

BASE PROSPECTUS dated 21 December 2016

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 (the “**Prospectus Directive**”) and of article 26 of the Commission Regulation (EC) 809/2004, as amended (the “**Prospectus Regulation**”). This Base Prospectus has been approved by the Central Bank of Ireland, as competent authority under the Prospectus Directive. The Central Bank of Ireland only approves this Base Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Application will be made to the Irish Stock Exchange 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, as amended, in any Member State of the European Economic Area. References in this Base Prospectus to Covered Bonds being “listed” (and all related references) shall mean that such Covered Bonds have been admitted to trading on the regulated market of the 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 21 December 2016.

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

PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda., registered with the CMVM with number 20161485, with registered office at Palácio Sottomayor, Rua Sousa Martins, 1, 3.º, 1069-316 Lisbon (the “**Auditor**”), has audited and expressed an opinion on the financial statements of the Issuer for the financial periods from 1 January 2015 to 31 December 2015 and from 4 August 2014 to 31 December 2014. 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 2015 and 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:	<p>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.</p> <p>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.</p>
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 20161485 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: Floating Rate Covered Bonds will bear interest determined separately for each Series as follows:

- on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association Inc. (“**ISDA**”) and as amended and updated as at the Issue Date of the first Tranche of Covered Bonds of the relevant Series); or
- on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service.

The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer(s) for each Series of Floating Rate Covered Bonds. Interest periods will be specified in the applicable Final Terms.

Zero Coupon Covered Bonds: Zero Coupon Covered Bonds may be offered and sold at a discount to their nominal amount unless otherwise specified in the applicable Final Terms.

Redemption: The applicable Final Terms relating to each Tranche of Covered Bonds will specify either (i) that the relevant Covered Bonds cannot be redeemed prior to their stated maturity, save as provided for in the Covered Bonds Law (see *The Covered Bonds Law*) and in the pass-through provisions under Condition 6., or (ii) that the relevant Covered Bonds will be redeemable at the option of the Issuer and/or the holder of Covered Bonds upon giving notice to the holder of Covered Bonds or the Issuer (as applicable), on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer(s). See also *Extended Maturity Date*. The applicable Final Terms may provide that the Covered Bonds may be redeemable in two or more instalments of such amounts and on such dates as are specified in the applicable Final Terms.

Extended Maturity Date:

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

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

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

Covered Bonds may for the purposes of the Programme be:

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

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

Pass-through Covered Bonds:

If a Series of Covered Bonds has not been repaid in full on its Maturity Date or within two Business Days thereafter or an Insolvency Event in respect of the Issuer occurs (both constituting a “**Pass-through Event**”), the maturity of all outstanding Series of Covered Bonds issued under the

Programme is deferred until the Extended Maturity Date, as defined in the relevant Final Terms, and all outstanding Series of Covered Bonds issued under the Programme become pass-through Covered Bonds in the Pass-through Date. See *Terms and Conditions of the Covered Bonds*.

Pass-through redemption undertakings:

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

Covered Bonds with a Repurchase Commitment

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

Denomination of Covered Bonds:

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

Reserve Account

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

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

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

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

Liquidity Facility Provider

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

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. As at 30 September 2016 and 31 December 2015, approximately 78.3% and 78.7% respectively, of the Novo Banco Group's consolidated net assets related to its business activities in Portugal, and 96.9% and 88.4% of net income was generated by the operations in Portugal. Consequently, the business of the Novo Banco Group is particularly exposed to macroeconomic conditions, which affect growth, particularly in the Portuguese market. In 2011 the Economic Adjustment Programme (the "Financial Assistance Programme") was created by a memorandum of understanding on financial assistance with the International Monetary Fund ("IMF"), the European Commission ("EC") and the "European Central Bank" ("ECB") to address deteriorating economic conditions in Portugal stemming from the global financial crisis of 2007/2008. Portugal concluded its Financial Assistance Programme in June 2014 without the need for any precautionary package involving external economic aid.

After contracting from 2011 through 2013, the Portuguese economy returned to growth in 2014, with real gross domestic product ("GDP") increasing by 0.9% in 2014 and 1.5% in 2015 (Source: INE, Statistics Portugal). Domestic demand (investment and, particularly, private consumption) was the main driver of growth. Investment recorded a 3.6% change rate (vs. 5.5% in 2014), with a deceleration in the second half of the year, after strong growth in the first semester, while private consumption expanded 2.6% in the year, after a 2.2% reading in 2014 (Source: INE, Statistics Portugal). Net external demand, in turn, had a less negative contribution to growth than in 2014 (-1 p.p. vs. -1.3 p.p), with exports accelerating, from 3.9% to 5.1% growth, and imports showing relatively stable growth, 7.3% vs. 7.2% (Source: INE, Statistics Portugal). As a whole, the readings above reflect a cyclical recovery, supported by a number of factors. These include a rise in real disposable income (with lower energy prices, a recovery in the labour market and a partial reversal of the wage cuts in the public sector), a moderately expansionary fiscal policy, an improvement in financing conditions (with the contribution of the ECB's QE), higher confidence levels, stronger growth in Europe and the indirect effects of a weaker euro. Stronger activity growth translated into a recovery in the labour market. The annual average of the unemployment rate decreased from 13.9%

to 12.5% of the labour force in 2015, with a positive growth in employment (Source: INE, Statistics Portugal).

The General Elections that took place in October 2015 resulted in a period of political and fiscal uncertainty, which was reflected in a widening of sovereign spreads. The external perception of risk regarding the Portuguese Economy was also negatively impacted by the resolution measures applied in December 2015 to Banif – Banco Internacional do Funchal, S.A. in the financial sector, increasing uncertainty. But sovereign yields and spreads declined by the end of 1Q 2016, after a majority in Parliament approved the 2016 Budget with a deficit target of 2.2% of GDP. The decline in PGB yields was also supported by a benign assessment of the Budget and the fiscal outlook by the main rating agencies. In 3Q 2016, sovereign yields and spreads increased again, following a deterioration in market sentiment. As of September 27th 2016, the 10Y PGB yield stood at 3.4% (Source: Bloomberg).

The latest available projections of the Bank of Portugal for the Portuguese economy point to continued growth in activity in the period 2016-17, with growth rates of 1.3% in 2016 and 1.6% in 2017 (Source: Bank of Portugal, Economic Bulletin June 2016). These projections are slightly lower than the current projections of the European Commission, 1.5% and 1.7%, respectively (Source: European Commission Spring Forecast 2016), but higher than those from the IMF, 1% and 1.1% (Source: IMF Country Report n° 16/300). A less restrictive fiscal policy (resulting in higher disposable income), an improvement in financing conditions and a gradual increase in employment should support activity growth in 2016. The above mentioned estimates foresee a slightly slower growth of private consumption and a small acceleration of gross fixed capital formation in the period 2016-17. Domestic demand developments over the next few years should, however, remain conditioned by the fiscal consolidation process and the need to reduce private sector indebtedness. In turn, exports should benefit from a moderate recovery in the Euro area, accelerating in 2017, after a period of slower growth in 2016. Imports are also expected to moderate their growth in 2016 and to accelerate moderately in 2017. In this context, the Portuguese economy should be expected to exhibit a net lending capacity vs. the rest of the world over the next few years.

Upside risks to growth should be mainly associated with a bigger than expected impact of the ECB's quantitative easing programme, leading to further improvements in financing conditions and to stronger than expected growth in the euro area. However, these favourable effects could be mitigated by other risk factors. 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. Lower than expected growth in Portugal could lead to a slower fiscal consolidation, forcing the adoption of further deficit reduction measures. This could result in domestic political instability and in the postponement of spending decisions, also putting some pressure on the sovereign rating. Another mitigating effect could be related with the negative impact of lower oil prices in the economy of Angola, an important trade partner of Portugal over the last years. The fall in Angolan oil revenues has resulted in delays in payments to Portuguese firms, while constraints to imports have been imposed by the Angolan Government. Portuguese merchandise exports to Angola fell 44% year-on-year in the period January-July 2016 (Source: INE, Statistics Portugal). 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.

Volatility may be triggered by political uncertainty in Europe. The outcome of the Brexit referendum could translate into higher uncertainty and lower growth prospects. The decision to exit the EU is widely expected to result in lower GDP growth in the UK, as firms postpone investment and hiring decisions, waiting for clarity as to what will be the UK's new trade relation with its European partners. This could have a negative impact on British demand directed at the Portuguese economy. In 2015, Portugal's exports to the UK amounted to 3.6% of GDP (Source: INE, Statistics Portugal). Services exports are dominated by tourism, 54% of total, and transportation, 24% of total (Source:

Bank of Portugal, BPSStat). Goods exports are more widely diversified, but the sectors with higher weight are transportation materials, machinery & equipment, clothes, metals, and food & beverages (Source: INE, Statistics Portugal). Uncertainty related to a busy electoral calendar in Europe and the US in 2016 and 2017, with fears that the Brexit vote could increase the probability of higher voter support for more extremist and/or anti-integrationist political forces could also have an adverse impact on the Portuguese Economy. This uncertainty could lead to higher market volatility and to lower growth prospects in the main economies, which would translate into lower exports growth in Portugal. Also, higher risk aversion in this context could translate into more restrictive financing conditions for the Portuguese economy.

The State has accumulated a cash buffer, estimated at EUR 6.6 billion at the end of 2016 (Source: IGCP), that should mitigate the effects of potential market volatility and it has been able to access capital markets for long term funding at favourable market rates. Portugal continues to benefit from the ECB's quantitative easing programme, under which the ECB could buy up to EUR 32 billion of Portuguese public sector securities until March 2017, under the current rules of the programme, contributing to an improvement in the State's financing conditions. As of August 31st, cumulative monthly net purchases of Portuguese assets under the ECB's Public Sector Purchase Programme amounted to EUR 20.8 billion (Source: ECB). In 2015, Portugal made early repayments of EUR 8.4 billion to the IMF, versus an initial annual target of EUR 500 million (Source: IGCP). In 2016, Portugal repaid EUR 2 billion to the IMF (Source: IGCP).

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. Geopolitical uncertainties are large and widespread. The eventual fallout from the UK's referendum on leaving the European Union is still unknown, and the extent to which the mutual trade and financial flows between the two areas will be curtailed will likely become clear only after several years. Adding to uncertainty is the impact of the referendum results and the U.S. presidential election on political sentiment in other countries, namely in the EU, as well as on global pressure to adopt more inward-looking policies and measures that may limit cross-border economic integration. Important ongoing realignments also constitute negative risks – particularly relevant for emerging market and developing economies – and include rebalancing in China (transition away from reliance on investment, industry, and exports in favor of greater dependence on consumption and services) and the macroeconomic and structural adjustment of commodity exporters to a long-term decline in their terms of trade, mainly related to the persistence of low commodity prices. An intensification of the

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, including the Euro Area, accelerating the return by central banks to more conventional monetary policies.

Sustainable economic growth in the Eurozone continues to be a challenge in certain countries of the Eurozone, including Portugal. The sovereign debt crisis in Europe also continues to exacerbate investors' fears and lead to uncertainty with respect to the European financial sector, particularly regarding peripheral Eurozone countries. Greece, after several negotiations and the extension of its programme of financial assistance, continues to struggle to accomplish the adjustment programme, increasing the risks of financial and political instability across the region. Political instability and the risk of default of Greece, including the possibility of its potential exit from the Eurozone, continue to raise concerns, including the ongoing viability of the Euro and the possibility of a contagion effect spreading to other EU member states.

