

BASE PROSPECTUS dated 5 October 2015

NOVO BANCO

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**”, “**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**”). Novo Banco is a bridge bank created on 3 August 2014 by means of the Resolution Measure applied by the Bank of Portugal to Banco Espírito Santo, S.A. under article 145-G (5) of the Credit Institutions General Regime then in force. The share capital of Novo Banco is fully underwritten by the Resolution Fund.

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 may be issued in bearer (“*ao portador*”) or registered (“*nominativas*”) form (respectively, “**Bearer Covered Bonds**” and “**Registered Covered Bonds**”) and 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 (including the amendments made by Directive 2010/73/EU) (the “**Prospectus Directive**”) and of article 26 of the Commission Regulation (EC) 809/2004, as amended (which includes the amendments made by the Commission Delegated Regulation (EU) 486/2012) (the “**Prospectus Regulation**”). This Base Prospectus has been approved by the Central Bank of Ireland, as competent authority under Directive 2003/71/EC. 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 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 2004/39/EC 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 Irish Stock Exchange 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 Irish Stock Exchange. Copies of Final Terms in relation to Covered Bonds to be listed on the Irish Stock Exchange will also be published on the website of the Irish Stock Exchange (www.ise.ie).

Arranger

J.P. Morgan

Dealers

J.P. Morgan

Novo Banco, S.A.

The date of this Base Prospectus is 5 October 2015.

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 Board of Directors and Board of Auditors of the Issuer and the Statutory Auditor of the Issuer (see *Management and Supervisory Corporate Bodies*), 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.

PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda., registered with the CMVM with number 9077, with registered office at Palácio Sottomayor, Rua Sousa Martins, 1, 3.º, 1069-316 Lisbon (the “**Auditor**”), hereby declares that it has audited and expressed an opinion on the financial statements of the Issuer for the financial period from 4 August 2014 to 31 December 2014. It also declares that 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 2014, 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 investment portfolio;
- 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.

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 Irish Stock Exchange’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.

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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 <i>General Description of the Programme</i>) 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
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:	PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda., member of the Portuguese Institute of Statutory Auditors (“ <i>Ordem dos Revisores Oficiais de Contas</i> ”), registered with the “Comissão do Mercado de Valores Mobiliários” (CMVM) with number 9077 and with registered office at Palácio Sottomayor, Rua Sousa Martins, 1, 3.º, 1069-316 Lisbon, Portugal. See <i>Cover Pool Monitor</i> .
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, <i>inter alia</i> , those set out under <i>Risk Factors</i> 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 <i>Risk Factors</i> below and include, <i>inter alia</i> , 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 <i>Subscription and Sale and Transfer Restrictions and Secondary Market Arrangements</i> .
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 <i>Subscription and Sale and Transfer Restrictions and Secondary Market Arrangements</i>).
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:	<p>Covered Bonds issued under the Programme may be rated by Moody’s and/or by DBRS.</p> <p>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.</p> <p>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.</p>

Listing and Admission to Trading:

Application has been made to the Irish Stock Exchange for Covered Bonds issued under the Programme to be admitted to the Official List of the Irish Stock Exchange 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 Directive 2004/39/EC 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 *Subscription 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. There are also restrictions under United States federal tax laws on the offer or sale of Bearer Covered Bonds to U.S. persons; Bearer Covered Bonds may not be sold to U.S. persons except in accordance with United States Treasury regulations as set forth in the applicable Final Terms. 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 can be either *nominativas* (in which case 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) or *ao portador* (in which case Interbolsa cannot inform the Issuer of the identity of the holders of Covered Bonds), 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 depository with which the relevant Covered Bond has been deposited. 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:	<p>Floating Rate Covered Bonds will bear interest determined separately for each Series as follows:</p> <ul style="list-style-type: none">• 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. <p>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.</p>
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 <i>The Covered Bonds Law</i>) 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 <i>Extended Maturity Date</i> . 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.

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, 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 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 applicable laws.

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. For the year ended 31 December 2014, 72.7% of the Novo Banco Group's consolidated net assets and 88.54% of net operating income derived from activities in Portugal. Consequently, the business of the Novo Banco Group is particularly exposed to macroeconomic conditions, which affect growth, particularly in the Portuguese market.

As a result of deteriorating economic conditions in Portugal since the crisis that began in mid-2007, the Portuguese government requested external assistance from the International Monetary Fund ("IMF"), the European Commission ("EC") and the "European Central Bank" ("ECB" and, together, the "Troika") in April 2011. The Economic Adjustment Programme (the "Adjustment Programme" or "Programme") agreed with the Troika provided for the availability of financial support to Portugal in the amount of €78 billion over a three year period ending 17 May 2014 (for technical reasons an extension of six weeks was granted to complete a final assessment and the disbursement of the last tranche of €500 million), subject to the implementation of a series of budgetary and structural measures, which were subject to quarterly reviews for the duration of the Programme.

As part of the Programme, the Portuguese government committed to meet certain budgetary and public debt targets and to implement a series of structural reforms that, subject to certain assumptions, were intended to reduce the general government deficit. In addition, the Programme was intended to lead to a reduction in the Portuguese public debt to GDP ratio after 2013 and contained structural measures and policy guidelines designed to boost the country's competitiveness and improve Portugal's growth rates in the medium term.

The performance of the Portuguese economy between 2011 and 2014 was highly dependent on the implementation of the Programme. The need to reduce the public deficit was addressed by the adoption of very restrictive budgetary policies, with negative impacts on economic activity in the near term. At the same time, the private sector - corporate, financial and households - continued its deleveraging process. Under these circumstances, GDP decreased by 1.8% in 2011, 4% in 2012 and 1.6% in 2013, according to Statistics Portugal (INE). Between 2011 and 2013, domestic demand fell close to an accumulated 15% in real terms. As a result, imports contracted 8.4% in the period. Exports performed well, with an 18% accumulated increase, mitigating the fall in domestic demand. The Portuguese economy returned to growth in 2014, with real GDP increasing 0.9%. Domestic demand was the main contributor to this recovery, with a 2.1% increase. Net external demand contributed negatively to GDP, given the recovery in private consumption and investment. As an annual average, the unemployment rate increased from 12.7% of the labour force in 2011 to a peak of 16.2% in 2013, then falling to 13.9% in 2014.

The deleveraging and financial rebalancing of all business sectors in the period described above resulted in a surplus of external accounts (i.e. combined current and capital account) of 2.5% of GDP in 2013, according to Statistics Portugal. In 2014, this fell to 1.9% of GDP, which still compares favourably with the 4.1% deficit in 2011 (and the 9% deficit in 2009). This improvement resulted from adjustments in all institutional sectors, involving an increase in domestic savings and a decrease in investment. The recovery of activity and the tax consolidation measures taken in the context of the assistance programme contributed to a reduction in the general government deficit, from 11.2% of GDP in 2010 to 4.5% of GDP in 2014, in this case 0.3 p.p. below target. The target for 2015 is 2.7% of the GDP. Excluding one-off operations, the Budget deficit in 2014 reached 3.4% of GDP, according to the Portuguese Ministry of Finance and Statistics Portugal.

GDP was up by 0.4% QoQ in Q1 2015 (0.4% in Q4 2014), leaving YoY growth at 1.5%, up from 0.6% in the previous quarter. Domestic demand (particularly fixed investment and private consumption) supported the YoY growth rate. Spending decisions have been supported by a rise in real disposable income and by higher confidence levels. Construction activity is having a positive contribution to growth for the first time since the beginning of the financial crisis. Net external demand, in turn, had a neutral contribution to growth. Exports increased 6.8% YoY, but imports rose 6.6%. These numbers reflect a cyclical recovery, supported by a number of factors, including stronger growth in Europe, lower oil prices (sustaining real income and spending), the indirect effects of a weaker euro, a more neutral tax policy, a gradual improvement in financing conditions (with the contribution of the ECB's QE) and an improvement in confidence levels, after three to four years of strict austerity and high uncertainty. The economy is expected to grow around 1.6% in 2015, with some upside risks to this forecast. Domestic demand should be the main contributor to growth, but with the ongoing recovery in Portugal's main European trade partners and in the US, exports are expected to post significant growth rates. The quarterly unemployment rate increased in Q1 2015, from 13.5% to 13.7% of the labour force, but it then decreased to 11.9% in Q2, with 2.3% QoQ and 1.5% YoY growth in employment. With stronger activity growth, the unemployment rate is expected to continue a gradual declining trend.

Contagion from the Greek financial crisis has been moderate, with 10Y sovereign debt yields around 2.4% (as of August 5th), which compares with a 2015 high of close to 3.4% in mid-June and with 2.7% in the beginning of the year. The sovereign has accumulated a significant cash buffer that should mitigate the effects of potential market volatility. This buffer stood at EUR 12.4 billion at the end of 2014 (7.2% of GDP) and only EUR 3.4 billion of this is expected to be used to cover 2015 financing needs. A cash buffer of around EUR 9 billion is therefore expected to be available at the beginning of 2016, according to IGCP, the Portuguese public debt management institute. Until August 2015, Portugal had made early repayments of around EUR 8 billion to the IMF (compared with an initial annual target of EUR 500 million). Total repayments to the IMF in 2015 are expected

to reach EUR 10.6 billion. Against this background, Portugal continues to benefit from the ECB's quantitative easing programme.

Notwithstanding the fall in oil prices, the outlook for the Portuguese economy remains subject to risks, as significant underlying vulnerabilities, including high public and private debt and moderate growth prospects, render the economy susceptible to a range of domestic and external shocks. With significant tax adjustment needs still ahead, political and legal setbacks constitute a key domestic risk. On the external front, renewed global financial volatility or bond market stress could herald the end of exceptionally favorable financing conditions. This reinforces the need to press ahead with necessary reforms to unlock higher growth while safeguarding against these risks.

Despite the good performance of the Portuguese sovereign yields following the exit from the Programme, the Portuguese sovereign yields may suffer from increased volatility, which might in turn have a negative impact on the funding conditions for the Novo Banco Group. A scenario where Greece would leave the Euro Area would weaken the monetary union on the eyes of investors, and a redenomination risk would likely be considered in the assessment of more vulnerable economies, particularly in the event of a future crisis.

Concerns relating to Portuguese public finances and to political and social stability in Portugal have affected and may continue to affect the liquidity and profitability of financial institutions in Portugal, resulting in, amongst other things, lower market values for Portuguese government debt; limited liquidity in the Portuguese banking system and reliance on external funding; increased competition for, and thus cost of, customer deposits; limited credit extension to customers; and a deterioration of credit quality.

The macroeconomic conditions in Portugal adversely affect the behaviour and the financial condition of the Novo Banco Group's clients, and consequently, the supply and demand of the products and services that the Novo Banco Group offers. In particular, and despite the recent signs of recovery of the labour market and the reduction of corporate insolvencies, it is expected that the high unemployment rates, the low profitability and the high level of indebtedness of companies and an increase in company and personal insolvencies will continue to have a negative influence on Novo Banco's clients ability to pay back loans, and, consequently, could cause an increase in overdue loans and in impairments related to loans and other financial assets. The occurrence of any one or more of these events could have a material adverse effect on the business, financial condition and results of operations of the Novo Banco Group.

Risks relating to global economic conditions and the Euro Zone sovereign debt crisis

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.

Global growth remains very contained, even though global financial conditions remain accommodative. Weaker investment and subdued exports have pulled down growth in emerging market economies, particularly in China. Financial market instability in China could translate into a sharper deceleration in the Chinese economic activity and hurt investor confidence in global financial markets. The fall in commodity prices could hurt emerging market exporters more than anticipated and support global disinflationary trends. The start of a new monetary tightening cycle in the US could have negative impacts on emerging markets and could translate into higher market interest rates in the main developed economies. Stronger than expected growth in the Euro Area could also lead to higher than expected market interest rates, both in the core and the periphery economies, and return by central banks towards more conventional monetary policies.

Despite the favourable forecasts for the global economy in the near and medium term, sustainable economic growth continues to be a challenge, especially in the peripheral countries of the Eurozone, including Portugal. The sovereign debt crisis in Europe exacerbated investors' fears and led to uncertainty with respect to the European financial sector, particularly with respect to the economies in the periphery of the Euro Zone. Although financial and economic conditions in the Euro Zone stabilised during 2014, the risk of a sovereign default and the possibility that the contagion effect spreads to other EU member states remains. The recent political instability and the risk of default of Greece, including the potential exit from the Euro Zone, continue to raise concerns, including the ongoing viability of the euro currency. A busy election calendar in the Euro Area in September-November 2015 (Catalonia, Portugal, Spain, potentially Greece) could be considered a risk, if these elections fail to generate stable majorities in Parliament. Also, disinflationary pressures on the Eurozone represent a risk to the Portuguese economy, as the persistence of low inflation rates can lead to the postponement of investment decisions as well as to debt increases in real terms. In this context, the ECB has been implementing additional measures, including more targeted liquidity funding to the banking sector based on lending developments and a quantitative easing programme, which started ABS and covered bonds and, from January 2015 onwards, included public debt. These measures have had a strong positive effect, as they have been contributing to the stabilization of the financial markets and a significant improvement in terms of the liquidity available in the market.

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 public debt securities of peripheral Eurozone countries (as of 31 December 2014, Novo Banco held approximately EUR 2.1 billion of such securities, of which EUR 0.9 billion in Portuguese sovereign debt);
- have a significant adverse effect on the Novo Banco's capacity to raise and/or generate capital and comply with minimum regulatory capital requirements;
- significantly restrict the Novo Banco's ability to obtain liquidity; and
- negatively affect Novo Banco's capital position, its operational results and its financial condition.

Novo Banco Group is subject to liquidity risk

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

Customer deposits are the main source of funding for Novo Banco Group. The maintenance of sufficient customer deposits to fund the Novo Banco Group's loan portfolio is subject to certain factors outside the Novo Banco Group's control, such as depositors' concerns relating to the economy in general, the financial services industry or the Novo Banco Group specifically, ratings downgrades, significant further deterioration in economic conditions in the Republic of Portugal and the existence

and extent of deposit guarantees. Any of these factors on their own or in combination could lead to a reduction in the Novo Banco Group's ability to access customer deposit funding on appropriate terms in the future and could result in deposit outflows, both of which would have an impact on the Novo Banco Group's ability to fund its operations and meet its minimum liquidity requirements, and may require Novo Banco to increase its use of sources other than deposits, if available, to fund its loan portfolio.

The Novo Banco Group's liquidity could also be impaired by an inability to access wholesale funding, an inability to sell assets or redeem its investments, other outflows of cash or collateral deterioration. These situations may arise due to a deterioration of risk perception of the Novo Banco Group or to circumstances that the Novo Banco Group is unable to control, such as continued general market disruption, loss in confidence in financial markets, uncertainty and speculation regarding the solvency of market participants, credit rating downgrades or operational problems that affect third parties. Access to the interbank markets or the financial markets has been very limited since the creation of Novo Banco, following the application of the resolution measure by the Bank of Portugal to Banco Espírito Santo, S.A. on the 3 August 2014. Even a perception among market participants that a financial institution is experiencing greater liquidity risk can cause significant damage to the institution. Specific ways in which the Novo Banco Group could find its liquidity further impaired include the following:

- Increased difficulty selling 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.
- Financial institutions with which the Novo Banco Group interacts may exercise set-off rights or the right to require additional collateral.
- If the customers with whom the Novo Banco Group has outstanding but undrawn lending commitments were to draw down on these credit lines at a rate that is higher than Novo Banco is anticipating.
- The Novo Banco Group's contingency plan for liquidity stress scenarios relies largely on its ability to enter into repo transactions with the ECB. If the ECB were to suspend its repo programme, and if no similar source of repo financing were to exist in the market, this could severely impede Novo Banco's ability to manage a period of liquidity stress.
- An increase in interest rates and/or credit spreads, as well as any restriction on the availability of credit, including, but not limited to, inter-bank credit, could impact the Novo Banco Group's ability to borrow on a secured or unsecured basis, which may have a material adverse effect on the Novo Banco Group's liquidity and results of operations.

Any 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 the Novo Banco Group's business and results of operations.

Although the 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.

The liquidity gap up to 1 year Novo Banco Group improved from -7.9% at 4th August to -2.0% at year-end. This improvement was mainly due to increase of customer deposits.

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). There is no assurance that Novo Banco will always be able to comply with these requirements or other that maybe introduced in the future.

Risks relating to Novo Banco Group ability to raise funding and reliance on the ECB for funding and liquidity

Although the Portuguese financial system has shown great resilience since the beginning of the economic and financial crisis, having ensured the normal funding of the economy during this period, the tensions associated to the sovereign debt crisis and to the limited access to international wholesale funding markets have exerted major restrictions on banking activity, forcing the institutions to find funding from more stable domestic sources and to resort to funding from the ECB, which currently makes funding available to European banks that satisfy certain conditions, including pledging eligible collateral.

Following the application of the resolution measure, Novo Banco faced increased difficulties to access the financial and interbank markets. However, since the 4th August 2015, Novo Banco Group has considerably improved its liquidity position mainly due to the increase in deposits observed in the last quarter of the year, the sale of financial assets and a deleverage of its loan book which allowed it to achieve the reduction in funding from the ECB to a value of €8.5 billion, representing a reduction of €5.1 billion compared to August (including funding from the Bank of Portugal). Considering deposits held with central banks, the net funding from the ECB was €6.1 billion at the end of the year (a reduction of 2.3 billion euros compared to August 4).

At the end of 2014, the portfolio eligible for rediscount operations was €14.200 million, of which €12.800 million eligible for rediscount with the ECB. The ECB establishes the valuation and the eligibility criteria for collateral assets to be used on repo transactions. Changes to these valuations or the eligibility criteria can have a negative impact on the amount of available assets for that purpose and reduce the liquidity lines available from the ECB. Additionally, downgrades of the credit rating of Portugal or of Portuguese companies could result in an increase in haircuts to any eligible collateral or to the non-eligibility of such assets, thereby decreasing the total amount of eligible portfolio. As the Portuguese government has elected not to negotiate a precautionary programme at the end of the Adjustment Programme, the eligibility of Portuguese public debt will depend on the maintenance of an “investment grade” rating by at least one rating agency (currently Dominion DBRS is the only rating agency that attributes an “investment grade” rating to Portugal). In this context, a credit rating downgrade of Portugal by DBRS would result in the non-eligibility of Portuguese public debt for financing with the ECB.

The curtailment or termination of liquidity operations by the ECB would force the Novo Banco Group to substitute its financing with the ECB with alternative sources of funding which may be available, if at all, at unfavourable conditions or force the Novo Banco Group to dispose of its assets, potentially with a high discount to their book values, in order to comply with its obligations and could significantly increase its funding costs. This would have a corresponding negative impact on its results of operations and financial condition.

In addition to the usual and to the extraordinary liquidity measures implemented throughout the Euro Zone and provided through the ECB in the last years, there is a further measure of last resort, the Emergency Liquidity Assistance (“ELA”), that allows all Euro Zone central banks to support domestic financial institutions, which is applicable to illiquid but solvent financial institutions. Novo Banco has resorted to ELA on the months following the resolution measure but has completely redeemed all amount borrowed under this liquidity line in December 2014 and has not resorted to the ELA funding ever since.

Furthermore, it is not possible to predict which structural and/or regulatory changes might arise from current market circumstances or if such changes could have a negative impact on Novo Banco. If current market conditions continue to deteriorate, especially if that happens for an extended period of time, this could lead to the reduction of credit availability, lower credit quality and increased default

on debt, which could have a material adverse effect on the rating, business activity, financial condition and net operating income of the Novo Banco.

Risks relating to volatility in interest rates

The Novo Banco Group is subject to the risks typical of banking activities, such as interest rate fluctuations. Interest rate risk may be defined as the impact on shareholders' equity or on net interest income due to an adverse change in market interest rates. As is the case with other banks in Portugal, the Novo Banco Group, and especially its corporate and retail segment, 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 comes from the fact that, in the Portuguese market, loans typically have variable 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 intense competition in the sector and the current historically low interest rates that put pressure on a bank's deposit 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.

As a result of the sovereign debt crisis, weak European economic conditions and disinflationary pressures in the Euro Zone, the ECB has reduced its benchmark interest rate for the Euro Zone from 1.5 per cent. in October 2011 to 0.05 per cent. in September 2014. This rate has remained unchanged in 2015. By the end of 2014, some of the Euro Interbank Offer Rates ("Euribor") began to show negative values, which remains the case for EONIA and Euribor 1-3 months.

A rise in interest rates could reduce the demand for credit and Novo Banco Group's ability to generate credit for its clients, as well as contribute to an increase in the credit default rate of its clients. Conversely, a reduction in the level of interest rates may adversely affect the Novo Banco Group through, among other things, a lower margin on deposits, 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's business is significantly affected by credit risk

Novo Banco Group is subject to credit risk, i.e. the risk that Novo Banco Group's clients and other counterparties are unable to fulfil their payment obligations. Risks arising from changes in credit quality and the repayment of loans and amounts due from borrowers and counterparties are inherent in a wide range of the Novo Banco Group's business. Adverse changes in the credit quality of the Novo Banco Group's 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's assets and require an increase in provision for bad and doubtful debts and other provisions. The ratio of overdue loans over 90 days to gross loans has increased from 7.7% as at 4 August 2014 to 8.7% as at 31 December 2014, with a coverage ratio of 147.9%. The ratio of credit at risk was 16.5% with a coverage ratio of 77.8% as at 31 December 2014. The ratio between restructured loans and gross loans to customers, calculated according to the definitions set forth in

Bank of Portugal Instruction No. 32/2013, was 13% in 4 August 2014 and 14.7% as at 31 December 2014.

In a context of weak economic conditions and high levels of unemployment, loans to corporates and individuals and the value of assets collateralising the Novo Banco Group's loans might remain under pressure.

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's 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's hedging and other risk management strategies, which could in turn have a material adverse effect on the Novo Banco Group's 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.

Novo Banco Group's business is exposed to Market Risk

The Novo Banco Group engages in various activities for its own account, including entering into interest rate, credit, shares 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.

The Novo Banco Group had a value at risk ("VaR") of €50.6 million as at 31 December 2014 (including BEI of EUR 9.9 million) in its trading positions in respect of shares, interest rates, volatility and credit spread, total commodities position and foreign exchange and public debt available for sale and fair value portfolios. This compares with €24.9 million at 4th August 2014, although it should highlight the extension of the scope of, as well as the introduction of, certain changes to the methodology. The VaR come essentially from shares, credit spreads and foreign exchange. VaR is calculated using the Monte Carlo simulation, with a 99% confidence level and an investment period of 10 days.

As a complement to risk measurement the simulation of extreme scenarios applying extreme individual shock to all risk factors, based on the variations, more and less positive, observed in 10 days in the last 20 years is also analyzed.

Proprietary trading involves a certain degree of risk. Future proprietary trading results will in part depend on market conditions, and although the Novo Banco Group seeks to actively manage its capital markets exposure in light of prevailing market conditions, there can be no assurance that it will be successful in doing so. 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 material losses if the Novo Banco Group cannot close out deteriorating positions in a timely way. This may especially be the case for assets for which there are less liquid markets. Assets that are not traded on stock exchanges or other public trading markets, such as derivative contracts between banks, may have values that the Novo Banco Group calculates using models other than publicly quoted prices. Monitoring the deterioration of prices of assets like these is difficult and could lead to losses that the Novo Banco Group cannot anticipate. As such, the Novo Banco Group could incur significant losses, which could have an adverse effect on the Novo Banco Group's financial condition and results of operations.

The Novo Banco Group is exposed to risks relating to losses caused by adverse changes in financial assets recorded at fair value. Under IFRS, the Novo Banco Group recognises at fair value financial assets classified as "held for trading", financial assets classified as "fair value through profit or loss", financial assets classified as "available-for-sale" and derivatives on such assets. As at 31 December 2014, the Novo Banco Group held a portfolio of available-for-sale financial assets equal to €9.5 billion, financial assets at fair value through profit or loss of €2.2 billion and financial assets held for trading of €1.1 billion. From the Novo Banco Group's assets recorded at fair value, 36% are public debt instruments. Additionally, 58% of such assets are classified as Level 1 (those that are quoted on a recognised market), 16% as Level 2 (those for which valuation methods with prices and standards that are observable in the markets are used) and 26% as Level 3 (those for which valuation methods with prices and standards that are not observable in the markets are used).

In order to establish the fair value of these assets, the Novo Banco Group relies on quoted market prices or, where the market for the financial asset is not sufficiently active, internal valuation models. In certain circumstances, the data for individual financial instruments or classes of financial instruments utilised by such valuation models may not be available or may become unavailable due to changes in market conditions. In such circumstances, internal valuation models require the Novo Banco Group to make assumptions, judgments and estimates in order to establish fair value. These assumptions, judgments and estimates are inherently uncertain and may need to be updated to reflect changing trends and market conditions, potentially resulting in significant decreases in value.

