 205
Impairment losses on other financial assets, net of reversals	6 479	134 787
Impairment losses on other assets, net of reversals	201 106	501 984
Operating Costs	**1 197 231**	**2 606 113**
Sale of subsidiaries and associates	1 026	3 931
Results from associated companies consolidated by the equity method	5 626	8 377
Income before taxes and non-controlling interests	**(700 461)**	**(1 931 697)**
Corporate income tax		
Current taxes	8 790	14 373
Deferred taxes	658 917	430 773
	667 707	445 146
Income from continuing activities	**(1 368 168)**	**(2 376 843)**
Income from discontinued operations	(39 819)	74 779
Net Income for the period	**(1 407 987)**	**(2 302 064)**
Attributable to shareholders of the Bank	**(1 412 642)**	**(2 298 049)**
Attributable to Non-controlling interests	4 655	(4 015)
	(1 407 987)	(2 302 064)

* Data as at 31 December 2017 was restated to reflect in Other reserves and retained earnings the triggering of the Contingent Capital Agreement and the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017

The Certified Accountant

The Executive Board of Directors

RECENT DEVELOPMENTS

On 31 January 2019 and 28 February 2019, the branches of Novo Banco in London and in Venezuela, respectively, were closed.

On 4 February 2019, Novo Banco informed on a change in the Board of the General Meeting following the resignations of Nuno Azevedo Neves as Chairman, and João Costa Quinta as Vice-Chairman, and Ana Isabel Vieira as Secretary of the Board of the General Meeting, and the decision on the General Meeting to appoint Rui Manuel Pinto Duarte as Chairman, Miguel João Valente da Costa Madeira, as Vice-Chairman and Pedro Moreira de Almeida Queiroz de Barros as Secretary of the Board of the General Meeting (also Company Secretary).

On 4 March 2019, Novo Banco informed that Mark Bourke had started, on that same day, as member of the Executive Board of Directors of Novo Banco as Chief Financial Officer for the current term of office.

On 28 March 2019, Novo Banco informed that, on that same day, the rating agency DBRS Rating GmbH had upgraded Novo Banco Long-Term Issuer Deposits rating to B (high) from B.

On 17 April 2019, Novo Banco informed that, on that same day, the rating agency DBRS Rating GmbH had taken several rating actions on Novo Banco:

- Upgraded the Long-Term Issuer rating to B (high) from B;
- Upgraded the Long-Term Senior Debt rating to B (high) from B;
- Upgraded the Long-Term Deposits rating to BB (low) from B (high);
- Upgraded the Intrinsic Assessment (IA) to B (high) from B;
- Upgraded the Long-Term Critical Obligations Ratings (COR) to BB (high) from BB;
- Upgraded the Short-Term COR to R-3 from R-4;
- Upgraded the Subordinated Debt rating to B (low) from CCC (high).

The upgrade of the Long-Term Issuer rating to B (high) takes into consideration the improvement in the Novo Banco's risk profile, particularly in terms of the reduction in Non-Performing Loans (NPLs), the divestment of non-core assets and the further rationalization of the organizational structure. DBRS Rating GmbH also made reference to notable achievements in 2018 included large sales of NPLs and real estate assets.

On 17 May 2019, Novo Banco informed about the Novo Banco Group Activity and announced unaudited Results in 1st quarter 2019, which is incorporated by reference herein.

Novo Banco discloses, for the first time, separately the financial results of Novo Banco Recurrent, which consists of sustainable, profitable core banking activity, and Novo Banco Legacy, which includes customer loans - not only those included in the Contingent Capital Agreement, approximately 92% of the total legacy loan book, but also other loans -, securities, a (non-yielding) real estate portfolio, and discontinued operations, considered in the majority as non-strategic in the commitments assumed to DG COMP after the resolution.

Novo Banco believes that this exercise of segmentation of activities between Novo Banco Recurrent and Novo Banco Legacy results will help customers and other stakeholders assess the progress of the Bank's ongoing restructuring.

Performance of Novo Banco Recurrent

- Novo Banco Recurrent reported a positive income before taxes of 85.4 million euro, which highlights a recovery achieved from the figure reported for the whole of 2018 (2.2 million euro), as a result of the continued focus in the domestic and Iberian business and in new commercial initiatives, backed by the growth and higher profitability of its assets as well as in the diversification of funding sources.

- Commercial Banking Income increased by 14.1% backed by the evolution of net interest income, which increased by 33.4%, due to the optimisation measures concluded in 2018, namely those related with the reduction of cost of funding.

Activity of Novo Banco Recurrent

- The commercial dynamism was reflected in the 0.6% increase in customer loans in Novo Banco Recurrent, reflecting the continued support to the domestic companies, across all economic sectors and to all companies with a special focus on SMEs.
- In what regards funding, it should be highlighted the increase in off-balance sheet funds, which grew by 7.6% comparing to December 2018, leading to the diversification of the funding structure.
- The larger involvement of the Bank with the convenience and simplification, as exemplified by the new model for account opening through the digital mobile key, an innovation in Portugal.

Activity of Novo Banco Legacy

- Maintenance of the divestment strategy, with non-performing loans (including deposits with banks and loans and advances to banks) decreasing by 308 million euro comparing with the end of 2018. Three operations of sale of non-performing assets are underway, namely project NATA II (sale of NPLs), project Sertórius (real estate) and project Albatroz in Spain (NPLs and real estate).
- Income before taxes of Novo Banco Legacy, impacted by the provisions for restructuring, and for the project of sale of non-performing assets in Spain (project Albatroz), was negative in 142.0 million euro.
- Novo Banco Legacy total assets reduced by 0.3% as a consequence of the divestment of assets with higher risk (loans to customers, securities and real estate), while GNB Vida remained classified as assets for sale.

Combined Activity: Novo Banco Consolidated

- Liquidity at comfortable levels, with loan to deposit ratio of 90% and capital markets access re-established.
- DBRS Rating GmbH considered that there was an improvement in Novo Banco's risk profile, and in 2019, it upgraded the long term ratings of the Bank, from which it should be highlighted the upgrade of the long term deposits rating to BB (low) from B at the end of 2018. DBRS Rating GmbH maintains a positive trend for all the long term ratings and for the subordinated debt of Novo Banco.
- In combined terms, Novo Banco posted a loss of 93.1 million euro in the 1st quarter 2019, in line with the Strategic Plan and the Commitments made to the European Authorities.

THE PORTUGUESE MORTGAGE MARKET AND THE SERVICING OF THE COVER POOL

THE PORTUGUESE MORTGAGE MARKET

According to data from April 2019, the Portuguese residential mortgage market is valued at around EUR 92.8 billion, or around 46% of GDP (sources: Bank of Portugal and INE). This compares with EUR 93.2 billion in December 2017 (49.5% of GDP) and with a historical high of EUR 114.5 billion (64% of GDP) in March 2011. On a year-on-year basis, the stock of mortgage loans has been declining since November 2011, reflecting the contraction in economic activity observed between 2011 and 2013 and the deleveraging of households that started in 2012 and that is still proceeding.

The behaviour of Portugal's housing market over the last two decades followed closely the economic cycle. House prices have therefore been supported by fundamentals. In the 2nd half of the 1990s, Portugal benefited from very favourable macroeconomic conditions. As part of the process of convergence towards the European and Monetary Union, interest rates declined very rapidly, from slightly above 20% to around 5%. This led to a strong increase in housing demand – and in demand for mortgage loans – as part of an effort, on the part of households, to improve the respective standards of living. Relatively low unemployment, strong confidence levels and high GDP growth rates (around 3.5%) were also supportive of housing demand in that period. Finally, the lack of a well-functioning rental market and a high propensity to home ownership (for cultural reasons, including low geographic mobility) has also contributed to a relatively high demand of mortgage loans. According to Eurostat, the home ownership ratio in Portugal is estimated at around 75% (data for 2016), above the EU and euro area averages of 70% and 67%, respectively.

The increase in demand for housing led to a rise in house price growth. However, annual average real house price growth in Portugal was moderate, particularly compared with other European economies. Between 1998 and 2011 (the year when the mortgage market peaked), the accumulated real house price growth in Portugal was only 3%, which compares with 96% in Spain, 53% in Ireland and 41% in the Euro Area. The moderate real house price growth in Portugal in this period can be explained, in part, by the fact that the strong increase in housing demand was accompanied by a strong increase in supply. Also, the increase in demand was mainly explained by the above mentioned goal of improving households' standards of living, and not so much to speculative investments. In this sense, house price growth in the boom years of the Portuguese housing market was relatively moderate and well supported by fundamentals.

The Portuguese housing market therefore faced the recent global financial crisis in a very different cyclical position from those in economies such as Ireland or Spain. In 2011, in the context of a global financial crisis, with a rise in risk aversion and a contraction in global liquidity, Portugal was forced to request external financial assistance from the IMF, the EU and the ECB. Economic policy focused on tax consolidation, deleveraging and structural transformation, with the aim of regaining market confidence and market access. This effort coincided with a period of lower growth in the Euro Area, where some economies (e.g. Spain) pursued similar goals. As a result, the Portuguese economy went through a period of recession, with GDP declining from 2011 to 2013, before returning to growth (0.9%) in 2014. GDP has then gradually accelerated from 2015 to 2017 (to 1.8% in 2015, 1.9% in 2016 and 2.8% in 2017), having recorded a slight deceleration in 2018 (with GDP expanding by 2.1%; Source: INE).

In this context, a combination of lower demand and restrictive lending criteria resulted in a significant contraction in the stock of mortgage loans since March 2011 (-0.5% in 2011, -3.0% in 2012, -3.6% in 2013, -3.9% in 2014, -3.9% in 2015, -3.2% in 2016, -1.4% in 2017 and -0.2% in 2018; Source: Bank of Portugal). This process has been proceeding over the last quarters, and the stock of mortgage loans is now stabilising, at around EUR 92.8 billion (source: Bank of Portugal, data from April 2019). House prices reflected that period of recession in the economy. According to the House Price Index from INE, house prices declined 16.7% from peak to trough, i.e. between mid-2010 and mid-2013. Since then, however, prices have shown a recovery trend, supported by a moderate upturn in economic activity and, mainly, by a surge in external demand for housing. The latter is associated, in part, with the Golden

Visa programme, which has attracted significant investments in real estate from outside the EU, but also with an increase in demand from EU nationals (e.g. French, British), in some cases associated with a more favourable tax regime.

The Portuguese real estate market remained very dynamic in 2018, benefiting from the economic growth, favourable monetary and financial conditions, strong tourism activity and the expansion of external demand. In the year as a whole, the INE housing price index changed by 10.3% compared to 2017, continuing the acceleration recorded in the previous two years (7.1% in 2016 and 9.2% in 2017). The year-on-year change, however, showed a downward trend over the year, after a high (12.2%) in the first quarter, suggesting that housing price growth will have reached a cyclical peak in 2018. By segment, the average annual increase in prices of existing housing (11%) continued in 2018 to exceed that of new housing (7.5%). Since the lowest level, in March 2013, prices have increased 48.7% until March 2019. In Q1 2019, house prices increased 3.6% from the previous quarter (Source: INE). In real terms, house prices increased 36.7% from mid-2013 to end-2018 (Source: Bank of Portugal).

Although slowing down in the second half of the year, the number of transactions in 2018 reached an annual historical high of 178,691 households, representing a 16.6% growth over 2017. Existing housing transactions accounted for 85.2% of the total. The value of housing transactions totalled EUR 24.1 billion in 2018, 24.4% more than in 2017 (Source: INE).

The recent statistics on construction volumes indicate that supply of real estate is reacting while the slowdown in tourist visits has a moderating impact on demand. So far, the rebound in house prices is seen as a correction from previously low levels of valuation and construction activity, and the stock of mortgage loans is still on a downward trend relative to GDP. Although there is some evidence of a small overvaluation of house prices in certain areas, they have been rising in a context of (i) improving financing conditions; (ii) household deleveraging; (iii) an increase of disposable income; (iv) strong external housing demand; and (v) strong activity in tourism. This should mitigate the immediate risks to the housing sector. House prices are expected to extend the current cycle of growth, albeit at a more moderate pace. This should also benefit from an increase in supply.

So far, rising house prices have not been accompanied by an increase in the stock of housing credit, though the flow of new loans has been increasing since 2013. The boom in the tourism sector and demand by non-residents (responding to government incentives tying visas to dwelling purchases) have been significant factors behind the strong growth in house prices in some locations (Bank of Portugal). Nevertheless, measured as a ratio of household income or rents, a proxy of an equilibrium price, the level of house prices is not elevated compared to the average OECD country (OECD Economic Survey Portugal, 2019). While a steep increase of borrowing costs could pose a risk to dwelling prices, the Bank of Portugal introduced new macroprudential regulatory measures in early 2018 that should help reduce the probability of new household borrowers becoming overly indebted.

In particular, new caps on the loan-to-value ratio for property loans, the debt service-to-income ratio and loan maturity have been implemented. These macroprudential measures, which aim at protecting borrowers' solvency and the resilience of the financial sector, were communicated extensively to the public, and should translate into slightly more restrictive bank lending criteria, while recent data show that loan demand from households show a small decrease.