Slow economic growth or recession in major EU economies, the restructuring or default by an EU Member State on its sovereign debt obligations or withdrawal from the Eurozone, could significantly increase volatility and uncertainty on financial and currency markets. Furthermore, the process of the United Kingdom departing from the European Union may introduce significant new uncertainties and instability in financial markets, as well as political instability in Europe, and it may materially affect the economies of countries, including Portugal, which have political and economic ties with the United Kingdom.

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

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

- negatively affect the capacity of the Portuguese Republic to satisfy its financing needs;
- have a material adverse effect on the value of portfolios of sovereign debt securities of peripheral Eurozone countries (as of 30 September 2016, Novo Banco Group held approximately EUR 6.4 billion of such securities, of which EUR 2.9 billion in Portuguese sovereign debt);
- have a significant adverse effect on the Novo Banco Group's capacity to raise and/or generate capital and comply with minimum regulatory capital requirements;
- significantly restrict the Novo Banco Group's ability to obtain liquidity; and
- negatively affect Novo Banco Group's capital position, its operational results and its financial condition.

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.

The ongoing availability of customer deposits to fund the Novo Banco Group's business is subject to a variety of factors outside the Novo Banco Group's control, such as depositors' concerns relating to the Portuguese economy in general, the financial services industry or the Novo Banco Group specifically, ratings downgrades, economic conditions in Portugal impacting the availability of funds for deposits 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. If additional liquidity were needed, the Novo Banco Group might be required to obtain additional funding at significantly higher funding costs, liquidate certain of its assets or increase its central bank funding through monetary policy operations of the ECB or seek Emergency Liquidity Assistance ("ELA") provided by Banco de Portugal, as Portugal's Eurosystem National Central Bank (which allows for the support of solvent financial institutions facing temporary liquidity problems under exceptional terms).

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, or to do so at an acceptable value, other unexpected 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 Novo Banco's establishment. 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 and may occur again.
- Financial institutions with which the Novo Banco Group interacts may exercise set-off rights or the right to require additional collateral.
- 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.

Novo Banco Group continues to follow all the legislative changes in order to comply with regulatory requirements, particularly in relation to the new Basel III liquidity ratios - LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio). As of 30 September 2016 the LCR stood at 105%, up from 77% as of 31 December 2015, which largely surpasses the current regulatory requirements. 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

Financial markets, both globally and in Portugal, have experienced periods of significant volatility and disruption over the last decade, and are likely to continue to experience periods of uncertainty and volatility. During this period, Portuguese banks, including Novo Banco, have experienced reductions in the availability of, and increased costs of, financing in the interbank and short-term funding markets, as well as capital markets and other bank finance instruments. The credit ratings of a number of European Union and Eurozone sovereigns have been downgraded, including Portugal. Notwithstanding some improvements, including the conclusion by Portugal of the Financial Assistance Programme in June 2014, there have been continued concerns over the stability of the European financial system and the stability of certain European economies. In light of the state of the financial markets generally, many lenders and institutional investors have reduced, and in some cases, ceased, to provide funding to certain borrowers, including to other financial institutions.

In addition, investor uncertainty relating to the stability or restructuring of financial institutions, including those that become subject to a resolution measure such as that imposed with respect to BES and Banif – Banco Internacional do Funchal, S.A., limits access to capital markets by Portuguese banks.

As Novo Banco's access to the capital markets is currently very limited, in addition to deposits, Novo Banco makes significant use of funding from the ECB. The ECB, which currently makes funding available to European banks that satisfy certain conditions, including pledging eligible collateral, has been a major funding source for the majority of Portuguese banks during the financial crisis and the European sovereign debt crisis. The Novo Banco Group had approximately €6.2 billion and €7.0 billion of net funding from European central banks as at 30 September 2016 and 31 December 2015, respectively.

At the end of 2014, the portfolio eligible for rediscount operations was €14.2 billion, of which €12.8 billion eligible for rediscount with the ECB. The ECB establishes the valuation and the eligibility criteria for collateral assets to be used on repo transactions. The assets of the Novo Banco Group which are eligible as collateral for rediscount with the ECB have been materially reduced in the past and could be materially reduced in the future as a result of price devaluations or changes in ECB rules relating to collateral, including the increase in haircuts following credit downgrades or the loss of eligibility of certain assets, namely those that benefit from measures implemented by the ECB to support liquidity, including the acceptance of debt instruments issued or guaranteed by the Portuguese Government and the acceptance of additional credit claims. 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 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, all else unchanged, would result in the non-eligibility of Portuguese public debt for financing with the ECB. A reduction of the pool of eligible assets and the increased difficulty in managing eligible assets to compensate for such loss of eligibility would have a negative impact on liquidity and Novo Banco's ability to comply with liquidity regulatory ratios, requiring the Novo Banco Group to find alternative funding sources, which may have a negative impact on the Novo Banco Group's business, financial condition or results of operations. In addition, if the value of the Novo Banco Group's assets eligible as collateral for the ECB declines, then the amount of funding the Novo Banco Group can obtain from the ECB will be correspondingly reduced. Although the monetary policy followed by the ECB in past years has contributed to improve the liquidity conditions of European banks, a review of liquidity conditions by the ECB could 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 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.

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

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 14.5% as at 31 December 2015 to 16.8% as at 30 September 2016, with a coverage ratio of 107.8% and 98.3%, respectively. The ratio of credit at risk was 22.8% as at 31 December 2015 and 24.8% as at 30 September 2016, with a coverage ratio of 68.2% and 66.4%, respectively. 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 17.7% as at 31 December 2015 and 19.8% as at 30 September 2016.

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.

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 0.00 per cent. in March 2016. This rate has remained unchanged since March 2016. In the end of 2014, some of the Euro Interbank Offer Rates ("Euribor") began to show negative values and by the end of the first quarter of 2016, all the Euribor were in negative values, which is maintained until this day.

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 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 also offers these types of products and services to its customers.

As at 30 September 2016, the Novo Banco Group's securities portfolio, amounts to €11.9 billion, of which 53.8% are sovereign debt instruments, 10.7% are classified as equity, 12.4% are funds and insurance certificates, 4.4% is commercial paper and 18.8% are corporate bonds. Additionally, 73% of such assets are classified as Level 1 (those that are quoted on a recognised market), 7.3% as Level 2 (those for which valuation methods with prices and standards that are observable in the markets are used), 19.3% as Level 3 (those for which valuation methods with prices and standards that are not observable in the markets are used) and the remaining 0.3% are registered at its acquisition cost. As at

31 December 2015, the Novo Banco Group's securities portfolio, amounted to €13.3 billion, of which 55.2% were sovereign debt instruments, 13.1% were classified as equity, 11.7% were funds and insurance certificates, 4.9% is commercial paper and 15.1% were corporate bonds. Additionally, 73.7% of such assets were classified as Level 1, 6% as Level 2, 20.3% as Level 3 and the remaining 0.04% were registered at its acquisition cost.

The Novo Banco Group had a value at risk ("VaR") of €6.8 million as at 30 September 2016 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 €14.6 million at 31 December 2015, 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. The Novo Banco Group VaR is calculated using the Monte Carlo simulation, with a 99% confidence level and a holding investment period of 10 days.

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

Novo Banco Group's business is exposed to the risk of sovereign debt securities of peripheral Eurozone countries

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

As at 30 September 2016, the Novo Banco Group's sovereign debt securities of peripheral Eurozone countries portfolio comprised approximately €2.9 billion in Portuguese sovereign debt (of which approximately €1.3 billion has a maturity of more than five years and, because of that, is subject to more volatility), approximately €2.0 billion in Italian public debt, approximately €1.0 billion in Spanish sovereign debt and no exposure to Greek sovereign debt. Also as at 30 September 2016, these securities were registered in its portfolio of financial assets at fair value through profit and loss (€0.1 billion) and the financial assets available-for-sale portfolio (€5.9 billion). As at 31 December 2015, the Novo Banco Group's sovereign debt securities of Eurozone countries portfolio comprised approximately €2.7 billion in Portuguese sovereign debt (of which approximately €0.7 billion had a maturity of more than five years), approximately €1.3 billion in Spanish public debt, approximately €2.4 billion in Italian public debt and no exposure to Greek public debt. Also as at 31 December 2015, these securities were registered in its portfolio of financial assets at fair value through profit and loss (€0.1 billion) and the financial assets available-for-sale portfolio (€6.2 billion). Changes in the fair value of financial assets available-for-sale are registered under fair value reserves until sold or until there are signs of impairment. In the sale of financial assets available-for-sale, the accumulated gains or losses registered under reserves are recognised as income. Depreciations in the value of the Novo Banco Group's trading portfolio and the sovereign debt securities in the portfolio of financial assets available-for-sale could adversely affect the Novo Banco Group's financial condition and results of operations.

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

Depreciations in the public debt portfolio can have the effect of reducing the Novo Banco's Common Equity Tier 1 capital used to determine its capital ratios and could adversely affect its results of

operations. Any decrease of the Novo Banco's solvency ratios could hinder its ability to operate its business in accordance with its strategy.

The Audit Reports in relation to the Novo Banco Group's financial statements include qualifications

Novo Banco Group's audit reports, issued by PricewaterhouseCoopers, for the period then ended and as at 31 December 2015 (the "**2015 Audit Report**") and Novo Banco Group's 2016 Interim Report as at and for the six months ended 30 June 2016, are qualified (See "*General Information – Qualifications in the auditors' report*" section).

In the 2015 Audit Report, the audit opinion issued by PricewaterhouseCoopers was qualified with respect to (i) the recoverability of Novo Banco Group's total exposure to Banco Económico, and (ii) the estimated recoverable amount of the DTAs related to tax losses reported in 2014 and 2015 of €1.2 billion as at 31 December 2015, which PricewaterhouseCoopers considered to be overstated as a result of assumptions regarding the estimated recoverable amount of the DTAs related to historical tax losses for group legal entities.

Novo Banco's exposure to Banco Económico as at 31 December 2015 consisted of a participation in its share capital of €47 million, accounted for as available for sale financial assets, and a senior and a subordinated loan in the amount of €397 million and €394 million, respectively, accounted for as loans and advances to banks. Novo Banco was not provided with audited financial information for Banco Económico, S.A. or a business plan to assess future cash flows for settlement of ongoing obligations. While Novo Banco recorded an impairment of €83 million associated with its exposure to Banco Económico during the year ended 31 December 2015, PricewaterhouseCoopers, auditors to the Novo Banco Group, nevertheless stated in their opinion (relating to both the 2015 Audit Report and 2016 Interim Report) that they were not able to conclude, with reasonable assurance, on the recoverability of the Novo Banco Group's exposure to Banco Económico. There can be no assurance that further impairments may not be required in the future in relation to Novo Banco's exposure to Banco Económico, and any such further impairments could materially and adversely impact the Novo Banco's financial condition and results of operations.

In connection with the Novo Banco Group's calculation of its DTAs, in 2015 Audit Reports and 2016 Interim Report, PricewaterhouseCoopers stated that the assumptions used by the Novo Banco Group's management were optimistic, taking into account the Novo Banco Group's status as a bridge bank and economic conditions in Portugal, combined with the limitation on use of the DTAs to 12 years. Accordingly, they stated that the Novo Banco Group's DTAs, reserves, retained earnings, other comprehensive income and net income for the relevant periods were overstated by an amount that they were unable to quantify, taking into account the multiple underlying assumptions and respective correlations, as well as the potential impact of a new shareholder of Novo Banco.

Should the expectations of Novo Banco's management not be verified, whether with respect to the recoverability of the exposure to Banco Económico or the amount of DTAs, the Annual Consolidated Financial Statements and the 2016 Interim Consolidated Financial Statements may not be indicative of the Novo Banco Group's actual financial condition, results of operations or capital position as at the indicated dates or for the relevant periods.