Any reduction in the fair value of financial assets would require the Novo Banco Group to recognise a loss. These losses could have a material adverse effect on the Novo Banco Group's financial condition and results of operations.

Risks relating to competition in the banking markets

The Novo Banco Group faces intense competition in all of its areas of operation (including, among others, corporate and retail banking, investment banking, specialised credit and asset management), both in Portugal and in international markets. The Novo Banco Group's competitors in the markets in which it is active are principally commercial and investment banks.

Structural changes in the Portuguese economy in the past have significantly increased competition in the Portuguese banking sector. 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 that may continue. For instance, Banco BPI, S.A. has been recently targeted by a takeover

launched by its major shareholder (Caixa Bank) and in the aftermath of such failed takeover there are rumours that a possible merger between Banco BPI, S.A. and Banco Comercial Português, S.A. may occur.

Competition has further increased with the emergence of non-traditional distribution channels such as internet and telephone banking.

The principal competitors of the Novo Banco Group in the banking sector (ranking in terms of assets as of 31 December 2014) are Caixa Geral de Depósitos, the Millennium BCP Group, the BPI Group and Banco Santander Totta Group.

Competition for customer deposits has been especially intense in Portugal. Competition in the domestic market can have an adverse effect on the activities of the Novo Banco Group. The competition is affected by demand, technological changes, the impact of consolidation, regulatory actions and other factors. If the Novo Banco Group is unable to offer attractive products and services that are profitable, 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.

Although the Novo Banco Group believes it is in a strong position to continue to compete in the markets in which it operates, there can be no assurance that it will be able to compete effectively in these markets in the future.

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 frauds, as a result of the Novo Banco Group's financial operations), breach or delays in the provision of services, confidentiality obligations with regards to customer information and compliance with risk management requirements. The Novo Banco Group continually monitors these risks by means of, among other things, advanced administrative and information systems and insurance coverage in respect of certain operational risks. However, the Novo Banco Group may be unable to successfully monitor or prevent these risks in the future. Any failure to successfully execute the Novo Banco Group's operational risk management and control policies could have a material adverse effect on the Novo Banco Group's 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.

Risks relating to regulatory requirements

The banking activities of the Novo Banco Group are subject to extensive regulation by the ECB, the EBA and the Bank of Portugal, mainly relating to liquidity levels, solvency and provisioning. These various regulations can significantly increase the costs of the Novo Banco Group's structure and limits its possibilities for increasing its income.

Following the recommendations issued by the Basel Committee on Banking Supervision regarding the amendments to the then applicable rules on the calculation of capital requirements for international banks (known as Basel II), a new set of recommendations usually known as Basel III was finalised on 1 June 2011. This includes some amendments to the capital ratios as well as the inclusion of leverage and liquidity ratios.

The regulatory package known as CRD IV/CRR, comprised of Regulation (EU) No 575/2013, as amended, and Directive 2013/36/EU of the European Parliament and of the Council, of 26 June, as amended, has implemented the prudential regulatory framework known as "Basel III" at the level of

the EU and establishes new minimum requirements on capital, new rules on the type of capital instruments that are eligible for own funds and new liquidity and leverage requirements. These rules will be applied gradually between January 2014 and January 2024.

The established minimum capital requirements are 4.5% for Common Equity Tier 1 (“CET1”) capital, 6% for Tier 1 capital and 8% for total capital. Credit institutions will be required to maintain minimum buffers, namely a 2.5% capital conservation buffer, a countercyclical buffer specific to the institution of between 0% and 2.5%, a buffer between 1% and 3.5% for certain institutions deemed to be globally systematically important institutions, a buffer between 0% and 2% for other certain globally systematically important institutions and macroprudential systemic risk buffer between 1 and 3% or between 3 and 5%, depending on the economical conjecture. In addition, the regulatory authorities may impose minimum requirements to address Pillar 2 risks. CRD IV/CRR also changed the criteria for qualification as regulatory capital instruments, namely Additional Tier 1 capital instruments (“AT1” or “Additional Tier 1”) and Tier 2 capital instruments (“Tier 2”).

Under the Basel III framework as adopted in CRD IV/CRR, there are also changes related to liquidity requirements including the provision for near and medium/long term liquidity and financing requirements referred to as the liquidity coverage ratio (“LCR”) and net stable funding ratio (“NSFR”). The LCR, whose implementation is due for October 2015, requires sufficient high-quality liquid assets to satisfy short-term liquidity needs under stressed conditions and which can be no less than 100% of the liquidity outflows for the following 30 days. The NSFR, whose implementation is recommended for 2018, seeks to establish a stable funding minimum amount based on the liquidity of the institution’s assets and its activities over a one-year period.

CRD IV/CRR also introduce a leverage ratio aimed at monitoring possible under-estimations of risk-weighted assets and avoid excess leverage through a simple calculation. This ratio is calculated by dividing the total Tier 1 capital by total exposure as defined in CRD IV. In addition to the balance sheet assets, the denominator includes other off-balance sheet items.

Regulatory Notice (“*Aviso*”) 6/2013 issued by the Bank of Portugal regulates the transition provided in Regulation (EU) 575/2013 and has determined a minimum Common Equity Tier 1 ratio of 7.0 per cent. calculated with transitional arrangements and to be complied from 1 January 2014 onwards.

Novo Banco is currently under the Supervisory Review and Evaluation Process (SREP), an overall assessment of capital adequacy conducted by the ECB, which includes stress testing. The final result of the SREP is expected to be disclosed before the end of 2015, and may imply additional capital requirements for Novo Banco, above the minimum regulatory level.

In addition, 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. Therefore, any increase in the amount of these requirements could have an adverse impact on the Novo Banco Group’s business and results of operations.

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.

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.

Risks relating to the Bank Recovery and Resolution Directive (BRRD)

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/EU of the European Parliament and of the Council, of 15 May 2014, 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.

The implementation of these measures and the exercise of these powers directly affect the rights of shareholders and creditors.

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) will apply from 1 January 2016. The bail-in tool as proposed in the BRRD will apply to all “eligible liabilities” (as defined in the BRRD) irrespective of when they were issued.

The BRRD was fully implemented in Portugal by Law 23-A/2015, of 26 March 2015, which amended the RGICSF and included the requirements for the application of preventive measures, supervisory intervention and resolution tools to credit institutions and investment firms in Portugal.

Credit institutions will be required to produce suitable recovery plans to resolve problems with liquidity, solvency, or overall exposure to risk, and to keep such plans up-to-date. To complement the resolution plans, the authorities will have preventive powers, including the powers to limit or modify exposure to risk, require additional information, set restrictions or prohibitions on certain activities and changes to group structures.

Within the scope of preventive interventions, the authorities are notably entitled to prohibit the distribution of dividends to shareholders or to holders of hybrid securities and replace managers or directors. Such interventions might have a direct effect on Novo Banco Group’s results of operations and additional indirect impacts through changes to such institutions’ business activities.

In relation to credit institutions that are in breach, the authority’s powers include, among others, the right to enforce the transfer of assets, rights or liabilities to another entity, amortisation or cancellation of shares, debt write-off or conversion, replacement of management or demands for continuity of supply of essential services. Such actions by the relevant authority could have negative consequences on the Novo Banco Group’s profitability, its financing costs and the implementation of its global strategy and cause a material adverse effect on its business activity, financial condition and results of operations.

Furthermore, the resolution fund created pursuant to Decree-law 31-A/2012, of 10 February 2012, and the funding of such resolution fund depends upon contributions by the Portuguese banking sector. Among others, credit institutions with their head office in Portugal shall be called to mandatorily participate with initial and periodic contributions to the resolution fund, which amount shall be fixed on an annual basis. Additionally, if such resources are insufficient for fulfilment of its obligations, then other financing means can be used, including special contributions from credit

institutions. Any such contributions could have a material effect on the results of operations and the financial condition of the Novo Banco Group.

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

On 3 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 payout 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.

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

On 3 August 2014, the Bank of Portugal decided to apply to BES a resolution measure (the “**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 Resolution Measure can be viewed at: http://www.bportugal.pt/en-US/OBancoeoEurosistema/ComunicadoseNotasdeInformacao/Documents/Deliberation_3_Aug_2014_8pm.pdf.

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 (or absence of 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 can 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, there are several legal proceedings related with the placing, by BES, of debt instruments of Espírito Santo group entities (including, commercial paper) submitted by clients who are arguing that any such liability has been transferred to Novo Banco and several misselling claims in respect of these instruments. Additionally, there are ongoing proceedings in Portugal and England against Novo

Banco and/or Bank of Portugal related with the financing in the amount of around USD 835,000,000 made by Oak Finance Luxembourg to BES, which Bank of Portugal has considered as not being transferred to Novo Banco.

Furthermore, the Bank was notified of a pending 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.

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 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, determines 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.

According to public information, EC's decision to approve the State Aid granted by Portugal 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 EC.

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 Prospectus.

Impact of the Resolution Measure applied to BES on the legal proceedings and liabilities or contingencies existing as of 3 August 2014

According to the Resolution Measure, the following liabilities have not been transferred to Novo Banco: “*Any liabilities or contingencies, namely those resulting from fraud or the breach of regulatory, criminal or administrative provisions or determinations*”.

Considering the above, it is Novo Banco’s understanding that court proceedings relating to such liabilities and any of such liabilities or contingencies were not transferred to Novo Banco. This understanding has already been transmitted to the Bank of Portugal which may, within its statutory powers, confirm it or not.

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.

Sale Process of Novo Banco, transfers of assets, liabilities, off-balance sheet items and assets under management between BES and Novo Banco and sale of assets of Novo Banco

The share capital of Novo Banco is fully underwritten by the Portuguese resolution fund (created by Decree-law no. 31-A/2012, of 10 February) in accordance with Article 145-G(4) of RGICSF, and in line with the BRRD and Commission Delegated Regulation (EU) 2015/63 of 21 October 2014 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to ex ante contributions to resolution financing arrangements (the “**Resolution Fund**”).

Information about the sale process may be obtained at <http://www.fundoderesolucao.pt/en-US/ofundo/Pages/AlienacaoNB.aspx>.

On 15 September 2015 the Bank of Portugal announced that, after careful consideration, it had decided to postpone Novo Banco’s sale process. The Bank of Portugal considered that, throughout the sale process, there were some uncertainty factors and that the sale process would benefit from clarifications, which the Bank of Portugal expects to occur in the near future.

According to the Bank of Portugal, the sale process will resume once the main uncertainty factors are clarified and the sale will take place when circumstances allow proposals to be received more consistent with the Bank of Portugal’s objectives.

As of the date of this Prospectus there is no certainty as to whether the sale process will occur or if it will occur within the 24 months deadline (provided for in the EC’s Decision approving the State aid granted by Portugal in connection with the incorporation of Novo Banco), when it will be completed, who will be the new shareholder(s) of Novo Banco and what are the long term plans of such shareholder(s) for Novo Banco.

The fact that this sale process is ongoing, however, does not affect the possibility set out in RGICSF that changes to the set of assets, liabilities, off-balance sheet items and assets under management of Novo Banco may still occur by way of:

- (a) transfers and retransfers of assets, liabilities, off-balance sheet items and assets under management between BES and Novo Banco, decided at the discretion of the Bank of Portugal;
- (b) sale of assets, promoted by the Bank of Portugal, or by Novo Banco, if so authorised by the Bank of Portugal;
- (c) any other transfer, sale or transaction as promoted or authorised by the Bank of Portugal under applicable law.

Ultimately, in the event that it is not possible to sell Novo Banco and/or all of its assets, liabilities, off-balance sheet items and assets under management, the Bank of Portugal may decide that Novo Banco is to be wound-up under the terms and conditions set out in RGICSF.

The impact of the above is uncertain and cannot be predicted by the Issuer and 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 Prospectus. 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.

The various measures approved by the Portuguese Republic to ensure budgetary consolidation, stimulate the economy and support the banking system have led to a considerable increase of public debt levels. In the context of low growth, the need to restore the balance to public finance in the medium term, as negotiated in the PAEF, will imply increased tax costs through the expansion of the tax base, tax rates and/or reduction of tax benefits, as well as increased restrictions on tax planning practices, which may directly affect the Bank’s net income and turnover. Moreover, changes in legislation may require the Bank to bear costs associated with participation in financial stabilisation mechanisms, at a national or European level.

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

The Portuguese State Budget Law for 2013, 2014 and 2015 (Law 66-B/2012, of 31 December 2012, Law 83-C/2013, of 31 December 2013 and Law 82-B/2014, of 31 December 2014) have included legislative authorisations that allow the Portuguese Government to introduce a financial transaction tax (“FTT”) under the scope of the Portuguese Stamp Duty. However, at present, an FTT has yet to be implemented in Portugal. The legislative authorisation provides a broad range of transactions that would fall under the scope of the proposed FTT, covering all the transactions involving the sale and purchase of financial instruments made on the secondary market, namely (i) share capital participations; (ii) bonds; (iii) money market instruments; (iv) participation units on investment funds; and (v) derivative and structured financial products. According to the legislative authorisation, the expected rates are as follows: up to 0.3 per cent. on general transactions; up to 0.1 per cent. on highly frequent transactions; and up to 0.3 per cent. on transactions involving derivatives.

On 14 February 2013 the European Commission published its proposal for a Council Directive implementing enhanced cooperation in the form of an FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia, which was intended to take effect on 1 January 2014, but negotiations are still ongoing. The proposed Council Directive aims to ensure that the financial sector makes a fair and substantial contribution to covering the costs of the recent crisis and creating a level playing field with other sectors from a taxation point of view.

The proposed FTT has a very broad scope and could, if introduced in its current form, apply to certain dealings in Covered Bonds (including secondary market transactions) in certain circumstances. The issuance and subscription of Covered Bonds should, however, be exempt.

Under current proposals 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 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.

There can be no assurance that an 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.

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 investment portfolio;
- 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 Covered Bonds*.

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.

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.

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.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Austria may instead (unless during that period it elects otherwise) impose a withholding system (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld). A number of non-EU countries and territories have adopted similar measures to the EU Directive.

A number of non-EU countries and certain dependent or associated territories of certain EU Member States have agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident in an EU Member State. In addition, the EU Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in an EU Member State to, or collected by such a person for, an individual resident in one of those territories.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of or in respect of tax were to be withheld from that payment, neither the Issuer, the Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Covered Bonds as a result of the imposition of such withholding tax. If a withholding tax is imposed on a payment made by the Paying Agent, the Issuer will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

The European Council formally adopted a Council Directive amending the Savings Directive on 24 March 2014 (the “**Amending Directive**”). The Amending Directive broadens the scope of the requirements described above. Member States have until 1 January 2016 to adopt the national legislation necessary to comply with the Amending Directive. The changes made under the Amending Directive include extending the scope of the Savings Directive to payments made to, or secured for, certain other entities and legal arrangements. They also broaden the definition of “interest payment” to cover income that is equivalent to interest.

However, the European Commission has proposed the repeal of the Savings Directive from 1 January 2017 in the case of Austria and from 1 January 2016 in the case of all other Member States (subject to ongoing requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). This is to prevent an overlap between the Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The proposal also provides that, should it proceed, Member States will not be required to apply the new requirements of the Amending Directive.

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 passthru 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 passthru payment are filed with the Federal Register (for foreign passthru 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 passthru 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 United States.

The governments of Portugal and the United States have in substance reached an agreement related to FATCA, and the IRS has provided that Portugal and the United States are treated as having entered into an intergovernmental agreement (“IGA”) through the end of 2014 (“Portugal IGA”), which, according to the US Department of Treasury was signed on 6 August 2015. Assuming the Portugal IGA will enter into effect in 2015, the Issuer is not expected to be subject to withholding or generally required to withhold amounts on payments it makes under FATCA. Additionally, the Issuer is not

expected to have to enter into an agreement with the IRS regarding compliance with FATCA (an "FFI Agreement") and instead would be required to report to the Portuguese government only, the latter being responsible for reporting to the US authorities.

In this respect, Portugal has recently implemented, through Law 82-B/2014, of 31 December 2014, the legal framework regarding the reciprocal exchange of information on financial accounts subject to disclosure in order to comply with FATCA. Under this legislation the Issuer will be required to obtain information regarding certain accountholders and report such information to the Portuguese government, which, in turn, would report such information to the IRS. It is foreseen that additional legislation will be created in Portugal namely regarding certain procedures, rules and dates in connection with FATCA.

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 by Ministerial order 292/2011, of 8 November 2011) 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 will be 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 <http://www.novobanco.pt/SITE/cms.aspx?srv=207&stp=1&id=759472&fext=.pdf>)
- b) the audited consolidated financial statements of the Issuer in respect of the financial year ended 31 December 2014, together with the auditors' reports prepared in connection therewith (available at <http://www.novobanco.pt/cms.aspx?srv=207&stp=1&id=758921&fext=.pdf> and at www.cmvm.pt)
- c) the interim report and accounts of the Issuer in respect of the six-month period ended 30 June 2015 (available at <http://www.novobanco.pt/site/cms.aspx?plg=5FDCCD97-34BA-4BDD-9385-6220A865C833>). The interim report and accounts of the Issuer that are incorporated by reference herein are unaudited but contain a limited review report of the Auditors.

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.

FORM OF THE COVERED BONDS AND CLEARING SYSTEMS

The Covered Bonds will be held through a central securities depository (“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 may be either in registered form (*nominativas*), in which case 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, or in bearer form (*ao portador*), in which case Interbolsa cannot inform the Issuer of the identity of the holders of Covered Bonds, as specified in the applicable Final Terms.

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 eligibility criteria.

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 payment current-accounts held in the payment system of the Bank of Portugal 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 current account of the Paying Agent with the Bank of Portugal 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:

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 5 October 2015 [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.

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 and year)
- 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] [[specify reference rate] +/- [●] 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] [[specify reference rate] +/- [●] per cent. Floating Rate]
- (further particulars specified below)
- 11 Redemption/Payment Basis: Subject to any purchase and cancellation or early redemption, the Covered Bonds will be

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, 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 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: [●]
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: [●]
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] <i>(State “Not Applicable” unless the Covered Bonds are Floating Rate Covered Bonds after the Pass-through Date.)</i>
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] <i>(State “Not Applicable” unless the Covered Bonds are Floating Rate Covered Bonds after the Pass-through Date.)</i>
(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] <i>(State “Not Applicable” unless the Covered Bonds are Floating Rate Covered Bonds after the Pass-through Date.)</i>
(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] <i>(State “Not Applicable” unless the Covered Bonds are Floating Rate Covered Bonds after the Pass-through Date.)</i>
(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]
		<i>(see Condition 4 (Interest) for alternatives)</i>
	• 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]
		<i>(see Condition 4 (Interest) for alternatives)</i>
		<i>(State “Not Applicable” unless the Covered Bonds are Floating Rate Covered Bonds after the Pass-through Date.)</i>
18	Zero Coupon Covered Bonds Provisions	[Applicable] / [Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
	(i) Accrual Yield:	[●] per cent. per annum
	(ii) Reference Price	[●]

PROVISIONS RELATING TO REDEMPTION

19	Call Option	[Applicable]/[Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
	(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	[●] <i>(NB – If setting notice periods which are different to those provided in the Terms and</i>

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

[Bearer Covered Bonds]/[Registered Covered Bonds]

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: [Not Applicable / [●] (*give details*)
 (i) Instalment Amount(s): [Not Applicable [●] (*give details*)
 (ii) Instalment Date(s):
- 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 TEFRA C 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: [Irish Stock Exchange] / [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 [Irish Stock Exchange]/[other] (*specify* with effect from [●].] [Not Applicable.]
- (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) 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)*)

(iv) Delivery: Delivery [against/free of] payment

(v) Names and addresses of additional Paying Agent(s) (if any): [●]

(vi) [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 Issue Prices.

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 Irish Stock Exchange’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 and Conditions.

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 and rules.

1. FORM, DENOMINATION AND TITLE

The Covered Bonds are in bearer or in registered form as specified in the applicable Final Terms (Bearer Covered Bonds and Registered Covered Bonds, respectively). Covered Bonds of one Specified Denomination may not be exchanged for Covered Bonds of another Specified Denomination and Bearer Covered Bonds may not be exchanged for Registered Covered Bonds and *vice versa*.

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 can either be Registered Covered Bonds (“*nominativas*”) in which case Interbolsa, at the Issuer’s request, can ask the Affiliated Members of Interbolsa for information regarding the identity of the holders of Covered Bonds, or Bearer Covered

Bonds (“*ao portador*”), in which case Interbolsa cannot inform the Issuer of 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 Bond 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 Final Terms.

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 bearer of any Bearer Covered Bond and the registered holder of any Registered 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 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 of Interest.

(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 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).

(E) 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.

(F) 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 or deduction.

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 Covered Bonds;
- (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 such person.

(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 Condition 6.7.

(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 and Conditions.

(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 Condition 4.4.

(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 occurrence 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 Payment Date.

(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 Cover Pool,

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 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.

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;
- (iv) the Issuer will ensure that it maintains a Paying Agent in a Member State of the EU that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC, as amended, or any other Directive or any law implementing or complying with, or introduced in order to conform to such Directive.

11. NOTICES

All notices regarding the Covered Bonds shall be published in a manner which complies with the applicable listing rules of the Irish Stock Exchange 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);

(D) 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*.

(E) 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 then outstanding.

(F) 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.

(G) 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.

(H) 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 OF THE 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 COVERED BONDS

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 POOL AND 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 yield curve.

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, Regulation 7/2006 and Regulation 8/2006 and any relevant regulations or instructions that may be issued by the Bank of Portugal in the future.

“**Bearer Covered Bonds**” means any Covered Bonds in bearer form (“*ao portador*”).

“**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 55 Moorgate, London EC2R 6PA, 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 PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda., member of the Portuguese Institute of Statutory Auditors (“*Ordem dos Revisores Oficiais de Contas*”), registered with the CMVM with registration number 9077 and with registered office at Palácio Sottomayor, Rua Sousa Martins, 1, 3.º, 1069-316 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 Ltd;

“**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;

“**Registered Covered Bond**” means any Covered Bond in registered form (“*nominativas*”).

“**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 7/2006**” means the regulatory notice (“*Aviso*”) 7/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the weighting coefficient applicable to the ownership of covered bonds issued 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 or about 5 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.

“**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 the Irish Stock Exchange 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.

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 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 yield curve.

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 secondary market.

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 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 Covered Bonds.

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 Group, provided such valuation expert is independent from the credit analysis and decision making process within the 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 into account;
- c) a description of possible qualifications to the analysis;
- 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 the review.

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 Mortgage Credit.

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 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 in accordance with and for the purposes of the Portuguese Securities Code (*investidor qualificado*) 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.

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 reelected 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 5 October 2015, the Issuer appointed PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda. as Cover Pool Monitor. PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda. is registered with the CMVM under registration number 9077.

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. is a bank incorporated in Portugal (registered with the Commercial Registry of Lisbon with commercial registry and tax payer number 513 204 016) on 3 August 2014, with limited liability (“*sociedade anónima*”). Novo Banco is a bridge bank created on 3 August 2014, by means of the resolution measure applied by the Bank of Portugal to Banco Espírito Santo, S.A. (“BES”) pursuant to Article 145-G (5) of the RGICSF in the version then in force (the “**Resolution Measure**”). It is subject to the legal and regulatory framework applicable to Portuguese banks. The share capital of the Bank is €4.900.000.000, represented by 4.900.000.000 ordinary, nominative shares, with a nominal value of €1,00 per share. The share capital of Novo Banco was fully subscribed by the Resolution Fund, in line with the European Community regulatory framework.

THE GROUP

The Group serves all segments of private customers, companies and institutions by offering them a diversified range of financial products and services through approaches and valuable offers, capable of answering, in a distinctive way, to their needs. Products and services include customers’ deposits, credit granted to companies and to individuals, management of investment funds, brokerage and custody services, and even the sale of life and non-life insurances.

In addition to the domestic banking activity, the Group also offers an extended international activity focused on countries with economic and cultural affinities with Portugal.

MISSION

Novo Banco, as a Bridge Bank, main targets are: (i) value creation for its shareholders, while trying to satisfy its customers’ needs and (ii) professional fulfilment of its employees.

The core mission consists in the alignment of a sustained strategy to strengthen its competitive position in the market, with a total respect for the concerns and well-being of its customers and employees, while ensuring the maintenance of low levels of risk and maximizing the value of the assets received on the date of the constitution of the Bank.

The Group is a universal financial group, with a presence in four continents, but with its decision center in Portugal, its privileged market.

STRATEGY

The Group has as its main development axis and strategic differentiation the offer of services well known by its excellence and the permanent focus on the needs of each customer, regardless of whether they are individual, corporate or institutional customers.

The Group offers, through proposals of differentiated value, a range of solutions and financial services, aiming to meet the specific needs of each customer.