The strong growth rates in loans to the private sector observed since the 2nd half of the 1990s gave way to an increase in aggregate indebtedness, which reached a high of 116% of disposable income in 2009. The increase in household indebtedness has mainly reflected an increase in the number of households with access to mortgage loans, and not any significant increase in individual situations of heavy debt burdens. On average, mortgage debt service ratios remain contained across all income quartiles. Vulnerability to interest changes is higher among lower income households. After a period of relative stability, household indebtedness as a percentage of disposable income started to decline more visibly in 2013, following a more intense effort of deleveraging on the part of households, reaching 103% of disposable income in December 2018 (Source: Bank of Portugal).

The ratio of non-performing loans in housing credit has been decreasing since 2016, from a peak of 2.7% of total mortgage loans at that time to levels below 1.5% since December 2018 (Source: Bank of Portugal). This decrease has been accompanying the gradual reduction of the unemployment rate, from 16.2% in 2013 to 7% of the labour force in 2018. Even at the peak, the ratio of non-performing loans in housing credit has remained at very contained levels.

Going forward, the ongoing recovery in economic activity and the gradual improvement in financing conditions should support a stabilisation of the mortgage market, although a return to the very strong growth rates of the period 1995-2010 should not be expected. GDP is expected to grow around 1.7% in 2019 and 2020, according to the latest forecasts from the Bank of Portugal (Economic Bulletin, March 2019) and the European Commission (May 2019).

ISSUER'S STANDARD BUSINESS PRACTICES, SERVICING AND CREDIT ASSESSMENT

Underwriting Process

The residential mortgages are originated by Novo Banco at the branch level as a result of direct contact with borrowers, and from proposals submitted by credit intermediaries, framed in the legislation in force since 2018, which usually work with real estate brokers, and from the "*Assurfinance*" channel (which refers to mortgages sold through Companhia de Seguros Tranquilidade, S.A.). The mortgages are serviced by Novo Banco Mortgage Division.

The mortgage proposal is prepared at branch level by commercial analysts. The relevant mortgage data including loan characteristics, property description and borrower details are inserted in the workflow application that supports the loan approval process, namely:

a) Novo Banco’s in-house assessment of risk factors in relation to borrowers such as delinquencies on mortgage, consumer and other loans, bounced cheques, etc.;

b) Credit reference agency data (Bank of Portugal), other sources (Financial Institutions);

c) Employment status;

d) Certified tax income;

e) Global and partial debt-to-income; and

f) Expected loan to value.

Specialised credit analysts assess each proposal based on an established credit power matrix and a well-established underwriting expertise. The main variables of the credit power matrix are credit scoring, loan to value, debt-to-income, loan amount and risk factors.

After a favourable decision, a valuation request is sent to the Real Estate Department within Novo Banco which is responsible for property valuation, who randomly selects an independent certified appraiser from a pre-approved list. Valuations are undertaken based upon conservative open market value and an assessment of the property characteristics.

Life and property insurance is required at origination. Property insurance is mandatory for every mortgage loan, while the Executive Board of Directors, under certain circumstances, can waive life insurance. In addition, life insurance is not mandatory for foreigners. For this specific offer there are the following additional requirements: (*i*) maximum loan to value of 75 per cent., (*ii*) maximum term of the loan is 30 years, and (*iii*) at maturity the borrower must not be over 75 years old. Life insurance covers the amount of the mortgage loan and the property insurance covers the replacement cost of the property. Generally life insurance is provided by GNB Vida and property insurance by GNB Seguros.

Once all the above elements are collected, DDMR - Departamento Dinamização e Marketing Retalho reconfirms the commercial/financial decision in light of its internal approval rules and evaluates all legal procedures (housing permit, pre-registration of house acquisition, etc) and prepares the mortgage deed through external solicitors.

Collections

Almost all payments on the Mortgage Loans are made on a monthly basis. Instalments comprising interest and principal components are paid through direct debit on the obligor's current account held with Novo Banco, and are spread throughout the month.

Valuation

Valuations of mortgaged houses are distributed to and carried out by valuation companies that work with the Issuer under an outsourcing contract which includes only national valuation companies certified by the CMVM). The assessors of the valuation companies visit the houses in question and make the relevant assessment and valuations according to applicable prospect values. There is an IT platform that supports this activity between the valuation companies and the Issuer’s internal experts. This team also monitors the quality of such valuations using appropriate valuation samples.

Monitoring & Delinquency and Default Recovery Procedures

Responsibility for control over instalments is shared between the relevant Novo Banco branches and the Recovery Department.

A delinquency is recorded if and when the instalment remains unpaid on the second day subsequent to the direct debit on the obligor's current account. Detection of payment failures results directly from the collection process, with collection and recovery being fully automatic during the first 30 days in arrears. For the initial 35 days the recovery of payment failures is managed at the branch level.

Once payment is 35 days in arrears, collection procedures formally move to the Recovery Department, which attempts to reach an agreement with the client or restructure the loan (in order to recover the instalments in arrears). All delinquent obligors, including guarantors, are notified by letter and contacted from the call centre.

After 165 days in arrears, the process enters the litigation phase. Letters from internal lawyers are sent, notifying that the file will be transferred to the judicial recovery phase. An additional settlement attempt is made and if an out of court settlement cannot be reached, all legal proceedings are initiated with the assistance of external law firms.

Typically enforcement proceedings take an additional two to three years to complete.

USE OF PROCEEDS

The net proceeds resulting from each issue of Covered Bonds will be applied by the Issuer for its general corporate purposes.

THE COVERED BONDS LAW

FRAMEWORK

The Covered Bonds Law introduced a framework for the issuance of asset covered debt securities into Portuguese law.

The Covered Bonds Law has been supplemented by secondary legislation issued by the Bank of Portugal (the "**Bank of Portugal Regulations**"), which comprises both regulatory notices ("*Avisos"*) and instructions. The Bank of Portugal Regulations address matters such as the segregation of cover pool assets from the insolvent estate of the issuer in the event of insolvency, the compliance with asset and liability matching requirements and the methodology for valuation of mortgages and properties.

ISSUERS OF COVERED BONDS

Mortgage covered bonds ("*obrigações hipotecárias*") may be issued by credit institutions (the "**Institutions**") legally authorised to grant credit guaranteed by mortgages over property and having own funds amounting to no less than €7,500,000. Institutions can either be universal credit institutions ("**Credit Institutions**") or special credit institutions incorporated under the Covered Bonds Law specialising in the issuance of covered bonds (the "**Mortgage Credit Institutions**").

If the issuer of covered bonds is a Credit Institution, there are no restrictions to its banking activities and it may issue covered bonds directly, maintaining the underlying cover pool on its balance sheet.

If the issuer of covered bonds is a Mortgage Credit Institution, its authorised banking activity is restricted to granting and acquiring (*i*) credits guaranteed by mortgages and (*ii*) credits to, or guaranteed by, the central public administration, regional or local authorities of any EU Member State. Mortgage Credit Institutions may thus issue covered bonds backed by credits originated by itself or otherwise acquired from third party originators.

If covered bonds are issued by a Mortgage Credit Institution backed by credits acquired from a third party originator, the cover assets must be transferred to the Mortgage Credit Institution and, if such Mortgage Credit Institution is wholly-owned by such originator, the assets and liabilities relating to the relevant issue of covered bonds and the related cover pool will be consolidated with such originator. However, it is also possible for a Mortgage Credit Institution to have multiple owners, in which case the issues of covered bonds and the allocated cover pool may or may not be consolidated with the originator of the relevant credits.

An Institution must manage its cover pool as well as any properties that it may acquire as a result of the enforcement of delinquent mortgage credits. Institutions may also obtain additional liquidity.

In the event of insolvency, winding-up and dissolution of an Institution, the cover pool over which the holders of covered bonds have a special creditor privilege will be segregated from the insolvent estate of such Institution and will form an autonomous pool of assets managed in favour and to the benefit of the holders of covered bonds and other preferred creditors as specified in the Covered Bonds Law. In this respect, the Covered Bonds Law establishes a special regime which prevails over general Portuguese insolvency regulations.

If the cover assets are insufficient to meet interest and principal payments due on the covered bonds of the insolvent Institution, the holders of covered bonds will also rank *pari passu* with unsecured creditors of the Institution in relation to the remaining assets of the insolvent Institution.

COVER ASSETS

The following assets are eligible to collateralise issues of covered bonds made by an Institution in accordance with the Covered Bonds Law:

a) Pecuniary credit receivables secured by a Mortgage and/or any Additional Security which are not yet matured, and which are neither subject to conditions nor encumbered, judicially seized or apprehended and

i. which are secured by first ranking mortgages over residential or commercial real estate located in an EU Member State;

ii. are secured by a junior mortgage but where all Mortgage Credits ranking senior thereto are held by the Issuer and also allocated to the relevant cover pool; or

iii. are secured by (A) a personal guarantee granted by a credit institution, or (B) an appropriate insurance policy, in any case together with a mortgage counter guarantee evidencing (i) or (ii) above.

b) Other assets (up to 20 per cent. of the aggregate cover pool), such as:

i. deposits with the Bank of Portugal in cash or securities eligible for credit transactions in the Eurosystem (which is the monetary authority of the euro area which comprises the ECB and the national central banks of the Member States whose currency is the euro);

ii. current or term account deposits with credit institutions (which are not in a control or group relationship with the Issuer) having a rating equal to or higher than the minimum rating required at any time by the Covered Bonds Law; and

iii. other assets complying simultaneously with the requisites of low risk and high liquidity as defined by the Bank of Portugal.

The geographical scope of eligible assets is restricted to credits guaranteed by first ranking mortgages on property located in the EU or loans granted to central governments and regional or local authorities located in an EU Member State.

Hedging contracts may also be included in the cover pool for hedging purposes, namely to hedge interest rate, exchange rate and liquidity risks. The Bank of Portugal Regulations contain certain rules governing the limits and conditions for the use of these hedging contracts.

The cover pool is of a dynamic nature. Accordingly, the Institution may be required, or may otherwise decide, to include new assets in such cover pool or substitute assets in case the existing ones no longer comply with the applicable financial and prudential requirements.

Furthermore, an Institution is required by the Covered Bonds Law to maintain a register of all the assets comprised in the cover pool, including hedging contracts.

VALUATION AND LTV CRITERIA

Institutions are required to conduct valuations of mortgage properties and periodic updates of such valuations in accordance with the rules defined by the Bank of Portugal (in particular, pursuant to Regulation 5/2006, which establishes rules on the methods and frequency of the valuations of assets and derivatives).

The maximum Loan to Value for residential mortgages is 80 per cent. and 60 per cent. for commercial mortgages loans.

The value of each property securing a mortgage credit comprised in a cover pool may not be higher than the commercial value of such property, determined in accordance with prudent criteria and taking into consideration (*i*) the sustainable long term characteristics of such property, (*ii*) the standard conditions of the local market, (*iii*) the current use of the relevant property, and (*iv*) any alternative uses of each such property.

Pursuant to the requirements of Regulation 5/2006, the commercial value awarded by an issuer of covered bonds to each of the properties securing mortgage credits comprised in a cover pool may not be higher than the market value of the relevant properties. For these purposes, the market value of each property corresponds to the price by which such property can be purchased by a third party purchaser on the date of the valuation of such property, assuming that (*i*) the property is publicly put on sale, (*ii*) the market conditions allow for a regular transfer of the property and (*iii*) there is a normal period of time to negotiate the corresponding purchase and sale, considering the nature of the property.

Regulation 5/2006 contains detailed provisions regarding valuation of properties securing mortgage credits included in a cover pool (including subsequent valuations), the methods and frequency for such valuations, the appointment, remuneration and role of the real estate valuation experts and transitional provisions concerning valuations made prior to the enactment of the Bank of Portugal Regulations.

ASSET-LIABILITY MANAGEMENT AND FINANCIAL REQUIREMENTS

The Covered Bonds Law and the Bank of Portugal Regulations establish the following asset and liabilities matching requirements:

a) The global nominal value of the outstanding mortgage covered bonds cannot exceed 95 per cent. of the global value of the mortgage credits and other assets at any time comprised in the relevant cover pool (i.e., a mandatory overcollateralisation of 5.2632 per cent.).

b) The average maturity of outstanding mortgage covered bonds cannot exceed the average maturity of the mortgage credits and substitution assets allocated to the relevant issue of covered bonds.

c) The total amount of interest to be paid by an Institution under any covered bonds shall not exceed, at any time, the amount of interest to be collected from the mortgage credits and other assets comprised in the corresponding cover pool – this means, therefore, that under the Covered Bonds Law cash flows from the cover pool must at all times be sufficient to meet all scheduled payments due to the holders of coveredbonds.

d) The net present value of the liabilities arising from issues of covered bonds pursuant to the Covered Bonds Law cannot exceed the net present value of the cover pool allocated to such covered bonds, including any hedging contracts also comprised in the cover pool. This ratio must also be met for 200 basis points parallel shifts in the yieldcurve.