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 decades have significantly increased competition in the Portuguese financial services industry. These changes are principally related to the privatisation of several sectors of the economy, including banking and insurance, as well as to the integration of the Portuguese economy into the EU and the introduction of the Euro. Mergers and acquisitions involving the largest Portuguese banks have resulted in a significant concentration of market share, a process which has continued and is expected to continue in the future.

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 2015) are Caixa Geral de Depósitos, the Millennium BCP Group, the Banco Santander Totta Group and the BPI 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 will remain competitive 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. If the Novo Banco Group is unable to offer attractive products and services, it may lose market share or incur losses on some or all of its activities, which could adversely affect its financial condition and its results of operations.

Novo Banco Group's business is subject to operational risks

Novo Banco Group is subject to certain operational risks, including interruption of service, errors, fraud by third parties (including large-scale organised 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

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

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

Novo Banco is required by the SSM, ECB and the regulators in Portugal and other countries in which

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

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

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

Novo Banco is subject to the SREP review on an annual basis, and the next SREP assessment for Novo Banco is scheduled to be completed by the European Central Bank in late 2016. Where the SREP review identifies risks or elements of risk that are not adequately covered by Pillar 1 capital requirements or the combined buffer requirement, the ECB can determine the appropriate level of the institution's own funds under CRD IV and assess whether additional own funds shall be required.

In addition, credit institutions identified as other systemically important institutions ("**O-SIIs**"), such as Novo Banco, are subject to an additional buffer requirement (the "**O-SII buffer**"). According to Banco de Portugal's decision, the O-SII buffer is to be phased-in over a two-year period, 50% from 1 January 2018 and 100% from 1 January 2019; the O-SII buffer for Novo Banco is 0.25% from 1 January 2018, and 0.5% from 1 January 2019.

As at 30 September 2016, Novo Banco's CET1 ratio was 12.3% (phased-in) and 10.7% (fully implemented) (13.5% (phased-in) and 11.3% (fully implemented) as at 31 December 2015). If the Novo Banco Group does not satisfy these or other minimum capital ratio requirements in the future, it may be required to raise additional capital or be subject to measures or sanctions by Banco de Portugal or the ECB or SSM. If Novo Banco is required to raise further capital in the future after failing to satisfy the minimum capital ratio requirements, but is unable to do so or to do so on acceptable terms, Novo Banco may be required to further reduce the amount of the Bank's risk-weighted assets and engage in the disposition of core and other non-core businesses, which may not occur on a timely basis or achieve prices which would otherwise be attractive to Novo Banco. Any failure to maintain minimum regulatory capital ratios could result in administrative actions or other sanctions, which in turn may have a material adverse effect on Novo Banco's operating results, financial condition and prospects. The regulatory laws governing banking activity may change at any time in ways which may have an adverse effect on the business of the Novo Banco Group. It is not possible to predict the timing or form of any future regulatory initiatives. Changes in existing regulatory laws may materially affect the way in which Novo Banco Group conducts its business, the products and services it can offer and the value of its assets.

On 23 November 2016 the European Commission released a proposal for EU banking system reforms aimed at completing the post-crisis regulatory agenda designed to strengthen the resilience of EU banks. The proposals amend important pieces of legislation, namely the CRR, the CRD, the Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism Regulation

(SRMR), including a number of very relevant topics, among others: the introduction of a leverage ratio; the introduction of a net stable funding ratio (NSFR); a review of the trading book; and the adoption of new standards on the total loss-absorbing capacity (TLAC) of global systemically important institutions (G-SIIs), including its interaction with MREL.

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

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

- (a) preparatory and preventive measures (including the requirement for banks to have recovery and resolution plans);
- (b) early supervisory intervention (including powers for authorities to take early action to address emerging problems); and
- (c) resolution tools, which are intended to ensure the continuity of essential services and to manage the failure of a bank in an orderly way (see section "Supervision and Regulation – Bank Recovery and Resolution Directive").

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

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

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

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

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

In order to ensure the effectiveness of a resolution measure, the relevant resolution authority may exercise, among others, the following powers: (i) suspension of payment or delivery obligations of the institution under existing agreements; (ii) suspension of enforcement rights benefiting holders of

any security over assets of the institution; (iii) suspension of the rights to accelerate, terminate, or otherwise decide the termination under existing agreements; (iv) closing of agencies of the institution; (v) exercise of rights attached to shares and other instruments representing share capital of the affected institution; (vi) amendment of terms applicable to debt instruments and other eligible claims held vis-à-vis the institution, such as clauses on maturity dates and payable interest; (v) liquidation and termination of financial agreements and derivative agreements; (vi) suspension of the negotiation of a financial instrument (Article 145-AB of RGICSF).

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

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

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

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

On 2 July 2014, Directive 2014/49/EU providing for the establishment of deposit guarantee schemes (the "recast DGSD") entered into force. The recast DGSD introduces harmonised funding requirements (including risk-based levies), protection for certain types of temporary high balances, a reduction in 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 DGSD 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: <https://www.bportugal.pt/en-US/OBancoeoEurosistema/Esclarecimentospublicos/Pages/DeliberacoesBes.aspx>. The Resolution Measure was followed during August 2014 by other decisions of the Bank of Portugal clarifying the Resolution Measure, its scope and the framework applicable to Novo Banco.

The Resolution Measure and the decisions of the 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 the Bank of Portugal, as well as proceedings requesting the set-off of liabilities that were not transferred to Novo Banco against credits transferred and held by Novo Banco. Several judicial proceedings have been initiated against the Bank of Portugal, the Resolution Fund and/ or Novo Banco and it is likely that other similar proceedings will be submitted within the applicable legal time limits.

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

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 Limited to BES Luxembourg Branch, which Bank of Portugal has considered as not being transferred to Novo Banco and having remained a liability of BES on the basis that Oak Finance was acting on behalf of Goldman Sachs International (“GSI”) with respect to the loan, and GSI held a stake in BES exceeding 2% of its issued share capital in the two-year period preceding 3 August 2014. In March 2015, Novo Banco made an application challenging the jurisdiction of the English courts to hear this matter. In August 2015, the English Commercial Court held in the first instance that the investors and Goldman Sachs debts recovery case against Novo Banco could be heard in the English courts. Novo Banco obtained permission to appeal this decision in October 2015, and the appeal hearing was held in the Court of Appeal in London in July 2016. In November 2016, the Court of Appeal decided in favor of Novo Banco, considering that this matter should be challenged in the Portuguese courts. The investors and Goldman Sachs have requested permission to appeal to the Supreme Court, having the investors also requested for the English proceedings to be stayed (and not dismissed). The Court of Appeal refused the permission to appeal on 18 November 2016 and no stay in the proceedings has been ordered. The claimants have requested directly to the Supreme Court for permission to appeal.

Furthermore, the Bank is a party in a proceeding in which, among other aspects, the plaintiff requires the declaration of invalidity of the financial pledge existing over the shares of Companhia de Seguros Tranquilidade, S.A. securing a credit granted to Espírito Santo Financial Group, which, according to

Bank of Portugal's decision on the Resolution Measure, has been transferred to Novo Banco, together with the related guarantee (financial pledge). The potential defective performance of the financial pledge is also mentioned in the proceedings. Also regarding this matter, the insolvency estate of Partran – former shareholder of Companhia de Seguros Tranquilidade, S.A. – has challenged the creation and enforcement of the financial pledge (“*resolução em benefício da massa insolvente*”), Novo Banco challenged this decision and initiated a proceeding against Partran in December 2015.

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

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

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

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

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

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

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

The Bank of Portugal also disclosed on 29 December 2015 that it adopted a decision clarifying that it is the Resolution Fund's responsibility, upon the fulfillment of certain conditions, to make neutral for Novo Banco – through an appropriate compensation measure – potential negative effects of future judicial decisions resulting in liabilities that should have been attributed to BES according to the contents of the Resolution Measure and related decisions. Based on this decision from the Bank of Portugal, a court decision in a litigation, in Portugal or another jurisdiction, against the Resolution Measure or any other decisions of the Bank of Portugal is not expected by the Issuer to have an ultimate direct and detrimental effect on Novo Banco to the extent that the Resolution Fund assumes such responsibility.

There is a significant number of proceedings related to the application of the Resolution Measure and subsequent decisions of Bank of Portugal, including the ones mentioned above. Novo Banco is not a party to all the above mentioned judicial proceedings and there may be other similar judicial proceedings of which Novo Banco is not a party. As such, any final court decision that may be issued in the context of such judicial proceedings may adversely affect the capacity of Novo Banco to carry out its obligations under the Transaction Documents. Several court decisions (in Portugal and abroad)

have been determined favourably to Novo Banco, consistent with the Resolution Measure and subsequent decisions of Banco de Portugal. However, in one instance, from a court in Portugal where the sale by BES of preference shares issued by special purpose vehicles created by BES was being discussed, the court considered that the Resolution Measure and the 29 December 2015 Decision were invalid and unconstitutional. Novo Banco is appealing the decision to a superior court. In the event this decision is not revoked, notwithstanding the neutrality decision mentioned in the previous paragraph, this decision may impact other ongoing proceedings.

It is not possible to know or make a full assessment of the impact of any such decisions and they may adversely affect the capacity of Novo Banco to carry out its obligations under the Programme Documents and/or the Covered Bonds.

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

Covered Bonds holders should be aware that the legal proceedings and consequences arising therefrom may adversely affect the incorporation, financial condition and/or the capacity of Novo Banco to carry out its obligations under the Programme Documents and/or the Covered Bonds, without prejudice to the potential application of any legal provisions allowing for the mitigation of the effects such proceedings, including the possibility of the Bank of Portugal invoking, in the relevant administrative proceeding, a legitimate cause for non-execution of an award annulling the Resolution, in the terms and subject to the limits provided for in articles 145-AR/3 of the RGICSF and articles 175/2 and 163 of the Portuguese Administrative Courts Procedural Code, in which case a proceeding for determination of a compensation shall be initiated in accordance with articles 178 and 166 of the latter Code.

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

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**”).

On 4 December 2014, the Resolution Fund announced the launch of the sale process of Novo Banco. However, on 15 September 2015 the Bank of Portugal announced that, after careful consideration, it had decided to interrupt Novo Banco’s sale process.

As agreed between the Portuguese authorities and the European Commission, on 15 January 2016 the Board of Directors of the Bank of Portugal decided to re-launch the sale process of the Resolution Fund’s holding in Novo Banco, which is still ongoing. The deadline for the sale process is currently August 2017, as described below.

In a first phase, the sale process will follow two simultaneous tracks:

- (i) A ‘Strategic Sale Process’, regarding the direct and competitive sale of Novo Banco, targeted at strategic investors which are credit institutions or insurance companies and/or entities which have qualifying holdings, directly or indirectly (under management), in credit institutions or insurance companies.
- (ii) A ‘Market Sale Process’, which, subject to legal and regulatory requirements, may be an institutional offer of Novo Banco’s shares targeted at institutional investors and/or a public

offer of shares. This process may involve one or more “cornerstone investors”, who will enter into an agreement to purchase a certain number of shares prior to the public offer.

The final choice between the two tracks will be made at a later stage.

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

As of the date of this Prospectus there is no certainty as to whether the sale process will occur, 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.

As per the decision of the European Commission regarding the resolution of BES of 3 August 2014 (State aid n.º SA.39250 (2014/N – Portugal, Resolution of Banco Espírito Santo, S.A.) (the “State Aid”), Novo Banco is required to 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. In December 2015, the European Commission has authorised a one year extension of such deadline and established additional commitments to be implemented by Novo Banco (the “Commitments”).