The circumstances that led to the creation of the Group created a challenging environment that required the mobilization of employees to deal with the exceptional and complex situation, which resulted from the resolution measure applied to the original financial institution.

Among these challenges we highlight the following, due to their scope and relevance:

- a) Re-gain the customers’ confidence, with the objective of increasing customers’ deposits, which will enable the stabilization of the funding tools of the Bank;
- b) Support future profitability, through the relevant position held by Novo Banco on the corporate sector, allowing the Bank to contribute to domestic economic development and benefit from the expected recovery of the Portuguese economy.
- c) Keep the deleveraging of the balance sheet through a selective sale of assets, in order to improve liquidity and solvency levels, while supporting small and medium enterprises, in general, and

- exporting companies, in particular;
- d) Decrease of the ECB funding, supported on the recovery of customer funding and on the liquidity generated by the sale of assets;
 - e) Full collaboration with the competent authorities in compliance with all regulatory requirements in a management framework of a Bridge Bank.

BANKING ACTIVITY

Domestic Activity

In Portugal the Group operates through a branch network, corporate centers and private banking centers, all supported on a unique brand. The commercial dynamic and resilience of its employees allowed the Group to keep a competitive position in the market, in an extremely adverse environment, considering the circumstances that originated the Group.

The Group has a leading position in the segments of Private Banking and Corporate Banking and offers asset management services, through GNB Asset Management (former ESAF - Espírito Santo Financial Assets SGPS, SA), and insurance services through GNB – Companhia de Seguros de Vida, S.A. (“**GNB Vida**”) and GNB – Companhia de Seguros, S.A. (“**GNB Seguros**”).

The distribution network is one of the key factors of the competitive position of the Bank. As at 31 December 2014, the Group held a domestic retail network of 631 branches and 37 branches abroad, including 35 in Spain and 2 in Cape Verde.

The branch network was complemented by specialized centers totally dedicated to the companies and private segments: 23 private banking centers (19 in Portugal and 4 in Spain) and 30 business centers (23 in Portugal and 7 in Spain).

On a resizing process of the domestic network 14 branches, with lower levels of profitability, were closed.

Besides the physical presence throughout the domestic territory, the Group has developed a multi-channel approach, in its relationship with customers, through Internet based products. A significant number of Internet banking service (NBnet) frequent users consolidate the leading position, of the Group, in internet banking in Portugal.

Novo Banco offers to its customers several communication channels and accesses that allows them to keep in touch, with the Bank, using the latest technologies:

- a) **NBapp (smartphone)**: service specifically developed to be used by Android or iOS smartphones (iPhone) and with access to several banking operations. The smartphone NBapp is a communication channel with the largest rate of growth at a users level and offers a range of options suitable for mobile use, accessible anytime, wherever the customer is;
- b) **NBapp (tablet)**: application developed to take full advantage of the potential of Android and iPad tablets. An innovative solution, differentiated from the remaining apps available in the domestic and in the international markets, due to its user friendly characteristic in the submission of operations and by the possibility of customization of the customer’s screen options according to their preferences, among other possibilities that the service offers;
- c) **NBdirecto**: telephone service that allows the customers to do their banking operations and get advice on products. The NBdirecto provides a set of telephone lines adapted to each customer's profile: NBdirecto internacional, NBdirecto Boas-Vindas, NB Private Phone, Linha NB 360º, Linha informativa T e NBdirecto Seguros;
- d) **NBcall**: messaging service through NBnet which allows the customers to get in contact with the Bank free of charge, 'send us a message and we will call you directly';
- e) **NBchat**: online 'chat' service 'contact us'.

International Activity

The Bank is present in 20 countries (apart from Portugal), on 4 continents. The internationalization of domestic companies, the growing interdependence between the economies and the large communities of Portuguese citizens established across the world have been the basis for the international presence of the Group.

(i) Spain

In Spain, the Group operates through a network of 35 branches in the areas of corporate banking (7 business centers), private banking (4 centers) and affluent banking. Taking advantage of the geographical proximity, the Bank has an Iberian vision of the market, facilitating and promoting exports and direct investment by Portuguese companies in Spain and by Spanish companies in Portugal.

(ii) United Kingdom

Novo Banco London Branch concentrates its activity in wholesale banking in the European market, including syndicated credit transactions, leveraged finance operations and commodities structured trade finance, in project finance operations.

(iii) Luxembourg

Since January 2012, Novo Banco Luxembourg Branch became an important international financial centre and home to a large community of Portuguese residents. The main aim of the new unit is to serve the Portuguese community as well as the Group's international customers.

The new branch concentrates its activity on the corporate, private and affluent banking segments, as well as in providing financial services to the Portuguese residents in Luxembourg who are also Novo Banco customers in Portugal.

(iv) Venezuela

The Group operates in Venezuela through the Novo Banco Venezuela Branch, a universal services bank that opened in January 2012.

In Venezuela, it focuses on the corporate, private and affluent banking segments, mainly targeting the large Portuguese community in the country as well as the Venezuelan companies that do business with Portugal.

The aim of the Group is to take advantage of a closer relationship between Portugal and Venezuela which is taking shape through the increasing presence of Portuguese companies in this country as well as by the signing of various bilateral agreements.

(v) Mozambique

The Group has 49% stake in Moza Banco, a Mozambican bank that opened for business in June 2008.

Moza Banco focuses its activity on the corporate, private and affluent banking segments. At the end of 2014, it had a network of 30 branches, the result of an expansion effort aimed at covering all the provinces in the country.

Its holding in Moza Banco reinforces the Group's presence in Africa and positions Novo Banco to take an active role in Mozambique's growth, both as a partner of its local business community and by providing support to the Portuguese companies operating in the country. The Group thus offers its customers a wide range of financial products, namely trade finance, financing for investment projects, cash and savings management services, and trade transactions in the domestic and international markets.

(vi) France

In France, Novo Banco holds an 87,5% stake in Banco Vénétie, which provides financial and corporate banking services mainly to Portuguese residents in France.

(vii) ***Cape Verde***

The activity of Banco Internacional de Cabo Verde is concentrated on the local corporate market, particularly the public sector and affiliates of Portuguese groups with economic interests in Cape Verde, and on the local affluent market. Until March 2015 Novo Banco detained an offshore branch in Cape Verde which ceased its activity.

(viii) ***United States***

Novo Banco New York branch focuses its activity in wholesale banking, mainly in the United States and Brazil. Given the strong reduction of banking activity in this market, together with the sale of Banco Espírito Santo Investment Bank (“**BESI**”), the Bank took the decision to close the branch during 2015.

(ix) ***Macau***

The Group is present in the Macau Special Administrative Region through Novo Banco Asia, whose main activity is to support the business operations developed by the Group’s customers in the region, as well as the wholesale funding activity, while seeking to seize business opportunities leveraged by the expressed intent of the central government of the People’s Republic of China to consider Macau as a platform for economic cooperation with Portuguese-speaking countries.

(x) ***Angola***

In Angola, Novo Banco holds a 9,7% stake in Banco Económico S.A., which operates in the commercial and investment banking.

(xi) ***Other International Operations***

The Group has representative offices in South Africa, China, Mexico and Switzerland. In addition, it has established partnerships with local banks, namely Banco delle Tre Venezi, in Italy (20,0%), Banque Marocaine du Commerce Extérieur (2,6%), in Morocco, and Banque Extérieure d’Algérie, in Algeria.

MAIN BUSINESS AREAS

Novo Banco is a universal bank, with a wide offer and well defined approach to each of its business segments serving all customer segments – individual, corporate and institutional.

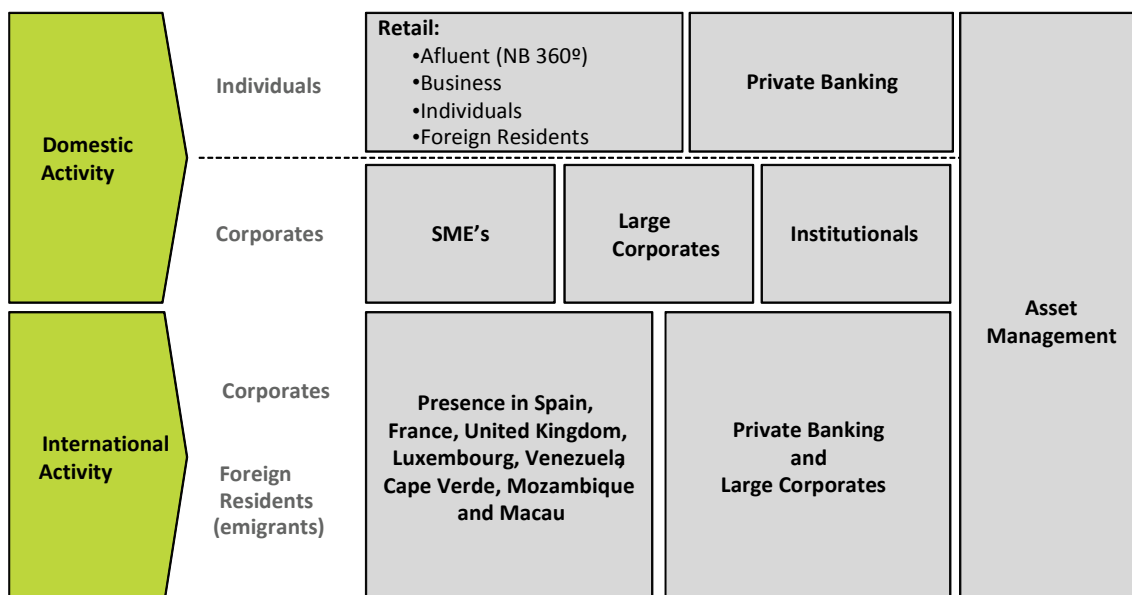
When monitoring the performance of each business area, the Group uses the following Operating Segments:

- a) Domestic Commercial Banking, which includes the Retail, Corporate, Institutional and Private Banking sub segments;
- b) International Commercial Banking;
- c) Investment Banking;
- d) Asset Management;
- e) Life Insurance;
- f) Markets and Strategic Investments;
- g) Corporate Center.

Each segment is directly supported by specifically allocated structures, as well as by those central units whose activity is most closely related to each of these segments. These structures run individual monitoring of each operational unit of the Group (considered from the viewpoint of an investment

centre) while the Board of Directors defines strategies and commercial plans for each Operating Segment.

As a complement to the above mentioned, the Group uses a second segmentation of its activity and results according to geographical criteria, separating the performance of the units located in Portugal (Domestic Area) from that achieved by the units abroad (International Area).



Domestic Commercial Banking

This operational segment includes banking activity for both retail and corporate customers based on the distribution network composed of branches, corporate centers and other channels.

The Group's approach to retail customers is based on a diversified and distinct offer that targets the customers' financial needs. The creation of differentiated value propositions is supported by the constant development of products and services, segmentation criteria adjusted to the customers' characteristics, high service quality and effective communication. This segment comprises the following sub segments:

(i) ***Retail Banking***

Retail banking relates to operations in Portugal with retail customers and small businesses. This sub-segment includes activities in Portugal, most notably mortgage and consumer loans, small business financing, bank deposits, retirement saving plans and other insurance products, account and methods of payment management and services for placement of investment funds, sale and purchase and custody of securities.

Over the last few years the Bank has developed innovative value proposals for the Retail sub-segment, specifically for the segments of affluent customers ("NB360°"), small businesses and independent professionals ("Small Businesses"), individual retail customers ("Mass Market"), and Foreign Residents ("Emigrants"). To serve these customers, the Bank has a network currently comprising 631 branches.

The NB360° service is a reference proposition in financial counseling and customer monitoring for the affluent segment. This service combines high quality standards, permanent monitoring by a dedicated specialised account manager and an exclusive offer and solutions adapted to these customers' specific requirements.

The competitiveness of the NB360° segment is based on a set of strategic initiatives, which include:

- a) A new remote approach to affluent customers, which together with the specialized units centers 360°, realized, in wider terms, a value proposal to the segment, allowing a significant increase of the share-of-wallet and of the customer loyalty;
- b) The NB360° commitments materialize the excellence of the customer service in the achievement of concrete goals, ensuring a professional, rigorous and dedicated approach, with a proactive and effective attitude on the presentation of the best solutions for each customer's need;
- c) A wide offer of competitive products and services, including solutions for innovative and competitive savings, healthcare products and leisure products, ensuring a transversal answer to the needs of affluent customers;
- d) Innovative tools that allow achieving the full satisfaction of the customers' needs, as it is the case of the trading platform "NBnet Trading".

This segment currently represents over 55% of the total customer's resources, thus provides a stable base of funding for the Group.

The Small Business sub-segment elected as a priority of its commercial activity to offer innovative and competitive cash management and payment and receipt solutions which allow the Customers to manage their working capital requirements more effectively, streamlining costs and the need to resort to bank credit. The segment has increased its focus on the sale of the following products:

- a) Cash Management Solutions and Point of Sale Terminals suiting the requirements of micro companies and independent professionals.
- b) The 'Express Bill' solution, an innovative system for payments and receipts permitting to issue electronic forward payment orders guaranteed by Novo Banco.

The support provided to the partners in customer firms by specialist account managers, at personal and professional level, is one of the more distinctive features of Bank's approach to the segment. An integrated vision of the customers' needs, considering the interconnected impacts between personal and business events and taking a genuine interest on seeing them succeed over the various phases of their life, make Bank the partner of choice in the Small Businesses segment, while also furthering the Bank's ambition of achieving a high level of penetration in firms whose partners have opted for concentrating a substantial part of their assets with Novo Banco and who resort to the Bank for support in their day-to-day management needs.

On the Mass Market sub segment, the Bank continues to reinforce its offer of savings products and other everyday protection and safety products. The Bank thus continued to focus on innovative saving solutions adjusted to the prevailing economic context.

At the savings level, in the current economic context, the focus is directed to riskless solutions such as time deposits, in order to regain the customers' trust. The offer of insurance products continued to feature as one of the essential protection products towards families' incidents that might put in risk their financial stability.

The Direct Channels continued to play a key role in the relationship with the customers, providing the following: (i) access to the entire range of services, account enquiries and transactions which can be done remotely; (ii) sale of a range of products, namely saving and insurance products, which can be acquired directly through the internet, with the support of a phone operator, or by scheduling a meeting with the branch or account manager; (iii) integration and centralised management of the CRM platforms (branch, NBnet and NBdirecto), where the success of the customised offers provided at the time the customer interacts with the remote channel confirms their adjustment to the customers' needs; (iv) new solutions adjusted to the customers' mobility needs affording safe, convenient and permanent access in any circumstance.

According with the latest data from Marktest, when comparing the satisfaction of internet banking systems users, the MBnet stands as the service that collects the highest degree of satisfaction, maintaining a clear leadership in the year, when considering the average rating of all the eight evaluation criteria (safety, design, services available, user friendly, availability, speed of loading pages, speed of execution of operations, overall satisfaction with the service).

The customer satisfaction with the service NBdirecto is also high - 80% of the customers claim to be very satisfied.

For the Emigrants, the Bank has a wide offer of products and services for its customers residing abroad, such as:

- a) Specialized Offer: The Bank, constantly, seeks to adapt its services to the needs of its customers, encouraging and reinforcing the commitment to the social and financial inclusion of individuals and organizations;
- b) Savings Products:
 - “Poupança Programada”: Allows scheduled savings by subscribing deposits that may go from 10 euros per month to a monthly deposit plan, in which the customer establishes the desired amounts and timeframes, allowing the adjustment of the savings to their family’s budget. Customers have the opportunity to subscribe this savings product by its maturities: 3, 5 and 10 years.
 - “Micro Poupança”: is a solution that allows any customer to start saving small amounts, by rounding their daily expenses and wiring this rounding to a savings account (examples: mortgage credit instalments, individual credit instalments, insurance premiums, direct debts, etc.)
 - “Poupança por Impulso”: Enables customers with the app “poupe” (for smartphones), to increase their savings with small amounts (between 5 and 50 euros) each time they use it. To use it, simply open the app and press the button. A transfer will be made from the account selected as the source account to a new account created at the time of product subscription, with the description "Poupança por Impulso".
 - “Micro Doar”: Allows customers willing to make donations to have easy access to private institutions of social solidarity. This service allows the customers to round all or some payments and wire the value of that rounding to a savings account chosen by the customer institution (same concept as the “Micro Poupança” product). Besides the value of the rounding, for each customer that subscribes this product, Novo Banco donates 10 euros to a private institution of social solidarity chosen by the customer.
- c) “Microcrédito”: In the current socio-economic context, Novo Banco adopted “Microcrédito” as an incentive tool to self-employment and to the creation of micro-companies, supporting entrepreneurial initiatives that seek to add value to the domestic economy. Through “Microcrédito”, Novo Banco offers suitable solutions to the needs of entrepreneurs that are at risk of exclusion, by offering two funding mechanisms:
 - Novo Banco own solutions – “Microcrédito NB”;
 - Protocols signed with Associação Nacional de Direito ao Crédito (ANDC) e Instituto de Emprego e Formação Profissional (IEFP);

In 2014, the Bank financed 94 projects, which allowed the creation of 140 jobs, representing a credit amount of about 1.7 million euros.

Currently the portfolio of “Microcrédito NB” has financed 998 projects, totaling 17.1 million euros of granted credit.

The services sector is the sector with the greater demand for such funding representing 35% of the total, followed by retail with a share of 26%;

- d) Seniors – Novo Banco offers a range of products and services adapted to the needs of this segment facilitating their inclusion in the financial system;
- e) New Residents – Novo Banco developed a specialized range of products and financial services tailored to the needs of immigrant communities in Portugal in order to allow an easier and more complete integration. This offer includes: a welcome cycle, full integration, credit access and small business solutions;
- f) Universities – Novo Banco maintains partnerships with several Universities that are references in their areas, when considering the excellence of the teaching, the potential future of their students or the impact on the dynamics of the region where they operate;
- g) Environmental Products and Services - Aware of the importance that the financial sector plays in the promotion of the environmental responsibility, the Group has a specific range of innovative products and services that promote environmental responsibility of their customers;
- h) “Account NB 18.31 carbon neutral” - Developed with the goal of having a lower environmental impact, the bank account NB 18.31, is an online account, totally carbon neutral. In partnership with the company “e)mission”, Novo Banco quantified the CO2 emissions associated with the account NB 18:31 resultant, for example, from the use of computers, paper production and cards, among others.

(ii) ***Corporate and Institutional Customers***

This sub-segment includes businesses with large and medium-sized companies, as well as with institutional and municipal customers. The Group holds a leading position in the Corporate and Institutional Customers sub-segment as a result of its support to the development of the Portuguese business community, where it targets companies with an adequate risk profile (rating higher than BB), innovative characteristics and export orientation.

Support to internationalization

The exports of the Portuguese companies grew 51.9% since 2009 in cumulative terms. The Bank supports this growth through the offer of a range of services and products able to support the needs of the companies in their internationalization projects.

The International Premium Department (PID) offers specialized services to support Portuguese companies in the export and / or direct investment in international markets. The DIP has specialized management teams, fully dedicated to business, ensuring effective support that may range from the identification of potential customers, to the prospect of suitable countries to their exports and/or in the selection of the right partners, and finally to the conclusion of the international business.

The international business relies on a network of local managers in countries where the Bank is present, which are called 'Cross Border Managers'. In the remaining geographies where the Bank is not present, this support comes from a solid network of correspondent banks built up over the years.

By December 2014 the international business managers supported around 400 companies in the different phases of their internationalization processes. The dynamic international offer, along with a constant concern to reduce the risks of internationalization, led the Bank to a relevant market

share in commercial segments, such as, trade finance (28.0%), and credit support to exporting companies (22.5 %).

In the Iberian market, the strong connection between domestic commercial network and the Group network in Spanish territory fostered the growth of business: 106 new Iberian customers, representing an additional financial turnover of 173 million by December 2014.

Support for Innovation and Entrepreneurship

Business innovation and entrepreneurship are critical in the growth of any economy.

In the edition 2014 of the National Innovation Contest (a contest promoted by the Bank that aims to boost of the Portuguese productive sector), Novo Banco ran 88 projects in the areas of 'Health, Services and Information and Communication Technologies', 'Industrial Competitiveness' and 'Natural Resources & Environment', having been awarded prizes in a total value of 205 million euros.

Also as part of the support for Innovation and Entrepreneurship, the Group promotes a close cooperation between commercial structures of the Bank and a team of ES Ventures innovation experts, who play an increasingly important role in supporting domestic Start-ups. An example of this support is the Management Course for Innovators and Entrepreneurs, held in cooperation with “EDP Inovação”.

Support to the Investment and to Permanent Capital Increase

The Bank approved about 3,4 billion euros, based on the established protocol credit lines with PME Invest, PME Crescimento and Investe QREN, which represented a global market share of 17.1%.

In 2014 there were around 166 million euros, in new credits, approved under the PME Crescimento credit line.

The protocol credit lines established with European Investment Bank (EIB) and European Investment Fund (EIF) allowed granting credit, in favourable conditions to domestic PMEs, contributing to the implementation of major investment projects and to the support of their treasury needs. By December 2014 the total amount approved of these credit lines was around 303 million euros.

Support to Treasury

In November 2014, the data reported by ALF (Portuguese Association of Leasing, Factoring and Renting), showed a strong presence of the Bank in the factoring solutions, with a relevant market share of 18.1% (989 million euros) in credit under management.

The Bank continues to be at the forefront of financial innovation, through the Bank Express Bill solution, actively promoting the stimulation of economic activity, the adoption of best practice in financial management and helping to improve the financial condition of the companies. Novo Banco's Bill Express network connects all companies - micro, small, medium and large companies - ensuring payments and anticipating receipts. This solution has gained preponderance as a treasury solution, helping to build trust and enhance business transactions between companies.

The approximately 19,000 subscribers of this innovative service have been granted the approval to nearly 2,300 million euros in credit limits, allowing the Bank to anticipate approximately 12 billion euros in payments, annually. In 2014 Novo Banco's Bill Express was extended to Spain, Portugal's main commercial partner, and is the only financial instrument that allows to guarantee and to anticipate online payments between companies of both countries.

The venture capital role in Novo Banco

The ES Ventures develops its activity through the investment in technology-based companies and in innovative business projects with high growth potential. This investment is done through venture capital funds.

With approximately 250 million euros under management, to invest in innovative companies (focused in the areas of Clean Tech, Health Care & Wellbeing and IT), ES Ventures has a portfolio of about 45 subsidiary companies, which are developing leading services and products worldwide.

Small and Medium Enterprises

“Solutions Novo Banco Agriculture”

This solution provides medium and long term credit lines based on partnerships with many leading companies allowing the replacement of agricultural equipment at favourable credit conditions. This solution highlights (i) the possibility of funding up to 100% of the investment, (ii) the maximum maturity of ten years and (iii) a grace period of up to three years. Also in terms of the treasury support to the agricultural companies, the Bank innovated with the solution Novo Banco’s Express Bill.

Fund to Support Micro and Small Enterprises (“FAME”)

The FAME is a support tool for local development, with the purpose of funding micro companies and small and medium enterprises. FAME is integrated into the IAPMEI in Axis III of the Finicia Program and involves the mutual guarantee companies, Municipalities, IAPMEI and Societies of Regional Development, allowing greater efficiency in the granted support, minimizing the risk of funding.

The financial terms of this product are extremely competitive on the market. The funding can go up to 45,000 euros per project.

In 2014, the Bank’s portfolio comprised 125 financed projects with a total value of 4 million euros, of which 3.2 million euros were granted by Novo Banco and 800,000 euros granted by municipalities with whom the Novo Banco established protocols.

Municipalities and Institutional Customers

Institutional customers (municipalities, municipal companies, universities, public hospitals, foundations, associations, institutions of the services sector and others) of the Bank are followed by specialized teams, which are located in Porto, Viseu, Lisbon, Évora and Algarve (Albufeira and Faro). This specialization of the Novo Banco teams, as well as the close relationship, enables the development of long-term partnerships with institutional customers.

(iii) Private Banking

This segment of business of Novo Banco is dedicated to the high net worth private customers, offering personalized asset planning services through a Private Manager.

The team of Private Managers is divided by 19 Private Banking Centers, present in the main district capitals of Portugal, ensuring a real proximity with the customer.

The Novo Banco Private Banking provides a service of management of the customers’ assets, analyzing the specificities and needs, the risk profile and the service expectations of each customer, to better define the best asset allocation in each particular case.

The team of Private Managers does the commercial monitoring of each customer, supported by a team of specialized investment experts. This asset management Private Banking service is independent and global, and offers several investment solutions in financial assets and also a range of products, such as, Private Account, Treasury Funds and the Platinum Credit Cards from American Express and Visa networks.

The Novo Banco Private Banking ended the year 2014 with total assets under management of 5,406 million euros.