For the purposes of the calculation of the level of overcollateralisation, as well as of the remaining financial and prudential requirements, Institutions are required to use the following criteria:

a) the mortgage credits shall be accounted for the nominal value of their outstanding principal, including any accrued but unpaid interest;

b) the covered bonds shall be accounted according to the nominal value of outstanding principal, including accrued but unpaid interest; and

c) in relation to any other assets:

    i. deposits shall be accounted for according to their amount together with any accrued but unpaid interest; and

    ii. securities eligible for Eurosystem credit transactions shall be accounted for under margin valuation rules laid down by the Eurosystem or, if lower, according to their nominal value, including accrued but unpaid interests.

If the relevant covered bonds are denominated in any currency other than euro, the Institution must use the exchange rates published by the ECB as a reference.

The Covered Bonds Law also contains rules regarding the management of the cover pool allocated to one or more issues of covered bonds, allowing the Institution, *inter alia*, to assign new mortgage credits to the cover pool. The Institution may also enter into irrevocable credit facilities for the provision of liquidity in connection with the liabilities arising under the covered bonds. The liquidity facility counterparty must have a minimum credit rating of "A-" or equivalent.

An Institution is entitled to enter into derivatives contracts to hedge interest, exchange rate and liquidity risks. These derivatives contracts are also included in the cover pool and the derivative counterparties (who also benefit from the special creditor privilege) have to be rated "A-" or above. If a particular issue of covered bonds is denominated in a currency other than euro, the Institution must enter into adequate hedging contracts for the purpose of hedging the relevant currency exchange risk.

If the limits and requirements established in the Covered Bonds Law are exceeded, the issuer is required to remedy the situation immediately by (*i*) allocating new mortgage credits, (*ii*) purchasing outstanding covered bonds in the secondary market and/or (*iii*) allocating other eligible assets.

Mortgage credits that become delinquent after being allocated to the cover pool may still remain in such cover pool provided that the delinquency period is not equal to or higher than 90 days, in which case such mortgage credits must be removed from the cover pool by the Institution and, if necessary to comply with the prudential requirements established in the Covered Bonds Law, substituted by new mortgage credits.

Mortgage credits underlying covered bonds may only be sold or pledged if the Institution allocates new mortgage credits to the covered bonds sufficient to maintain compliance with the financial and prudential requirements set forth in the Covered Bonds Law.

Instruction 13/2006 contains rules to be followed in respect of notices to the Bank of Portugal regarding the issue of covered bonds under the Covered Bonds Law. Prior to a first issuance of covered bonds, and on each subsequent issuance, an Institution is required to provide the Bank of Portugal with certain documentation and information, including a chart showing the detailed composition of the autonomous pool of assets allocated to the covered bonds. On a monthly basis, the Institution is required to provide the Bank of Portugal with information on the number and amount of covered bonds outstanding and on any new issues of covered bonds and any redemptions occurred.

COVER POOL MONITOR, COMMON REPRESENTATIVE AND BANKING SUPERVISION

The Board of Directors of the Institution is required to appoint an independent auditor registered with the CMVM for the purposes of monitoring the compliance by such Institution of the financial and prudential requirements established in the Covered Bonds Law.

Pursuant to the Covered Bonds Law, the independent auditor is required to issue an annual report covering the compliance by the issuer with the applicable legal and regulatory requirements.

For these purposes, an independent auditor must be an auditor which is not related or associated to any group of specific interests within the issuing entity and is not in a position that hinders its independent analysis and decision-making process notably by (*i*) holding 2 per cent or more of the share capital of the Issuer, either directly or on behalf of a third party; or (*ii*) having been reelected for more than two terms (either consecutive or not).

Also, a common representative of the holders of the covered bonds – common to all mortgage or public covered bond issues – must be appointed by the Board of Directors of the Institution in order to represent the interests of the holders of covered bonds.

The Bank of Portugal and the CMVM carry out banking and capital markets supervision respectively.

SEGREGATION OF COVER ASSETS AND INSOLVENCY REMOTENESS

Asset segregation

The assets and hedging contracts allocated by the Institution to the issues of covered bonds will remain and be registered in separate accounts of the Institution. The register will be maintained in codified form and the code key will be deposited with the Bank of Portugal. This information will be deposited with the Bank of Portugal in the form of a code key. If the holders of covered bonds decide to accelerate the relevant covered bonds pursuant to article 4.5 of the Covered Bonds Law, the common representative of such holders shall request the Bank of Portugal to disclose the information associated to such code key.

The assets included in the register maintained by the Institution will form a segregate estate over which the holders of the covered bonds will have a special creditor privilege ("*privilégio creditório*"), in particular in case of winding-up and dissolution of the Institution.

In the event of insolvency of the Institution, the assets allocated to one or more issues of covered bonds will be segregated from the corresponding insolvent estate and will be managed autonomously by a third party until full payment of the amounts due to the holders of covered bonds. In any case, and even if the Institution is declared insolvent, the Covered Bonds Law determines that timely payments of interest and reimbursements under the covered bonds shall continue to be carried out.

In the case of voluntary dissolution of an Institution, the plan for such dissolution and winding-up, which shall be submitted to the Bank of Portugal pursuant to article 35-A of the Credit Institutions General Regime, shall identify a Substitute Credit Institution appointed to (*i*) manage the relevant cover pool allocated to the covered bonds outstanding, and (*ii*) ensure that the payments of any amounts due to the holders of such covered bonds are made. Such plan shall also describe the general framework and conditions under which those actions will be rendered by the Substitute Credit Institution.

If the authorisation of an Institution to act as a credit institution in Portugal is revoked, the Bank of Portugal shall, simultaneously with the decision to revoke such authorisation, also appoint a Substitute Credit Institution to manage the relevant cover pool allocated to the covered bonds outstanding and to ensure that payments due to the holders of such covered bonds are made.

In accordance with Regulation 8/2006, any Substitute Credit Institution appointed by the Bank of Portugal to service the cover pool following insolvency of the Institution shall: (*i*) immediately upon being appointed, prepare an opening balance sheet in relation to the cover pool, supplemented by the corresponding explanatory notes; (*ii*) perform all acts and things necessary or convenient for the prudent management of the cover pool, including, without limitation, selling the mortgage credits comprised in the cover pool; ensuring the timely collection in respect of the mortgage assets comprised in the cover pool; and performing all other acts and administrative services in connection with such mortgage assets and related mortgages and additional security; (*iii*) maintain and keep updated a segregated register of the cover pool in accordance with the Covered Bonds Law; and (*iv*) prepare an annual financial report in relation to the cover pool and the outstanding covered bonds, which report shall be the subject of an auditing report produced by an independent auditor who shall be appointed as cover pool monitor by the Substitute Credit Institution.

Furthermore, any Substitute Credit Institution appointed by the Bank of Portugal to service the cover pool following the insolvency of an Institution shall perform all acts and things necessary or convenient for maintaining the relationship with the borrowers under the mortgage credits comprised in the relevant cover pool.

Preferential status for covered bonds holders

Pursuant to the Covered Bonds Law, holders of covered bonds benefit from a special creditor privilege over the assets assigned to the issue, with precedence over any other creditors, for the purpose of redemption of principal and receipt of interest corresponding to the relevant covered bonds.

The mortgages that serve as collateral for the entitlements of the holders of covered bonds prevail over any real estate preferential claims. If the assets comprised in the cover pool are not enough to pay interest and principal under the covered bonds, the holders of covered bonds will then rank *pari passu* with unsecured creditors of the relevant Institution.

The hedging contracts entered into by the Institution also form part of the cover pool and thus the relevant counterparties will also benefit from the special creditor privilege over such cover pool. Accordingly, these counterparties will have similar rights to those of the holders of the covered bonds and, consequently, their contracts are not expected to be called in case of insolvency of the Institution.

Pursuant to the Covered Bonds Law, in the case of dissolution and winding-up of an Institution, a meeting of holders of all series of covered bonds then outstanding may decide, by a 2/3 majority vote, to accelerate the covered bonds, in which case the administrator shall provide for the settlement of the estate allocated to the relevant issue in accordance with the provisions defined in the Covered Bonds Law and in the relevant terms and conditions that govern such issue.

TAXATION

The following is a general summary of the Issuer's understanding of current law and practice in Portugal as in effect on the date of this Base Prospectus in relation to certain current relevant aspects to Portuguese taxation of the Covered Bonds and is subject to changes in such laws, including changes that could have a retroactive effect. Potentially applicable transitional rules have not been considered. The following summary is intended as a general guide only and is not exhaustive. It is not intended to be, nor should it be considered to be, legal or tax advice to any holder of Covered Bonds. It does not take into account nor discusses investors' individual circumstances or the tax laws of any country other than Portugal, and relates only to the position of persons who are absolute beneficial owners of Covered Bonds. Prospective investors are advised to consult their own tax advisers as to the Portuguese or other tax consequences resulting from the purchase, ownership and disposal of Covered Bonds. Tax consequences may differ according to the provisions of different double taxation treaties, as well as according to a prospective investor's particular circumstances.

The reference to "interest", "other investment income" and "capital gains" in the paragraphs below means "interest", "other investment income" and "capital gains" as understood in Portuguese tax law. The statements below do not take any account of different definitions of "interest", "other investment income" or "capital gains" which may prevail under any other law or which may be created by the Terms and Conditions of the Covered Bonds or any related documentation.

1. COVERED BONDS NOT HELD THROUGH A CENTRALISED CONTROL SYSTEM

Portuguese resident holders and non-resident holders with a Portuguese permanent establishment

Interest and other types of investment income obtained on Covered Bonds by a Portuguese resident individual is subject to withholding tax at a rate of 28 per cent., which, if such income is not imputable to an entrepreneurial or professional activity, is the final tax on that income unless the individual elects to include it in his/her taxable income together with the remaining items of income derived, subject to tax at progressive rates of up to 48 per cent.. In this circumstance, an additional income tax rate will be due on the part of taxable income exceeding € 80,000 as follows: (*i*) 2.5 per cent. on the part of the taxable income exceeding € 80,000 up to € 250,000 and (*ii*) 5 per cent. on the remaining part (if any) of the taxable income exceeding € 250,000. In this case, the tax withheld is deemed a payment on account of the final tax due. Accrued interest qualifies as interest, rather than capital gains for tax purposes.

Interest and other investment income paid or made available ("*colocado à disposição*") to accounts in the name of one or more accountholders acting on behalf of undisclosed third parties is subject to a final withholding tax at the rate of 35 per cent., unless the beneficial owner of the income is disclosed, in which case the general rules will apply.

In the case of Zero Coupon Covered Bonds, the difference between the redemption value and the subscription cost is regarded as investment income and is taxed accordingly.

Capital gains obtained on the disposal of the Covered Bonds by an individual resident in Portugal for tax purposes are subject to Portuguese capital gains taxation on the annual positive balance between (*i*) capital gains and (*ii*) capital losses.

Tax applies at a special 28 per cent. rate, which is the final tax on that annual positive capital gain income balance, unless the individual elects to include it in his/her taxable income together with the remaining items of income derived, subject to tax at progressive rates of up to 48 per cent.. Also in this circumstance, an additional income tax rate will be due on the part of taxable income exceeding € 80,000 as follows: (*i*) 2.5 per cent. on the part of the taxable income exceeding € 80,000 up to € 250,000 and (*ii*) 5 per cent. on the remaining part (if any) of the taxable income exceeding € 250,000. In this case, the tax withheld is deemed a payment on account of the final tax due.

Stamp tax at a rate of 10 per cent. applies to the gratuitous acquisition (per death or in life) of Covered Bonds by an individual who is resident in Portugal. An exemption applies to transfers in favour of the spouse (or person living together as spouse under the civil partnership regime), ancestors and descendants.

Interest or other investment income derived from the Covered Bonds and capital gains obtained with the transfer of the Covered Bonds by legal persons resident for tax purposes in Portugal and by non-resident legal persons with a permanent establishment in Portugal to which the income or gains are attributable to are included in their taxable profits and are subject to a Corporate Income Tax at a rate of 21 per cent., 17 per cent. on the first € 15,000 in the case of small or small and medium-sized enterprises as defined by law and subject to the EU de *minimis rule*. A municipal surcharge ("*derrama municipal*"), at variable rates according to an annual decision of the municipal bodies, up to 1.5 per cent. of the taxable profit, may also apply. A state surcharge ("*derrama estadual*") also applies at a rate of 3 per cent. on taxable profits in excess of € 1,500,000 to € 7,500,000, at 5 per cent. on taxable profits in excess of € 7,500,000 up to € 35,000,000 and at 9 per cent. on taxable profits in excess of € 35,000,000. Withholding tax at 25 per cent. applies to interest and other investment income, which is deemed a payment on account of the final tax due, except where the bondholder is either a Portuguese resident financial institution (or a non-resident financial institution having a permanent establishment in the Portuguese territory to which income is imputable) or benefits from a reduction or a withholding tax exemption as specified by current Portuguese tax law.