The Commitments include the segregation of Novo Banco Group business and operations into a virtual core unit and a virtual non-core unit, the divestment, liquidation or winding-down of the business and operations that are classified as non-core, achieving certain operational targets and other commitments relating to its capital requirements, risk management, operations and governance. Following the establishment of the Commitments, the Board of Directors of Novo Banco adopted a business plan, which incorporates a set of measures developed to ensure compliance with the Commitments. However, there can be no assurance that Novo Banco will be able to implement all of the measures foreseen in its business plan and ensure compliance with the Commitments.

Should Novo Banco or another party that is subject to the Commitments not comply with the Commitments, the European Commission may open an in-depth investigation and reassess the State aid granted to Novo Banco. In such circumstances, the State aid granted in connection with Novo Banco’s incorporation following the failure of BES may be declared incompatible with the EU internal market by the European Commission.

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.

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

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

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

Finance Ministers of the above mentioned ten participating Member States during the regular Eurozone's meeting held in Luxembourg, on 10 October 2016, have come to an agreement to progress the FTT, with the EU Commission being tasked with drawing up the legal text for the proposal, which may still be finalized up to the end of 2016.

The FTT proposal still remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

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

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

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

The use of standardised contracts and forms carries certain risks.

The Bank and its subsidiaries maintain contractual relationships with a large number of clients. In all of the Bank and its subsidiaries' business areas and departments, the management of such a large

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

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

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.

Administrative cooperation in the field of taxation

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.

In this respect it should be noted that the Savings Directive, as amended by Council Directive 2014/48/EU, of 24 March 2014, was repealed by Council Directive 2015/2060, of 10 November 2015. The aim was the adoption of a single and more comprehensive cooperation system in the field of taxation in the European Union under Council Directive 2011/16/EU, of 15 February 2011. Notwithstanding the repeal of the Savings Directive as of 1 January 2016 (in all Member States other than Austria, where it will be repealed as of 1 January 2017), certain provisions will continue to apply for a transitional period.

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

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

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

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

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

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

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

Risks related to withholding tax

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

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

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

Further, interest and other types of investment income obtained by non-resident holders (individuals or legal persons) without a Portuguese permanent establishment to which the income is attributable that are domiciled in a country, territory or region included in the “tax havens” list approved by Ministerial order 150/2004, of 13 February 2004 (as amended 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/site/cms.aspx?srv=207&stp=1&id=758921&fext=.pdf> and at www.cmvm.pt)
- c) the audited consolidated financial statements of the Issuer in respect of the financial year ended 31 December 2015, together with the auditors' reports prepared in connection therewith (available at <http://www.novobanco.pt/site/cms.aspx?srv=207&stp=1&id=783894&fext=.pdf> and at www.cmvm.pt)
- d) the interim report and accounts of the Issuer in respect of the six-month period ended 30 June 2016 (available at <http://www.novobanco.pt/site/cms.aspx?srv=207&stp=1&id=800557&fext=.pdf>), which are unaudited but contain a limited review report of the Auditors
- e) the announcement regarding Novo Banco Group's results for the the third quarter of 2016 (available at <http://www.nbaovobanco.pt/site/cms.aspx?srv=207&stp=1&id=802533&fext=.pdf>).

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

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

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

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

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

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

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

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

FORM OF THE COVERED BONDS AND CLEARING SYSTEMS

The Covered Bonds will be held through a central securities 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 21 December 2016 [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] [Libor/Euribor] +/- [●] per cent. Floating Rate] [Zero Coupon]
- (further particulars specified below)
- (ii) Period from (but excluding) the Pass-through Date up to (and including) Extended Maturity Date: [Not Applicable] / [[●] per cent. Fixed Rate] [Libor/Euribor] +/- [●] per cent. Floating Rate]
- (further particulars specified below)
- 11 Redemption/Payment Basis: Subject to any purchase and cancellation or early redemption, the Covered Bonds 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: [●]

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:
 (i) Instalment Amount(s): [Not Applicable / [●] (*give details*)
 (ii) Instalment Date(s): [Not Applicable / [●] (*give details*)
- 26 Redenomination applicable: [Applicable] / [Not Applicable]

DISTRIBUTION

- 27 (i) If syndicated, names of Dealers: [Not Applicable] / [●] (*give names and date of relevant agreement*)
 (ii) Stabilising Manager (if any): [Not Applicable] / [●] (*give names*)
 (iii) Commission Payable / Selling Concession: [●]
- 28 If non-syndicated, name of relevant Dealer: [Not Applicable] / [●] (*give names and date of relevant agreement*)
- 29 Whether TEFRA D or 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 [●].] [NotApplicable.]
- (*Where documenting a fungible issue need to indicate that original securities are already admitted to trading.*)
- (iii) Estimate of total expenses related to admission to trading [●]

2. Rating

Rating: [The Covered Bonds to be issued [have been] [are expected to be] rated:] [The Covered Bonds issued under the Programme generally [have been] [are expected to be] rated:]

[Moody's: [●]]

[DBRS: [●]]

(*The above disclosure should reflect the rating allocated to Covered Bonds of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.*)

3. [Notification

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

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

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

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

5. Estimated Net Proceeds and Total Expenses

[(i) Estimated net proceeds

[(ii) Estimated total expenses:

6. [YIELD - Fixed Rate Covered Bonds only]

Indication of yield:

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

7. Operational Information

(i) ISIN Code:

(ii) Common Code:

(iii) 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: (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 CoverPool,

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

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

The Issuer and/or any entity managing the Cover Pool will be obliged to use and employ its best efforts to sell (in whole or in part) the assets comprised in the Cover Pool along commercial acceptable terms then possible in order to redeem, to the extent possible, the Covered Bonds prior to the relevant Extended Maturity Date, provided such sale and subsequent redemption of the respective Covered Bonds will not result in a reduction in Overcollateralisation under the prescribed 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 20161485 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 6 October 2015 (as amended from time to time).

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

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

“**Securities Act**” means the United States Securities Act of 1933, as amended.

“**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 (as amended).

The Issuer does not intend at the date of this Base Prospectus to include either (i) Mortgage Credits which have their primary security over commercial property or (ii) Mortgage Credits in respect of which the associated Property is located for the purposes of the Covered Bonds Law outside Portugal, without first notifying (in each case for so long as the Covered Bonds are rated by such rating agency) Moody's and DBRS to ascertain whether any such action will not result in a downgrade of the rating then ascribed by such rating agency to the Covered Bonds.

HEDGING CONTRACTS

The Covered Bonds Law allows the Cover Pool to include hedging contracts aimed exclusively at hedging risks, namely interest rate, exchange rate or liquidity risks. These hedging contracts will form part of the Cover Pool and may be taken into account in the assessment of the financial ratios and requirements of the Covered Bonds Law and described in this section.

Pursuant to the requirements of the Covered Bonds Law, any such hedging contract can only be entered into (i) in a regulated market of an EU Member State, or (ii) recognised market of an OECD country, or (iii) with a counterparty which is a credit institution with a rating of at least "A-" or equivalent. The Covered Bonds Law empowers the Bank of Portugal to develop, by regulatory notice ("*Aviso*"), the eligibility criteria for hedging contracts to form part of the Cover Pool.

Also pursuant to the Covered Bonds Law, the Register shall, in relation to each Hedging Contract, identify (i) the Covered Bonds to which the relevant Hedging Contract relates; (ii) the corresponding Cover Pool; (iii) the nominal value of the Hedging Contract; (iv) the Hedge Counterparty; and (v) the commencement date and the maturity date of such Hedging Contract.

If a particular Tranche of Covered Bonds is issued in a denomination other than the euro, the Issuer must enter into Hedging Contracts for the purpose of hedging any currency exchange risk.

Interest rate exposure of the Issuer relating to Mortgage Credits, as and when comprised in the Cover Pool, will be managed through Hedging Contracts. Interest rate swaps will be entered into with a Hedge Counterparty relating to both the Cover Pool and the Covered Bonds issued by the Issuer. The Hedging Contracts will qualify as derivative financial instruments for the purposes of the Covered Bonds Law.

The terms of any Hedging Contracts to be entered into with a Hedge Counterparty, will include, among other termination events, provisions that provide that if the rating of any Hedge Counterparty long-term unsecured, unsubordinated debt obligations falls below "A3" by Moody's and "A (low)" by DBRS (or ceases to be rated) at any time, the Hedge Counterparty will be required to take certain remedial measures which may include: (i) providing collateral for its obligations under the Hedging Contract, subject to any applicable Rating Agencies' criteria regarding Hedge Counterparty exposures; (ii) arranging for its obligations under the Hedging Contracts to be transferred to an entity with ratings given pursuant to the criteria of the relevant rating agency; (iii) procuring another entity with ratings given pursuant to the criteria of the relevant rating agency to become co-obligor in respect of its obligations under the Hedging Contracts; or (iv) taking such other action as it may agree with the relevant rating agency. A failure to take such steps will allow the Issuer to terminate the Hedging Contracts.

LOAN-TO-VALUE RESTRICTIONS

Pursuant to the Covered Bonds Law, the amount of any mortgage credit asset included in the Cover Pool may not exceed (i) the value of the corresponding Mortgage, and (ii) 80 per cent. of the value of the Property, if it is residential property, or 60 per cent. of the value of the Property, if it is commercial property. See *Valuation of Cover Pool* below.

WEIGHTED AVERAGE TERM TO MATURITY

The Covered Bonds Law sets out certain criteria, including matching weighted average term to maturity, which is required to be met by the Issuer in respect of its Cover Pool. In any case, the average maturity of the outstanding Covered Bonds may not exceed, at any time, the average maturity of the Mortgage Credits and Other Assets allocated to the relevant issuance.

OVERCOLLATERALISATION

Pursuant to the Covered Bonds Law, the nominal principal amount of any Covered Bonds outstanding may not exceed 95 per cent. of the aggregate nominal amount of the Cover Pool less any Covered Bonds acquired by the Issuer pursuant to the Covered Bonds Law and not cancelled. In addition, the aggregate amount of interest payable to the holders of Covered Bonds may not exceed, at any time, the amount of interest to be collected under the Cover Pool (including both the Mortgage Credits and the Other Assets) allocated to the Covered Bonds.

In compliance with the above legal requirements, Condition 15 (*Overcollateralisation, Valuation of Cover Pool and Issuer Covenants*) requires the Issuer to over-collateralise the Cover Pool at 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 20161485.

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 circumstances that led to the incorporation of Novo Banco resulted in a challenging environment for the whole Novo Banco Group that required the mobilisation of the entire bank to deal with an exceptional and complex situation, while complying with all regulatory requirements imposed by the management framework of a bridge bank.

Following its establishment in August 2014, the Novo Banco Group’s main focus was to resolve its short-term liquidity and funding constraints and manage its capital position. The Novo Banco Group also sought to restore customer confidence, and experienced significant deposit growth and consequent stabilisation of its funding tools. The Novo Banco Group also began to deleverage the balance sheet by engaging in a selective sale of assets, while continuing to support small and medium enterprises, in general, and exporting companies, in particular. As a result, Novo Banco was able to maintain a leading position in the Portuguese corporate sector, which in turn positions the Novo Banco Group to benefit from the ongoing recovery of the Portuguese economy.