International Commercial Banking

This operational segment incorporates the retail units located abroad whose banking activity is directed both at private and corporate customers, excluding investment banking and asset management businesses, which are incorporated in their respective segments. The most important units contributing to this segment are Novo Banco branches in Spain, London, Luxembourg and Venezuela. Available services and products include deposits, all forms of credit, leveraged finance operations, structured trade finance and project finance. This segment has played a leading role within the Group's funding strategy, with institutional customers. The Group's strategy is to serve local customers in target segments but also customers doing business on a transnational scale.

Investment Banking

The investment banking activity was performed by BESI. Its main aim was to provide services to the medium- and large- sized business customer segment as well as the institutional customer segment, and, in certain specific areas, individual customers in conjunction with private banking.

On the 8 December 2014, Novo Banco informed that it entered into a sale and purchase agreement in respect of the whole share capital of BESI with Haitong International Holdings Limited, a company incorporated in Hong Kong which is a wholly-owned subsidiary of Haitong Securities Co., Ltd, being the price of the sale 379,000,000.00 (three hundred and seventy nine millions) Euros. The execution of such sale was dependent on obtaining a set of authorizations of the relevant authorities, including but not limited to Bank of Portugal, European Commission, competition authorities and other authorities that directly supervise the buying entity. The sale was completed on 7 September 2015.

Asset Management

This segment includes all asset management activities carried out mainly by ESAF - Espírito Santo Financial Assets SGPS, SA in Portugal and abroad (Spain, Luxembourg and Angola) through specialized companies. The product range covers all types of funds - securities, real estate and pension - apart from providing discretionary management services.

At the end of the year the volume of assets under management amounted to about 10.7 billion euros, representing a decrease of 38.0% over the previous year.

In consolidated terms, by business areas, there was a strong growth in volumes under management on real estate investment funds (+35%) and a reduction on the discretionary management activity (-66%) and on Investment Funds (-28%).

By the end of the year the international activity represented about 32% of total assets under management with a volume of about 3.3 billion euros, of which more than 1.7 billion was in the Spanish market and about 924 million was in Angola. In Luxembourg, the portfolios under management represented, by the end of 2014, more than EUR 764 million, representing a decrease of about 40% over the previous year.

Life Insurance

This segment comprises the activity of GNB Vida – Companhia de Seguros de Vida, S.A., which provides both traditional and unit-linked insurance products, as well as pension plans.

GROUP STRUCTURE

Companies directly consolidated in the Novo Banco, as at 31 December 2014:

	Year incorporated	Year acquired	Registered office	Activity	Share-holding %	Consolidation method
NOVO BANCO, SA	2014	-	Portugal	Commercial banking		
GNB - Companhia de Seguros Vida, SA (GNB VIDA)	1993	2006	Portugal	Insurance	100,00%	Full consolidation
Banque Esprito Santo et de la Vénétie, SA (ES Vénétie)	1927	1993	France	Commercial banking	87,50%	Full consolidation
Avistar, SGPS, SA	2009	2009	Portugal	Management of shareholdings	100,00%	Full consolidation
Novo Banco Servicios Corporativos, SL	1996	1997	Spain	Insurance distrib. & real estate management	100,00%	Full consolidation
Novo Activos Financieros, SA	1988	2000	Spain	Asset management	95,00%	Full consolidation
Novo Vanguarda, SL	2011	2011	Spain	Services	100,00%	Full consolidation
Novo Banco dos Açores, SA (NBA)	2002	2002	Portugal	Commercial banking	57,53%	Full consolidation
BEST - Banco Electrónico de Serviço Total, SA (BEST)	2001	2001	Portugal	Home banking	75,00%	Full consolidation
BES África, SGPS, SA	2009	2009	Portugal	Management of shareholdings	100,00%	Full consolidation
Novo Banco Ásia, SA (NB ÁSIA)	1996	1996	Macao	Commercial banking	99,75%	Full consolidation
BES Beteiligungs, GmbH (BES GMBH)	2006	2006	Germany	Management of shareholdings	100,00%	Full consolidation
BIC International Bank Ltd. (BIBL)	2000	2000	Cayman Islands	Commercial banking	100,00%	Full consolidation
Praça do Marquês - Serviços Auxiliares, SA (PÇMARQUÊS)	1990	2007	Portugal	Management of real estate investments	100,00%	Full consolidation
Esprito Santo, plc. (ESPLC)	1999	1999	Ireland	Non-bank financing	99,99%	Full consolidation
ESAF - Esprito Santo Activos Financeiros, S.G.P.S., SA (ESAF)	1992	1992	Portugal	Management of shareholdings	89,99%	Full consolidation
ES Tech Ventures, S.G.P.S., SA (ESTV)	2000	2000	Portugal	Management of shareholdings	100,00%	Full consolidation
Banco Esprito Santo North American Capital Limited Liability Co. (BESNAC)	1990	1990	USA	Commercial paper issuance	100,00%	Full consolidation
BES Finance, Ltd. (BESFINANCE)	1997	1997	Cayman Islands	Pref. shares & other securities issuance	100,00%	Full consolidation
GNB - Recuperação de Credito, ACE (GNBREC)	1998	1998	Portugal	Debt collection	99,15%	Full consolidation
ES Concessões, SGPS, SA (ES CONCESSÕES)	2002	2003	Portugal	Management of shareholdings	71,66%	Full consolidation
Esprito Santo - Informática, ACE (ESINF)	2006	2006	Portugal	Services	82,28%	Full consolidation
Esprito Santo Prestação de Serviços, ACE 2 (ES ACE2)	2006	2006	Portugal	Services	88,26%	Full consolidation
ESGEST - Esp. Santo Gestão Instalações, Aprov. e Com., SA (ESGEST)	1995	1995	Portugal	Services	100,00%	Full consolidation
Esprito Santo Representações, Ltda. (ESREP)	1996	1996	Brazil	Representation services	99,99%	Full consolidation
Quinta dos Cónegos - Sociedade Imobiliária, SA (CÓNEGOS)	1991	2000	Portugal	Real estate trading	81,00%	Full consolidation
Fundo de Capital de Risco - ES Ventures II	2006	2006	Portugal	Venture capital fund	65,97%	Full consolidation
Fundo de Capital de Risco - ES Ventures III	2009	2009	Portugal	Venture capital fund	60,81%	Full consolidation
Fundo de Capital de Risco - BES 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	97,42%	Full consolidation
ImoInvestimento - Fundo Especial de Investimento Imobiliário Fechado	2012	2012	Portugal	Real estate fund management	100,00%	Full consolidation
Predilco 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	95,86%	Full consolidation
Esprito Santo Logística - Fundo Especial de Investimento Imobiliário Aberto	2007	2012	Portugal	Real estate fund management	77,54%	Full consolidation
FLITPTREL VIII, SA	2011	2011	Portugal	Tourism real estate exploration	10,00% ^{a)}	Full consolidation
OBLOG Consulting, SA	1993	1993	Portugal	IT services	66,63%	Full consolidation
GNB - Companhia de Seguros, SA (GNB SEGUROS)	1996	1996	Portugal	Insurance	25,00%	Equity method
ESEGUR - Esprito Santo 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% ^{c)}	Equity method
Banco Delle Tre Venezie, Spa	2006	2007	Italy	Commercial banking	20,00%	Equity method
Nanium, SA	1996	2010	Portugal	Semiconductor production	41,06%	Equity method
Ascendi Pinhal Interior - Estradas do Pinhal Interior, SA	2010	2010	Portugal	Motorway concessionaire	18,57% ^{b)}	Equity method
UNICRE - Instituição Financeira de Crédito, SA	1974	2010	Portugal	Non-bank financing	17,50% ^{b)}	Equity method
Ijar Leasing Algérie	2011	2011	Algeria	Leasing	35,00%	Equity method
Edenred Portugal, SA	1984	2013	Portugal	Services	50,00% ^{c)}	Equity method
Multipessoal Recursos Humanos - SGPS, S.A	1993	1993	Portugal	Management of shareholdings	22,52%	Equity method

a) This company was included in the consolidated balance sheet through the full consolidation method as the Group exercises control over its activities via a shareholder agreement

b) The percentage presented above reflects the Group's shareholding. These entities were included in the consolidated balance sheet by the equity method as the Group exercises significant influence over their activities, as referred to in Note 2.2

c) Entities consolidated under the equity method as the voting rights allows the control by other shareholders

Subgroups:²

	Year incorporated	Year acquired	Registered office	Activity	Share-holding %	Consolidation method
BES Beteiligungs, GmbH (BES GMBH)	2006	2006	Germany	Management of shareholdings	100.00%	Full consolidation
Bank Espírito Santo International, Ltd. (BESIL)	1983	2002	Cayman Islands	Commercial banking	100.00%	Full consolidation
BES África, SGPS, SA (BES ÁFRICA)	2006	2006	Portugal	Management of shareholdings	100.00%	Full consolidation
Banco Internacional de Cabo Verde, SA	2010	2010	Cape Verde	Commercial banking	100.00%	Full consolidation
Moza Banco, SA	2008	2010	Mozambique	Commercial banking	49.00%	Equity method
ESAF - Espírito Santo Activos Financeiros, S.G.P.S., SA (ESAF)	1992	1992	Portugal	Management of shareholdings	89.99%	Full consolidation
GNB - Sociedade Gestora de Fundos de Investimento Mobiliário, SA	1987	1987	Portugal	Investment fund management	89.99%	Full consolidation
GNB - International Management, SA	1995	1995	Luxembourg	Investment fund management	89.81%	Full consolidation
GNB - Sociedade Gestora de Fundos de Investimento Imobiliário, SA	1992	1992	Portugal	Investment fund management	89.99%	Full consolidation
GNB - Sociedade Gestora de Fundos de Pensões, SA	1989	1989	Portugal	Investment fund management	89.99%	Full consolidation
Capital Mais - Assessoria Financeira, SA	1998	1998	Portugal	Advisory services	89.99%	Full consolidation
Espírito Santo International Asset Management, Ltd.	1998	1998	British Virgin Islands	Investment fund management	44.10%	Equity method
GNB - Sociedade Gestora de Patrimónios, SA	1987	1987	Portugal	Wealth management	89.99%	Full consolidation
GNB - Participações Internacionais, SGPS, SA	1996	1996	Portugal	Management of shareholdings	89.99%	Full consolidation
BESAACTIVE - Sociedade Gestora de Fundos de Investimento, SA	2008	2008	Angola	Investment fund management	31.50%	Equity method
BESAACTIVE Pensões - Sociedade Gestora de Fundos de Pensões, SA	2009	2009	Angola	Pension fund management	31.50%	Equity method
Novo Activos Financieros, SA	1988	2000	Spain	Asset management	95.00%	Full consolidation
Novo Banco Gestión, SGIIC, S.A	2001	2001	Spain	Asset management	95.00%	Full consolidation
Novo Banco Pensiones, SGFP, SA	2001	2001	Spain	Pension fund management	95.00%	Full consolidation
ES Tech Ventures, S.G.P.S., SA (ESTV)	2000	2000	Portugal	Management of shareholdings	100.00%	Full consolidation
ES Ventures - Sociedade de Capital de Risco, SA	2005	2005	Portugal	Venture capital fund	100.00%	Full consolidation
Yunit Serviços, SA	2000	2000	Portugal	Internet portal management	33.33%	Equity method
FCR Espírito Santo Ventures Inovação e Internacionalização	2011	2011	Portugal	Venture capital fund	50.00%	Equity method
Fundo Bem Comum, FCR	2011	2011	Portugal	Venture capital fund	20.00%	Equity method
Espírito Santo Contact Center, Gestão de Call Centers, SA (ESCC)	2000	2000	Portugal	Call center management	41.67%	Equity method
Fundo de Capital de Risco - ES Ventures II	2006	2006	Portugal	Venture capital fund	65.97%	Full consolidation
Atlantic Ventures Corporation	2006	2006	USA	Management of shareholdings	65.97%	Full consolidation
Sousacamp, SGPS, SA	2007	2007	Portugal	Management of shareholdings	25.79%	Equity method
Global Active - SGPS, SA	2006	2006	Portugal	Management of shareholdings	29.46%	Equity method
Outsystems, SA	2007	2007	Portugal	Information technologies	19.32% ^{b)}	Equity method
Coreworks - Proj. Circuito Sist. Elect., SA	2006	2006	Portugal	Information technologies	21.35%	Equity method
Multiwave Photonics, SA	2003	2008	Portugal	Information technologies	13.69% ^{b)}	Equity method
Bio-Genesis	2007	2007	Brazil	Management of shareholdings	19.74% ^{b)}	Equity method
YDreams - Informática, SA	2000	2009	Portugal	Information technologies	31.66%	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
Imbassai Participações, SA	2009	2013	Brazil	Management of shareholdings	100.00%	Full consolidation
Lirios Investimentos Imobiliários, Ltda	2007	2013	Brazil	Real estate fund management	100.00%	Full consolidation
UCH Investimentos Imobiliários, Ltda	2007	2013	Brazil	Real estate fund management	100.00%	Full consolidation
UCS Participações e Investimentos, Ltda	2004	2013	Brazil	Real estate fund management	100.00%	Full consolidation
UR3 Investimentos Imobiliários, Ltda	2007	2013	Brazil	Real estate fund management	100.00%	Full consolidation
Fundo de Capital de Risco - ES Ventures III	2009	2009	Portugal	Venture capital fund	60.81%	Full consolidation
Nutrigreen, SA	2007	2009	Portugal	Services	12.16% ^{b)}	Equity method
Advance Cyclone Systems, SA	2008	2009	Portugal	Treatment and disposal of inert waste	24.32%	Equity method
Watson Brown, HSM, Ltd	1997	2009	United Kingdom	Rubber recycling	21.83%	Equity method
Domática, Electrónica e Informática, SA	2002	2011	Portugal	Information technologies	17.88% ^{b)}	Equity method
Fundo FCR PME / NOVO BANCO	1997	1997	Portugal	Venture capital fund	56.78%	Full consolidation
Enkrott SA	2006	2006	Portugal	Water treatment and management	17.03% ^{b)}	Equity method
Palexpo - Espaços à Sua Medida, SA	2009	2009	Portugal	Furniture manufacturing	28.10%	Equity method
Otherlog, SA	2014	2014	Portugal	Logistics	18.82% ^{b)}	Equity method

² a) These companies were included in the consolidated balance sheet using the full method since the Group exercises control over their activities.

b) The percentage shown reflects the Group's economic interest. These entities have been included in the consolidated balance sheet at the equity method since the Group has significant influence over their activities.

	Year incorporated	Year acquired	Registered office	Activity	Shareholding %	Consolidation method
GNB - Companhia de Seguros Vida, SA (GNB VIDA)	1993	2006	Portugal	Insurance	100.00%	Full consolidation
Caravela Defensive Fund	2006	2012	Luxembourg	Investment fund	100.00%	Full consolidation
Caravela Balanced Fund	2006	2012	Luxembourg	Investment fund	54.95%	Full consolidation
ES Short Bond	2014	2014	Luxembourg	Investment fund	73.38%	Full consolidation
ES Plano Dinâmico	2008	2012	Portugal	Investment fund	97.49%	Full consolidation
ES Arrendamento	2009	2012	Portugal	Investment fund	100.00%	Full consolidation
Orey Reabilitação Urbana	2006	2012	Portugal	Investment fund	77.32%	Full consolidation
Fimes Oriente	2004	2012	Portugal	Investment fund	100.00%	Full consolidation
ES Concessões, SGPS, SA (ES CONCESSÕES)	2002	2003	Portugal	Management of shareholdings	71.66%	Full consolidation
ES Concessions International Holding, BV	2010	2010	Holland	Management of shareholdings	71.66%	Full consolidation
Empark - Aparcamientos y Servicios, SA	1968	2009	Spain	Parking lot exploration	15.92% ^{b)}	Equity method
Esconcessions Spain Holding BV	2013	2013	Holland	Management of shareholdings	71.66%	Full consolidation
Auñisa - Autovia de los Viñedos, SA	2003	2010	Spain	Motorway concessionaire	35.83%	Equity method
Ascendi Group SGPS, SA	2010	2010	Portugal	Management of shareholdings	28.66%	Equity method
Banque Espírito Santo et de la Vénétie, SA (ES Vénétie)	1927	1993	France	Commercial banking	87.50%	Full consolidation
BESV Courtage, SA	1975	1975	France	Investment company	87.50%	Full consolidation
AOC Patrimoine, SAS	2006	2013	France	Asset management	87.50%	Full consolidation
Marignan Gestion, SA	1986	2009	France	Asset management	87.50%	Full consolidation
Société Lyonnaise de Marchands de Biens	1993	2002	France	Real estate fund management	87.43%	Full consolidation
Société Civile Immobilière du 45 Avenue Georges Mandel	1995	1995	France	Real estate fund management	90.31%	Full consolidation
Groupe CFCA, SAS	1998	2010	France	Management of shareholdings	26.21%	Equity method

Additionally, considering the requirements of IFRS 10, the Group's consolidation perimeter includes the following structured entities:

	Year incorporated	Year acquired	Registered office	Shareholding %	Consolidation method
Lusitano SME No.1 plc ^(*)	2006	2006	Ireland	100%	Full consolidation
Lusitano Mortgages No. 6 Limited ^(*)	2007	2007	Ireland	100%	Full consolidation
Lusitano Project Finance No.1, FTC ^(*)	2007	2011	Portugal	100%	Full consolidation
Lusitano Mortgages No. 7 Limited ^(*)	2008	2008	Ireland	100%	Full consolidation
Lusitano Leverage Finance No. 1 BV ^(*)	2010	2010	Holland	97.60%	Full consolidation
Lusitano Finance No. 3 ^(*)	2011	2011	Portugal	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 held of the equity of the respective vehicles (see Note 48)

MANAGEMENT AND SUPERVISORY CORPORATE BODIES

The corporate bodies of Novo Banco are the (i) General Meeting Board, (ii) Board of Directors and (iii) Board of Auditors.

The members of the corporate bodies remain in office for a period of two years, renewable for one year and only as a result of an extension of the duration of Novo Banco.

The members of the Board of Directors and of the Board of Auditors may at any time be removed from office by deliberation of Bank of Portugal, on its own initiative or upon a reasoned proposal from the Management Committee of the Resolution Fund. Bank of Portugal is responsible for the

appointment of other persons to replace them, upon a proposal from the Management Committee of the Resolution Fund.

General Meeting

The Resolution Fund is represented at the General Meeting of Novo Banco by the Chairman of the management committee or whomever he appoints for this purpose. All members of the remaining corporate bodies must be present in person at the General Meeting.

The General Meeting Board consists of a Chairman, a Vice-Chairman and a secretary, to be designated at the first meeting of the General Meeting, which shall be called by the Board of Auditors.

- a) Chairman: José Gabriel Queiró
- b) Vice-Chairman: João Alexandre Marques
- c) Secretary: Eugénio Fernando Quintais Lopes

The General Meeting Board is responsible for leading the respective meetings and preparing the corresponding minutes. The Chairman of the General Meeting Board, or the Vice-Chairman in the event of absence or impediment of the Chairman, is responsible for calling the General Meetings, in compliance with the legal formalities.

The General Meeting convenes at least once a year and whenever it is called by the Board of Directors, the Board of Auditors or the Resolution Fund. Decisions falling under the competence of the General Meeting may be made without compliance with the calling and convening requirements of the General Meeting, by deliberation of the Management Committee of the Resolution Fund.

The General Meeting is responsible for deciding on all issues within the remit conferred upon it by law and by the present By-laws, namely: (a) Deliberating on the annual report, balance sheet and accounts for the tax year and additional documentation legally required; (b) Deliberating on the proposal for the distribution of profit; (c) Carrying out an overall assessment of the management and supervisory activities of Novo Banco, on an annual basis; (d) Establishing the remuneration of the members of the Board of Directors and the Board of Auditors according to law and under the provisions of Bank of Portugal Regulatory Notice (“*Aviso*”) 13/2012; (e) Deliberating on any other issues for which it has been called or which fall within its field of competence as determined by law; (f) Appointing, upon a proposal from the Board of Auditors, a statutory auditor or audit firm responsible for the legal certification of the accounts.

Board of Directors

Under Novo Banco’s By-laws, the Board of Directors must be composed of a maximum of 15 members (each a “**Director**”), among whom shall be appointed the Chairman and the Vice-Chairman. Currently the Board of Directors is made up of 4 Directors.

The Board of Directors is responsible for the management of the activities of Novo Banco, according to the objectives set out in Article 2 (3) and 16 of Bank of Portugal Regulatory Notice (“*Aviso*”) 13/2012 and in the Bank of Portugal deliberation on the setting-up of Novo Banco, with full and exclusive powers of representation, and it shall comply with the deliberations of the General Meeting or the interventions of the Board of Auditors only to the extent required by law or regulations. The Board of Directors is bound to comply with the guidelines and recommendations issued by Bank of Portugal under its statutory powers.

The management of Novo Banco is bound to be commercially neutral manner vis-à-vis the other credit institutions operating in the domestic and European markets and in such a way as not to increase the own funds requirements to which it is subject.

The Board of Directors meet regularly 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 current members of the Board of Directors, with an indication of name, position, year of birth first date of appointment and areas of responsibility:

Name	Position	Year of birth	Date of Appointment	Areas of Responsibility
Eduardo Stock da Cunha	Chairman	1962	17 September 2014	Human Resources Department; Audit and Inspection Department; Chief of Staff of the President of Board of Directors Cabinet; Communication Cabinet; General Secretary of the Board of Directors;
Jorge Freire Cardoso	CFO	1971	17 September 2014	Financial, Markets and Management Control Studies Department; Planning and Accounting Department; Planning and Capital Management Department; Control and Information Management Department; Business Development Department; Investor Relations Department; Corporate Office; GNB Fundos; Monitoring of Restructuring and Revitalization Funds; Madeira Offshore Branch; Avistar; NB Finance; BES Cayman; BESIL; BIBL; BES GmbH;
José João Guilherme	Board member	1957	17 September 2014	Department of North Enterprises; Department of South Enterprises; Corporate Banking Department; Corporate and Institutional Customers Marketing Department; Municipalities and Institutional Customers Department; North Commercial Department; South Commercial Department; Marketing, Innovation and Channels Department; Marketing of Communication and Consumer Research Department; External Promoters Department; Abroad Resident Customers Department; Cards and Loans to Individuals Department; Savings Management Department; Leasing and Factoring Department; Internacional Business Department; Internacional Premium Department; University Office; Assurfinance Office; Corporate Business Development Office; Representative Offices Abroad; French Residing Customers Segment; NOVO BANCO DOS AÇORES; Locarent
Vítor Fernandes	Board member	1963	17 September 2014	Chairman of Financial and Credit Council; Global Risk Department;

				Organisation and Quality Department; Executive Department of Operations; Corporate Monitoring and Structuring Department; Credit Recovery Department; ES Recuperação de Crédito (Group of Complementary Companies); Real Estate Management Department; Credit Department; Real Estate Technical Department; Negotiation and Cost Control Department; Logistic, Property and Security Department; Espírito Santo Informática (Group of Complementary Companies); Oblog Consulting; Representation at Unicre; Representation at SIBS; Edenred; Contact; ESEGUR; Multipessoal; ESGEST
Francisco Ravara Cary	Board member	1965	12 March 2015	Investment Bank; Asset Management; Private Banking; BEST; International Business and ES Ventures; Banco delle Tre Venezie, Spa; BMC; Ijar Leasing; Bank Branch Cabo Verde; NOVO BANCO Ásia; MOZA Banco; Banco Económico; BES África; Banco Vénétie; GNB-Companhia de Segurosde Vida, GNB-Companhia de Seguros; Venezuela Branch; Luxembourg Branch; NY Branch; London Branch; Spain Branch; Madeira Branch.
Francisco Vieira da Cruz	Board member	1973	12 March 2015	Head of Product Council; Legal; Audit and Inspection Department; Compliance Department, and Credit Recovery Department.

On 10 March 2015, recommended by the Board of Directors of Novo Banco and under the proposal of the Resolution Fund, the Bank of Portugal has appointed Mr. Francisco Ravara Cary and Mr. Francisco Marques da Cruz Vieira da Cruz as members of the Board of Directors of Novo Banco, starting from 12 March 2015.

The following table sets out the names of all companies and partnerships in which members of the Board of Directors have been members of the management or supervisory board (as the case may be) at any time in the five years prior to the date of this Prospectus, including positions in consolidated direct subsidiaries and affiliated companies as well as external positions:

Eduardo Stock da Cunha

A. Corporate positions held in companies of the Group
Novo Banco, SA - President of the Board of Directors;

NB Finance, Ltd. – Member of the Board of Directors.

B. Corporate positions held in companies outside the Group

C. In the last five years held the following corporate positions and no longer holds them

London's Lloyds Banking Group (LBG) – Director;

Sovereign Bank / Santander Bank N.A. – Director;

Santander Totta Group – Director.