Investment income paid or made available *(colocado à disposição*) to accounts in the name of one or more accountholders acting on behalf of undisclosed third parties is subject to a final withholding tax at the rate of 35 per cent., unless the beneficial owner of the income is disclosed.

There is no obligation to withhold tax, partially or entirely, on investment income of the issuer made available to taxpayers globally exempt from IRC (for instance: the State and other corporate entities subject to administrative law, corporate entities recognised as having public interest and charities, pension funds, retirement and/or education savings funds, share savings funds, venture capital funds and some other exempt entities provided that, with respect to all the above funds, they are organised and operate in accordance with Portuguese law) or which benefit from a total or partial exemption on the investment income made available by the Issuer, assuming that proof of such exemption is presented to the entity responsible for the payment.

The acquisition of Covered Bonds through gift or inheritance by a Portuguese resident legal person or a non-resident acting through a Portuguese permanent establishment is subject to corporate tax at 21 per cent., 17 per cent. on the first € 15,000 in the case of small and small and medium-sized enterprises as defined by law and subject to the EU de minimis rule. A municipal surcharge ("*derrama municipal*") at variable rates according to an annual decision of the municipal bodies, up to 1.5 per cent. of the taxable profit, may also apply. A state surcharge ("*derrama estadual*") also applies at 3 per cent. on taxable profits in excess of € 1,500,000 up to € 7,500,000, at 5 per cent. on taxable profits in excess of € 7,500,000 up to 35,000,000 and at 9 per cent. on taxable profits in excess of € 35,000,000.

There is neither wealth nor estate tax in Portugal.

Non-resident holders without a Portuguese permanent establishment

Interest and other types of investment income obtained by non-resident legal persons without a Portuguese permanent establishment to which the income is attributable is subject to withholding tax at a rate of 25 per cent. (legal persons) or 28 per cent. (individuals), which is the final tax on that income. The applicable rate is 35 per cent. in the case of individuals or legal persons domiciled in a country, territory or region included in the list of countries, territories and regions that provide a more favourable tax regime approved by Ministerial Order 150/2004, of 13 February 2004, as amended from time to time ("**Ministerial Order 150/2004**").

Interest and other types of investment income paid or made available ("*colocado à disposição*") to accounts in the name of one or more accountholders acting on behalf of undisclosed entities is subject to a final withholding tax of 35 per cent., unless the beneficial owner of the income is disclosed, in which case the general rules will apply.

Under the tax treaties entered into by Portugal, the withholding tax rate may be reduced, e.g. to 15, 12, 10 or 5 per cent., depending on the applicable treaty and provided that both substantial and formal conditions on which the application of such benefit depends are met (including certification of residence by the tax authorities of the beneficial owners of the interest and other investment income). The reduction may apply at source or through the refund of the excess tax. The forms currently available for these purposes were approved by Order ("*Despacho*") 4743- A/2008 (2nd series), as rectified on 29 February 2008, published in the Portuguese official gazette, 2nd series, 43, of 29 February 2008 of the Portuguese Minister of State and Finance and may be available for viewing at www.portaldasfinancas.gov.pt.

In the case of Zero Coupon Covered Bonds, the difference between the redemption value and the subscription cost is regarded as investment income and is taxed accordingly.

The withholding of taxes arising from interest payments of the Covered Bonds issued by resident entities for tax purposes (as is the case of the Issuer) is the responsibility of the relevant custodians (i.e. the entities with whom registration of title over the Covered Bonds is held).

Interest paid to an associated company of the Bank which is resident in the European Union is exempt from withholding tax.

From the later date onwards, no withholding tax applies.
For these purposes, an "associated company of the Bank" is:

i. A company which is subject to one of the taxes on profits listed in article 3 (a) (iii) of Council Directive 2003/49/EC without being exempt, which takes one of the forms listed in the Annex to that Directive, which is considered to be resident in an European Union Member State and is not, within the meaning of a double taxation convention on income concluded with a third State, considered to be resident for tax purposes outside the Community; and

ii. Which holds a minimum direct holding of 25 per cent. in capital of the Bank, or is directly held by the Bank in at least 25 per cent. or which is directly held in at least 25 per cent. by a company which holds at least 25 per cent. of the capital of the Bank; and

iii. Provided that the holding has been maintained for an uninterrupted period of at least two years. If the minimum holding period is met after the date the withholding tax becomes due, a refund may be obtained.

The associated company of the Bank to which payments are made must be the beneficial owner of the interest.

Capital gains obtained on the disposal of the Covered Bonds by non-resident individuals are subject to Portuguese capital gains taxation on the annual positive balance between (i) capital gains and (ii) capital losses. Tax applies at a 28 per cent. rate. An exemption applies to non-resident individuals, unless they are resident in a country, territory or region included in the list of countries, territories and regions that provide a more favourable tax regime approved by Ministerial order 105/2004, of 13 February 2004, as amended from time to time.

Under the tax treaties entered into by Portugal, such gains are usually not subject to Portuguese personal income tax, but the applicable rules should be confirmed on a case by case basis. Accrued interest qualifies as interest for tax purposes.

Capital gains obtained on the disposal of Covered Bonds by a legal person non-resident in Portugal for tax purposes and without a permanent establishment in Portugal to which gains are attributable are exempt from Portuguese capital gains taxation, unless (a) the share capital of the holder is more than 25 per cent., directly or indirectly, held by Portuguese resident entities or if (b) the holder is resident in a country, territory or region subject to a clearly more favourable tax regime included in the "low tax jurisdictions" list approved by Ministerial Order 150/2004, as amended from time to time. Accrued interest qualifies as interest for tax purposes.

Regarding item (a) above the capital gains are still exempt if the following requirements are cumulatively met: (i) the beneficial owner is a resident in an EU Member State, in an European Economic Area Member State which is bound to cooperate with Portugal under an administrative cooperation arrangement in tax matters similar to the exchange of information schemes in relation to tax matters existing within the European Union, or in a country with which Portugal has a double tax treaty in force which foresees the exchange of information; (ii) the beneficial owner is subject and not exempt from a tax referred to in article 2 of Council Directive 2011/96/UE, of 30 November 2011, or from a tax of similar nature with a rate not lower than 60 per cent of the Portuguese Corporate Income

Tax rate (currently 12,6 per cent.); (iii) the beneficial owner holds, directly or indirectly, at least 10 per cent. of the share capital or voting rights for at least 1 year uninterruptedly of the entity disposed; (iv) the beneficial owner is not part of an arrangement or series of arrangements which have been put into place for the main purpose or one of the main purposes of obtaining a tax advantage. Although the abovementioned cumulative requirements have been in full force since 31 March 2016 and apply to securities in general, the law is not clear on its application for the holder of debt securities to benefit from the relevant capital gain tax exemption, seeing as some of the alluded requirements appear not to apply to debt securities.

If the exemption does not apply, the gains will be subject to corporate income tax at a rate of 25 per cent. Under the tax treaties entered into by Portugal, such gains are usually not subject to Portuguese tax, but the applicable rules should be confirmed on a case by case basis.

No stamp tax applies to the acquisition through gift and inheritance of Covered Bonds by an individual who is not domiciled in Portugal.

The gratuitous acquisition of Covered Bonds by a non-resident legal person is subject to corporate income tax at a rate of 25 per cent.. Under the tax treaties entered into by Portugal, such gains are usually not subject to Portuguese tax, but the applicable rules should be confirmed on a case by case basis.

There is no wealth tax in Portugal.

2. COVERED BONDS HELD THROUGH A CENTRALISED CONTROL SYSTEM

The regime described in 1. above corresponds to the general tax treatment of investment income and capital gains on Covered Bonds and to the acquisition through gift or inheritance of such Covered Bonds.

Nevertheless, pursuant to the Special Tax Regime for Debt Securities, approved by Decree-law 193/2005, of 7 November 2005, as amended from time to time (hereafter "**the special regime approved by Decree-law 193/2005**") investment income from and capital gains obtained on the disposal of debt securities issued by Portuguese resident entities, such as the Covered Bonds, may be exempt from Portuguese income tax provided that the debt securities are integrated in a centralised system managed by Portuguese resident entities (such as the Central de Valores Mobiliários, managed by Interbolsa), by other European Union or European Economic Area entities that manage international clearing systems (in the latter case if there is administrative cooperation for tax purposes with the relevant country which is equivalent to that in place within the European Union), or, when authorized by the member of the government in charge of finance (currently the Finance Minister), by other centralized systems, and:

i. the beneficial owners have no residence, head office, effective management or permanent establishment in the Portuguese territory to which the income is attributable; and

ii. the beneficial owners are central banks and government agencies, international organizations recognized by the Portuguese State, residents in a country or jurisdiction with which Portugal has entered into a double tax treaty or a tax information exchange agreement in force or other non-resident entities which are not domiciled in a country, territory or region subject to a clearly more favourable tax regime included in the list approved by the Ministerial Order 150/2004, as amended from time to time.

The special regime approved by Decree-law 193/2005 sets out the detailed rules and procedures to be followed on the proof of non-residency by the holders of Covered Bonds to which it applies.

Under these rules, the direct register entity is to obtain and keep proof, in the form described below, that the beneficial owner is a non-resident entity that is entitled to the exemption. As a general rule, the proof of non-residency by the holders of Covered Bonds should be provided to, and received by, the direct register entities prior to the relevant date for payment of any interest, or the redemption date (for zero coupon Covered Bonds), and in the case of domestically cleared Covered Bonds, prior to the transfer of Covered Bonds date, as the case may be.

The following is a general description of the rules and procedures on the proof required for the exemption to apply at source, as they stand on the date of this Base Prospectus.

(a) Domestically Cleared Covered Bonds

The beneficial owner of Covered Bonds must provide proof of non-residency in Portuguese territory substantially in the terms set forth below.

i. If a holder of Covered Bonds is a central bank, a public law entity or agency or an international organisation recognised by the Portuguese State, a declaration of tax residence issued by the holder of Covered Bonds, duly signed and authenticated or proof pursuant to (iv) below;

ii. If the beneficial owner of Covered Bonds is a credit institution, a financial company, a pension fund or an insurance company domiciled in any OECD country or in a country with which Portugal has entered into a double taxation treaty and is subject to a special supervision regime or administrative registration, certification shall be made by means of the following: (A) its tax identification; or (B) a certificate issued by the entity responsible for such supervision or registration confirming the legal existence of the holder of Covered Bonds and its domicile; or (C) proof of non-residence pursuant to the terms of paragraph (iv) below.

iii. If the beneficial owner of Covered Bonds is either an investment fund or other type of collective investment undertaking domiciled in any OECD country or any country with which Portugal has entered into a double tax treaty, certification shall be provided by means of any of the following documents: (A) declaration issued by the entity which is responsible for its registration or supervision or by the tax authorities, confirming its legal existence and the law of incorporation; or (B) proof of non-residency pursuant to the terms of paragraph (iv) below.

iv. In any other case, confirmation must be made by way of (A) a certificate of residence or equivalent document issued by the relevant tax authorities; or (B) a document issued by the relevant Portuguese consulate certifying residence abroad; or (C) a document specifically issued by an official entity of the public administration (either central, regional or peripheral, indirect or autonomous) of the relevant country certifying the residence; for these purposes, an identification document such as a passport or an identity card or document by means of which it is only indirectly possible to assume the relevant tax residence (such as a work or permanent residency permit) is not acceptable.

There are rules regarding the authenticity and validity of the documents mentioned in paragraph (iv) above, in particular that the holder of Covered Bonds must provide an original or a certified copy of the residence certificate or equivalent document. This document must be issued up to until 3 months after the date on which the withholding tax would have been applied and will be valid for a 3-year period starting on the date such document is issued. The holder of Covered Bonds must inform the register entity immediately of any change that may preclude the tax exemption from applying. In the other cases, proof of non-residency is required only once, the beneficial owner having to inform the register entity of any changes that impact the entitlement to the exemption.

(b) Internationally Cleared Covered Bonds

If the Covered Bonds are registered in an account with an international clearing system, prior to the relevant date for payment of any interest of the redemption date (for Zero Coupon Covered Bonds), the entity managing such system is to provide to the direct register entity or its representative the identification and number of securities, as well as the income and, when applicable, the tax withheld, itemized by type of beneficial owner, as follows: (*i*) Portuguese resident entities or permanent establishments of non-resident entities to which the income is attributable which are not exempt from tax and are subject to withholding tax; (*ii*) Entities domiciled in a country, territory, or region subject to a clearly more favourable tax regime included in the list approved by Ministerial Order 150/2004 (as amended from time to time) which are not exempt from tax and are subject to withholding tax; (*iii*) Portuguese resident entities or permanent establishments of non-resident entities to which the income is attributable which are exempt from tax and are not subject to withholding tax; (*iv*) other non-Portuguese resident entities.

In addition, the international clearing system managing entity is to provide to the direct register entity, in relation to each income payment, at least the following information concerning each of the beneficiaries mentioned in (i), (ii) and (iii) above: name and address, tax identification number, if applicable, identification of the securities held and amount thereof and amount of income.