After addressing the immediate challenges resulting from the events leading to the creation of Novo Banco on 3 August 2014, the Novo Banco Group’s management has increasingly focused on establishing the profitability of Novo Banco while continuing the orderly reduction of exposure to non-core assets. In December 2015, following the decision by the European Commission to extend the original sale deadline and further to the definition of a set of revised commitments (which included the segregation of Novo Banco Group business and operations into a virtual core unit and a virtual non-core unit, the divestment, liquidation

or winding-down of the business and operations that are classified as non-core, achieving certain operational targets and other commitments relating to its capital requirements, risk management, operations and governance), Novo Banco' management developed its restructuring and business plan for the medium-long-term and began an internal virtual separation between core assets, which it assigned to the Core Unit, which management refers to as the Commercial Franchise, and non-core assets, which it assigned to the Non-Core Unit, or what management refers to as the Side Bank, pursuant to the Commitments and to assist Novo Banco' management in tracking its progress on the reduction of its non-core assets.

Novo Banco' strategy is articulated around five key areas:

Renewed focus on its leading Commercial Franchise

The Novo Banco Group's strategy for the Commercial Franchise is to maintain its reference position in Portugal, supported by a reduced international footprint, driven by the recovery in its core segments. The Commercial Franchise is particularly focused on strengthening Novo Banco' competitive position in the retail segment and consolidating Novo Banco' reference position in the corporate and small and medium enterprises ("SME") segment.

Retail segment:

The Novo Banco Group's commercial strategy for this business segment is to grow its market share in mortgage production and deposits in Portugal in the longer term. The Novo Banco Group seeks to maintain the deposit recovery trend to contribute to the optimisation of its funding mix, capitalising on the volume of deposits reaching maturity and exploring diversification opportunities to increase commissions. The Novo Banco Group aims to support its earnings generation through origination of new loans in the individual – mortgage and consumer – and small business segments, with the aim of increasing its portfolio of loans with high risk adjusted returns. Finally, the Novo Banco Group aims to reinforce its market share, through increased productivity, taking advantage of synergies with the corporate segment and variable cost promoter networks and its distinctive digital offering, with the intention of strengthening Novo Banco as the first bank relationship and developing its client base.

Corporate segment:

The Novo Banco Group's corporate banking strategy targets the consolidation of its current reference position by supporting the companies competing in the international arena and strengthening risk adjusted profitability. The Novo Banco Group intends to leverage its experience and commercial know-how in corporate banking in order to maintain a reference position in SME and business segments, reduce its exposure to large corporates with low margins, focus on companies with more sophisticated support requirements and that are sensitive to service levels not easily replicable by competitors, and refine its risk appetite for the different business segments. In relation to the Novo Banco Group's strategic focus on SME banking, it targets SMEs with a good risk profile that either (i) operate in strategic sectors identified by Novo Banco (primarily manufacturing or tourism) and/or (ii) are focussed on competing in the international markets. Novo Banco refers to such SMEs as "SME winners". The Novo Banco Group also seeks to consolidate its position in cash management services for Iberian customers, improve its product offering with a specialised team of international business managers and IT tools as well as increase client use of automated operations (e.g. payroll, operations) with user friendly interfaces.

Insurance:

The Novo Banco Group's strategy on life insurance focuses on increasing penetration of insurance products through telemarketing and the development of new products. The Novo Banco Group aims to increase the sales of unit linked products in the Private Banking and NB 360° Retail sub-segments and limit sales of guaranteed yield policies. In non-life insurance, the Novo Banco Group intends to start commercialising products through other channels. Overall, the Novo Banco Group will maintain its focus on cost optimisation and will implement a shared services structure between GNB Vida and GNB Gestão de Ativos, SGPS, S.A. ("GNB Gestão de Ativos").

Asset Management:

The Novo Banco Group's assets management strategy focuses on corporate simplification and will implement measures to reduce the number of subsidiaries. The Novo Banco Group is working on the

implementation of a shared services structure to achieve operational synergies, staff optimisation and excellence in the services provided. Its asset management segment is also targeting a reduction in both personnel costs and general and administrative costs as well as a rationalisation of the range of products, specifically in domestic and international mutual funds.

Proactive down-sizing of the Side Bank

In line with the Commitments and as approved in its restructuring and business plan, the Novo Banco Group's management has identified a group of non-core and non-productive assets that it has allocated to a separately managed virtual business unit, the Non-Core Unit, which it refers to as the Side Bank ("**Side Bank**"). These assets include (i) selected international units, (ii) equity stakes, (iii) real estate assets, (iv) out-of-strategy loans and (v) restructuring funds. As at 31 December 2015, total assets of the Side Bank net of provisions amounted to €10.8 billion, and had decreased to €9.7 billion as at 30 September 2016.

The Novo Banco Group has defined a down-sizing strategy of the Side Bank which contemplates an orderly wind-down and sale of these assets and allows for a gradual reduction over time. As required by the Commitments, Novo Banco will seek a wind-down or sale of its non-core international operations, a sale of equity stakes, a sale of its real estate assets, a deleveraging of out of strategy loans and restructuring funds in the forthcoming years.

Reduction of funding costs

The reduction of the Novo Banco Group's funding costs is expected to be one of the main drivers for establishing the Bank's profitability. This is expected to be achieved by reducing the amount of interest it pays to its deposit customers, with the term deposits cost normalising in relation to the market level expected in the longer term with an approximately 1% reduction compared to 2015. The Novo Banco Group also expects this to be achieved through the reduction of wholesale funding instruments, including debt securities maturing in the coming years which currently have high yields.

Efficiency optimisation

The Novo Banco Group will focus on improving its efficiency and productivity levels, through the optimisation of its channels with growing emphasis on the digital area, which contemplates, in the forthcoming years, the reduction of the branch network both in terms of footprint (downsizing of distribution network to 550 branches) and layout as well as development of best-in-class online and mobile banking services. The Novo Banco Group is also targeting a reduction of approximately 1,000 full-time equivalent employees in 2016 and efficiency improvements based on a structural transformation of the operating model towards digitalisation.

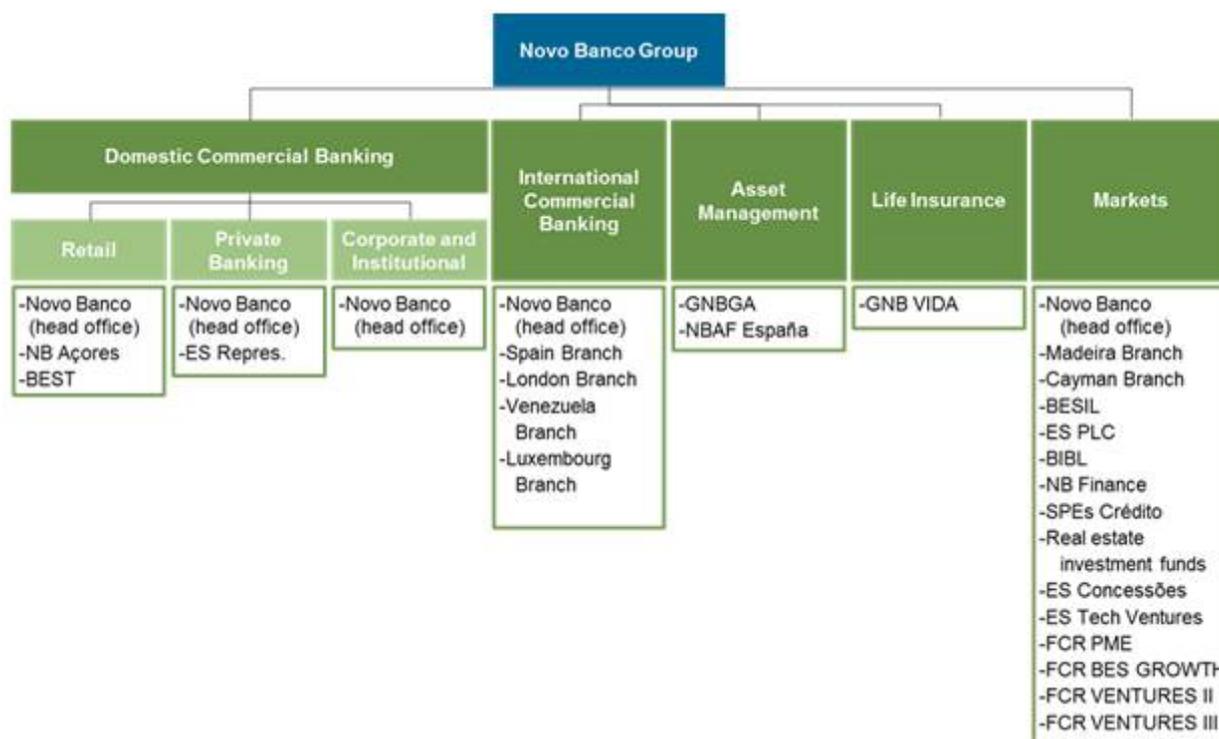
Normalisation of cost of risk

The Novo Banco Group has put in place new risk management procedures, focused on attracting customers with low and medium-risk profiles in retail and SME segments, which it expects will allow for a normalisation of its cost of risk. As a result, the Bank seeks to normalise the cost of risk for the Commercial Franchise following the significant provision charges in 2014 and 2015, as well as the allocation of the out-of-strategy exposures to the Side Bank.

MAIN ACTIVITIES

Novo Banco Group is a full-service financial services group focused on meeting the needs of its core retail, corporate and institutional customers. The Novo Banco Group is headquartered in Portugal, its primary market.

The Novo Banco Group's business segments and principal operating subsidiaries falling within those segments are set out below:



The Novo Banco Group operates in the retail, corporate and institutional customer segments. The Novo Banco Group has a full service banking approach to the market, offering specific products and lines that target certain customer segments. Products and services supplied include deposits, loans, investment fund management, brokerage and custodian services and marketing of life and non-life insurance.

Because of its know-how in corporate and private banking in the domestic market the Novo Banco Group is able to export its skills in those areas to provide services to local customers and customers carrying out transnational economic activities, namely by following-up and supporting the globalisation of Portuguese companies. In this regard, the Bank has been focusing on facilitating its customers' access to strategic markets with business opportunities.

The domestic commercial banking segment, including its retail, corporate and institutional and private banking sub-segments, along with the Novo Banco Group's international commercial banking segment, form the Novo Banco Group's commercial banking operations. The Novo Banco Group's commercial banking operations are complemented by its asset management and insurance segments.

In Portugal the Novo Banco Group's domestic commercial banking segment operates through a single-brand network of retail branches, corporate centres and private banking centres. The retail branches, corporate centres and private banking centres primarily serve the Novo Banco Group's retail, corporate and private banking clients, respectively, representing the Company's tailored approach to serving various client segments.

The Novo Banco Group has a comprehensive distribution network with nationwide coverage. As at 30 June 2016, the Novo Banco Group held a domestic retail network of 576 branches and 30 branches abroad. The branch network is complemented by Novo Banco's specialised centres wholly dedicated to the corporate and private banking customer segments with the following centres as at 30 June 2016: 14 private banking centres (13 in Portugal and 1 in Spain) and 23 corporate centres (22 in Portugal, including 1 in Azores, and 1 in Spain). The business plan of the Novo Banco Group aims to optimise the size of the distribution network by reducing the number of branches and strengthening its internet and mobile banking presence.