Jorge Freire Cardoso

A. Corporate positions held in companies of the Group

Novo Banco, SA - Member of the Board of Directors;

NB Finance, Ltd. – Member of the Board of Directors.

B. Corporate positions held in companies outside the Group

PT, SGPS, S.A. – Member of the Board of Directors;

Non-executive member of the Board of Directors –
Enternext, SA.

C. In the last five years held the following corporate positions and no longer holds them

CGD, S.A. – Member of the Board of Directors;

President of the Executive Committee – Caixa Banco
de Investimento, S.A.;

Non-executive president of the Board of Directors–
Caixa Capital - Soc.Capital de Risco, SA;

Non-executive president of the Board of Directors –
Caixa Desenvolvimento SGPS, SA;

Non-executive president of the Board of Directors –
Wolfpart, SGPS, SA;

Non-executive president of the Board of Directors –
CGD Inv. Corretora de Valores de Câmbio, SA;

Non-executive president of the Board of Directors –
Caixa Banco de Investimento, SA;

Non-executive Vice Chairman – Banco Caixa Totta
Angola, SA;

Non-executive Vice Chairman – Banco Caixa Geral –
Brasil, SA;

Non-executive Vice Chairman – Banco Nacional de
Investimento, SA;

Caixa Banco de Investimento, SA – Member of the

Board of Directors;

Non-executive director – ZON Multimédia-Serviços de Telecomunicação e Multimédia, SGPS, SA;

Non-executive director – Empark Portugal-Empreendimentos e Exploração de Parques, SA;

Non-executive director – Dornier, SA;

Non-executive director – Caixa Seguros e Saúde, SGPS, SA;

Non-executive director – Gerbanca, SGPS, SA;

Non-executive director – Partang, SGPS, SA;

Non-executive director – Visabeira;

Director – Caixa Banco Investimento Brasil-Serviços de Assessoria Financeira, Ltd.

José João Guilherme

A. Corporate positions held in companies of the Group

Novo Banco, S.A. – Member of the Board of Directors;

LOCARENT – Member of the Board of Directors;

IJAR LEASING – Member of the Board of Directors.

B. Corporate positions held in companies outside the Group

Managing Partner – Sociedade Agrícola do Monte da Rosa;

Managing Partner – Sociedade Agrícola Pêgo dos Alhos;

Member appointed by Novo Banco for the executive committee of CCILE - Câmara de Comércio e Indústria Luso Espanhola.

C. In the last five years held the following corporate positions and no longer holds them

Member of Portugal Venture Capital Initiative, in representation of BCP International II – Fundo PVCI – Cessou em 2010;

Vice-President Millenium BIM Moçambique – ended in 2010;

CEO Millenium BIM Moçambique – ended in 2011;

Bernardino Gomes SGPS – Member of the Board of Directors – ended in 2013;

Investwood-Estudios e Consultadoria Empresarial-Vice-President – ended in 2014;

IFM-Industria de Fibras de Madeira – Vice-President –

ended in 2014;

VIROC-Portugal Industrias de Madeira e Cimento –
President of the Board of Directors – ended in 2014.

Vitor Fernandes

A. Corporate positions held in companies of the Group
Novo Banco, S.A. – Member of the Board of Directors;
NB Ásia, S.A. – Non-executive Chairman;
GNB – Sistemas de Informação, ACE – Non-executive
Chairman;
Oblog Consulting, S.A. – Non-executive Chairman;
Novo Banco dos Açores – Member of the Remuneration
Committee

B. Corporate positions held in companies outside the Group
Comissão Interbancária de Sistemas de Pagamentos (CISP)
- delegate of NOVO BANCO, S.A. at CISP;
SIBS, SGPS, S.A.- Member of the Board of Directors;
SIBS Forward Payments Solutions, S.A. – Member of the
Board of Directors;
UNICRE - Member of the Board of Directors.

C. In the last five years held the following corporate
positions and no longer holds them

Millennium BCP – Member of the Board of Directors;
ECS, Sociedade de Capital de Risco, S.A. – Member of the
Board of Directors.

Francisco Ravara Cary

A. Corporate positions held in companies of the Group
Novo Banco, S.A. – Member of the Board of Directors;
Chairman of Banco BEST, SA;
Chairman of Espirito Santo Ventures, Sociedade de Capital
de Risco, S.A;
BESI Brasil, S.A. - Member of the Board of Directors;
Banque Espirito Santo et de la Vénétie - Member of the
Board of Directors.

B. Corporate positions held in companies outside the Group
PT SGPS, SA - Member of the Board of Directors;

EMPARK Aparcamientos Y Servicios, S.A. - Member of the Board of Directors;

Swan Street - Member of the Board of Directors.

C. In the last five years held the following corporate positions and no longer holds them

Vice-President of the Board of Directors of Espirito Santo Capital, SA (Portugal);

Vice-President of the Board of Directors of SES Iberia Private Equity, SA (Espanha);

2bCapital, SA - Member of the Board of Directors;

COPORGESTE – Companhia Portuguesa de Gestão e Desenvolvimento Imobiliários, SA - Member of the Board of Directors;

Emparque Portugal, SA - Member of the Board of Directors;

Dornier, SA - Member of the Board of Directors;

Fomentinveste, SGPS, SA - Member of the Board of Directors;

BRB International, SA - Member of the Board of Directors;

Apolo Films, SL Member of the Board of Directors;

Pro Sport Comercializaciones Deportivas, SA - Member of the Board of Directors;

Member of Audit Council of Casa da América Latina (Portugal);

Member of the Conseil de Surveillance da Siparex Développement (França) ;

Member of the Conseil de Surveillance da Financière Mandel (França).

Francisco Vieira da Cruz

A. Corporate positions held in companies of the Group

Secretary at General Meeting – AVISTAR, SPGS, S.A.

Secretary at General Meeting – BES ÁFRICA, SPGS, S.A.

Secretary at General Meeting – GNB – Companhia de Seguros, S.A.

President at General Meeting – GNB – Companhia de Seguros Vida, S.A.

President at General Meeting – GNB Recuperação de Crédito, ACE

Secretary at General Meeting – ESCONCESSÕES, SPGS, S.A.

President at General Meeting – GNB Serviços de Suporte

Operacional, ACE

President at General Meeting – NOVO BANCO dos Açores S.A.

Remuneration Committee – NOVO BANCO dos Açores S.A.

B. Corporate positions held in companies outside the Group

President at General Meeting – TF Turismo Fundos SGFII, S.A.

President at General Meeting – Vinculum – Sociedade de Administração de Bens, S.A.

C. In the last five years held the following corporate positions and no longer holds them

Secretary at General Meeting – ADVITA – Assoc para o Desenv. De Novas Iniciativas para a Vida / ended in 23-03-2015

Secretary at General Meeting – BEMS,SPGS, S.A. / ended in 24-11-2014

Secretary at General Meeting – BESPARG – Sociedade Gestora de Participações Sociais, S.A. / ended in 2014

Secretary at General Meeting – Casas da Cidade – Residências Sénior, S.A. / ended in 23-03-2015

Secretary at General Meeting – Clínica Parques dos Poetas / ended in 23-03-2015

Secretary at General Meeting – Coimbra Jardim Hotel – Sociedade de Gestão Hoteleira, S.A. / ended in 2014

Secretary at General Meeting – Controlled Sport (Portugal) – Turismo, Cinagética e Agricultura, S.A. / ended in 2014

Secretary at General Meeting – CRB – Clube Residencial da Boavista, S.A. / ended in 23-03-2015

Secretary at General Meeting – ESCONCESSÕES, SGPS, S.A. / ended in 23-03-2015

Secretary at General Meeting – Escopar – Sociedade Gestora de Participações Sociais, S.A. / ended in 24-11-2014

Secretary at General Meeting – ESGER – Empresa de Serviços e Consultadoria, S.A. / ended in 24-11-2014

Secretary at General Meeting – Espírito Santos Hotéis, SGPS, S.A. / ended in 2014

Secretary at General Meeting – Espírito Santo Industrial (Portugal) SGPS, S.A. / ended in 24-11-2014

Secretary at General Meeting – Espírito Santos Irmãos – Sociedade Gestora de Participações Sociais, S.A. / ended in 24-11-2014

Secretary at General Meeting – Espírito Santos Saúde –

Residência com Serviços Sénior, S.A. / ended in 23-03-2015

Secretary at General Meeting – Espírito Santo Saúde - Serviços, A.C.E.. / ended in 23-03-2015

Secretary at General Meeting – Espírito Santo Unidades Saúde e de Apoio à Terceira Idade, S.A. / ended in 23-03-2015

Secretary at General Meeting – Herdade da Boia – Sociedade Agrícola, S.A. / ended in 24-11-2014

Secretary at General Meeting – Hospital da Luz – Centro Clínico da Amadora, S.A. / ended in 23-03-2015

Secretary at General Meeting – Hospital da Luz, S.A. / ended in 23-03-2015

Secretary at General Meeting – Hospital Residencial do Mar, S.A. / ended in 23-03-2015

Secretary at General Meeting – HOSPOR – Hospitais Portugueses, S.A. / ended in 23-03-2015

Secretary at General Meeting – Hoteis Tivoli, S.A. / ended in 2014

Secretary at General Meeting – Hotelagos, S.A. / ended in 2014

Secretary at General Meeting – Instituto de Radiologia Dr. Idálio de Oliveira – Centro Radiologia Médica, S.A. / ended in 23-03-2015

Secretary at General Meeting – Marinoteis – Sociedade de Promoção e Construção de Hoteis, S.A. / ended in 2014

Secretary at General Meeting – PARTRAN – Sociedade Gestora de Participações Sociais, S.A. / ended in 08-2014

Secretary at General Meeting – Rioforte (Portugal), S.A. / ended in 2014

Secretary at General Meeting – RML – Residência Medicalizada de Loures, SGPS, S.A. / ended in 23-03-2015

Secretary at General Meeting – SGHL – Sociedade Gestora do Hospital de Loures, S.A. / ended in 23-03-2015

Secretary at General Meeting – Sotal – Sociedade de Gestão Hoteleira, S.A. / ended in 23-03-2015

Secretary at General Meeting – Suliglor – Imobiliária do Sul, S.A. / ended in 24-11-2014

Secretary at General Meeting – Surgicare – Unidades de Saúde, S.A. / ended in 23-03-2015

Secretary at General Meeting – Tivoli Gare do Oriente – Sociedade de Gestão Hoteleira, S.A. / ended in 2014

Secretary at General Meeting – Turifonte – Empreendimentos Hoteleiros, S.A. / ended in 2014

Secretary at General Meeting – TC Turismo Capital SCR, S.A. / ended in 2013

Secretary at General Meeting – Vila Lusitano – Unidades de Saúde, S.A. / ended in 23-03-2015

–Member of the Audit Committee – BESPARG – Sociedade Gestora de Participações Sociais, S.A. / ended in 2014

Member of the Audit Committee – Espírito Santo Financial (Portugal) – Sociedade de Participações Sociais, S.A. / ended in 08-2014

Member of the Audit Committee – PARTRAN – Sociedade de Participações Sociais, S.A. / ended in 08-2014

Director – Board of Directors – Sociedade Agrícola de Areias Gordas, Lda. / ended in 23-03-2015

Director – Board of Directors – Sociedade Agrícola dos Zambozinhos, Lda. / ended in 23-03-2015

The business address of all the Directors of Novo Banco is Novo Banco’s registered office at Avenida da Liberdade, 195, 1250-142 Lisbon, Portugal.

Board of Auditors

The Board of Auditors is responsible for the supervision of Novo Banco. The Board of Auditors consists of a Chairman and two members in office, appointed by the Bank of Portugal, upon a proposal from the Management Committee of the Resolution Fund. The Board of Auditors is currently composed of the following three members: José Manuel de Oliveira Vitorino (Chairman); José António Noivo Alves Fonseca and José Francisco Claro.

In the exercise of its supervisory tasks, the Board of Auditors shall take into account the guiding principles of Novo Banco activities, pursuant to Article 3 (2) of the Bank’s by-laws and Article 15 of Bank of Portugal Notice No 13/2012, as well as the principles for action and strategic goals established by the Bank of Portugal for the institution.

In addition to the competences defined by law and in the by-laws, the Board of Auditors will:

- a) Attend the meetings of the Board of Directors whenever deemed appropriate;
- b) Attend General Meetings;
- c) Issue its opinion on any matter submitted by the Board of Directors;
- d) Submit any issue to the Board of Directors for consideration; and
- e) Submit a report on its activities to the Resolution Fund and Bank of Portugal, with the contents and frequency established by the Bank of Portugal.

The Board of Auditors meets at regularly intervals, but no less than once every two months, and extraordinarily whenever convened by its Chairman, either on his own initiative or at the request of any other member.

Statutory Auditor

PricewaterhouseCoopers & Associados - Sociedade de Revisores Oficiais de Contas, Lda., which is a member of the Chamber of Statutory Auditors (Ordem dos Revisores Oficiais de Contas), under no. 183 and registered with the CMVM under no. 9077, with registered office at Palácio Sottomayor, Rua Sousa Martins, 1 - 3º, 1069-316 Lisbon, Portugal, in its capacity as Statutory Auditor and External Auditor

responsible for the legal certification of accounts and auditor's report on the individual and consolidated accounts for the financial years ended on 31 December 2014 represented by the partner José Manuel Henriques Bernardo, Statutory Auditor no. 903.

The Bank monitors the existence of conflicts, between the interests of the Bank and of those of the above listed persons, and no such conflicts have been identified.

RISK MANAGEMENT

The Risk Function within the Group

The objective of the Risk Management function is to identify, assess, monitor and report all the material risks to which the Group is subject, both internally and externally, so that such risks remain contained and therefore do not affect the Group's financial situation.

The risk management function operates independently from the Group's functional areas, providing advice on risk management to the management body.

Organisation of the Risk Management function within the Group

The determination of the Group's risk appetite is the responsibility of the Board of Directors. Its responsibility also includes establishing general principles of risk management and control and ensuring that the Group possesses the necessary skills and resources to meet the established objectives.

The Group has several specialized committees that play a relevant role in the area of risk management and control:

Risk Committee	Responsible for monitoring the evolution of the Group's integrated risk profile, and for analysing and proposing methodologies, policies, procedures and instruments to deal with all types of risk to which the Group is subject, namely credit, market, liquidity and operational, and also for analysing the evolution of risk adjusted return and the value added by the main segments/ customers.
Financial and Credit Committee	Decides on the main credit operations in which the Group intervenes, in line with the risk policies established at Group level. At its bi-weekly meetings, the Committee also monitors the Bank's cash position and the evolution of the financial markets.
Capital and Assets and Liabilities Committee (CALCO)	Responsible for setting growth targets for customer loans and deposits, and for defining a funding strategy (management of balance sheet mismatch) and price/margins targets. It also approves the offering and pricing of funding products. Responsible for defining and monitoring the execution of the Bank's policies on liquidity risk management, solvency levels, and the monitoring of recovery plans' triggers.
Product Committee	Responsible for the approval of Group's new products and services.

The Risk Management function operates independently from the other functional areas of the Group, and is organized in such a way as to fully supervise the main risks to which the Group is exposed: credit, market, liquidity, interest rate and operational risks.

At an operational level, risk management and monitoring are centralised at the Global Risk Department ("GRD"). This function, which is independent from the business areas, consistently

incorporates risk and capital concepts within the Group's strategy and business decisions.

The main functions of the GRD are:

- a) Identify, assess and control the different types of risk assumed, thus managing the Group's overall risk exposure, ensuring compliance with internal and regulatory rules, and promoting and monitoring mitigation actions;
- b) Implement the risk policies outlined by the Board of Directors, while harmonising principles, concepts and methodologies across all Group's units;
- c) Further the Group's value creation objectives through the development and monitoring of methodologies and models to identify and quantify the various categories of risk, such as internal ratings and liquidity ratios, as well as support tools for the structuring, pricing and approval of operations, and also internal techniques for performance assessment and for optimising the capital position;
- d) Develop the internal capital and liquidity adequacy assessment process (ICAAP/ILAAP) and stress tests exercises;
- e) Monitor the Group's internationalisation strategy, cooperating in the design of organisation solutions and in the monitoring and reporting of the risk exposure of the various international areas.

Credit Risk

Credit risk is the potential financial loss arising from the failure of an obligor or counterparty to honour its contractual obligation. As the major risk to which the Group is exposed within the scope of its lending activities, credit risk management and control are supported by a robust system that permits to identify, assess and quantify risk.

Credit portfolio management is carried out as an ongoing process that requires interaction between the various teams responsible for the management of risk during the different stages of the credit process. This approach has resulted in improvements in the following areas:

- a) the credit risk modelling system, with a consequent reduction in subjective criteria in the assessment of credit;
- b) The inclusion of behavioural warning signals in the rating systems;
- c) the decision procedures and circuits, namely, the independence of the risk function, the delegation of powers according to rating levels and the systematic adjustment of prices, maturities and guarantees provided by the customers;
- d) the information systems that produce the various elements required for credit risk assessment, by making these data available to all the parties involved in the credit process; and
- e) the independence of the process of formalisation/execution of operations vis-à-vis the origination structure.

Across nearly all of the commercial segments, internal rating classifications are directly incorporated into the definition of credit powers at the various decision-making levels, while also being used to support the differentiation of pricing.

The use of rating classifications for purposes of establishing portfolio ceilings that limit credit granting by both product and rating levels and, in particular, restrict the amounts lent when higher risks are involved is now a broad-based practice. Portfolio ceilings are used as a management tool that is applied differently for individual or corporate customer portfolios:

- a) Mortgage credit, consumer loans and credit cards—portfolio ceilings on origination strongly restrict the approval of operations with the lowest scoring levels;

- b) Corporate portfolios—ceilings are used to monitor the evolution of the risk profile of the various credit portfolios. The risk profile is assessed based on collaterals.

Compliance with the established ceilings is monitored on a regular basis.

The Group has in place a strict lending policy that mitigates risk at the various stages of the credit process origination, monitoring and recovery.

Origination	Monitoring	Recovery
<ul style="list-style-type: none"> • Restrictive limits on new credit • Loan guarantees required • Price adjusted to risk • High coverage of rating exposures • Automatic availability of supporting information to credit decisions, namely in the front office 	<ul style="list-style-type: none"> • Senior management strongly involved in monitoring process • Credit risk information automatically available to the commercial areas • Credit follow-up actions (prior to default) • Guarantee management processes and controls 	<ul style="list-style-type: none"> • Early recovery steps • Monitoring of borrowers and assets received as guarantee • Credit recovery process adjusted to business sector, recovery, and divestment areas • Credit risk included within the criteria of the objectives and incentive systems for the commercial areas

In line with the specific characteristics of the the Group’s various customer segments, different internal risk rating systems and risk parameters were developed for both corporate and individual customers.

In accordance with the rules on minimum regulatory capital requirements (Basel II) and following the best risk management practices, the internal risk rating systems are validated on a regular basis by the Independent Validation Unit.

The developed validation methodologies cover the various parameters of the Basel accords (Probability of Default, Loss Given Default and Exposure at Default/Credit Conversion Factor) using quantitative validation methods, namely statistical tests, as well as qualitative methods, namely the test on internal use of risk models (use test).

Typically, the models are validated annually by a dedicated specialised team, the Independent Validation Unit of the Internal Audit Department, which works in close cooperation with developers the models, helping to safeguard the independence between risk model development and validation functions.

The credit risk monitoring and control activities currently established at the Group aim to quantify and control the evolution of credit risk and to allow early definition and implementation of concrete measures to deal with specific situations indicative of a deterioration of risk—with a view to mitigating potential losses—as well as to outline global strategies for credit portfolio management.

In this context, and with the central aim of preserving the Group’s risk quality and standards, the credit risk monitoring function and its development are objectively considered as one of the top priorities of the risk management and control system. This function comprises the following processes:

- a) Monitoring of customers with warning signals – Customers with warning signals are monitored throughout the year through meetings chaired by the Credit Risk Monitoring Committee and attended by representatives from all the commercial structures, which decide on specific follow-up actions that are regularly reported to the Risk Committee and the Board of Directors. The meeting also discusses and reports on the results of the follow-up actions and analyses any cases that may arise outside the scheduled exercise.
- b) Risk Monitoring Group (“**RMG**”) - The RMG process involves the daily classification of customers according to pre-established risk criteria into three risk categories – Pre-Watchlist,

Watchlist and Recovery -, and subsequent production of a report identifying for each category the causes for risk deterioration and proposing the mitigation actions to be taken in each case; and

- c) Global analysis of the credit portfolio risk profile - Credit portfolio management is an ongoing process that requires interaction among the various teams responsible for 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. Compliance with the approved credit ceilings, and the correct functioning of the mechanisms of approval of credit lines used by the commercial areas in their day-to-day activity, are also regularly subject to analysis.

Market risk is the possible loss resulting from an adverse change in the value of a financial instrument due to fluctuations in interest rates, foreign exchange rates, share 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 on a medium-term perspective (1 year) for the banking book.

The main measure of market risk is the estimation of potential losses under adverse market conditions, for which 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 and based on an observation period of one year.

To calibrate the VaR assessment, daily back testing exercises are performed, permitting to compare the losses foreseen by VaR model with theoretical 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, allowing the Group to assess the potential losses under extreme scenarios.

The Group’s portfolios are subject to VaR and stop loss limits with the objective of limiting potential losses. These limits are monitored daily by the Risk Department.

Operational risk may be defined as the probability of occurrence of events with a negative impact on earnings or capital resulting from inadequate or negligent application of internal procedures, information systems, staff behaviour, or external events. Legal risk is also included in this definition. Operational risk is therefore considered as the sum of the operational, information systems, compliance and reputational risks.

Operational risk is managed through a set of procedures that standardise, systematise and regulate the frequency of actions viewing the identification, monitoring, control and mitigation of this risk. The priority in operational risk management is to identify and mitigate or eliminate risk sources, even if these have not resulted in financial losses.

The management methodologies in place are supported by the principles and approaches to operational risk management issued by the Basel Committee and those underlying the Risk Assessment Model implemented by the Bank of Portugal, recognised as translating the best practices in this area.

The operational risk management model is supported by a structure within the Global Risk Department exclusively dedicated to designing, monitoring and maintaining the model. This structure works in close coordination with the operational risk representatives from the Group’s departments, branches and subsidiaries and their teams, who must guarantee that the established procedures are implemented and are responsible for the day-to-day management of operational risk, their participation being crucial.

Liquidity risk arises from an institution’s inability to settle its liabilities as they mature without incurring in substantial losses.

Liquidity risk may be divided into two types:

- a) Market liquidity risk – the impossibility of selling an asset due to lack of liquidity in the market, leading to the widening of the bid/offer spread or the application of a haircut to its market value.
- b) Funding liquidity risk – the impossibility to obtain market funding to finance assets and/or refinance debt coming to maturity in the desired currency. This can lead to a sharp increase in the cost of funding or to the requirement of collaterals to obtain funding. Difficulties in (re)financing may lead to the sale of assets, even if incurring in significant losses. The risk of re(financing) should be reduced through an adequate diversification of funding sources and maturities.

Banks are subject to liquidity risk by virtue of 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.

The structure established by the Group to manage liquidity risk clearly identifies responsibilities and processes with the objective of ensuring full coordination between all the participants in liquidity risk management and the effectiveness of management controls.

The Group's liquidity risk management structure is prepared to respond to new challenges, namely the scarcity of wholesale funding and the increasingly frequent and demanding changes in the regulation on liquidity and funding.

The Group has defined liquidity early warnings indicators, internal stress scenarios and management decision processes. These liquidity indicators provide a precise measure of the liquidity risks to which the Group is subject and also translate the scarcity of liquidity that will impact the Group's profitability.

LIQUIDITY AND FUNDING

The liquidity risk management function at Novo Banco is designed to ensure that liquidity management complies with all regulatory rules in force in every geography where it operates, and that all its responsibilities are met, whether in normal market conditions or under stress conditions.

The Group monitors liquidity risk in three major groups:

- a) Short-term liquidity;
- b) Structural liquidity; and
- c) Contingent liquidity.

Novo Banco has implemented internal procedures which are intended to increase its resilience under stress conditions. These procedures measure accurately the liquidity risks the Bank faces, considering a situation of liquidity and funding scarcity. These efficient liquidity management procedures allowed the Bank to survive through the worst period of the crisis between August and mid October. During this period, the exchange of information to the regulators, Bank of Portugal and the ECB, was intensified.

One of the main components of the liquidity risk management function at Novo Banco is its funding policy, which favours the diversification of the funding sources. However, during the last months of 2014, the funding policy of the Bank was mainly focused on the recovery of customer resources. As of the end of 2014, Novo Banco had recovered €4.2 bio of customer deposits since the minimum amount registered at the end of september 2015 of €22.4bio, clearly showing the success of this approach.