No Portuguese exemption shall apply at source under the special regime approved by Decree-law

193/2005 if the above rules and procedures are not followed. Accordingly, the general Portuguese tax provisions shall apply as described above.

If the conditions for an exemption to apply are met, but, due to inaccurate or insufficient information, tax is withheld, a special refund procedure is available under the special regime approved by Decree-law 193/2005.

The refund claim is to be submitted to the direct register entity of the Covered Bonds within 6 months from the date the withholding took place.

The refund of withholding tax in other circumstances or after the above 6 months period is to be claimed to the Portuguese tax authorities within 2 years from the end of the year in which tax was withheld. The refund is to be made within 3 months after which interest is due.

The forms currently applicable for the above purposes were approved by Order ("*Despacho*") 2937/2014 of the Portuguese Secretary of State for Tax Affairs, published in the Portuguese official gazette, 2nd series, no. 37, of 21 February 2014 and are available for viewing and downloading at www.portaldasfinanças.gov.pt.

FOREIGN ACCOUNT TAX COMPLIANCE ACT

U.S. tax provisions commonly known as the Foreign Account Tax Compliance Act (FATCA) impose a new reporting and due diligence regime on (*i*) any non-U.S. financial institution (a "**foreign financial institution**" or "**FFI**" (as defined by FATCA)), and (*ii*) certain non-U.S. entities that are not FFIs (a "**non-financial foreign entity**" or "**NFFE**" (as defined by FATCA)), requiring the identification and documentation certain U.S. Persons (as defined by FATCA).

In addition, FATCA imposes (or will impose) a 30% withholding tax on certain payments to (*i*) any FFI that is not otherwise exempt from or in deemed compliance with FATCA and that does not become a Participating FFI by entering into an agreement with the IRS to provide the IRS with certain information in respect of its account holders , investors and/or owners who are U.S. Persons,

(*ii*) any NFFE that is not otherwise exempt from FATCA and that does not provide information as to whether such entity has any "substantial United States owners" (as defined by FATCA), and (*iii*) any person that fails to comply with reasonable requests from an FFI to provide the information necessary to determine if such person holds a "U.S. account" (as defined by FATCA) (a "**Recalcitrant Holder**").

The FATCA withholding began on 1 July 2014 for payments of U.S.-source income that is fixed or determinable, annual or periodic and will be phased in no earlier than 1 January 2017 to apply to (*i*) gross proceeds from the disposition of any property that can produce U.S.-source interest or dividends, and (*ii*) foreign passthrough payments (a term not yet defined). FATCA withholding would potentially apply to payments in respect of (*i*) any Covered Bonds characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are outstanding on (i.e., issued, executed, or materially modified by) the grandfathering date, which is (*a*) 1 July 2014, (*b*) the date that is six months after the date on which certain obligations are first treated under the U.S. Internal Revenue Code and/or U.S. Treasury Regulations as giving rise to dividend equivalents (for payments subject to FATCA withholding solely because the obligation is treated as giving rise to a dividend equivalent), or (*c*) the date that is six months after the date on which final U.S. Treasury Regulations defining the term foreign passthrough payment are filed with the Federal Register (for foreign passthrough payment withholding only); and (*ii*) any Covered Bonds characterised as equity or which do not have a fixed term for U.S. federal tax purposes, whenever issued. If Covered Bonds are outstanding before the grandfathering date, and additional Covered Bonds of the same series are issued on or after that date, the additional Covered Bonds may not be treated as grandfathered, which may have negative consequences for the existing Covered Bonds, including a negative impact on market price.

The United States and a number of other jurisdictions have signed intergovernmental agreements to facilitate the implementation of FATCA (each, an IGA). Pursuant to FATCA and the "Model 1" and "Model 2" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a Reporting FI not subject to withholding under FATCA on any payments it receives. Further, an

FFI in a Model 1 IGA jurisdiction would not be required to withhold under FATCA or an IGA (or any law implementing an IGA) from payments it makes (unless it has agreed to do so under the U.S. "qualified intermediary", "withholding foreign partnership" or "withholding foreign trust" regimes). The Model 2 IGA leaves open the possibility that a Reporting FI might in the future be required to withhold as a Participating FFI on foreign passthrough payments and payments that it makes to Recalcitrant Holders. Under a Model 1 IGA, a Reporting FI would still be required to report certain information in respect of its account holders, investors, and owners who are U.S. Persons to its home government. Reporting FIs in a Model 2 IGA jurisdiction would be required to enter into an agreement with the IRS to report certain information in respect of its account holders, investors, and/or owners who are U.S. Persons directly to the IRS. Furthermore, a Reporting FI will be required to register with the IRS regardless of whether such Reporting FI is in a jurisdiction that has executed a "Model 1" or a "Model 2" IGA with the UnitedStates.

The United States has reached a Model 1 Intergovernmental Agreement with Portugal, signed on 6 August 2015 and ratified by Portugal on 5 August 2016.

Portugal has implemented, through Law 82-B/2014, of 31 December, and Decree-law 64/2016, of 11 of October, the legislation based on the reciprocal exchange of information with the United States of America on financial accounts subject to disclosure (the "Financial Reporting Regime") in order to comply with Sections 1471 through 1474 of FATCA. Under such legislation the Issuer will be required to obtain information regarding certain accountholders and report such information to the Portuguese Tax Authorities which, in turn, would report such information to the Inland Revenue Service of the United States of America.

There can be no assurance, however, that the Issuer will be treated as a deemed-compliant FFI, or that it will in the future not be required to deduct FATCA withholding tax from payments it makes. Accordingly, the Issuer and financial institutions through which payments on the Covered Bonds are made may be required to withhold under FATCA if (i) any FFI through or to which payment on such Covered Bonds is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA or (ii) an investor is a Recalcitrant Holder.

FATCA is particularly complex and Prospective investors should consult their tax advisers on how these rules may apply to payments they may receive in connection with the Covered Bonds.

ADMINISTRATIVE COOPERATION IN THE FIELD OF TAXATION

The EC Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments (the "**Savings Directive**"), as amended by Council Directive 2014/48/EU, of 24 March 2014, was repealed by Council Directive 2015/2060, of 10 November 2015. The aim was the adoption of a single and more comprehensive cooperation system in the field of taxation in the European Union under Council Directive 2011/16/EU, of 15 February 2011.

The new regime under Council Directive 2011/16/EU, as amended by Council Directive 2014/107/EU, of 9 December 2014, introduced the automatic exchange of information in the field of taxation concerning bank accounts and is in accordance with the Global Standard released by the Organization for Economic Co-operation and Development in July 2014. This regime is generally broader in scope than the Savings Directive.

Under Council Directive 2014/107/EU, financial institutions are required to report to the Tax Authorities of their respective Member State (for the exchange of information with the State of Residence) information regarding bank accounts, including depository and custodial accounts, held by individual persons residing in a different Member State or entities which are controlled by one or more individual persons residing in a different Member State, after having applied the due diligence rules foreseen in the Council Directive. The information refers not only to personal information such as name, address, state of residence, tax identification number and date and place of birth, but also to the account balance at the end of the calendar year, and (i) in case of depository accounts, income paid or credited in the account during the calendar year; or, (ii) in the case of custodial accounts, the total gross amount of interest, dividends and any other income generated, as well as the proceeds from the sale or redemption of the financial assets paid or credited in the account during the calendar year to which the financial institution acted as custodian, broker, nominee, or otherwise as an agent for the account holder, among others.

Portugal has implemented Directive 2011/16/EU through Decree-law 61/2013, of 10 May. Also, Council Directive 2014/107/EU was implemented through Decree-law 64/2016, of 11 October, as amended from time to time.

Council Directive 2018/822/EU ("**DAC 6**") imposes mandatory reporting of cross-border arrangements affecting at least one EU Member State that fall within one of a number of "hallmarks", i.e. broad categories setting out particular characteristics identified as potentially indicative of aggressive tax planning. Under DAC 6 any person that designs, markets, organises, makes available or provides, directly or by means of other persons, aid, assistance or advice for implementation or manages the implementation of a reportable cross-border arrangement may be seen as a reporting intermediary and have to report information on the arrangement to the tax authorities of their home Member State. A bill of law on DAC 6´s transposition into Portuguese law is currently under discussion. Prospective holders of the Covered Bonds are advised to seek their own professional advice in relation to any potential consequences of DAC 6.

SUBSCRIPTION AND SALE AND TRANSFER RESTRICTIONS AND SECONDARY MARKET ARRANGEMENTS

The Dealers have, in the Programme Agreement dated 5 October 2015, as amended from time to time, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Covered Bonds.

In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Covered Bonds under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

United States

The Covered Bonds have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from the registration requirements of the Securities Act. The Covered Bonds are initially being offered and sold only outside the United States in reliance on Regulation S.

Terms used in this paragraph have the meanings given to them by Regulation S. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder. The applicable Final Terms will identify whether TEFRA C rules or TEFRA D rules apply or whether TEFRA is not applicable.

Each Dealer has agreed (and each further Dealer named in a Final Terms will be required to agree) that it will not offer or sell Covered Bonds (*i*) as part of their distribution at any time or (*ii*) otherwise until 40 days after the completion of the distribution of the Tranche of which such Covered Bonds are part, as determined and certified to the Agent by such Dealer (in the case of a non-syndicated issue) or the relevant Lead Dealer (in the case of a syndicated issue) within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Covered Bonds during the distribution compliance period a confirmation or other notice setting out the restrictions on offers and sales of the Covered Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have meanings given to them by Regulation S.

In addition, until 40 days after the completion of the distribution of all Covered Bonds of the Tranche of which such Covered Bonds are a part, an offer or sale of the Covered Bonds within the United States by any dealer whether or not participating in the offering of such Tranche may violate the registration requirements of the Securities Act.

Japan

The Covered Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act no. 25 of 1948, as amended the "**FIEA**"). Each of the Dealers has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Covered Bonds in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, article 6 of the Foreign Exchange and Foreign Trade Act (Act no. 228 of 1949, as amended)), or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

EEA Restriction and Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Covered Bonds which are the subject of the offering and listing contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the EEA. For the purposes of this provision:

1) the expression "retail investor" means a person who is one (or more) of the following:

a. a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

b. a customer within the meaning of Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

c. not a qualified investor as defined in Directive 2003/71/EC (as amended or superseded; the "Prospectus **Directive**", and includes any relevant implementing measure in the relevant Member State(s) of the European Economic Area); and

2) the expression an "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Covered Bonds.

United Kingdom

Each Dealer has represented and agreed that:

a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Covered Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such Covered Bonds in, from or otherwise involving, the United Kingdom.

Italy

The offering of the Covered Bonds has not been registered pursuant to Italian securities legislation and, accordingly, no Covered Bonds may be offered, sold or delivered, nor may copies of this Base Prospectus or of any other document relating to the Covered Bonds be distributed in the Republic of Italy, except:

a) to qualified investors (*investitori qualificati*), as defined pursuant to article 100 of Legislative Decree 58, of 24 February 1998, as amended (the "**Financial Services Act"**) and article 34-ter, first paragraph, letter (b) of CONSOB Regulation no. 11971, of 14 May 1999, as amended from time to time (the "**Regulation 11971**"); or

b) in other circumstances which are exempted from the rules on public offerings pursuant to article 100 of the Financial Services Act and article 34-ter of Regulation 11971.

Any offer, sale or delivery of the Covered Bonds or distribution of copies of this Base Prospectus or any other document relating to the Covered Bonds in the Republic of Italy under (a) or (b) above must be:

a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation 16190, of 29 October 2007, as amended from time to time, and Legislative Decree 385, of 1 September 1993, as amended (the "**Banking Act**");

b) in compliance with article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or offer of securities in the Republic of Italy; and

c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or other Italian authority.

Portugal

In relation to the Covered Bonds each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Covered Bonds may not be and will not be offered to the public in Portugal under circumstances which are deemed to be a public offer ("*oferta pública*") under the Portuguese Securities Code. In addition, each Dealer has represented and agreed, an each further Dealer appointed under the Programme will be required to represent and agree that (*i*) it has not directly or indirectly taken any action or offered, advertised, marketed, invited to subscribe, gathered investment intentions, sold or delivered and will not directly or indirectly take any action, offer, advertise, invite to subscribe, gather investment intentions, sell, re-sell, re-offer or deliver any Covered Bonds in circumstances which could qualify as a public offer of securities pursuant to the Portuguese Securities Code, notably in circumstances which could qualify as a public offer addressed to individuals or entities resident in Portugal or having permanent establishment located in Portuguese territory, as the case may be; or (*ii*) it has not distributed, made available or caused to be distributed and will not distribute, make available or cause to be distributed the Base Prospectus or any other offering material relating to the Covered Bonds to the public in Portugal and will comply with all applicable provisions of the Portuguese Securities Code, the Prospectus Regulation implementing the Prospectus Directive, and any applicable CMVM regulations and all relevant Portuguese securities laws and regulations, in any such case that may be applicable to it in respect of any offer or sale of Covered Bonds by it in Portugal or to individuals or entities resident in Portugal or having permanent establishment located in Portuguese territory, as the case may be, and that such placement shall only be authorised and performed to the extent that there is full compliance with such laws and regulations.