In addition to its widespread physical presence throughout Portugal, the Novo Banco Group has developed a multi-channel approach, in its relationship with customers, through internet- and technology-based products. Novo Banco offers to its customers several communication channels and access points that allow them to keep in touch with Novo Banco, using the latest technologies and features:

- **NBnet:** secure PC home banking developed to be available anytime, allowing access to a large set of

banking transactions including: account and card queries, money transfer, bill payment, top ups and credit solutions. NBnet has a large number of frequent users which results in making it the Portuguese home banking service with the highest penetration rate, thus strengthening the Novo Banco Group's reference position in the internet banking landscape in Portugal;

- **NB smart app:** mobile banking app specifically developed for use in Android smartphones and iPhones, providing access to a large set of banking transactions. NB smart app is the channel with the largest user growth rate and offers a user experience that's fully optimised for mobile use with specific functionality that allows it to take full benefit of a smartphone's features. In 2015, NB smart app ranked first among Portuguese banking applications in the finance category on both Google Play and Apple AppStore in Portugal, based on the key quality indicator of average user ratings;
- **NBapp tablet:** application specifically developed for Android tablet and iPad use. The user friendly design, navigation features and customisable screen options were pivotal to the success of this solution, which has achieved high client satisfaction, while providing a high quality experience in relation to tablet banking app design;
- **NBdireto:** telephone service that allows customers to submit their banking transactions and receive commercial product advice. Consistent with Novo Banco's customer service orientation, offering services suited to the various client segments' needs, NBdireto provides a set of telephone lines adapted to different customer profiles: NBdireto International (for international customers), NBdireto Welcome (for new customers), NB Private Phone (for private banking customers), NBdireto 360° (for NB 360° customers), and NBdireto Insurance (for Insurance customers);
- **NBcall:** messaging service which allows customers to get in contact with Novo Banco free of charge and with optimised service levels: 'send us a message and we will call you directly';
- **NBchat:** online 'chat' service which allows the customers to discuss issues with Novo Banco through live online chat: 'contact us'.

a) Domestic Commercial Banking

This segment includes retail, corporate and private banking activities in Portugal through its network of branches, corporate centres and other channels. The Novo Banco Group's approach to commercial banking customers is based on a diversified and distinctive offer suited to its customers' financial needs. The creation of this differentiated value proposition is underpinned by the continued development of products and services supplied to customers, segmentation criteria adjusted to the customers' characteristics, high service quality and effective communication.

According to the distinct customer characteristics, a differentiated attention model is in place and comprises:

- dedicated relationship managers and private and corporate managers to serve affluent, private and corporate clients;
- dedicated areas within the retail branches for affluent clients and specific corporate and private centres to cater to private and corporate clients; and
- client specific product and service offering, ranging from savings products aimed to facilitate and incentivise small, regular and gradual savings directed mainly to mass market customers, to personalised discretionary and portfolio management services directed mainly to private banking customers, or to treasury management solutions and export and internationalisation support services and products directed to SMEs.

(i) Retail Banking

Retail banking constitutes the provision of banking services to retail customers and includes deposits, the sale of savings products, account and payment methods management, subscription of retail insurance products, placement of investment funds services, sale and purchase of securities and

custodian services, mortgage and consumer loans, and small business financing.

The retail banking sub-segment benefits from a comprehensive retail distribution network with nationwide coverage through retail branches which reach over 90% of the population and 95% of the Portuguese population's purchasing power. Since its formation, the Novo Banco Group has focused on reducing its branch network to increase its efficiency and to reduce its operating costs, going from 631 retail branches in Portugal as of 4 August 2014 to 596 branches as at 31 December 2015 and to 576 branches as at 30 June 2016. The Novo Banco Group has adopted an efficient distribution approach with over 50% of its retail branches served with four employees or less, complemented by services through other distribution channels such as internet-banking and phone-banking. Novo Banco earned the prize for 'Best Performance Distributor' - Portugal in the European Structured Products & Derivatives Awards (Euromoney Group) in 2015.

Residential mortgages are an important income generator for the Retail segment. Mortgage products can be divided into fixed rate and floating rate mortgages. The majority of residential mortgages made by Novo Banco are floating rate mortgages. New mortgage production grew over 173% from the first quarter of 2015 to the last quarter of 2015.

In the first half of 2016, the average monthly production of residential mortgage loans grew by 78% in relation to the average monthly production in 2015.

In addition to branch originated mortgages, the contribution of external channels to mortgage production has grown significantly, reaching approximately 30% of all mortgage production as at 31 December 2015. Among the external channels, real estate agencies are a growing source of new mortgage loan origination for the Novo Banco Group. The Novo Banco Group has a number of individual agreements with real estate agents that act as promoters of the Novo Banco Group's mortgage products. For the year ended 31 December 2015, real estate agencies accounted for 5% of total mortgage production. This grew to 34% of total mortgage production for the six months ended 30 June 2016.

The Novo Banco Group's approach to retail banking is based on a diversified offer that targets various client segments' financial needs. The Novo Banco Group offers different solutions and services that are designed and adjusted to specific client characteristics:

- **Affluent clients - NB 360°**, services tailored to the needs of high net-worth individuals, sub-segmented into: future potential clients, sophisticated clients, traditional clients and non-loyal clients;
- **Small Businesses** - "Negócios", services for micro and small-sized companies and independent professionals; and
- **Mass market**, services for individual retail clients, sub-segmented into: senior clients, junior clients, young adults, loyal and non-loyal clients.

These tailored services for each client segment are described below.

NB 360°

The NB 360° service targets the affluent client segment with a service that provides NB 360° account holders access to dedicated relationship managers that offer a broad, segment targeted and diversified portfolio of financial and insurance products and services and that regularly monitor clients goals and satisfaction with the service. The NB 360° service includes:

- The NBdireto line dedicated to NB 360° customers and specialised physical units within retail branches called the 360° Centres where NB 360° customers can go for in-person service;
- A broad-based offering of products and services, including a wide range of financial investment options as well as a diversified risk insurances offer, aimed to provide a comprehensive solution to affluent clients' needs; and
- Access to the NBnet Trading platform for stock market trading, to cover of a variety of the clients' financial needs.

Small Businesses - “Negócios”

The Novo Banco Group serves small businesses and micro business, which are typically businesses with turnover of up to €2.5 million. These clients are served at the retail branch network and as they grow will transition to being served at corporate centres, under the tailored services for corporate clients.

Like NB 360° account holders, small business accounts are supported by specialised and dedicated relationship managers, which will provide both personal banking services and company-level banking support to the partners of the small business accounts. Novo Banco Group believes that this integrated approach contributes to its appeal in the market. This integrated approach also furthers one of Novo Banco’ objectives to achieve a high level of penetration into small businesses whose partners have opted to concentrate a substantial part of their individual assets with Novo Banco, and who turn to Novo Banco for support in their day-to-day personal banking needs.

Mass market

While available to all customers, a number of Novo Banco’ services are designed for the mass market. Novo Banco has focused its services targeting the mass market client segment on its savings products and other everyday protection and insurance products. Novo Banco has thus worked to develop innovative saving solutions adjusted to the prevailing economic context.

In the current economic environment in Portugal and in light of Novo Banco’ origins, a focus has been directed at saving in riskless solutions, such as time deposits, in order to gain the customers’ trust. Novo Banco also offers microcredit solutions, which can be used to fund self-employment opportunities.

Savings products promoted include:

- **Planned saving:** Facilitates customer saving through the subscription of a monthly savings plan according to which the customer sets up scheduled savings in their desired amounts and deposit timeframes. In 2015, the planned savings product had approximately 349,000 clients and €941 million in savings.
- **Micro Savings:** This service allows a customer to start saving small amounts by rounding their daily expenses and transferring this rounding to a savings account of the customer’s choice. In 2015, Micro Savings had approximately 41,000 clients and €15.1 million in savings.
- **Impulse Savings:** Enables customers with the smartphone app “*poupe*” (save), to increase their savings with small amounts (between €5 and €50) each time they use it. To use it, the customer simply opens the app and presses a button which transfers money from the designated account to a savings account. In 2015, Impulse Savings had approximately 4,000 clients and €28.8 million in savings.

In addition to these savings products, Novo Banco also makes available to all its clients the ‘Family Budget’ service. This is a free service which automatically organises and groups together all the revenues and expenses of a client’s account allowing him/her to have a real picture of his/her budget and, above all, to monitor the evolution of the revenues and expenses, identifying expenditure that could be reduced and facilitating the creation of savings.

As a result of the current socio-economic context in Portugal and Novo Banco’ emphasis on supporting entrepreneurs, Novo Banco has promoted microcredit products as an incentive tool to self-employment and to assist in the creation of micro-companies, with the aim of supporting entrepreneurial initiatives that add value to the domestic economy. Novo Banco offers products tailored to the needs of entrepreneurs that are at risk of exclusion, by offering two financing options:

- Novo Banco’ own solutions – “*Microcrédito NB*”; and

- Protocols signed with the National Association for the Right to Credit and the Institute of Employment and Professional Training.

In 2015, Novo Banco financed 141 microcredit projects, which allowed the creation of an estimated 224 jobs, representing a credit amount of approximately €2.4 million. Such funding was used primarily to fund opportunities in the services and retail sectors.

Among the mass market client segment, direct access to services through the internet and remote channels continued to play a key role in the relationship with 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 client relationship management platforms (branch, NBnet and NBdireto), where the success of the customised offerings provided at the time the customer interacts with the remote channel confirms their adjustment to the customers' needs; and (iv) new solutions adjusted to the customers' mobility needs affording safe, convenient and permanent access in any circumstance.

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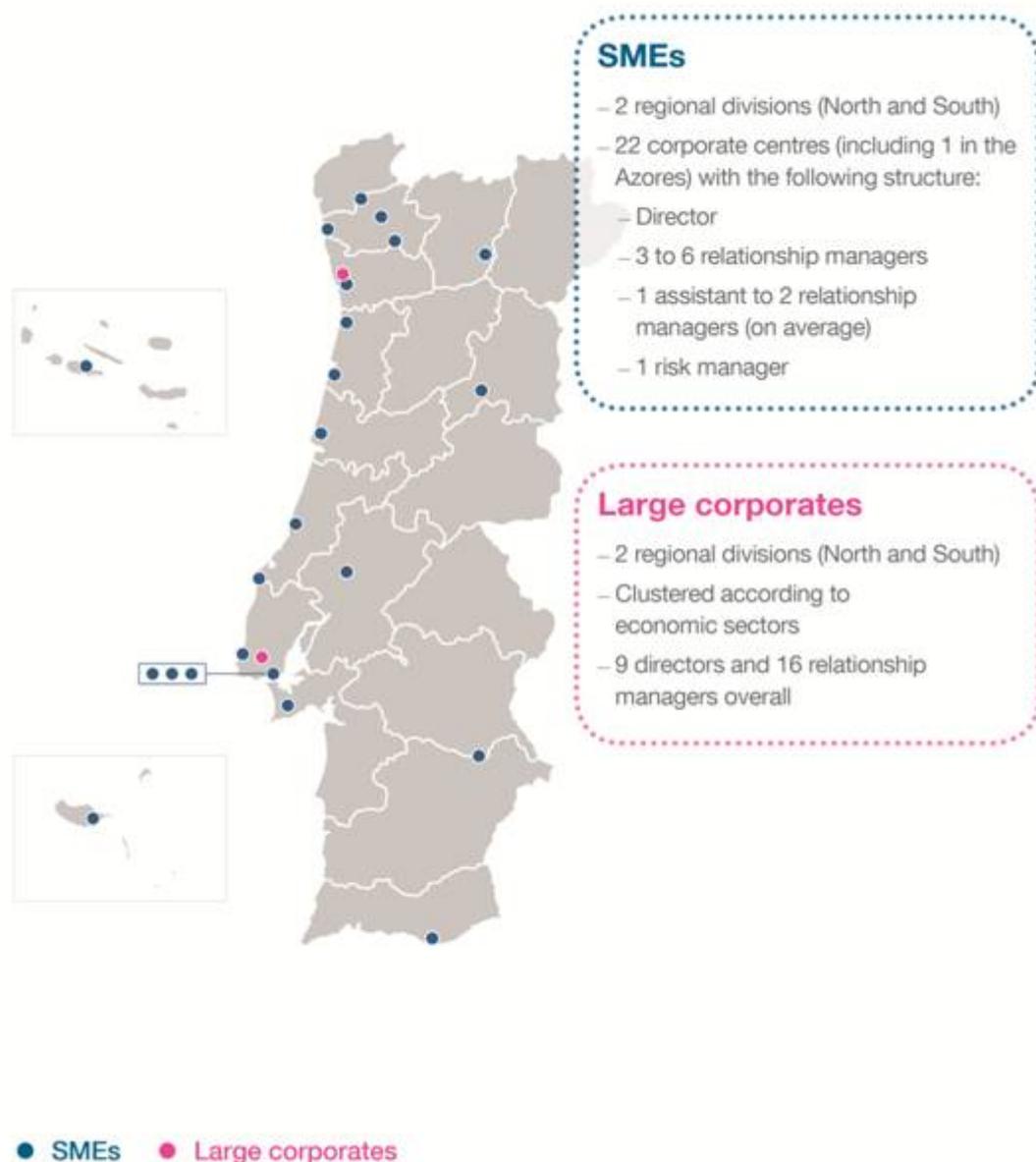
(ii) Corporate and Institutional Customers