Novo Banco monitors its short-term liquidity levels through daily mismatch reports prepared in accordance with pre-established guidelines and internally defined warning signals of the potential impacts on the Bank, namely through idiosyncratic risk, the risk of contagion (due to market tension) or repercussions of an economic crisis. This ensures that the Board of Directors has a permanent and

active role on liquidity management and risk assessment. Simultaneously, the Bank also reports its liquidity position to the ECB and the Bank of Portugal on a daily basis.

Every week, the Board of Directors monitors the evolution of the liquidity position, including eligible assets and liquidity buffers, breakdown of major liquidity inflows and outflows, deposit evolution, wholesale funding sources, central bank lending, treasury/liquidity gap evolution per business unit, among others.

With regard to structural liquidity, the Group prepares a monthly liquidity report that takes into account not only the effective maturity but also the behavioural maturity of the various products, which allows it to determine the structural mismatches for each time bucket. Based on this report, and considering the budget targets, the Bank elaborates a annual funding plan, which is revised periodically and privileges, as much as possible, medium and long term funding sources to short term instruments.

Additionally, the Capital and Asset Liability Committee (“CALCO”), meets on a monthly basis to analyse several capital and liquidity issues of the Bank, namely the balance sheet evolution, broad range of gap analysis and key activity indicators (commercial and liquidity gap, loan to deposit ratio) and full liquidity risk assessment and evolution, focusing mainly on current liquidity buffers and generation of eligible assets.

As a contingency liquidity plan, the Group has defined a set of measures that, when triggered, would allow it to address and/or minimise the effects of a liquidity crisis. These measures are design to address the liquidity needs under stress scenarios and remained activated since the beginning of August, in response to the crisis which led to the creation of Novo Banco.

Funding and Liquidity Management in 2014

The central banks policies were again decisive for the evolution of financial markets in 2014, especially the ECB. During the year, given the growing deflationary risks in an environment of weak economic growth, the ECB decreased main refinancing rate to a new historic low (0.05%), simultaneously announced a new liquidity injection program (Targeted Long Term Refinancing Operation or “TLTRO”) and initiated unconventional liquidity measures.

Deflationary pressures would eventually be accentuated by the significant drop of oil prices in the second half of the year, thereby increasing the expectation of additional liquidity measures by the ECB, namely by purchasing sovereign bonds.

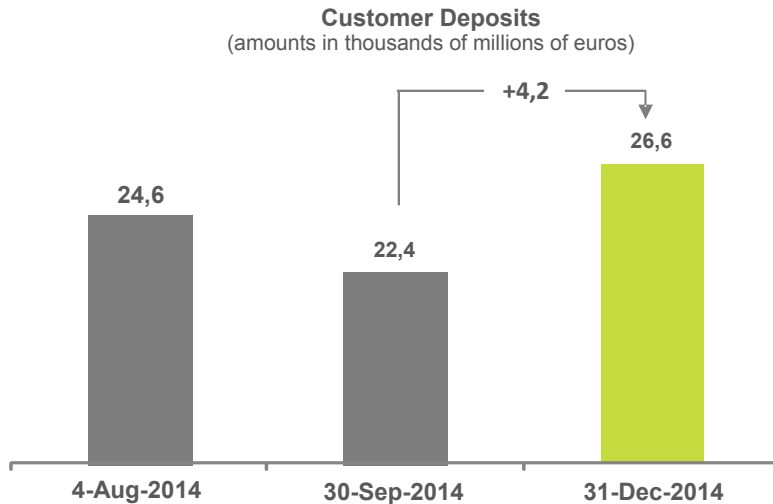
The high liquidity in the market led to a search higher yield securities and, therefore, to the reduction of the yields, in particular peripheral sovereign debt.

The strong decrease in customer deposits, combined with the difficult of access to the financial markets and the impossibility of using additional funding from the monetary policy operations led the Bank into a situation of extreme liquidity shortage. Given this significant deterioration of the liquidity position, the liquidity contingency plan was activated. This plan was designed to minimize and to

respond to the effects of a liquidity crisis, which include, among others, the contingent funding sources. Novo Banco was then forced to resort to Emergency Liquidity Assistance (“ELA”).

Novo Banco started its activity on 4 August 2014 with a use of 3.5 billion from ELA.

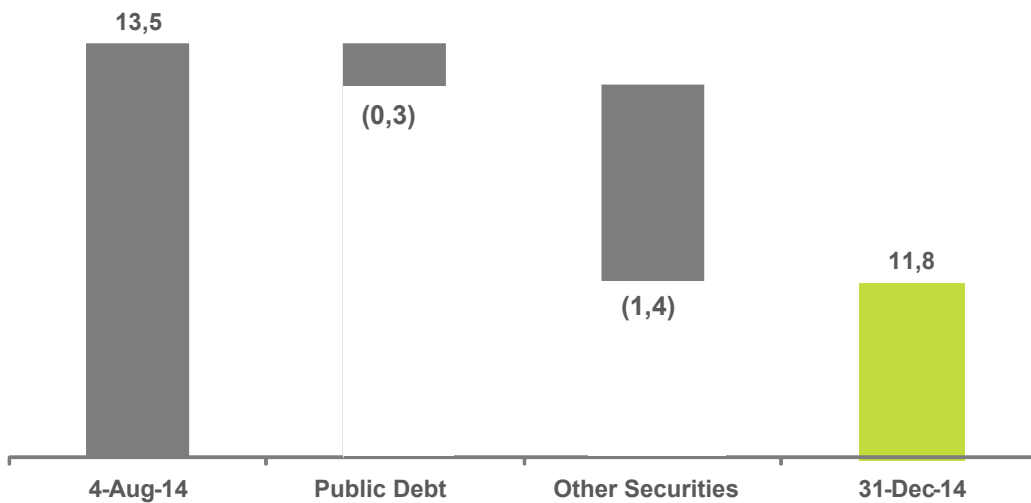
The realization of the Bank's capital in the amount of 4.9 billion euros, by the resolution fund, allowed, Novo Banco, to repay in full this ELA credit facility. The Bank's liquidity situation continued strongly pressed in the months following the resolution measure (August and September), with a continuous decrease in customer deposits. In October, after the appointment of the current Board of Directors, the Bank's liquidity position began to improve as a result of the growth in customer deposits (increase of 18% over the month of September (4.2 billion euros), or 2 billion euros compared to August) and of the sale of assets.



In simultaneous with the customer deposits recovery effort, Novo Banco continued its deleveraging process, namely through the acceleration of the process of the sale of assets.

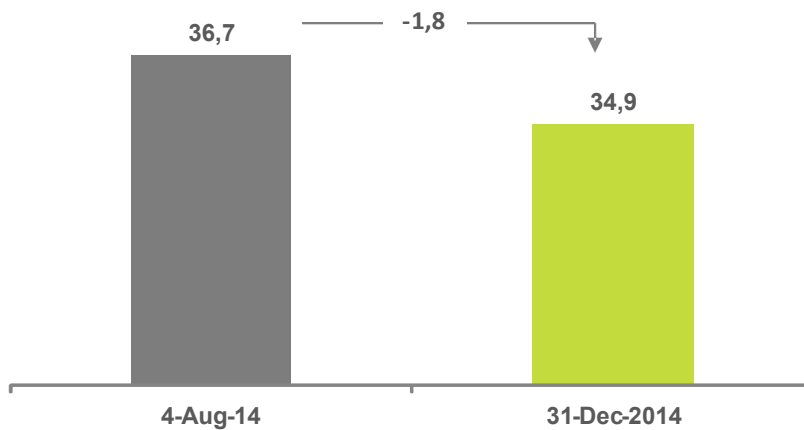
Initially this sale of assets was very focused on the securities portfolio, which was reduced in more than 1.7 billion euros over the opening balance sheet (18% correspond to the sale of public debt).

Securities Portfolio
(amounts in thousands of millions of euros)

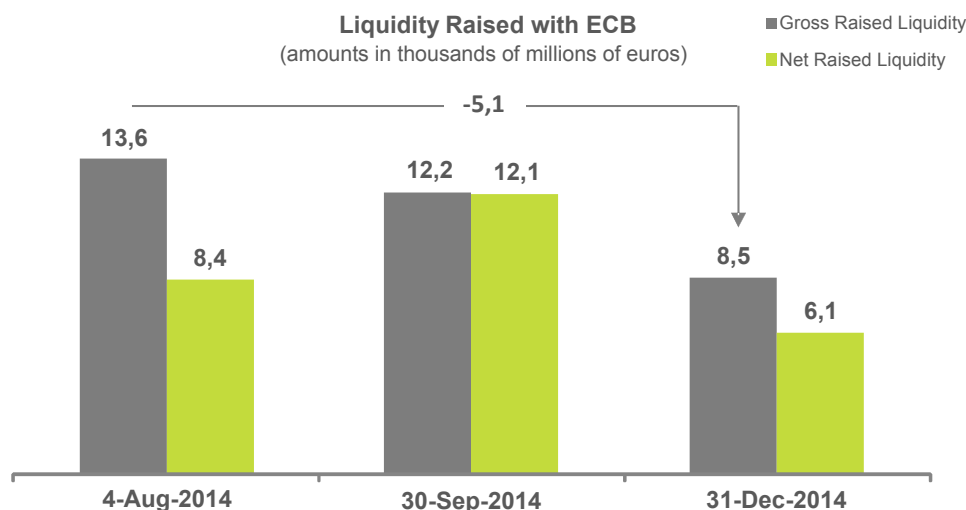


Additionally, the sale of some credits, as well as the amortization and non-renewal of credit lines allowed a reduction of the credit portfolio in about 2 billion euros, between August and the end of the year.

Credit Portfolio (net)
(amounts in thousands of millions of euros)

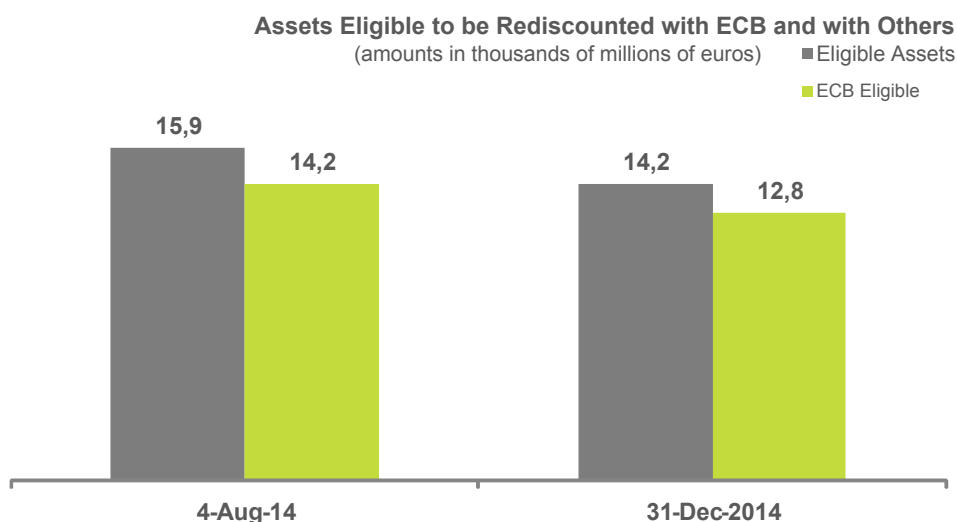


Until the end of December the liquidity position of Novo Banco improved considerably. On that date, the funding raised from ECB totalized 8.5 billion euros, which represented a reduction of 5.1 billion euros compared to August. If we add, to this value, the amount of deposits placed with central banks, the net amount raised with central banks was 6.1 billion euros (a decrease of 2.3 billion euros).



As other banks in the financial system, the Bank participated in the credit line established by the ECB, especially in longer-term refinancing operations, TLTRO with an amount of 1.6 billion euros in September 2014 (represented 19% of the global amount raised from the ECB).

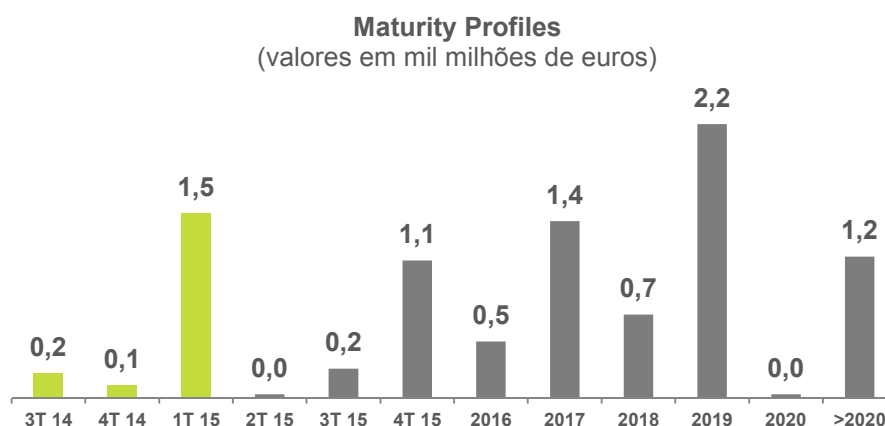
As part of its liquidity management policy, Novo Banco continues to do an effort to generate and optimize its portfolio of assets eligible to be rediscounted with the ECB, as well as assets eligible to be used in market operations. To ensure an additional liquidity buffer, in December, Novo Banco decided to extend the maturity of three issues of Bonds guaranteed by the Portuguese Republic, with the total amount of 3.5 billion euros.



By the end 2014, the value of the portfolio comprising the eligible assets for rediscount operations amounted to 14.2 billion euros, of which 12,8 billion were eligible for rediscount with the ECB (these corresponded to a decrease of 1,4 billion euros).

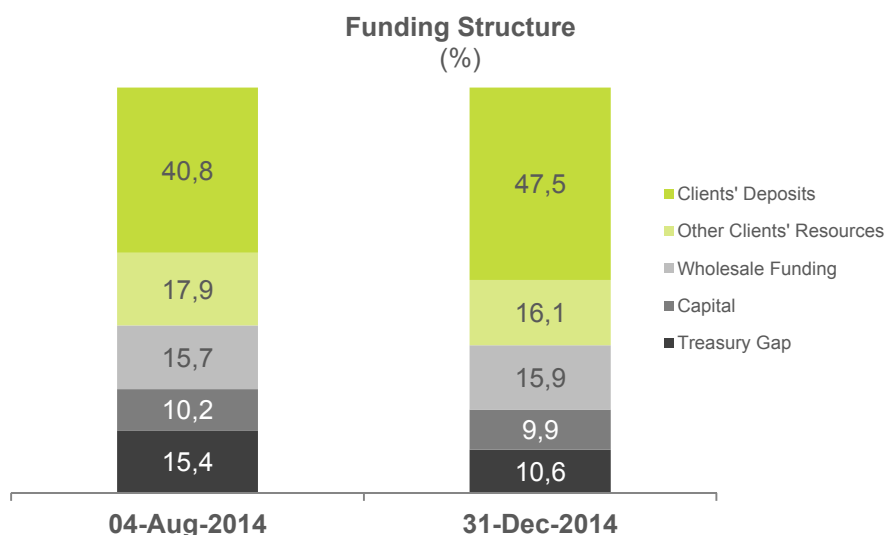
This amount included an exposure to Portuguese public debt (which excludes the position held by GNB Vida of 0.9 billion euros (0.4 billion euros with maturity up to 1 year). The Bank also held an exposure of 1.2 billion euros, with an up to 1 year maturity, in public debt from other peripheral

countries, divided as follows: 1.1 billion euros in Italian public debt, 100 million euros of Spanish public debt and a residual exposure of 8 million euros in Greek public debt (which was sold at the beginning of 2015).



By the end of 2014, the Bank repaid 0.3 billion euros of debt, which was replaced with market funding. During 2015, Novo Banco will have to repay 2.9 billion euros, of which EUR 1.5 billion were already repaid. The maturities of the remaining debt issues, to be repaid this year, are concentrated in the last quarter of the year.

Following the above mentioned, the Group's funding structure, as at 31 December 2014, showed a significant recovery of the customer based resources, which already represented 64% of the total funding structure, and a decrease in its treasury gap.



HUMAN RESOURCES

As at 31 December 2014 the Group had 7,722 employees, of which 6,832 worked at Novo Banco.

The table below shows the distribution of employees as at 31 December 2014 by geographic location, activities and professional categories:

Country	December 2014
Portugal	6 832
Europe	732
Spain	494
United Kingdom	28
Other Countries	210
Africa	34
South America	79
North America	22
Asia	23
TOTAL	7 722

Employees are one of the key drivers of the Group's activity. Novo Banco's human resources policies are developed from the essential principle of promotion of intellectual capital as a value inherent to Novo Banco.

FINANCIAL STATEMENTS OF NOVO BANCO, S.A.

The consolidated financial statements of Novo Banco Group, for the period 1 January to 31 June 2015 were prepared in accordance with IFRS as adopted for use in the European Union and transposed to the Portuguese law by Decree-law 35/2005, of 17 February.

GRUPO NOVO BANCO
CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2015 AND AS 31 DECEMBER 2014

(in thousands of Euros)

	Notes	30.06.2015	31.12.2014
Assets			
Cash and deposits with Central Banks	19	1 714 181	2 747 077
Deposits with banks	20	399 124	490 856
Financial assets held for trading	21	763 764	1 062 517
Other financial assets at fair value through profit or loss	22	1 714 823	2 230 388
Available-for-sale financial assets	23	9 316 557	9 478 469
Loans and advances to banks	24	1 170 842	1 044 286
Loans and advances to customers	25	33 702 253	34 929 314
Derivatives held for risk management purposes	26	341 959	404 582
Non-current assets held for sale	27	3 422 505	2 747 168
Assets from discontinued operations	53	3 587 236	4 209 800
Investment properties	28	54 997	297 133
Other tangible assets	29	400 119	397 088
Intangible assets	30	245 242	253 732
Investments in associated companies	31	403 099	402 289
Current tax assets	40	11 761	29 962
Deferred tax assets	40	2 588 135	2 505 608
Technical reserves of reinsurance ceded	32	7 781	8 038
Other assets	33	2 010 117	2 179 173
Debtors for direct and indirect insurance		19 100	1 263
Other assets		1 991 017	2 177 910
Total Assets		61 854 495	65 417 480
Liabilities			
Deposits from Central Banks	34	5 928 209	8 611 709
Financial liabilities held for trading	21	804 438	1 045 648
Deposits from banks	35	3 285 686	2 623 864
Due to customers	36	29 846 742	27 938 053
Debt securities issued	37	7 348 833	9 032 956
Derivatives held for risk management purposes	26	83 307	104 140
Investment contracts	38	4 110 251	4 379 442
Non-current liabilities held for sale	27	178 823	330 903
Liabilities from discontinued operations	53	2 574 261	3 072 720
Provisions	39	186 960	409 723
Technical reserves	32	1 403 537	1 461 070
Current tax liabilities	40	40 182	34 273
Deferred tax liabilities	40	46 652	50 309
Subordinated debt	41	55 331	54 794
Other liabilities	42	951 041	858 063
Creditors for direct and indirect insurance		12 445	10 132
Other liabilities		938 596	847 931
Total Liabilities		56 844 253	60 007 667
Equity			
Share capital	43	4 900 000	4 900 000
Reserves, Retained earnings and Other comprehensive income / (loss)	44	254 226	878 012
Profit / (loss) for the period attributable to shareholders of the Bank		(251 937)	(497 645)
Total Equity attributable to shareholders of the Bank		4 902 289	5 280 367
Non-controlling interests	44	107 953	129 446
Total Equity		5 010 242	5 409 813
Total Liabilities and Equity		61 854 495	65 417 480

The accompanying notes are an integral part of the consolidated financial statements

GRUPO NOVO BANCO

CONSOLIDATED INCOME STATEMENT SIX MONTH PERIOD ENDING AT 30 JUNE 2015

(in thousands of Euros)

	Notes	30.06.2015
Interest and similar income	5	784 572
Interest expense and similar charges	5	(569 854)
Net interest income		214 718
Dividend income		6 485
Fee and commission income	6	251 065
Fee and commission expenses	6	(67 057)
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	7	(107 479)
Net gains / (losses) from available-for-sale financial assets	8	167 250
Net gains / (losses) from foreign exchange differences	9	25 706
Net gains/ (losses) from the sale of other assets	10	13 415
Insurance earned premiums, net of reinsurance	11	18 655
Claims incurred, net of reinsurance	12	(145 527)
Change in technical reserves, net of reinsurance	13	113 932
Other operating income and expenses	14	(93 494)
Operating income		397 669
Staff costs	15	(204 401)
General and administrative expenses	17	(149 017)
Depreciation and amortisation	29 e 30	(43 540)
Provisions, net of reversals	39	77 009
Impairment losses on loans, net of reversals and recoveries	25	(252 340)
Impairment losses on other financial assets, net of reversals and recoveries	23 e 24	(98 304)
Impairment losses on other assets, net of reversals and recoveries	27, 30, 31 e 33	2 066
Operating expenses		(668 527)
Sales of associated companies and subsidiaries	1	33
Results from associated companies consolidated by the equity method	31	5 971
Profit / (loss) before income tax and non-controlling interests		(264 854)
Income tax		
Current tax	40	(35 124)
Deferred tax	40	63 153
		28 029
Profit / (loss) from continuing operations		(236 825)
Profit / (loss) from discontinued operations	27	(18 203)
Profit / (loss) from operations being discontinued	53	13 460
Net profit / (loss) for the period		(241 568)
Attributable to shareholders of the Bank		(251 937)
Attributable to non-controlling interests	44	10 369
		(241 568)
Basic earnings per share (in Euros)	18	(0,05)
Diluted earnings per share (in Euros)	18	(0,05)
Basic earnings per share from continuing activities (in Euros)	18	(0,05)
Diluted earnings per share from continuing activities (in Euros)	18	(0,05)

The accompanying notes are an integral part of the consolidated financial statements

GRUPO NOVO BANCO
CONSOLIDATED CASH FLOW STATEMENT
FROM 31 DECEMBER 2014 TO 30 JUNE 2015

(in thousands of Euros)

	Notes	30.06.2015
Cash flows from operating activities		
Interest and similar income received		827 199
Interest expense and similar charges paid		(819 930)
Fees and commission received		251 091
Fees and commission paid		(70 468)
Insurance premiums		(139 173)
Recoveries on loans previously written off		8 586
Cash payments to employees and suppliers		(226 880)
		(169 575)
<i>Changes in operating assets and liabilities:</i>		
Deposits with / from Central Banks		(2 627 821)
Financial assets at fair value through profit or loss		524 662
Acquisition of available-for-sale financial assets		(29 395 615)
Sale of available-for-sale financial assets		29 529 363
Issuance of insurance investment contracts		(233 867)
Loans and advances to banks		56 000
Deposits from banks		708 238
Loans and advances to customers		786 695
Due to customers		1 911 830
Derivatives held for risk management purposes		33 453
Other operating assets and liabilities		(656 180)
		467 183
Net cash from operating activities before corporate income tax		
Corporate income taxes paid		(11 498)
		455 685
Cash flows from investing activities		
Investments in subsidiaries and associated companies	1	(1 296)
Dividends received		9 701
Acquisition of tangible and intangible assets and investment properties		(10 939)
Sale of tangible and intangible assets and investment properties		414
		(2 120)
Cash flows from financing activities		
Bonds and other debt securities issued		88 510
Bonds and other debt securities paid		(1 739 102)
Subordinated debt paid		(3 606)
		(1 654 198)
Net changes in cash and cash equivalents (1)		(1 200 633)
Cash and cash equivalent at beginning of period		
		2 969 044
Effect of changes in consolidation perimeter	53	(670)
Effect of exchange rate changes on cash and cash equivalents		9 956
Net changes in cash and cash equivalents		(1 200 633)
		1 777 697
Cash and cash equivalent include:		
Cash	19	157 645
Deposits with Central Banks	19	1 556 536
(of which, Restricted balances)		(335 608)
Deposits with banks	20	399 124
Total		1 777 697

The accompanying notes are an integral part of the consolidated financial statements

HIGHLIGHTS AND RECENT DEVELOPMENTS

On 7 August 2014, Novo Banco informed that DBRS maintained the long term and short term rating of the instruments transferred to Novo Banco as BB (low) and R-4, respectively, with the outlook “Under Review Developing”.

On 13 August 2014, Novo Banco informed that Moody’s assigned to Novo Banco a long and short term deposit ratings of B2/Not-Prime, respectively. The ratings assigned to Novo Banco, long-term and short-term senior unsecured debt are B3/Not-Prime, respectively. On the other hand, Moody’s assigned a bank financial strength rating of E.

On 15 September 2014, Novo Banco informed that it reached an agreement with the Apollo Management investment fund on the terms for the sale of shares representing the entire share capital of Companhia de Seguros Tranquilidade. These shares had been given to BES as a pledge to secure a loan granted to Espírito Santo Financial Group.