General

No action has been taken in any jurisdiction that would permit a public offering of any of the Covered Bonds, or possession or distribution of the Base Prospectus or any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will, to the best of its knowledge, comply with all relevant securities laws, regulations and directives in each jurisdiction, in particular **Australia**, **South Africa** and **Canada**, in which it purchases, offers, sells or delivers Covered Bonds or has in its possession or distributes the Base Prospectus, any other offering material or any Final Terms and neither the Issuer nor any other Dealer shall have responsibility therefor.

Secondary Market Arrangements

The Issuer may enter into agreements with Dealers or other persons in relation to a Series or Tranche of Covered Bonds whereby such Dealers may agree to provide liquidity in those Covered Bonds through bid and offer rate arrangements. The relevant Dealers or relevant persons in such agreements may agree to quote bid and offer prices for the relevant Covered Bonds at such rates and in such sizes as are specified in the relevant agreement and the provision of such quotes may be subject to other conditions as set out in the relevant agreement. Not all issues of Covered Bonds under the Programme will benefit from such agreements.

GENERAL INFORMATION

Authorisation

The establishment of the Programme was duly authorised by a resolution of the Board of Directors of the Issuer dated 3 September 2015, in accordance with the provisions of the Covered Bonds Law. The first update of the Programme was duly authorised by resolution of the Board of Directors of the Issuer dated 20 December 2016 and the second update of the Programme was duly authorised by resolution of the Executive Board of Directors of the Issuer dated 17 July 2019 in accordance with the provisions of the Covered Bonds Law.

Listing

Application has been made to list the Covered Bonds on Euronext Dublin's Official List and to admit the Covered Bonds to trading on Euronext Dublin's regulated market.

Clearing systems

The Covered Bonds have been accepted for clearance through Interbolsa, as specified in the applicable Final Terms. The appropriate Common Code and ISIN for each Tranche of Covered Bonds allocated by Interbolsa will be specified in the relevant Final Terms. If the Covered Bonds are to clear through an additional or alternative clearing system the appropriate information will be specified in the relevant Final Terms.

Yield

The yield is calculated at the Issue Date on the basis of the Issue Price as specified in the applicable Final Terms. It is not an indication of future yield.

Significant or material change

There has been no significant change in the financial or trading position of the Novo Banco Group since 31 December 2018 and there has been no material adverse change in the prospects of the Issuer since 31 December 2018.

Litigation

Except as stated below, there have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) within 12 months preceding the date of this Base Prospectus which may have or have had in the recent past significant effects on the Issuer's or the Novo Banco Group's financial position or profitability.

<u>Proceedings in connection with the resolution measure applied to BES and the creation of Novo Banco</u>

On 3 August 2014, the Bank of Portugal decided to apply to BES a resolution measure consisting in the transfer of most of its business, including assets, liabilities, off-balance sheet items and assets under management, to a bridge bank, Novo Banco, specifically set up for this purpose.

A translation of the text of the Bank of Portugal's deliberation of 3 August 2014 can be viewed at:

https://www.bportugal.pt/sites/default/files/deliberation_3_aug_2014_8pm.pdf

The Resolution Measure was followed during August 2014 by other decisions of the Bank of Portugal clarifying the Resolution Measure, its scope and the framework applicable to Novo Banco.

The Resolution Measure and the decisions of Bank of Portugal related or in connection with the Resolution Measure, including the application and impacts of the Resolution Measure and the incorporation of Novo Banco are being and may continue to be publicly and judicially challenged by several parties and creditors. These proceedings include also the challenges to the transfer of certain assets and liabilities to Novo Banco as a result of the Resolution Measure and the decisions of Bank of Portugal, as well as proceedings requesting the set-off of liabilities that were not transferred to Novo Banco against credits transferred and held by Novo Banco. Several judicial proceedings have been initiated against the Bank of Portugal, the Resolution Fund and/ or Novo Banco and it is likely that other similar proceedings will be submitted within the applicable legal time limits.

Despite the fact that the Resolution Measure expressly determines that "*Any liabilities or contingencies related to the trading, financial intermediation and distribution of debt instruments issued by entities integrating Grupo Espírito Santo*" have not been transferred to Novo Banco and determines as well that a number of other liabilities and contingencies have not been transferred to it, there are several legal proceedings related with the placement, by BES, of debt instruments of Espírito Santo group entities (including, commercial paper) and preference shares issued by special purpose vehicles, which have been submitted by clients who are arguing that any such liability has been transferred to Novo Banco. There are also cases outside of Portugal that are somehow connected with the non-recognition of the Resolution Measure and its effects and/or related decisions of the Bank of Portugal, such as legal proceedings brought against Novo Banco related with the placement of debt instruments of Espírito Santo Group in Venezuela (where, notably, two proceedings with the nominal amount of US$37 million and US$335 million have been filed) and an arbitration in the International Chamber of Commerce.

Furthermore, the Bank is a party in a proceeding in which, among other aspects, the plaintiff requires the declaration of invalidity of the financial pledge existing over the shares of Companhia de Seguros Tranquilidade, S.A. securing a credit granted to Espírito Santo Financial Group, which, according to Bank of Portugal's decision on the Resolution Measure, has been transferred to Novo Banco, together with the related guarantee (financial pledge). The potential defective performance of the financial pledge is also mentioned in the proceedings. Also regarding this matter, the insolvency estate of Partran – former shareholder of Companhia de Seguros Tranquilidade, S.A. – has challenged the creation and enforcement of the financial pledge ("*resolução em benefício da massa insolvente*") and Novo Banco challenged this decision and initiated a proceeding against Partran in December 2015.

On 29 December 2015, the Bank of Portugal adopted a decision regarding the clarification and re-transfer of liabilities and contingencies defined as being excluded from Novo Banco's determined perimeter according to the resolution measure dated 3 August 2014, as clarified and adjusted since such date. In this decision, the Bank of Portugal clarified that a wide range of BES liabilities or contingencies had not been transferred to Novo Banco, including any liabilities or off-balance sheet items of BES which were at 8 p.m. on 3 August 2014 contingent or unknown (including disputed liabilities in connection with pending litigation and liabilities or contingencies resulting from fraud or the breach of regulatory, criminal or administrative provisions or determinations) regardless of their nature (tax, labour, civil or other), and whether or not recorded in BES's books of account.

Furthermore, the Bank of Portugal decided that any liabilities of BES that had been in fact transferred to Novo Banco but did not comply with the above-mentioned criteria and decision were to be re-transferred from Novo Banco to BES with effects from 8.00 p.m. on 3 August 2014.

On 29 December 2015 the Bank of Portugal also decided to retransfer five series of senior bonds, issued originally by BES and placed with institutional investors, with a €100,000 denomination, amounting to a principal amount of approximately 2,000 million.

Following the re-transfer of senior bonds decision of 29 December 2015 mentioned above, several investors in the senior bonds retransferred to BES have filed judicial proceedings in the administrative courts challenging the validity of this decision.

There is a significant number of proceedings related to the application of the Resolution Measure and subsequent decisions of Bank of Portugal, including the ones mentioned above. Novo Banco is not a party to all the above mentioned judicial proceedings and there may be other similar judicial proceedings of which Novo Banco is not a party. As such, any final court decision that may be issued in the context of such judicial proceedings may adversely affect the capacity of Novo Banco to carry out its obligations under the Programme Documents. Several court decisions (in Portugal and abroad) have been determined favourably to Novo Banco, consistent with the Resolution Measure and subsequent decisions of Banco de Portugal. However, in one instance, from a court in Portugal where the sale by BES of preference shares issued by special purpose vehicles created by BES was being discussed, the court considered that the Resolution Measure and the 29 December 2015 Decision were invalid and unconstitutional. Novo Banco is appealing the decision to a superior court. In the event this decision is not revoked, notwithstanding the neutrality decision mentioned in the previous paragraph, this decision may impact other ongoing proceedings.

It is not possible to know or make a full assessment of the impact of any such decisions and they may adversely affect the capacity of Novo Banco to carry out its obligations under the Programme Documents and/or the Covered Bonds.

It is not possible to determine when the relevant courts will issue final awards regarding these or future legal proceedings, or to determine or make a full assessment of the impact or likely outcomes of any such legal proceedings or of future legal proceedings or the consequences arising therefrom for Novo Banco or the Covered Bonds.

Covered Bonds holders should be aware that the legal proceedings and consequences arising therefrom may adversely affect the incorporation, financial condition and/or the capacity of Novo Banco to carry out its obligations under the Programme Documents and/or the Covered Bonds, without prejudice to the potential application of any legal provisions allowing for the mitigation of the effects such proceedings, including the possibility of the Bank of Portugal invoking, in the relevant administrative proceeding, a legitimate cause for non–execution of an award annulling the Resolution, in the terms and subject to the limits provided for in articles 145-AR/3 of the RGICSF and articles 175/2 and 163 of the Portuguese Administrative Courts Procedural Code, in which case a proceeding for determination of a compensation shall be initiated in accordance with articles 178 and 166 of the latter Code.

Ultimately, if a court were to declare the Resolution Measure invalid and, despite its disruptive effects, determine the invalidity and ineffectiveness of all contracts and legal acts performed by Novo Banco since its incorporation, the establishment of the Programme, the security created over cover pool and the issue of the Covered Bonds would become void and investors could suffer substantial losses.

In addition, the European Commission's decision to approve the resolution of BES of 3 August 2014 (State aid no. SA.39250 (2014/N – Portugal, Resolution of Banco Espírito Santo, S.A.) (the "**State Aid**")) in connection with the incorporation of Novo Banco is being challenged at the Court of Justice, and which, if successful, could entail adverse consequences in respect of the State Aid process, including the opening of an in-depth investigation by the European Commission.

Novo Banco is not a party in the above mentioned judicial proceeding in respect of state aid and there may be other similar pending judicial proceedings of which Novo Banco is not party; therefore it is not possible to assess the impacts of any decision in connection thereto.

As such, any final court decision that may be issued in the context of such judicial proceedings may adversely affect the capacity of Novo Banco to carry out its obligations under the Programme Documents and/or the Covered Bonds, without prejudice to the protection granted to the holders of the Covered Bonds in the terms and subject to the limits provided for in the applicable legislation, as mentioned in the "Insolvency of the Issuer" section of this Base Prospectus.

Accounts

The auditors of the Issuer are Ernst & Young, Audit & Associados – SROC, S.A., registered in the Portuguese Securities Market Commission ("**CMVM**") under number 20161480 and in the Portuguese Institute of Statutory Auditors ("**OROC**") under number 178, represented by António Filipe Dias da Fonseca Brás, registered in the CMVM under number 20161271 and in the OROC under number 1661, and by João Carlos Miguel Alves, as alternate statutory auditor, registered in the CMVM under number 20160515 and in the OROC under number 896. Ernst & Young, Audit & Associados – SROC, S.A. has its registered office at Av. da República 90, 1700-157 Lisboa Lisbon, Portugal.

The consolidated financial statements of the Novo Banco Group for the financial period ended 31 December 2018 were prepared in accordance with International Financial Reporting Standards. The financial statements of the Novo Banco Group were audited in accordance with International Standards on Auditing for the financial period ended 31 December 2018 by Ernst & Young, Audit & Associados – SROC, S.A..

Documents Available

For the period of 12 months following the date of this Base Prospectus, physical copies of the following documents will, when published, be available for inspection at and may be obtained free of charge from the registered offices of the Issuer and from the specified offices of the Common Representative for the time being:

a) the constitutional documents (including the Articles of Association in English) of the Issuer;

b) the audited consolidated financial statements of the Issuer and the auditor's report in respect of the financial period ended 31 December 2017 in English;

c) the audited consolidated financial statements of the Issuer and the auditor's report in respect of the financial period ended 31 December 2018 in English;

d) the Programme Agreement and the Set of Agency Procedures, both dated 5 October 2015 as amended and restated;

e) the Common Representative Appointment Agreement dated 5 October 2015;

f) this Base Prospectus;

g) any future prospectuses, offering circulars, information memoranda and supplements, including Final Terms (except for Final Terms relating to Covered Bonds which are not listed on any stock exchange), to this Base Prospectus and any other documents incorporated herein or therein by reference; and

h) in the case of an issue of Covered Bonds subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

The documents listed under (a), (b) and (c) above are a direct and accurate translation from the original Portuguese versions. In the event of a discrepancy, the Portuguese version will prevail.

Electronic copy of this Base Prospectus

Electronic copies of this Base Prospectus (and any supplements thereto) are or will be available from the official website of Euronext Dublin (www.ise.ie).

Language of the Base Prospectus

The language of the Base Prospectus is English. Any foreign language text that is included with or within this document has been included for convenience purposes only and does not form part of the Base Prospectus.