The Corporate and Institutional Customers sub-segment includes SME businesses, large corporate, institutional customers and municipalities. Novo Banco Group holds a reference position in this sub-segment as a result of its support of the development of the Portuguese business community, where it targets innovative, export-oriented companies with a good risk profile. As at 31 December 2015, the Novo Banco Group had a 21% market share in the corporate commercial banking sector based on corporate banking loans, with corporate loans representing 67.2% of the overall credit portfolio as at 30 June 2016 (69.2% as at 31 December 2015). Novo Banco management estimates that 83% of the approximately 3,500 large corporates in Portugal and an estimated 79% of the approximately 25,000 SMEs in Portugal are Novo Banco clients.

In line with its strategy, Novo Banco has increased the percentage of its gross loans held by SME winners from 30% to 33% as at 31 December 2014 and 31 December 2015, respectively. Over this same period, according to data from IAPMEI, Novo Banco maintained its 21% market share of SME Leaders (companies that fulfil a number of independent criteria including ratings issued by a bank, growing turnover or growing EBITDA or positive net profit, financial autonomy of at least 30% and a minimum of 8 employees) and increased its market share from 19% to 23% of SME Excellence SMEs (comprising SME Leaders that meet an additional layer of qualification).

SMEs are typically companies with turnover between €2.5 million and €50 million or with loans greater than €250,000. Typically when turnover is greater than €50 million, the company will be classified and served as a large corporate client. Novo Banco manages the SME sub-segment through 22 corporate centres in Portugal, which are spread throughout the country in areas where SME activity is more prevalent, as geographic proximity is seen as a key component to serving SMEs. These corporate centres are then managed by two regional divisions (the north and south). Approximately 3-6 relationship managers are at each corporate centre. Large corporate customers are served through Novo Banco' regional divisions (north and south). Regional divisions have sector-specific clusters, with directors and relationship managers available to serve large corporate customers. The Novo Banco Group also has institutional customers including municipalities, municipal companies, universities, public hospitals, foundations, associations, institutions of the services sector and others, which are served by the network in accordance with their size.

The distribution network for the corporate and institutional segment in Portugal as at 30 June 2016 is pictured below.



Support to internationalization

Novo Banco has a strategic focus on supporting SMEs and large corporate customers with an export or international focus through the offer of a range of services and products aimed at supporting the needs of these companies. Novo Banco's International Premium Department ("IPD") offers specialised services to support Portuguese companies in exporting and/or in making direct investment in international markets. The IPD has international business managers that provide support to companies that range from the initial identification of each company's exporting potential, to the search of adequate countries as destinations for its exports, the selection of the right partners for the execution of international trade operations and the investment in the destination markets. Novo Banco's support to companies with export and globalisation needs earned it the award for 'Best Trade Finance Bank in Portugal' from the Global Finance Magazine in 2016. Based on data extracted from Swift, Novo Banco maintained a 22% market share in trade finance as at 31 December 2015.

Investment and Capital Support

In the corporate segment, Novo Banco continued to support the development of economic activity in Portugal, focusing on innovative, export oriented companies with a good risk profile. This includes investment support and permanent capital reinforcement, for example through the PME Crescimento 2015,

a credit line based on protocols with Mutual Guarantee, a risk sharing mechanism for Portuguese Banks, and the Republic of Portugal, and the launch of new credit lines agreed with the European Investment Bank and the European Investment Fund, for an overall amount of €500 million during 2015. These lines started in 2008 with the goal to improve funding conditions and the access to funding of the Portuguese SME companies. In 2014, the Bank approved €166 million worth of loans on the PME Investe, PME Crescimento and Investe QREN lines, as well as €303 million on the credit lines agreed with the European Investment Bank and the European Investment Fund.

Also, with the implementation of Programa Portugal 2020, these financing instruments will help to develop relevant investment projects and support additional working capital requirements. Programa Portugal 2020 is the National Strategic Reference Framework 2014-2020, which provides Portugal with €10 billion to promote competitiveness and internationalisation, based on a partnership with the European Commission for the application of the European structural and investments funds.

NB Express Bill and NB Fine Trade

Novo Banco promotes economic activity namely through its factoring, management of payments to suppliers and NB Express Bill solutions, a system that automates the process of clients obtaining credit on the basis of receivables that are due to them and allows clients to manage this credit line through an online service.

Novo Banco has developed its NB Express Bill solution to serve corporate clients, to help stimulate economic activity, and to provide funds to help the financial condition of companies. NB Express Bill's network connects all companies - micro, small, medium and large companies – and guarantees payments and facilitates the collection of receivables. This solution has gained preponderance as a treasury solution, and Novo Banco believes it has helped build trust and enhance business transactions between companies.

The approximately 20,000 subscribers of the NB Express Bill service have been approved for nearly €2.0 billion in credit limits, as a result of which Novo Banco anticipates approximately €10 billion in payments annually. In 2014, NB Express Bill's service was extended to Spain, Portugal's main commercial partner, which allows companies to guarantee and to anticipate online payments between companies in both countries.

NB Fine Trade is a tool that identifies export opportunities for companies based on its analysis of foreign markets. NB Fine Trade examines the tradeable goods sold by a company and identifies the top 20 countries with business opportunities. Among these countries, NB Fine Trade assesses whether there is business potential, through the analysis of commercial ties with Portugal, whether there is underperformance in the specific trade, the ease of doing business and the trade dynamic in each country.

Support for Innovation and Entrepreneurship

In 2015, the Novo Banco Group continued to support innovation and entrepreneurship by promoting the 11th edition of the National Innovation Contest, an initiative seeking to boost the Portuguese production sector. Over these 11 editions, Novo Banco (or BES, for awards prior to 4 August 2014) has awarded an overall amount of €3.25 million in prizes and distinguished 53 projects out of a total 1633 candidates.

(iii) Private Banking

This segment includes private customers and all associated asset products and fundraising, namely deposits, custodian services, purchase and sale of securities and insurance products.

The private banking sub-segment is dedicated to high net worth private customers, offering personalised asset planning services through a 'private manager'. Novo Banco's team of private managers is spread across its private banking centres in the main district capitals of Portugal to provide proximity to the customer. Private banking provides a service of management of the customers' assets, analysing the specificities and needs, the risk profile and the service expectations of each customer, with the aim to identify the best asset allocation in each particular case.

The team of private managers commercially monitors the assets on behalf of each customer, supported by a team of specialised 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.

In line with the customised and distinctive service Novo Banco aims to provide, it divides its private banking into the following sub-segments to facilitate a customised approach to various private banking client segments: Executive Professionals, Entrepreneurs, Traditional Family, and Top Private.

b) International Commercial Banking

Novo Banco's international commercial banking segment includes foreign business units targeting both corporate and retail customers, excluding asset management. The most important units contributing to this segment are Novo Banco branches in Spain, London and Luxembourg. Available services and products include deposits, all forms of credit, leveraged finance operations, structured trade finance and project finance.

c) Asset Management

Novo Banco's asset management segment includes the Novo Banco Group's asset management activities in Portugal and abroad, through specialised companies incorporated for that purpose, with its subsidiary GNB Gestão de Ativos being the primary entity for these activities. The asset management product range covers all kinds of funds - mutual funds, real estate funds and pension funds – as well as discretionary and portfolio management services and wealth management. Total assets under management amounted to €13 billion and €14.1 billion as at 30 June 2016 and as at 31 December 2015, respectively.

GNB Gestão de Ativos has a strong brand in Portugal and is the most awarded mutual funds asset manager in Portugal as well as one a reference manager of corporate pension funds. In Portugal, the products are distributed predominantly through the Novo Banco Group.

The international asset management operations are mainly developed by GNB Gestão de Ativos' subsidiaries in Luxembourg, Spain and Angola.

d) Life Insurance

The life insurance segment includes GNB Vida activity, a life insurance company founded in 1993 that was transferred from BES to Novo Banco under the Resolution Measure. The insurance company markets traditional insurance products, capitalisation products and pension savings plans. GNB Vida operates mainly in Portugal, exclusively through the Novo Banco Group.

During 2016, GNB Vida is undergoing cost optimisation measures with a targeted reduction in headcount by 15 employees through the implementation of one shared service structure between GNB Vida and GNB Gestão de Ativos. Personnel and general and administrative cost reductions of €2.1 million in 2016 and €0.8 million for 2017 are targeted in connection with the optimisation measures. As at 30 June 2016, operating costs reduced 29.8% year-on-year as a result of the streamlining and optimisation efforts carried out.

e) Markets

The markets segment includes the global financial management activity of the Novo Banco Group, namely the raising and placement of funds on the financial markets, such as investment in and risk management of credit, interest rate, foreign exchange and equity instruments, whether of a strategic nature or as part of current trading activity. It also includes non-resident institutional investors, as well as any consequences arising from strategic decisions impacting the entire Group.