On the 20 October 2014 Novo Banco informed that, according to the decision of the Board of Directors of Banco Nacional de Angola (“BNA”), the money market loans it had to Banco Espírito Santo Angola (“BESA”), amounting to Kz 450,959 million, would be partially used, in Kz 360,768 million, to cover losses in BESA.

Following BNA’s deliberation on 20 October 2014, and other subsequent events, Novo Banco has recorded in the opening balance sheet the impairment for 80% of the original senior interbank loan, or Eur 2,750mn and the remaining money market loans were converted into an equity shareholding of 9.7% (subject to implementation and registration) in Banco Económico (following the resolution process, BESA was renamed to Banco Económico), a subordinated loan payable in 10 years and a loan payable in 18 months, partially guaranteed by a pledge of Angolan sovereign debt.

On 3 December 2014, Novo Banco published its opening balance sheet (as of 4 August 2014). The assets, liabilities, off balance sheet items and assets under management of BES were transferred to Novo Banco under the terms of annexes 2 and 2A to the Bank of Portugal’s resolution, subsequently clarified by a resolution of the Bank of Portugal of 11 August 2014 and in joint work meetings of Novo Banco, the Bank of Portugal and PwC.

Highlights:

- a) The Group has Net Assets of EUR 72,465 million and Equity of EUR 5,577 million;
- b) The Solvency Ratio, as measured by Common Equity Tier I, is 9.2%, with underlying Risk Weighted Assets of EUR 49,906 million;
- c) Total customer funds amount to EUR 46,181 million, of which EUR 36,724 million on balance sheet and EUR 9,457 million off-balance sheet. Customer deposits total EUR 25,102 million;
- d) Gross loans totals EUR 43,818 million, of which EUR 31,459 million are corporate loans (72% of the total) and 12,359 million are loans to individuals (28% of the total). Non-current assets held for sale amount to EUR 2,399 million after a EUR 1,130 million provision (32% coverage);
- e) On-balance sheet provisions for impairments total EUR 5,248 million, or 12% of gross loans. The overdue loans/gross loans ratio is 7.9%, with a provision coverage of overdue loans, excluding collaterals, of 152.2%. The credit at risk ratio is 13.8%, with a coverage by on-balance sheet provisions, also excluding collaterals, of 87%;
- f) The loan to deposits ratio is 144%.

On 4 December 2014 Novo Banco informed that it was in negotiations with the company Haitong International Holdings Limited, a company incorporated in Hong Kong which is a wholly-owned subsidiary of Haitong Securities Co., Ltd. (a company whose shares are listed on the Shanghai Stock

Exchange and The Stock Exchange of Hong Kong Limited), with a view to enter into a sale and purchase agreement in respect of the whole share capital of BESI. The sale and purchase agreement was entered into on the 8 December 2014, being the price of the sale 379,000,000.00 (three hundred and seventy nine millions) Euros. The execution of such sale of BESI by Novo Banco is dependent on the obtaining of a set of authorizations of the relevant authorities, including but not limited to Bank of Portugal, European Commission, competition authorities and other authorities that directly supervise the buying entity.

On 16 December 2014 Novo Banco informed that pursuant to the Resolution Measure, the Unsubordinated Notes issued under the three Placement Memoranda for the Floating Rate Guaranteed Unsubordinated Notes due December 2014, January 2015 and February 2015 (PTBENFOM0027 €1.000.000.000 due December 2014, PTBENHOM0017 €1.000.000.000 due January 2015, PTBEQHOM0014 € 1.500.000.000 due February 2015), as well as the respective guarantees granted by the Portuguese Republic were transferred to Novo Banco, who approved a one-year extension of the maturity of the Notes, amended the applicable interest rates and requested a one-year extension of the Guarantee, and consequently amended each of the referred Placement Memoranda.

On 23 December 2014 Novo Banco informed that it was notified of the decision of the Board of Directors of the Bank of Portugal, dated 22 December 2014, which established that, effective 3 August 2014, the liability contracted by Banco Espírito Santo before Oak Finance Luxembourg, S.A. was not transferred to Novo Banco. This decision had a positive impact in the reserves of Novo Banco of 548.3 million Euros.

On 15 January 2015 Novo Banco informed that, after having obtained the required regulatory approvals and following the lift of the injunction on 30 December 2014 that had been granted by the Lisbon Court of Appeal (Tribunal da Relação de Lisboa), it completed on that date the sale of shares representing the entire share capital of Companhia de Seguros Tranquilidade to a company managed by the investment fund Apollo by way of enforcement of the financial pledge pursuant to the terms of the agreement entered into on 12 September 2014.

On 9 March 2015 Novo Banco informed about the Novo Banco Group Consolidated Activity and Results in the period of 4 August to 31 December 2014. Main highlights:

- a) Deposits recovered by Eur 4.2 billion in 4Q14, underlining the customer's confidence in Novo Banco and a return to normality;
- b) Assets decreased by Eur 6.9 billion in 5 months, mainly due to the deleverage of the loan portfolio (- Eur 1.8 billion; -4.9%) and of the securities portfolio (- Eur 1.7 billion; -12.7%);
- c) Marked improvement in liquidity: the loans to deposits ratio decreased to 126% (155% in 30 Sep. 2014) while funding from the ESCB was reduced from Eur 13.6 billion (4 August 2014) to Eur 8.5 billion. NOVO BANCO fully reimbursed the loan obtained under the ELA (Emergency Liquidity Assistance) ;
- d) Adequate provisioning levels: the Coverage Ratio for Overdue Loans (> 90 days) reached 147.9% while the Coverage Ratios for Credit at Risk was 77.8% and for Gross Loans was 12.8%. Moreover, provisions for non current assets held for sale represent 31% of their gross value;
- e) The CET 1 ratio was 9.6% on 31 December 2014, or 9.8% if considering the Special Regime for Deferred Tax Assets introduced by Law no 61/2014 of 26 August.
- f) Net Interest Income totalled Eur 266.3mn in the period while Fees and Commissions amounted to Eur 178.2mn in the same period. Therefore Commercial Banking Income reached Eur 444.5mn in the five month period.

- g) Operating costs for the 5 months totalled Eur 368.6 million. Recurrent operating costs decreased by 5.8% in 4th quarter in comparison with the 3rd quarter, on a comparable basis.
- h) Net operating income totalled Eur 419.9 million.
- i) Provisions reached the amount of Eur 699.1million, which jointly with the impact accounted in taxes related with the change of the income tax rate, have pressured the results of the Group.
- j) The consolidated net result was negative in Eur 467.9 million but, excluding the impact of non-recurrent items, the net result would be negative in Eur 229.7 million.

On 20 May 2015 Novo Banco, acting through its London branch (as Guarantor), announced Consent Solicitations in respect of the series of outstanding senior EMTN Securities issued by BES Finance Ltd..Novo Banco was seeking the consent of the holders of each Series of Securities of BES Finance Ltd., to substitute BES Finance Ltd. (as Issuer) by NB Finance Ltd. (as the Substitute Issuer) as the principle debtor under the relevant Securities, the relevant trust deed and the relevant agency agreement in respect of each Series of Securities, as set forth in the consent solicitation memorandum prepared by the Guarantor dated 20 May 2015 and the relevant notice of meeting and (in the case of the EMTN Securities only) the relevant further details document regarding the meeting.

BES Finance Ltd. is the issuer of senior securities which following the resolution measure became guaranteed by Novo Banco and is also the issuer subordinated debt securities and preference shares which following the resolution measure remained guaranteed by BES.

Following the transfer of the senior debt from BES Finance to NB Finance, there will be no change to the guarantee provided by NB, meaning that there is no change on the hierarchy of creditors as a result of this change.

On 17 June 2015 Novo Banco informed about the release of its 2014 audited accounts.

On 8 July 2015 after the first meetings on 11 June of 2015, the adjourned meeting on 29 June of 2015 and the written resolution of 1 July of 2015, Novo Banco, as the guarantor of BES Finance Ltd. senior debt, received the approval from the noteholders to replace BES Finance Ltd. by NB Finance Ltd. for all 16 securities. The transfers become effective on 7 July 2015.

On 31 August 2015 Novo Banco informed about the Novo Banco Group Consolidated Activity and Results in the first half of 2015. Main highlights:

- a) Deposits recovered by EUR 2.3 billion in 1H15, underlining the customers' confidence in Novo Banco and a return to normality;
- b) Assets decreased by EUR 3.6 billion, mainly due to the deleveraging of loans (-EUR 1.2 billion; -3.5%) and of the securities portfolio (-EUR 0.7 billion; -5.6%),
- c) Significant liquidity improvement: the loans to deposits ratio decreased to 114% (126% on 31 Dec. 2014), while funding from the ESCB was reduced by EUR 2.6 billion to EUR 5.9 billion on 30 June 2015;
- d) The Coverage Ratio for Overdue Loans >90 days reached 113.7% while the Coverage Ratios for Credit at Risk and for Gross Loans were 67.9% (excluding collaterals) and 13.7%, respectively. Moreover, provisions for non-current assets held for sale represent 26% of their gross value;
- e) On 30 June 2015 the CET 1 capital ratio was 9.4% (not reflecting the deconsolidation of BES Investimento);
- f) Net interest income and fees and commissions totalled EUR 214.7 million and EUR 193.2 million, respectively, with commercial banking income amounting to EUR 407.9 million.
- g) The financial result was negatively affected by accounting adjustments of annulment of interest, related to large transactions, amounting to EUR 103.2 million;

- h) Operating Costs were EUR 397.0 million;
- i) Net operating income amounted to EUR 17.7 million;
- j) Provisions amounted to EUR 271.6 million;
- k) The Net income for the period is negative amounting to EUR 251.9 million.

On 7 September 2015 Novo Banco informed that in accordance with the announcement dated 8 December 2014, Novo Banco completed on that date the sale to Haitong International Holdings Limited, a company incorporated in Hong Kong which is a wholly-owned subsidiary of Haitong Securities Co., Ltd. (a company whose shares are listed on the Shanghai Stock Exchange and the Stock Exchange of Hong Kong Limited), of the entire share capital of Banco Espírito Santo de Investimento, S.A. (BESI), being the price 379,000,000.00 Euros (three hundred and seventy nine millions Euros), after having satisfied all the required conditions for the completion of the sale.

On 15 September 2015 the Bank of Portugal announced that, after careful consideration, it had decided to postpone Novo Banco's sale process. The Bank of Portugal considered that, throughout the sale process, there were some uncertainty factors and that the sale process would benefit from clarifications, which the Bank of Portugal expects to occur in the near future.

According to the Bank of Portugal, the sale process will resume once the main uncertainty factors are clarified and the sale will take place when circumstances allow proposals to be received more consistent with the Bank of Portugal objectives.

On 29 September 2015, the Bank informed that it had exercised its tag along rights for sale of the 36.875% owned in the share capital of Tertir – Terminais Portuários, S.G.P.S., S.A., and had agreed selling the share participation to Yildirim Group under the same terms and conditions agreed by the majority shareholder MOTA-ENGIL, AMBIENTE E SERVIÇOS, S.G.P.S., S.A.. The execution of the transaction is dependent on certain conditions including but not limited to the non-opposition by the competition authorities and is expected to be finalised by the end of this year.

On 30 September 2015, the Bank informed that, on 29 September 2015, the Rating Agency DBRS has taken a rating action following the conclusion of the review of the support assessment. In the scope of this review, DBRS removed the systemic support uplift to 31 European banking groups. The review by DBRS reflects its views that developments in European regulation and legislation mean that there is less certainty about the likelihood of timely systemic support. DBRS maintained the Intrinsic Assessment of NOVO BANCO at B, having revised the trend on all ratings to Stable. The Rating Agency mentions that this is due to the progress NOVO BANCO has made in protecting its franchise, and improving its funding and liquidity profile. DBRS revised up the Intrinsic Assessment of NOVO BANCO to B, from B (low) in July 2015. The agency maintained the short-term debt and deposits rating at R-4 and the senior long-term debt and deposits rating was revised to B, from BB (low).

SUPERVISION AND REGULATION

Novo Banco is subject to EU regulation, to the banking and commercial laws applicable to joint-stock companies ("*sociedades anónimas*") - namely to the Portuguese Companies Code - and, in particular, to the RGICSF, to the Portuguese Securities Code and to other related legislation.

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 a tied insurance intermediary.

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 ECB becomes responsible for the prudential supervision of the credit institutions considered significant which operate in the European Union (the "Single Supervisory Mechanism"). Behavioural supervision of these credit institutions shall remain with the European Banking Authority and with their respective national regulators. Credit institutions from European Union countries outside of the euro zone may elect to be supervised by the ECB, under the banking union, having to ensure that their national regulator cooperates closely with the ECB.

In its role as the sole regulatory authority under the Single Supervisory Mechanism, the goal of the ECB is to promote the safety and soundness of credit institutions and the stability of the financial system, taking into account the unity and integrity of the internal market. Under the Single Supervision Mechanism, responsibility for prudential supervision, currently carried out by national regulators, will be transferred to the ECB.

Furthermore, the European Commission proposed the creation of a single bank resolution mechanism (the "Single Resolution Mechanism"), as the natural next step after the Single Supervisory Mechanism towards the banking union. Once in force, the Single Resolution Mechanism will be responsible for resolving certain credit institutions and financial institutions and coordinate, in particular the application of resolution tools within the banking union. Following the achievement of a political agreement in respect of the legislation on the Single Resolution Mechanism in early 2014, Regulation (EU) no. 806/2014, of 15 July was adopted. The Single Resolution Mechanism will generally come into effect on 1 January 2016.

Additionally, in the wake of the financial crisis and the observed situations of insufficiencies in the existing regulatory capital structure and lack of adequate capital reserves in systemically important financial institutions, capital requirement has been an area subject to a number of national and international initiatives. Key initiatives in this context are Basel III and Directive 2013/36/EU, of the European Parliament and of the Council, of 26 June 2013, relating to the access to the activity of credit institutions and the prudential supervision of credit institutions and of investment firms.

In late December 2010, the Basel Committee published its final recommendations for reform of the global regulatory framework applicable to credit institutions. These recommendations, known as Basel III, revised certain aspects of the recommendations contained in Basel II (having entered into force on January 2007, through the Capital Requirements Directive and since repealed by CRD IV/CRR) and introduced new rules on capital and liquidity. Despite being recommendations to national governments to approve laws and regulations to adopt these measures, as of January 2014 most jurisdictions had already implemented rules in line with the Basel III recommendations. In the EU, this implementation was achieved by way of a combined package of a directly applicable Regulation, Regulation (EU) no. 575/2013 of the European Parliament and of the Council, of 26 June 2013, on prudential requirements for credit institutions and for investment firms which amends Regulation (EU) no. 648/2012 ("CRR") and Directive mentioned above, together known as "CRD IV". The CRD IV has been in force in the Member States since 1 January 2014.

Bank of Portugal

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). This goal is achieved through the supervision of credit institutions, financial companies and other entities subject to the supervision of the Bank of Portugal.

According to the RGICSF, 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.

The Bank of Portugal has established rules governing solvency ratios, reserve requirements, control of major risks and provisions for specific and general credit risks. 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.

Capital and Capital Ratios

Portuguese credit institutions are subject to capital ratio requirements. These requirements conform to the EU legal framework establishing common standards for the measurement of capital and a system for weighting assets according to credit risk. Currently, in the context of Basel III, the European Parliament and the Council of the EU adopted Regulation (EU) No 575/2013 and Directive 2013/36/EU defining the prudential requirements to be observed by credit institutions and investment firms in the EU. The CRD IV took effect on 1 January 2014, with a phase-in application period running through 1 January 2016. The capital elements of the Group, considered for the calculation of solvency ratio, are divided into Common Equity Tier 1, Tier 1, Tier 2 and Total Own Funds:

- a) Common Equity Tier 1: 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;
- b) Additional Equity Tier 1 (or Tier 1): In addition to the amounts considered as Common Equity Tier 1, the category includes preferred shares and certain hybrid capital instruments;
- c) Equity Level II (or Tier 2) essentially incorporates subordinated eligible debt.

Bank of Portugal published in 30 December 2013 Regulatory Notice (“*Aviso*”) 6/2013, which also regulates the transitory regime established in CRD IV, to be observed by Portuguese banks, including a minimum of 7% Common Equity Tier 1.

Novo Banco is currently under the Supervisory Review and Evaluation Process (SREP), an overall assessment of capital adequacy conducted by the ECB, which includes stress testing. The final result of the SREP is expected to be disclosed before the end of 2015, and may imply additional capital requirements for Novo Banco, above the minimum regulatory level.

Risk-weighted assets comprise a component reflecting credit risk, but also components that reflect operational and market risk. Under the current legal framework, credit institutions 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 Bank of Portugal.

Market risk is defined as the risk of losses in on- and off-balance sheet positions arising from movements in market prices. Market risk also includes the risks pertaining to interest rate-related

instruments and equities in the trading book and foreign exchange risk and commodities risk throughout the bank.

Operational risk is defined as the risk of loss resulting from inadequate or deficient internal processes, information systems, people's behaviour or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

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.

Under Portuguese law, a large exposure corresponds to risks incurred by a credit institution to a customer or group of connected customers with a value equal to or exceeding 10% of its own funds. 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 third country.

Similarly, the current law 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, international organisations or multilateral lending agencies to which a 0% risk weighting would be applicable under the relevant Bank of Portugal regulation.

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.

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.

The annual contributions 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 was set for 2014 at 0.03%, plus a multiplicative factor determined in accordance with the average individual solvency ratio for the June to December period for the year for which the contribution is being determined (the higher an institution's average ratio, the lower its contribution). The factor is defined in Notice 11/94 of the Bank of Portugal.

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.

Bank of Portugal issued Notice 23/2013 which established the annual contribution rate (0.03% for all territory) and the minimum contribution (€17,500) for 2014, and it also issued Notice 24/2013, which established that in 2014 the participating credit institutions cannot replace their annual contributions by irrevocable undertakings.

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.

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 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 in their own name and for their own account. Moreover, in order to prevent a conflict of interest, the Deposit Guarantee Fund does not guarantee deposits made by an institution's managing bodies, qualifying shareholders, external auditors and non-financial companies under the control of the credit institution at issue, or which together with the latter belong to the same group.

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 set 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

According to Article 100 of the Legal Framework of Credit Institutions and Financial Companies, credit institutions may not have any direct or indirect qualified holding exceeding 15% of their regulatory capital. This is not applicable to holdings in credit institutions, financial companies, financial institutions, pension fund management companies, and insurance and reinsurance companies. In addition, the total amount of qualified holdings by a credit institution in such non-banking companies may not exceed 60% of its regulatory capital.

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) members of the supervisory board (“*Conselho Geral e de Supervisão*”) who are not part of any financial committees, nonexecutive directors of credit institutions who are not part of the audit committee, or companies or other legal entities that are controlled by them; or (iv) 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. 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 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 depositories.

The CMVM is the regulatory entity in charge of the supervision and regulation of the securities markets and financial intermediation services. It is an administrative agency overseen by the Ministry of Finance.

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 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.

Supervisory Rules Applicable to Novo Banco as a Financial Intermediary

Novo Banco and some of its Portuguese subsidiaries, the main one being GNB – Gestão de Ativos, Grupo Novo Banco, are authorised as financial intermediaries. They are subject to the supervision by the CMVM in relation to their performance of financial intermediation 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 Novo Banco 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; and (vii) information duties.

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 of these regulations and of 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 take the place of supervised entities to provide information to the market.

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 five years 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. 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 Portuguese Insurance and Pension Funds Supervisory Authority insofar as it is a tied insurance mediator.

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 Bank operates, such as securities brokerage, dealing and underwriting, and the provision of investment advice.

Bridge Bank

Without prejudice to the limits and rules governing financial institutions, as a bridge Bank, Novo Banco is subject to certain limitations arising out of the bridge bank's legal regime but also the duties and obligations set out in the decision of the European Commission State regarding the resolution of BES (State aid n° SA.39250 (2014/N)).

The purpose of Novo Banco is to manage the assets, liabilities, off-balance sheet items and assets under management transferred from BES and to carry on the transferred activities, for the purposes laid down in Article 145-A of RGICSF, and in order to enable the subsequent sale of said assets, liabilities, off-balance-sheet items and assets under management to one or more credit institutions. In the performance of its activity Novo Banco shall comply with management criteria ensuring that low risk levels are maintained and the value of the transferred assets is maximised.

Several commitments in respect of Novo Banco's activity have been assumed within the context of the Resolution Measure, including the following:

- a) Any sale of an economic activity or entity which holds a significant market share in its respective market shall be notified to the Commission;
- b) Novo Banco shall conduct open, transparent, non-discriminatory and competitive selling processes, that take place on market terms and where Novo Banco seeks to maximise the sales price for the assets and liabilities involved;
- c) Novo Banco will have sold all assets transferred to it, or the Resolution Fund will have sold all shares in Novo Banco, no later than 24 months after 3 August 2014.
- d) For each foreign subsidiary, Novo Banco shall not provide additional equity or subordinated capital for an amount larger than the higher of (i) [0-5]% of the risk-weighted assets of that subsidiary on 31 December 2013 or (ii) EUR [45-60] million, subject to certain exceptions;
- e) Novo Banco will not pay any coupons on hybrid capital instruments (or any other instruments for which the coupon payment is discretionary) or dividends on own funds instruments and subordinated debt instruments other than where there is a legal obligation to do so and other than on those held by the Resolution Fund or by shareholders or subordinated debt holders which entered into Novo Banco after its set up;
- f) Novo Banco can only purchase investment grade securities or euro area sovereign securities;
- g) Limitations on the sale of assets and authorization from the Bank of Portugal to the sale of assets above a certain amount;
- h) Novo Banco will not lend amounts higher than the average of the last two years of the business being transferred to Novo Banco;
- i) Novo Banco will not price deposits above market average and will not grant credit or other loan business below market average;

Novo Banco shall not acquire any stake in any undertaking, be it an asset or share transfer. That ban on acquisitions covers both undertakings which have the legal form of a company and any package of assets which forms a business.

SHAREHOLDERS' STRUCTURE

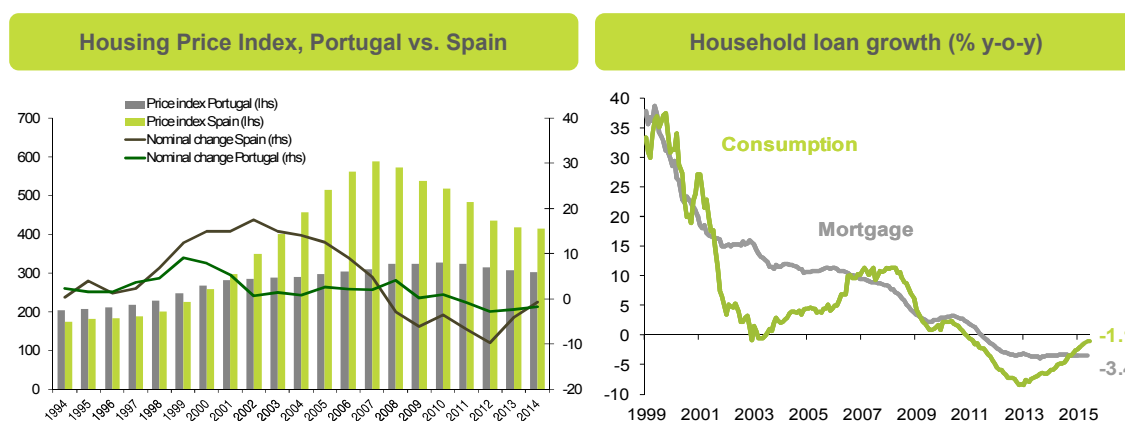
Novo Banco's share capital is fully underwritten by the Resolution Fund.

THE PORTUGUESE MORTGAGE MARKET AND THE SERVICING OF THE COVER POOL

THE PORTUGUESE MORTGAGE MARKET

According to data from May 2015, the Portuguese residential mortgage market is valued at around €100.3 billion, or 58% of GDP (sources: Bank of Portugal and INE). This compares with € 105.8 billion in December 2013 (62.5% of GDP) and with a historical high of € 114.5 billion (65% of GDP) in March 2011. On a year-on-year basis, the stock of mortgage loans has been declining since August 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 in 2015.

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 per cent. to around 5 per cent.. 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 per cent.) 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 74 per cent (data for 2013), above the EU and euro area averages of 70% and 67%, respectively.