Post-issuance information

The Issuer does not intend to provide any post-issuance information in relation to any issues of Covered Bonds, except if required by law, in which case such information will be disclosed at the Issuer's website.

Third Party Information

Information sourced from the Bank of Portugal, the Portuguese Ministry of Finance, the Portuguese National Statistical Institute and the Portuguese Treasury and Government Debt Agency, and from comparisons based on the accounts reports of other Portuguese banks operating in Portugal has been accurately reproduced and, so for as the Issuer is aware and is able to ascertain from information published by such entities, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Dealers transacting with the Issuer

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and their affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer's affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Covered Bonds issued under the Programme. Any such short positions could adversely affect future trading prices of the Covered Bonds issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments. For the purposes of this paragraph, the term "**affiliates**" includes parent companies.

DEFINITIONS

In this Base Prospectus, the following defined terms have the meanings set out below:

"**Acceleration Notice**" means a notice served on the Issuer pursuant to Condition 9 (*Insolvency Event and Enforcement*).

"**Account Bank**" means Société Générale London Branch, in its capacity as Account Bank, with its head office at SG House, 41 Tower Hill, London, EC3N 4SG, or any successor account bank, appointed from time to time by the Issuer in connection with the Reserve Account and under the Reserve Account Agreement, when applicable.

"**Additional Securit**y" means any other encumbrances or guarantees the benefit of which is vested in the Issuer as security for the repayment of a Mortgage Credit.

"**Affiliate Member of Interbolsa**" means any authorised financial intermediary entitled to hold control accounts with Interbolsa on behalf of their customers and includes any depositary banks appointed by Euroclear S.A./N.V ("**Euroclear Bank**") and/or Clearstream Banking, société anonyme ("Clearstream, Luxembourg") for the purpose of holding such accounts with Interbolsa on behalf of Euroclear Bank and Clearstream, Luxembourg.

"**Agent**" means Novo Banco, S.A., in its capacity as Agent with head office at Avenida da Liberdade, 195, 1250-142 Lisbon, Portugal.

"**Arranger**" means J.P. Morgan Securities plc, and any other entity appointed as an arranger for the Programme and references in this Base Prospectus to the Arranger shall be references to the relevant Arranger.

"**Auditor**" means Ernst & Young, Audit & Associados – SROC, S.A., registered in the Portuguese Securities Market Commission ("**CMVM**") under number 20161480 and in the Portuguese Institute of Statutory Auditors ("**OROC**") under number 178, represented by António Filipe Dias da Fonseca Brás, registered in the CMVM under number 20161271 and in the OROC under number 1661, and by João Carlos Miguel Alves, as alternate statutory auditor, registered in the CMVM under number 20160515 and in the OROC under number 896. The head office of the Auditor is at Av. da República, no. 91, 1700-157 Lisbon..

"**Bank of Portugal Regulations**" means the secondary legislation passed by the Bank of Portugal regulating certain aspects of the Covered Bonds Law, namely Regulation 5/2006, Regulation 6/2006, Instruction 13/2006 and Regulation 8/2006 and any relevant regulations or instructions that may be issued by the Bank of Portugal in the future.

"**Base Prospectus**" means this base prospectus dated 18 July 2019 prepared in connection with the Programme, as amended from time to time.

"**Book Entry Covered Bonds**" means any Covered Bonds issued in book entry form.

"**Business Day**" means a day which is both: (*i*) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and Lisbon and any Additional Business Centre(s) specified in the applicable Final Terms; and (*ii*) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and Lisbon and any Additional Business Centre(s)) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

"**Central de Valores Mobiliários**" means the Portuguese Centralised System of Registration of Securities.

"**Clearing System**" means Interbolsa and/or, in relation to any Series of Covered Bonds, any other clearing system depositary as specified in the relevant Final Terms, and each a "**Clearing System**".

"**Clearstream, Luxembourg**" means Clearstream Banking société anonyme, Luxembourg.

"**CMVM**" means the Comissão do Mercado de Valores Mobiliários, the *Portuguese Securities Market Commission*.

"**Common Representative**" means BNP Paribas Trust Corporation UK Limited, in its capacity as representative of the holders of the Covered Bonds pursuant to Article 14 of the Covered Bonds Law in accordance with the Terms and Conditions of the Covered Bonds and the terms of the Common Representative Appointment Agreement, having its registered office at 10 Harewood Avenue, London NW1 6AA, United Kingdom.

"**Common Representative Appointment Agreement**" means the agreement dated 5 October 2015 entered into between the Issuer and the Common Representative, as amended from time to time, and which sets out the terms and conditions upon and subject to which the Common Representative has agreed to act as Common Representative.

"**Cover Pool**" means the pool of assets maintained by the Issuer and allocated to the issue of Covered Bonds under the Programme, held to the benefit of the holders of Covered Bonds and the Other Preferred Creditors, and including the Mortgage Credits, the Hedging Contracts and the Other Assets, as specified in the Register. The Cover Pool is autonomous from any other cover pool maintained by the Issuer in relation to any other programmes that it has or may establish in the future.

"**Cover Pool Monitor**" means Ernst & Young, Audit & Associados – SROC, S.A., registered in the Portuguese Securities Market Commission ("**CMVM**") under number 20161480 and in the Portuguese Institute of Statutory Auditors ("**OROC**") under number 178 and with registered office at Av. da República, no. 90, 1700-157 Lisbon.

"**Cover Pool Monitor Agreement**" means the agreement, dated 7 January 2019, entered into between the Issuer and the Cover Pool Monitor, as amended from time to time.

"**Covered Bond**" means any conditional pass-through mortgage covered bond issued by the Issuer pursuant to the Covered Bonds Law in the form specified in the applicable Final Terms and "**Covered Bonds**" shall be construed accordingly.

"**Covered Bonds Law**" means the Portuguese legal framework applicable to the issuance of covered bonds, enacted by Decree-law 59/2006, of 20 March 2006, as amended from time to time.

"**CRA Regulation**" means Regulation (EU) no. 1060/2009, of the European Parliament and of the Council, of 16 September 2009, as amended from time to time.

"**Credit Institutions General Regime**" or "**RGICSF**" means Decree-law 298/92, of 31 December 1992, as amended.

"**CSD**" means a central securities depositary.

"**Current Property Value**" means, in relation to a Property securing a Mortgage Credit, the updated Property Valuation of such Property.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest for any Interest Period:

(i) if "**Actual/365**" or "**Actual/Actual**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(ii) if "**Actual/365 (Fixed)**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;

(iii) if "**Actual/365 (Sterling)**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(iv) if "**Actual/360**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;

(v) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and

(vi) if "**30E/360**" or "**Eurobond Basis**" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).

"**DBRS**" means DBRS Ratings Limited.

"**Dealers**" means J.P.Morgan Securities plc, Novo Banco, S.A. and any other Dealer(s) appointed from time to time by the Issuer in accordance with the Programme Agreement.

"**Determination Period**" means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date).

"**ECB**" means the European Central Bank. "**EEA**" means the European Economic Area. "**EU**" means the European Union.

"**Euro**", "**€**" or "**euro**" means the lawful currency of Member States of the European Union that adopt the single currency introduced in accordance with theTreaty.

"**Euroclear**" means Euroclear Bank S.A./N.V..

"**Eurosystem**" means the central banking system for the Euro.

"**Extended Maturity Date**" has the meaning given in the relevant Final Terms.

"**Final Terms**" means, in relation to each Tranche, the final terms applicable to such Covered Bonds.

"**Fixed Interest Period**" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

"**GBP**", "**£**"or "**pounds sterling**" means pounds sterling, the lawful currency of the United Kingdom.

"Group" means the Issuer and its consolidated subsidiaries.

"**Hedge Counterparties**" means the party or parties that, from time to time, will enter into Hedging Contracts with the Issuer in accordance with the Covered Bonds Law.

"**Hedging Contracts**" means the hedging contracts entered into by the Issuer in accordance with the Covered Bonds Law for the purpose of hedging interest rate, exchange or liquidity risks in relation to the Cover Pool.

"**Insolvency Event**" means the winding-up and dissolution of the Issuer under any applicable laws and regulations (including under Decree-law 199/2006, of 25 October 2006, the RGICSF, and/or (if applicable) under the Code for the Insolvency and Recovery of Companies introduced by Decree-law 53/2004, of 18 March 2004).

"**Instruction 13/2006**" means the regulatory instruction ("*Instrução*") 13/2006 issued by the Bank of Portugal relating to certain information duties applicable in relation to the issue of mortgage covered bonds in accordance with the Covered Bonds Law.

"**Interbolsa**" means Interbolsa **-** Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A., as operator of the Central de Valores Mobiliários.

"**Interbolsa Participant**" means any authorised financial intermediary entitled to hold control accounts with Interbolsa on behalf of their customers and includes any depository banks appointed by Euroclear and Clearstream, Luxembourg for the purpose of holding accounts on behalf of Euroclear and Clearstream, Luxembourg.

"**Interest Amount**" means, as applicable, the amount of interest payable on the Floating Rate Covered Bonds in respect of each Specified Denomination, calculated by the Calculation Agent pursuant to Condition 4 (*Interest*).

"**ISDA**" means the International Swaps and Derivatives Association Inc.

"**Issue Date**" means the date so specified in the applicable Final Terms being, in respect of any Covered Bond, the date of issue and purchase of such Covered Bond pursuant to and in accordance with the Programme Agreement or any other agreement between the Issuer and the relevant Dealer(s).

"**Issuer**" means Novo Banco, S.A..

"**Liquidity Event**" means the Interest Payment Date of any Covered Bond in relation to which the Issuer has given a 5 day prior notice to the Liquidity Facility Provider of not having enough available funds to make the payment of the Interest Amount due on the Covered bonds.

"**Liquidity Facility Provider**" means an eligible entity the short-term unsecured debt obligations of which are rated as required by the Covered Bonds Law for liquidity facility providers or such other rating that will not result in a reduction or qualification of the ratings then assigned to the Covered Bonds or is otherwise approved by these rating agencies for the purposes of entering into any Liquidity Facility Agreement, in any case in compliance with the Covered Bonds Law.

"**Loan to Value**" means, in respect of a Mortgage Credit, the ratio of the aggregate Value of such Mortgage Credit to the Current Property Value of the Property securing such Mortgage Credit.

"**Maturity**" means the final legal maturity of any outstanding Covered Bonds, Mortgage Credits, Hedging Contracts or Other Assets, as applicable.

"Maturity Date" has the meaning given in the relevant Final Terms.

"Moody's" means Moody's Investors Service España, S.A..

"**Mortgage"** means, in respect of any Mortgage Credit, the charge by way of legal mortgage over the relevant Property together with all other encumbrances or guarantees the benefit of which is vested in the Issuer as security for the repayment of that Mortgage Credit.

"**Mortgage Credit**" means the pecuniary credit receivables secured by a Mortgage and/or any Additional Security which is comprised in the Cover Pool and which complies with the following eligibility criteria established in the Covered Bonds Law:

a) it is a pecuniary receivable not yet matured, which is neither subject to conditions nor encumbered, judicially seized or apprehended and which is secured by first ranking mortgages over residential or commercial real estate located in an EU Member State;

b) notwithstanding (a) above, it is a pecuniary receivable secured by a junior mortgage but where all Mortgage Credits ranking senior thereto are held by the Issuer and also allocated to the Cover Pool;

c) it is a receivable secured by (*i*) a personal guarantee granted by a credit institution, or (*ii*) an appropriate insurance policy, in any case together with a mortgage counter guarantee evidencing (a) or (b) above.

"**Non-Performing Mortgage Credits**" means, with respect to a Mortgage Credit, that such Mortgage Credit:

a) is in the course of being foreclosed or otherwise enforced; or

b) has one or more payments of principal or interest payable on the related credit in arrears and those payments are referable to a period of 90 days or more.

"**Novo Banco**" means Novo Banco, S.A.

"**Novo Banco Group**" means Novo Banco and its consolidated subsidiaries.

"**Other Assets**" means all assets other than Mortgage Credits and Hedging Contracts which comply with the eligibility criteria established in the Covered Bonds Law and which are included in the Cover Pool as specified in the Register, including:

(a) deposits with the Bank of Portugal in cash or securities eligible for credit transactions in the Eurosystem (which is the monetary authority of the euro area which comprises the ECB and the national central banks of the Member States whose currency is the euro);

(b) current or term account deposits with credit institutions (which are not in a control or group relationship with the Issuer) having a rating as required pursuant to the Covered Bonds Law and which will include, for the avoidance of doubt, funds standing to the credit of the Reserve Account which are subject to the same legal requirements and regime as such deposits (and which compliance at all times the Issuer shall ensure); and

(c) other assets complying simultaneously with the requisites of low risk and high liquidity as defined by the Bank of Portugal;

For the avoidance of doubt, the Other Assets do not include any cash collateral that may be transferred under the Hedging Contracts.

"**Other Preferred Creditors**" means the Common Representative (or any successor thereof) and the counterparties under the Hedging Contracts.

"**Overcollateralisation**" has the meaning given in Condition 15.1.