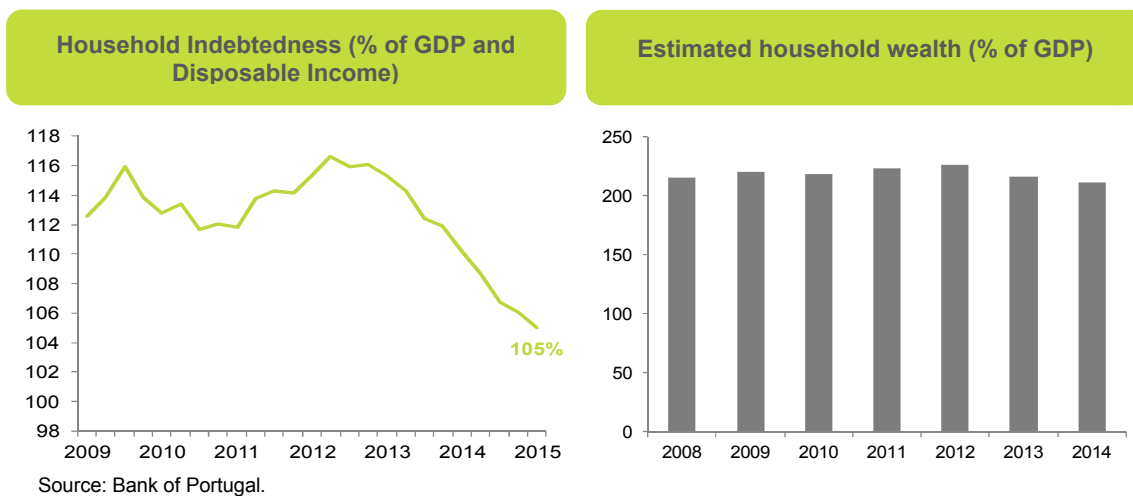


Sources: Bank of Portugal, Confidencial Imobiliário, Ministerio de Fomento, ES Research.

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

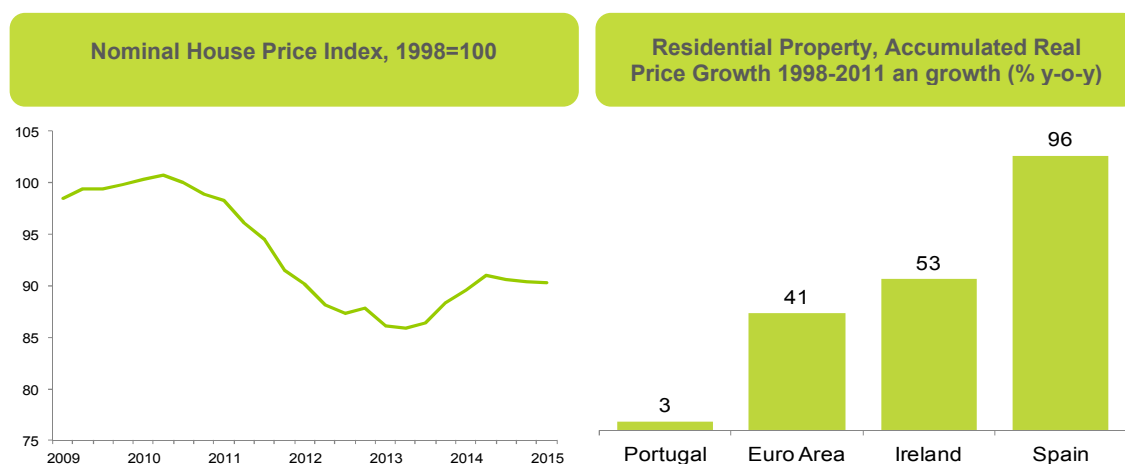
explained by the above mentioned goal of improving households' standards of living, and not so much to speculative investments. In this sense, house price growth in the boom years of the Portuguese housing market was relatively moderate and well supported by fundamentals.

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 1.8% in 2011, 3.3% in 2012 and 1.4% in 2013, before returning to growth (0.9%) in 2014. In this context, a combination of lower demand and restrictive lending criteria resulted in a significant contraction in the stock of mortgage loans (-1.6% in 2011, -3.3% in 2012, -3.5% in 2013 and -3.5% in 2014). House prices reflected this period of recession in the economy. According to the new House Price Index from INE, house prices declined 14.7% 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. Between Q2 2013 and Q4 2014, house prices increased 5.1% (source: INE). In Q1 2015, year-on-year price growth reached 0.8%.



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 over the last decade 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 104.6% of disposable income in

December 2014.



Source: Bank of Portugal, Confidencial Imobiliário, Bank of Spain, ES Research.

The ratio of non-performing loans in housing credit has increased over the last years, reflecting the effects of the recession and, particularly, the rise in unemployment (from 9.2% to 16.2% of the labour force between 2009 and 2013, as an annual average). Nevertheless, this ratio has remained at very contained levels, rising from 1.7% to 2.5% of total mortgage loans between 2009 and 2015.

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 between 1.6% and 2% in 2015, maintaining growth rates around 1.7%-1.8% in the following years. Activity in construction and real estate should be mainly supported by external demand for housing, but a stabilisation and gradual recovery in the domestic segment of the market should also be expected. According to the Bank Lending Survey of the Bank of Portugal, the supply of mortgage loans by banks is becoming less restrictive and household demand for mortgage loans has been increasing slightly, reflecting the environment of low interest rates, but also improved confidence levels and brighter prospects for the housing market. Elsewhere, a further decline in unemployment should eventually contribute to a gradual decline in the ratio of non-performing loans.

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 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:

- 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.;
- 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 Board of Directors, under certain circumstances, can waive life insurance. In addition, life insurance is not mandatory for loans originated under the "senior offer", which is specifically addressed to borrowers who are fifty years old or more. For this specific offer there are the following additional requirements: (i) maximum loan to value of 90 per cent., (ii) maximum term of the loan is 30 years, and (iii) at maturity the borrower must not be over eighty 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, DPCP - Departamento Credito Particulares e Cartoes 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 randomly distributed to and carried out by valuation companies that work with the Issuer under an outsourcing scheme (which includes only national valuation companies certified by the CMVM) and subject to quotes that are defined from time to time by Novo Banco. The assessors of the valuation companies visit the houses in question and make the relevant assessment and valuations in accordance with applicable prospect values. Each of these valuation companies has a central department that validates each valuation that has been carried out. The results are subsequently uploaded on the internal website of Novo Banco (<https://www.novobanco.pt/>). A group of independent engineers monitor 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 7 days the recovery of payment failures is managed at the branch level. After 7 days in arrears the Recovery Department starts contacting clients via SMS and a dedicated call centre, alerting the clients to the need to make outstanding payments. In addition, upon payment failure, the

system automatically generates payment reminder letters that are sent to the obligor. Direct debits are re-presented every three days on the obligor's current account.

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 105 days in arrears (a payment letter is sent with the amount in debt), the recovery officers visit the clients at their homes or work place.

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 covered bonds.
- 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 yield curve.

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 segregated 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

PORTUGAL

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 earned as business or professional income, is the final tax on that income unless the individual elects to include it in his/her taxable income, subject to tax at progressive rates of up to 48 per cent., to which a 3.5 per cent. sur tax is to be added, to which a tax credit may be deducted depending on the collection of PIT and VAT for the year of 2015. 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 positive difference between (i) the capital gains and gains on other securities and (ii) losses in securities.

Tax applies at a 28 per cent. rate, which is the final tax on that capital gain income, unless the individual elects to include it in his/her taxable income, subject to tax at progressive rates of up to 48 per cent., to which a 3.5 per cent. surtax is to be added, to which a tax credit may be deducted depending on the collection of PIT and VAT for the year of 2015. 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 acquisition through gift or inheritance of Covered Bonds by an individual who is domiciled in Portugal. An exemption applies to transfers in favour of the spouse (or person living together as spouse), descendants and parents/grandparents.

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 are included in their taxable profits and are subject to a Corporate Income Tax rate of 21 per cent., or 17 per cent. on the first € 15,000 in the case of small or medium-sized enterprises and may be subject to a municipal surcharge (“*derrama municipal*”) at a rate of up to 1.5 per cent.. A state surcharge (“*derrama estadual*”) also applies at a rate of 3 per cent. on taxable profits in excess of € 1,500,000 to to € 7,500,000, at 5 per cent. on taxable profits in excess of € 7,500,000 up to € 35,000,000 and at 7 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. The tax rate is 21.5 per cent. in the case of entities not carrying out an activity of a commercial, industrial or agricultural nature.

Financial institutions, pension funds, retirement and/or education savings funds, share savings funds, venture capital funds and some other exempt entities are not subject to Portuguese withholding tax.

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. or 17 per cent. on the first € 15,000 in the case of small and medium-sized enterprises and may be subject to a municipal surcharge (“*derrama municipal*”) of up to 1.5 per cent.. 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 7 per cent. on taxable profits in excess of € 35,000,000. The corporate tax rate is 21.5 per cent. in the case of entities not carrying on an activity of a commercial, industrial or agricultural nature.

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 “tax havens” list approved by Ministerial Order 150/2004, of 13 February 2004, as amended by Ministerial Order 292/2011, of 8 November 2011.

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 to 15, 12, 10 or 5 per cent., depending on the applicable treaty and provided that the relevant formalities (including certification of residence by the tax authorities of the beneficial owners of the interest and other investment income) are met. 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, which will be the case if it receives the interest for its own account and not as an intermediary, and not as an intermediary, either as a representative, a trustee or authorized signatory, for some other person.

Capital gains obtained on the disposal of the Covered Bonds by non resident individuals are subject to Portuguese capital gains taxation on the positive difference between (i) such gains and gains on other securities and (ii) losses in securities. 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 “tax havens” list approved by Ministerial order 105/2004, of 13 February 2004 (as amended by Ministerial order 292/2011, of 8 November 2011).

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 the share capital of the holder is more than 25 per cent., directly or indirectly, held by Portuguese resident entities or if 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, amended by Ministerial Order 292/2011. Accrued interest qualifies as interest for tax purposes.

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 acquisition of Covered Bonds through gift or inheritance 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 and capital gains 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), 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 organisations 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 MO 150/2004 amended by MO 292/2011), except if they are central banks and governmental agencies.

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 (ii) or (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 or a tax information exchange agreement in force, 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 b Ministerial Order 150/2004 of 13 February 2004 (as amended by Ministerial order 292/2011, of 8 November 2011) 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.portaldasfinancas.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 passthru 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 passthru payment are filed with the Federal Register (for foreign passthru 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 passthru 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 United States.

The governments of Portugal and the United States have in substance reached an agreement related to FATCA, and the IRS has provided that Portugal and the United States are treated as having entered into an intergovernmental agreement (“IGA”) through the end of 2014 (“Portugal IGA”), which, according to the US Department of Treasury was signed on 6 August 2015. Assuming the Portugal IGA will enter into effect in 2015, the Issuer is not expected to be subject to withholding or generally required to withhold amounts on payments it makes under FATCA. Additionally, the Issuer is not expected to have to enter into an agreement with the IRS regarding compliance with FATCA (an “FFI Agreement”) and instead would be required to report to the Portuguese government only, the latter being responsible for reporting to the US authorities.

In this respect, Portugal has recently implemented, through Law 82-B/2014, of 31 December 2014, the legal framework regarding the reciprocal exchange of information on financial accounts subject to disclosure in order to comply with FATCA. Under this legislation the Issuer will be required to obtain information regarding certain accountholders and report such information to the Portuguese government, which, in turn, would report such information to the IRS. It is foreseen that additional legislation will be created in Portugal namely regarding certain procedures, rules and dates in connection with FATCA.

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.

THE PROPOSED FINANCIAL TRANSACTIONS TAX

The Portuguese State Budget Law for 2013, 2014 and 2015 (Law 66-B/2012, of 31 December 2012, Law 83-C/2013, of 31 December 2013 and Law 82-B/2014, of 31 December 2014) have included legislative authorisations that allow the Portuguese Government to introduce a financial transaction tax (“FTT”) under the scope of the Portuguese Stamp Duty. However, at present, an FTT has yet to be implemented in Portugal. The legislative authorisation provides a broad range of transactions that would fall under the scope of the proposed FTT, covering all the transactions involving the sale and purchase of financial instruments made on the secondary market, namely (i) share capital participations; (ii) bonds; (iii) money market instruments; (iv) participation units on investment funds; and (v) derivative and structured financial products. According to the legislative authorisation, the expected rates are as follows: up to 0.3 per cent. on general transactions; up to 0.1 per cent. on highly frequent transactions; and up to 0.3 per cent. on transactions involving derivatives.

On 14 February 2013, the European Commission has published a proposal for a Directive for a common financial transaction tax (“FTT”) in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “participating Member States”). The proposed Council Directive aims to ensure that the financial sector makes a fair and substantial contribution to covering the costs of the recent crisis and creating a level playing field with other sectors from a taxation point of view.

The proposed FTT has a very broad scope and could, if introduced in its current form, apply to certain dealings in Covered Bonds (including secondary market transactions) in certain circumstances. The issuance and subscription of Covered Bonds should, however, be exempt.

Under current proposals 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 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.

Joint statements issued by the participating Members indicate an intention to implement the FTT by 1 January 2016.

Although it was intended to take effect on 1 January 2014, the FTT proposal remains subject to negotiation between the 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 Covered Bonds are advised to seek their own professional advice in relation to the FTT.

EU SAVINGS DIRECTIVE

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Austria may instead (unless during that period it elects otherwise) impose a withholding system (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld). A number of non-EU countries and territories have adopted similar measures to the EU Directive.

A number of non-EU countries and certain dependent or associated territories of certain EU Member States have agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident in an EU Member State. In addition, the EU Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in an EU Member State to, or collected by such a person for, an individual resident in one of those territories.

The European Council formally adopted a Council Directive amending the Savings Directive on 24 March 2014 (the “Amending Directive”). The Amending Directive broadens the scope of the requirements described above. Member States have until 1 January 2016 to adopt the national legislation necessary to comply with the Amending Directive. The changes made under the Amending Directive include extending the scope of the Savings Directive to payments made to, or secured for, certain other entities and legal arrangements. They also broaden the definition of “interest payment” to cover income that is equivalent to interest.

However, the European Commission has proposed the repeal of the Savings Directive from 1 January 2017 in the case of Austria and from 1 January 2016 in the case of all other Member States (subject to

ongoing requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). This is to prevent an overlap between the Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The proposal also provides that, should it proceed, Member States will not be required to apply the new requirements of the Amending Directive.

SUBSCRIPTION AND SALE AND TRANSFER RESTRICTIONS AND SECONDARY MARKET ARRANGEMENTS

The Dealers have, in the Programme Agreement dated 5 October 2015, 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. In addition, the Covered Bonds in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. 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.

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 with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”) it has not made and will not make an offer of Covered Bonds which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Covered Bonds to the public in that Relevant Member State:

- a) at any time to any legal entity which is a qualified investor, as defined in the Prospectus Directive;
- b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- c) at any time in any other circumstances falling within article 3(2) of the Prospectus Directive,

provided that no such offer of Covered Bonds referred to in (a) to (c) above shall require 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.

For the purposes of this provision, the expression an “**offer of Covered Bonds**” in relation to any Covered Bonds in any Relevant Member State means 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 for the Covered Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “**Prospectus Directive**” means Directive 2003/71/EC (as amended, including by Directive 2010/13/EU) and includes any relevant implementing measure in the Relevant Member State.

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 unless the requirements and provisions applicable to the public offerings in Portugal are met and the registration or approval by the CMVM is obtained or a recognition procedure is made with the CMVM. In addition, each Dealer has represented and agreed, and 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 other than in compliance 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 including the publication of a base prospectus, when applicable, 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.

Listing

Application has been made to list the Covered Bonds on the Irish Stock Exchange's Official List and to admit the Covered Bonds to trading on the Irish Stock Exchange'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 Group since 30 June 2015 and there has been no material adverse change in the prospects of the Issuer since 31 December 2014.

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) during the 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 Group's financial position or profitability.

Proceedings in connection with the resolution measure applied to BES and the creation of Novo Banco

On 3 August 2014, the Bank of Portugal decided to apply to BES the 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 Resolution Measure can be viewed at: http://www.bportugal.pt/en-US/OBancoeoEurosistema/ComunicadoseNotasdeInformacao/Documents/Deliberation_3_Aug_2014_8pm.pdf.

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 can 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, there are several legal proceedings related with the placing, by BES, of debt instruments of Espírito Santo group entities (including, commercial paper) submitted by clients who are arguing that any such liability has been transferred to Novo Banco and several misselling claims in respect of these instruments. Additionally, there are ongoing proceedings in Portugal and England against Novo Banco and/or Bank of Portugal related with the financing in the amount of around USD 835,000,000 made by Oak Finance Luxembourg to BES, which Bank of Portugal has considered as not being transferred to Novo Banco.

Furthermore, the Bank was notified of a pending 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.

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 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, determines 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.

According to public information, EC’s decision to approve the State Aid granted by Portugal 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 EC.

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 Prospectus.

Accounts

The auditors of the Issuer are PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda. (“PWC”), (which is a member of the Portuguese Institute of Statutory Auditors (“*Ordem dos Revisores Oficiais de Contas*”), with registered office at Palácio Sottomayor, Rua Sousa Martins, 1, 3.º, 1069-316 Lisbon, Portugal.

The consolidated financial statements of the Group for the financial period ended 31 December 2014 were prepared in accordance with International Financial Reporting Standards. The financial statements of the Group were audited in accordance with International Standards on Auditing for the financial period ended 31 December 2014 by PWC.

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 and the Paying Agents 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 2014 in English;
- c) the interim report and accounts of the Issuer in respect of the six-month period ended 30 June 2015 in English;
- d) the Programme Agreement and the Set of Agency Procedures, both dated 5 October 2015;
- 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 the Irish Stock Exchange (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 far 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.

Qualifications in the auditors' report

The auditors' report scheduled to the audited consolidated financial statements of the Issuer in respect of the financial year ended 31 December 2014 contains the following qualifications:

“7 As disclosed in Note 41 of the notes to the accounts, in accordance with sub-paragraph (iv) of paragraph (b) of point 1 of Appendix 2 of the Resolution of the Board of Directors of the Banco de Portugal of 3 August 2014, as amended by Resolution of the same Board of 11 August 2014 (“Resolution Deliberation”) the liabilities relating to financial instruments that were, or that at some point had been, eligible for the own funds calculation of Banco Espírito Santo, S.A. (“BES”), which include subordinated debt and other equity instruments issued by the BES branch in the Cayman Islands, in the amounts, at 31 December 2014, of Euro 43 million and Euro 163 million, respectively, were not transferred to Novo Banco. These financial instruments were acquired upon their issuance and continue to be, as at this date, held by the company BES Finance, Ltd (“BES Finance”), currently a subsidiary of Novo Banco, which simultaneously carried out the issuance and sale to third parties of financial instruments, guaranteed by BES itself, on the same terms and conditions and for the same amount. Based on the above, the Board of Directors of Novo Banco, in conjunction with the Banco de Portugal, whilst resolution authority, considers that, under the Resolution Deliberation, the legal system subjacent to the resolution and the European Union rules on State aid, the Bank is not responsible for the repayment of the subordinated debt and other capital instruments issued by BES Finance, as these were indirectly expressed in BES' own patrimony and are guaranteed by same, and has therefore not reflected these in the consolidated balance sheet of the Bank at 31 December 2014, although as at this date, and strictly under International Financial Reporting Standards, the technical conditions for the non-recognition of such liabilities have not been met. Under these circumstances, had those liabilities been reflected in the consolidated balance sheet of the Bank at 31 December 2014, the subordinated debt and the other equity instruments captions would be higher by Euro 43

million and Euro 163 million, respectively, and the originating reserve would be lower by Euro 206 million.

8 *As referred in Note 40 of the notes to the accounts, the consolidated balance sheet of the Bank at 31 December 2014 includes Euro 1,065 million relating to deferred tax assets recognized on tax losses, of which Euro 160 million relate to tax losses estimated by BES in 2013 that were transferred to Novo Banco under the Resolution Deliberation, and Euro 905 million relate to tax losses estimated in 2014, which effective recoverability is dependent on the generation of future taxable results. Given that the maximum period for the use of these tax losses is 5 and 12 years, depending on their having arisen in 2013 or 2014, respectively, we consider that the estimated recoverability of the aforementioned deferred tax assets made by the Board of Directors, based on a business plan covering the years 2015 through 2026 that assumes a stability of the results as from 2019, incorporates assumptions we consider optimistic given the current economic situation and the fact that is a bridge bank. Under these circumstances, the captions of deferred tax assets, originating reserve and result for the Period, contained in the consolidated balance sheet of the Bank at 31 December 2014, are overstated by an amount that we are unable to quantify with reasonable assurance, taking into account the multiple underlying assumptions and respective correlations, as well as the potential impact deriving from the projected entry of a new shareholder in the Bank.”* The sole business of BES Finance has been to issue notes and preference shares in order to provide a source of finance for the operations of its former parent bank, BES. Following the Resolution Measure, BES Finance senior liabilities became guaranteed by Novo Banco and its subordinated liabilities and preference shares remained guaranteed by BES. Similarly, each deposit, including the deposits representing the proceeds of the Senior Notes, was transferred to and became a deposit with Novo Banco Cayman Branch, pledged in favour of the Guarantor and the subordinated loans granted to BES Cayman, representing the proceeds of the Subordinated Notes and the Preference Shares, remained obligations of BES and not Novo Banco.

Notwithstanding the transfer of the ordinary shares of BES Finance from BES to Novo Banco, Novo Banco is not liable for any payment under those Subordinated liabilities/preference shares and is prevented by the Resolution Measure to make any such payment, as they represent subordinated creditors of BES. As the Senior notes issued by BES Finance are guaranteed by Novo Banco, in order to eliminate any risk arising from the fact the senior and subordinated notes shared the same issuer, Novo Banco has proposed to the senior noteholders that they consider and approve the substitution of BES Finance by NB Finance, a wholly owned subsidiary of Novo Banco in the Cayman Island. Novo Banco had been working on the issuer substitution since 2014, which only became effective on 7 July, after being approved by relevant bondholders’ resolution. On this basis, and for purposes of preparing the consolidated balance sheet in 2014, NOVO BANCO did not (and could not) register the assets and subordinated debt and the preference shares of BES Finance.

As referred to in the accounting policy and in accordance with the requirements defined in IAS 12, the deferred tax assets were recognized based on the Bank’s expectations regarding their recoverability. The assessment of the recoverability of the deferred tax assets was made based on the business plan approved by the Board of Directors for the period 2015-2019, and considering a constant activity growth after that date and up to the expiry of the deferred tax assets generated in 2014 (12 years).

The expectations as to the generation of future taxable income in Portugal are supported, fundamentally, on the favourable evolution of:

- net interest income, reflecting the positive impact of the expected lower cost of term deposits and the normalisation of the Bank’s funding cost;
- the reduction of operating costs, reflecting the favourable impact of the reduction in the number of employees and branches;
- loan impairment, in line with the evolution of the Bank’s activity based on macroeconomic projections;

- the gains on financial transactions, although below the historical average annual return of 2% of the underlying assets;
- fees and commissions, reflecting a growth of 5%, in line with the evolution of the bank's business and the country macroeconomic environment.

The projections were made on a going concern basis, based on historical and forecast information considered appropriate at the time for the purpose but that should be reviewed after the completion of the sale process of Novo Banco as a transition bank.

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 Security**” 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 PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda., member of the Portuguese Institute of Statutory Auditors (“*Ordem dos Revisores Oficiais de Contas*”), registered with the CMVM with registration number 9077, with registered office at Palácio Sottomayor, Rua Sousa Martins, 1, 3.º, 1069-316 Lisbon, Portugal.

“**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.

“**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, Regulation 7/2006 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 5 October 2015 prepared in connection with the Programme, as amended from time to time.

“**Bearer Covered Bonds**” means any Covered Bonds in bearer form (“*ao portador*”).

“**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.

“**Capital Requirements Directive**” comprises Directive 2013/36/EU of the European Parliament and of the Council, of 25 June 2013.

"**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 depository 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 55 Moorgate, London EC2R 6PA, 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 PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda., member of the Portuguese Institute of Statutory Auditors ("*Ordem dos Revisores Oficiais de Contas*"), registered with the CMVM with registration number 9077 and with registered office at Palácio Sottomayor, Rua Sousa Martins, 1, 3.º, 1069-316 Lisbon .

"**Cover Pool Monitor Agreement**" means the agreement, dated 5 October 2015, 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 depository.

"**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 the Treaty.

“**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 Ltd.

“**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.

“**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.

“**PAEF**” means the financial assistance programme of EUR 78 billion, with the International Monetary Fund, the European Commission and the ECB, which was formally approved on 17 May 2011, in a bid to stabilise its public finances;

“**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.

“**Registered Covered Bond**” means any Covered Bond in registered form (“*nominativas*”).

“**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 7/2006**” means the regulatory notice (“*Aviso*”) 7/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the weighting coefficient applicable to the ownership of covered bonds issued 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 or about 5 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 Covered Bonds.

“**Stock Exchange**” means the Irish Stock Exchange or any other stock exchange where Covered Bonds may be listed as per the relevant Final Terms.

“**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.

“**UCITS Directive**” means Council Directive 85/611/EEC, of 20 December 1985, as amended.

“**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.

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