"**Overcollateralisation Percentage**" means 105.26 per cent. or such other percentage as may be selected by the Issuer from time to time pursuant and subject to the terms of Condition 15.1 and notified to the Cover Pool Monitor.

"**Pass-through Date**" means the date which falls 15 days after the date in which a Pass-through Event occurs.

"**Pass-through Event**" means the occurrence of any of the following events: a) the Issuer fails to repay any Series of Covered Bonds in full on its Maturity Date or within two Business days thereafter, or b) an Insolvency Event in respect of the Issuer.

"**Paying Agents**" means the paying agents named in the Set of Agency Procedures together with any successor or additional paying agents appointed from time to time in connection with the Covered Bonds under the Set of Agency Procedures.

"**Portuguese Companies Code**" means the commercial companies code approved by Decree-law 262/86, of 2 September 1986 (as amended from time to time).

"**Portuguese Securities Code**" means Decree-law 486/99, of 13 November 1999 (as amended from time to time).

"**Principal Amount Outstanding**" means, in respect of a Covered Bond, the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant holder of Covered Bonds in respect thereof.

"**Programme**" means the €10,000,000,000.00 Conditional pass-through Covered Bonds programme established on 5 October 2015 for the issuance of Covered Bonds by the Issuer as described in this Base Prospectus.

"**Programme Agreement**" means the agreement, dated 5 October 2015, entered into between the Issuer, the Arranger and the Dealers named therein, as amended from time to time.

"**Programme Documents**" means the Base Prospectus, the Programme Agreement, the Set of Agency Procedures, the Common Representative Appointment Agreement, the Cover Pool Monitor Agreement and any other agreement or document entered into from time to time by the Issuer pursuant thereto and in relation to the Programme.

"**Programme Resolution**" means any Resolution directing the Common Representative to accelerate the Covered Bonds pursuant to Condition 9 (*Insolvency Event and Enforcement*) or directing the Common Representative to take any enforcement action and which shall only be capable of being passed at a single meeting of the holders of Covered Bonds of all Series then outstanding.

"**Property**" means, in relation to any Mortgage Credit, the property upon which the repayment of such Mortgage Credit is secured by the corresponding Mortgage and "**Properties**" means all of them.

"**Property Valuation**" means, in relation to any Property:

a) the amount determined as the commercial value or the market value (as applicable) of such Property in accordance with the most recent independent valuation of such Property, at the time or after the relevant Mortgage Credit was originated, in accordance with Regulation 5/2006; and

b) the amount determined by resorting to the use of adequate and recognized indices or statistical methods, whenever an independent valuation of the Property is not required pursuant to the Covered Bonds Law and Regulation 5/2006.

"**Prospectus Directive**" means Directive 2003/71/EC of the European Parliament and of the Council, of 4 November 2003, as amended.

"**Prospectus Regulation**" means Commission Regulation (EC) 809/2004, implementing the Prospectus Directive, as amended from time to time.

"**Rating**" means the then current rating of rated Covered Bonds given by the relevant Rating Agency and "**Ratings**" means all of such Ratings.

"**Rating Agencies**" means Moody's and DBRS.

"**Register**" means the register of the Cover Pool and associated collateral maintained by the Issuer in accordance with the Covered Bonds Law and the Bank of Portugal Regulations.

"**Regulation 5/2006**" means the regulatory notice ("*Aviso*") 5/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the valuation of real estate assets serving as security for mortgage credits comprised in cover pools allocated to the issue of mortgage covered bonds in accordance with the Covered Bonds Law.

"**Regulation 6/2006**" means the regulatory notice ("*Aviso*") 6/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the prudential limits applicable in relation to the issue of mortgage covered bonds in accordance with the Covered Bonds Law.

"**Regulation 8/2006**" means the regulatory notice ("*Aviso*") 8/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the insolvency, winding-up or dissolution of a credit institution which has issued covered bonds issued in accordance with the Covered Bonds Law.

"**Regulation S**" means Regulation S under the Securities Act.

"**Relevant Date**" means the date on which a payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the holders of Covered Bonds in accordance with Condition 11 (*Notices*).

"**Reserve Account**" means the account held by the Issuer with the Account Bank, as set out in Condition 5.4.

"**Reserve Account Agreement**" means the agreement so designated entered into between the Issuer and the Account Bank in relation to the creation, operation and maintenance of the Reserve Account, on 6 October 2015 (as amended from time to time).

"**Reserved Matter**" means any proposal: (*i*) to change any date fixed for payment of principal or interest in respect of the Covered Bonds of all or of a given Series, (*ii*) to reduce the amount of principal or interest due on any date in respect of the Covered Bonds of all or of a given Series or to alter the method of calculating the amount of any payment in respect of the Covered Bonds of all or of a given Series on redemption or maturity; (*iii*) to effect the exchange, conversion or substitution of the Covered Bonds of all or of a given Series into, shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed; (*iv*) to change the currency in which amounts due in respect of the Covered Bonds of all or of a given Series are payable; (*v*) to alter the priority of payment of interest or principal in respect of the Covered Bonds of all or of a given Series; (*vi*) to amend this definition; and (*vii*) any other matter required by law to be approved by the majorities set out in Conditions 12(C)(ii) and 12(C)(iii).

“**Resolution**” means a resolution adopted at a duly convened meeting of holders of Covered Bonds and approved in accordance with the applicable provisions.

“Securities Act” means the United States Securities Act of 1933, as amended.

“**Series**” means a Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are: (*i*) expressed to be consolidated and form a single series; and (*ii*) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates, interest rates and/or Issue Prices.

“**Set of Agency Procedures**” means the set of agency procedures (such set of agency procedures as amended and/or supplemented and/or restated from time to time) dated 5 October 2015 and made and agreed by Novo Banco, S.A., in its capacity as Agent, Paying Agent and the Issuer and agreed to by any subsequent agent, paying agent, transfer agent, agent bank and/or registrar appointed by the Issuer.

“**Stabilising Manager**” means the Dealer or Dealers (if any) named as the stabilising manager(s) for a particular Tranche of CoveredBonds.

“**Stock Exchange**” means Euronext Dublin or any other stock exchange where Covered Bonds may be listed as per the relevant Final Terms.

“Substitute Credit Institution” means the entity appointed in case of an Insolvency Event to manage the Cover Pool allocated to the outstanding Covered Bonds and to ensure the payments of the amounts due to the holders of such Covered Bonds.

“**Sub-unit**” means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

“**TARGET2 Day**” means any day on which the TARGET2 System is open.

“**TARGET2 System**” means the Trans-European Automated Real-time Gross Settlement Express Transfer System.

“**Tax**” shall be construed so as to include any present or future tax, levy, impost, duty, charge, fee, deduction or withholding of any nature whatsoever (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same) imposed or levied by or on behalf of any Tax Authority and “Taxes”, “taxation”, “taxable” and comparable expressions shall be construed accordingly.

“**Tax Authority**” means any government, state, municipal, local, federal or other tax, revenue, customs or excise authority, body or official anywhere in the world exercising a tax, revenue, customs or excise function including the Irish Revenue Commissioners and H.M. Revenue and Customs.

“**Tax Deduction**” means any deduction or withholding on account of Tax.

“**Terms and Conditions of the Covered Bonds**” means in relation to the Covered Bonds, the terms and conditions applicable to the Covered Bonds and any reference to a particular numbered Condition shall be construed in relation to the Covered Bonds accordingly.

“**Total Target Reserve Amount**” means on any date, the amount equal to the Interest Amount payable on the Covered Bonds on the three months following such date plus € 100,000.00.

“**Tranche**” means Covered Bonds which are identical in all respects (including as to listing).

“**Treaty**” means the treaty establishing the European Communities, as amended by the Treaty on European Union.

“**U.S.$**”, “**USD**” or “**U.S. dollars**” means United States dollars, the lawful currency of the United States of America.

“**Value**” means:

a) in relation to a Mortgage Credit, (*i*) for the purpose of the Overcollateralisation, an amount equal to the book value of such Mortgage Credit entered on the Register, together with accrued interest; and (*ii*) for the purpose of Loan to Value calculation, an amount equal to the book value of such Mortgage Credit entered on theRegister;

b) in relation to any Other Assets:

   i. the aggregate amount of any deposits together with any matured and accrued interest, as entered on the Register;

   ii. the value resulting from the rules regarding valuation of margins defined by the Eurosystem for securities eligible for Eurosystem credit transactions or, if lower, the nominal value of such securities, including matured and accrued interests.

ANNEX I – ALTERNATIVE PERFORMANCE MEASURES (GLOSSARY)

In addition to the financial information contained in this Base Prospectus prepared in accordance with the financial reporting framework applicable to the Issuer, some Alternative Performance Measures ("**APMs**"), in accordance with ESMA Guidelines on Alternative Performance Measures dated 5 October 2015 (ESMA/2015/1415en) (the "**ESMA Guidelines**"), are also herein disclosed. Novo Banco discloses these APMs for better understanding of its financial performance. These APMs constitute additional financial information and shall not, in any circumstance, replace the financial information produced under the applicable reporting framework. The definition and calculation of APMs by the Issuer may differ from the definition and calculation of APMs used by other issuers of securities and may not be compared.

For the purposes of the ESMA Guidelines an APM is understood as a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.

In addition to the APMs herein listed, for further information on the APMs used by the Group, including their definition and purpose, basis of calculation and reconciliation to the Group's financial statements, see pages 157 to 159 of the Group's 2018 Annual Report, which are incorporated by reference herein.

Pages	Note	Definition
Pages 23, 138, 149, 174	Note 1 – Liquidity Coverage Ratio	Calculated in accordance with CRD IV/CRR
Pages 23, 31, 138, 149	Note 2 – Net Stable Funding Ratio	Calculated in accordance with CRD IV/CRR
Pages 137	Note 3 – Net funding from the European central banks	Corresponds to the funds borrowed from the European central banks deducted from the deposits held with the European central banks
Page 24, 144, 145	Note 4 – Overdue loans> 90 days/Gross loans	Corresponds to the ratio of overdue loans for more than 90 days and the gross total loans to customers
Page 24, 144, 145	Note 5 – Coverage Ratio of Overdue Loans>90 days	Corresponds to the ratio total provisions for credit and overdue loans for more than 90 days
Page 26, 27, 136, 137, 148	Note 7 – Securities portfolio	Corresponds to the consolidated assets recorded on the balance sheet as Financial Assets and Liabilities Held For Trading, Other Financial Assets At Fair Value Through Profit and Loss and Available For Sale Financial Assets, excluding derivative financial instruments
Pages 27, 152, 172	Note 8 – Phased-in Common Equity Tier 1 ratio	Calculated in accordance with the CRD IV/CRR

Pages 148	Note 9 - Customer funds	Includes deposits and other customer funds, which corresponds to the line item Due to Customers on the Balance Sheet.
Page 127, 188	Note 13 – Commercial banking income	Corresponds to net interest income plus net fees and commissions
Pages 129, 149, 188	Note 15 – Loan to deposits ratio	Calculated in accordance to Bank of Portugal Instruction no. 16/2004
Page 129	Note 16 – Cost to income	Corresponds to the ratio of operating costs and the banking income
Page 127, 145	Note 17 – Cost of Risk	Corresponds to the annualized provisions for loan losses in the Profit and loss account divided by the amount of gross loans to customers. Annualized provisions are calculated by dividing the total provisions for loan losses in the profit and loss account for the period in reference by the number of months of the period in reference and then multiplying those results by 12. Annualized cost of risk is not necessarily indicative of the cost of risk that may be expected for a full year.

REGISTERED OFFICE OF THE ISSUER

Novo Banco, S.A.

Avenida da Liberdade, 195
1250-142 Lisbon, Portugal

Telef: (+351) 213 109 595

ARRANGER

J.P. Morgan Securities plc

25 Bank Street, Canary Wharf
London E14 5JP
United Kingdom

COVER POOL MONITOR

Ernst & Young, Audit & Associados – SROC, S.A.

Av. da República no. 90
1700-157 Lisboa

Portugal

DEALERS

J.P. Morgan Securities plc

25 Bank Street, Canary Wharf London E14 5JP

United Kingdom

Novo Banco, S.A.

Avenida da Liberdade, 195 1250-142 Lisbon, Portugal

Telef: (+351) 213 109 595

COMMON REPRESENTATIVE

BNP Paribas Trust Corporation UK Limited

10 Harewood
Avenue, London
NW1 6AA United
Kingdom

AGENT

Novo Banco, S.A.

Avenida da Liberdade, 195
1250-142 Lisbon, Portugal

Telef: (+351) 213 109 595

AUDITORS

Ernst & Young, Audit & Associados – SROC, S.A.

Av. da República no. 90
1700-157 Lisboa

Portugal

LEGAL ADVISERS TO THE ARRANGERS AND THE DEALERS

as to Portuguese law

Vieira de Almeida & Associados, Sociedade de Advogados, S.P.R.L.

Rua Dom Luís I, 28 1200-
151 Lisbon

Portugal