GROUP STRUCTURE

Companies directly consolidated into Novo Banco, as at 30 June 2016:

incorporated		acquired	Registered office	Activity	%	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
Novo Banco Servicios Corporativos, SL	1996	1997	Spain	Insurance distrib. & real estate management	100.00%	Full consolidation
Novo Vanguarda, SL	2011	2011	Spain	Services provider	100.00%	Full consolidation
Novo Banco dos Açores, SA (NBA)	2002	2002	Portugal	Commercial banking	57.53%	Full consolidation
BEST - Banco Electrónico de Serviço Total, SA (BEST)	2001	2001	Portugal	Electronic banking	100.00%	Full consolidation
NB África, SGPS, SA	2009	2009	Portugal	Holding	100.00%	Full consolidation
BES Beteiligungs, GmbH (BES GMBH)	2006	2006	Germany	Holding	100.00%	Full consolidation
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
Espírito Santo, plc. (ESPLC)	1999	1999	Ireland	Non-bank financing	100.00%	Full consolidation
GNB - Gestão de Ativos, SGPS, SA (GNB GA)	1992	1992	Portugal	Holding	100.00%	Full consolidation
ES Tech Ventures, S.G.P.S., SA (ESTV)	2000	2000	Portugal	Holding	100.00%	Full consolidation
NB Finance, Ltd. (NBFINANCE)	2015	2015	Cayman Islands	Issue and distribution of securities	100.00%	Full consolidation
GNB - Recuperação de Credito, ACE (GNBREC)	1998	1998	Portugal	Debt collection	99.15%	Full consolidation
GNB Concessões, SGPS, SA (GNB CONCESSÕES)	2002	2003	Portugal	Holding	71.66%	Full consolidation
GNB - Sistemas de Informação, ACE (GNB SI)	2006	2006	Portugal	Services provider	82.58%	Full consolidation
GNB - Serviços de Suporte Operacional, ACE (GNB ACE)	2006	2006	Portugal	Services provider	88.36%	Full consolidation
Espírito Santo Representações, Ltda. (ESREP)	1996	1996	Brazil	Representation services	99.99%	Full consolidation
Fundo de Capital de Risco - ES Ventures II	2006	2006	Portugal	Venture capital fund	63.88%	Full consolidation
Fundo de Capital de Risco - ES Ventures III	2009	2009	Portugal	Venture capital fund	56.67%	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	95.61%	Full consolidation
ImoInvestimento – Fundo Especial de Investimento Imobiliário Fechado	2012	2012	Portugal	Real estate fund management	100.00%	Full consolidation
Prediloc Capital – Fundo Especial de Investimento Imobiliário Fechado	2006	2012	Portugal	Real estate fund management	100.00%	Full consolidation
Imogestão – Fundo de Investimento Imobiliário Fechado	2006	2013	Portugal	Real estate fund management	100.00%	Full consolidation
Arrábida - Fundo Especial de Investimento Imobiliário Fechado	2006	2013	Portugal	Real estate fund management	100.00%	Full consolidation
Invesfundo VII – Fundo de Investimento Imobiliário Fechado	2008	2013	Portugal	Real estate fund management	95.86%	Full consolidation
NB Logística - Fundo Especial de Investimento Imobiliário Aberto	2007	2012	Portugal	Real estate fund management	84.72%	Full consolidation
NB Património - Fundo de Investimento Imobiliário Aberto	1992	2014	Portugal	Real estate fund management	59.20%	Full consolidation
Fundes - Fundo Especial Investimento Imobiliário Fechado	2008	2015	Portugal	Real estate fund management	100.00%	Full consolidation
NB Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	2009	2012	Portugal	Real estate fund management	100.00%	Full consolidation
Orey Reabilitação Urbana - Fundo de Investimento Imobiliário Fechado	2006	2012	Portugal	Real estate fund management	77.32%	Full consolidation
Fimes Oriente - Fundo de Investimento Imobiliário Fechado	2004	2012	Portugal	Real estate fund management	100.00%	Full consolidation
Fundo de Investimento Imobiliário Fechado Amoreiras	2006	2015	Portugal	Real estate fund management	93.72%	Full consolidation
Fundo de Investimento Imobiliário Fechado Solid	2004	2015	Portugal	Real estate fund management	100.00%	Full consolidation
FLITPTREL VIII, SA	2011	2011	Portugal	Tourism real estate exploration	10.00% ^{a)}	Full consolidation
GNB - Companhia de Seguros, SA (GNB SEGUROS)	1996	1996	Portugal	Insurance	25.00%	Equity method
ESEGUR - Espírito 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%	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%	Equity method
Ijar Leasing Algérie	2011	2011	Algeria	Leasing	35.00%	Equity method
Edenred Portugal, SA	1984	2013	Portugal	Services provider	50.00% ^{c)}	Equity method
Multipessoal Recursos Humanos - SGPS, S.A	1993	1993	Portugal	Holding	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 economic interest. These entities were included in the consolidated balance sheet via the equity method as the Group exercises significant influence over their activities, as referred to in Note 2.2 to the financial statements in respect of the six-month period ended 30 June 2016
- c) Entities consolidated under the equity method as the voting rights grant control to the other shareholders

Subgroups:²

Year	Year incorporated	Year acquired			Share-holding %	
	2006	2006	Germany	Holding	100.00%	Full consolidation
BES Retail Finance GmbH (BES GMBH)	1983	2002	Cayman Islands	Commercial banking	100.00%	Full consolidation
Bank Espírito Santo International, Ltd. (BESIL)						
NB África, SGPS, SA (NB ÁFRICA)	2006	2006	Portugal	Holding	100.00%	Full consolidation
Moza Banco, SA	2008	2010	Mozambique	Commercial banking	49.00%	Equity method
GNB - Gestão de Ativos, SGPS, SA (GNB GA)	1992	1992	Portugal	Holding	100.00%	Full consolidation
GNB - Sociedade Gestora de Fundos de Investimento Mobiliário, SA	1987	1987	Portugal	Investment fund management	100.00%	Full consolidation
GNB - International Management, SA	1995	1995	Luxembourg	Investment fund management	99.80%	Full consolidation
GNB - Sociedade Gestora de Fundos de Investimento Imobiliário, SA	1992	1992	Portugal	Investment fund management	100.00%	Full consolidation
GNB - Sociedade Gestora de Fundos de Pensões, SA	1989	1989	Portugal	Investment fund management	100.00%	Full consolidation
Espírito Santo International Asset Management, Ltd.	1998	1998	British Virgin Islands	Investment fund management	49.00%	Equity method
GNB - Sociedade Gestora de Patrimónios, SA	1987	1987	Portugal	Wealth management	100.00%	Full consolidation
GNB - Participações Internacionais, SGPS, SA	1996	1996	Portugal	Holding	100.00%	Full consolidation
Novo Activos Financieros, SA	1988	2000	Spain	Asset management	100.00%	Full consolidation
Novo Banco Gestión, SGIC, S.A	2001	2001	Spain	Asset management	100.00%	Full consolidation
Novo Banco Pensiones, SGFP, SA	2001	2001	Spain	Pension fund management	100.00%	Full consolidation
Económico - Fundos de Investimento, SGFI, SA	2008	2008	Angola	Investment fund management	35.00%	Equity method
Económico - Fundos de Pensões, SGFP, SA	2009	2009	Angola	Pension fund management	35.00%	Equity method
ES Tech Ventures, S.G.P.S., SA (ESTV)	2000	2000	Portugal	Holding	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 centre management	41.67%	Equity method
Fundo de Capital de Risco - ES Ventures II	2006	2006	Portugal	Venture capital fund	63.88%	Full consolidation
Atlantic Ventures Corporation	2006	2006	USA	Holding	63.88%	Full consolidation
Sousacamp, SGPS, SA	2007	2007	Portugal	Holding	24.98%	Equity method
Global Active - SGPS, SA	2006	2006	Portugal	Holding	28.53%	Equity method
Outsystems, SA	2007	2007	Portugal	Information technologies	15.86%	Equity method
Coreworks - Proj. Circuito Sist. Elect., SA	2006	2006	Portugal	Information technologies	20.68%	Equity method
Bio-Genesis	2007	2007	Brazil	Holding	19.12%	Equity method
YDreams - Informática, SA	2000	2009	Portugal	Information technologies	30.66%	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	Service Provider	100.00%	Full consolidation
Imbassaí Participações, SA	2009	2013	Brazil	Holding	100.00%	Full consolidation
Lírios 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	56.67%	Full consolidation
Nutrigreen, SA	2007	2009	Portugal	Service Provider	11.33%	Equity method
Advance Ciclone Systems, SA	2008	2009	Portugal	Treatment and disposal of inert waste	22.67%	Equity method
Watson Brown, HSM, Ltd	1997	2009	United Kingdom	Rubber recycling	20.34%	Equity method
Domática, Electrónica e Informática, SA	2002	2011	Portugal	Information technologies	16.67%	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	16.07%	Equity method
Palexpo - Espaços à Sua Medida, SA	2009	2009	Portugal	Furniture manufacturing	28.10%	Equity method
Otherlog, SA	2014	2014	Portugal	Logistics	21.86%	Equity method
Epedal, SGPS, SA	2007	2015	Portugal	Holding	12.22%	Equity method
Attentionfocus, Lda	2014	2015	Portugal	Exploitation of energy areas	18.92%	Equity method
Nexpro - Fábrica de Capacetes, S.A.	2001	2015	Portugal	Helmet manufacturing	33.83%	Equity method

	incorporated	acquired			holding %	
GNB Concessões, SGPS, SA (GNB CONCESSÕES)	2002	2003	Portugal	Holding	71.66%	Full consolidation
ES Concessions International Holding, BV	2010	2010	Holland	Holding	71.66%	Full consolidation
Empark - Aparcamientos y Servicios, SA	1968	2009	Spain	Parking lot exploitation	15.92% ^{b)}	Equity method
Esconcessions Spain Holding BV	2013	2013	Holland	Holding	71.66%	Full consolidation
Auvisa - Autovia de los Viñedos, SA	2003	2010	Spain	Motorway concessionaire	35.83%	Equity method
Ascendi Group SGPS, SA	2010	2010	Portugal	Holding	28.66%	Equity method

b) The percentage presented reflects the economic interest of the Group. These entities were included in the consolidated balance sheet using the equity method given that the Group exercises a significant influence over their activities, as referred in Note 2.2 to the financial statements in respect of the six-month period ended 30 June 2016.

The Novo Banco 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 plc (*).....	2007	2007	Ireland	100%	Full consolidation
Lusitano Project Finance No.1, FTC (*)	2007	2011	Portugal	100%	Full consolidation
Lusitano Mortgages No.7 plc (*).....	2008	2008	Ireland	100%	Full consolidation
Lusitano Finance No. 3 (*).....	2011	2011	Portugal	100%	Full consolidation

Note:

(*) Structured entities set up in the scope of securitisation operations, recorded in the Financial Statements in accordance with continued involvement of the Novo Banco Group in these operations, determined based on the percentage of the equity pieces held of the respective vehicles (see Note 48 to the 2015 Consolidated Financial Statements)

MANAGEMENT AND SUPERVISORY CORPORATE BODIES

According to article 7 of Banco de Portugal Regulatory Notice (“Aviso”) no. 13/2012, of 8 October (“Notice no. 13/2012”) and the Articles of Association of Novo Banco, the corporate bodies of Novo Banco are (i) the General Meeting; (ii) the Board of Directors; and (iii) the Board of Auditors.

Banco de Portugal is responsible for appointing the members of the Board of Directors and of the Board of Auditors, following a proposal of the General Meeting (Article 145-P (7) of the RGICSF).

The members of the Board of Directors and of the Board of Auditors may at any time be removed from office by decision of Banco de Portugal, on its own initiative or upon a reasoned proposal from the Management Committee of the Resolution Fund. Replacement of removed members will take place following the process established for the appointment of members of the Board of Directors and of the Board of Auditors (Article 145-P (7) of the RGICSF).

General Meeting

The Resolution Fund is represented at the General Meeting of Novo Banco by the Chairman of the Management Committee of the Resolution Fund or whomever it 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, who were designated at the first meeting of the General Meeting:

- 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.

According to the legal requirements which apply to issuers of securities admitted to trading on a regulated market, the members of General Meeting Board are independent, within the meaning of article 414 of the Portuguese Companies Code.

The General Meeting convenes at least once a year and whenever it is requested by the Board of Directors, the Board of Auditors or the Resolution Fund. The General Meeting is responsible for resolving on all issues within the remit conferred upon it by law and by Novo Banco Articles of Association, namely: (a) resolving on the annual report, balance sheet and accounts for the tax year and additional documentation legally required; (b) resolving 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) proposing the remuneration of the members of the Board of Directors and the Board of Auditors to Banco de Portugal according to law and under the provisions of article 145-P of the RGICSF; (e) resolving 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’ Articles of Association, 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, appointed by Banco de Portugal, following a proposal from the Management Committee of the Resolution Fund. Currently the Board of Directors is made up of 5 Directors, which are all executive 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 Notice no. 13/2012 and in Banco de Portugal decision on the setting-up of Novo Banco, with full and exclusive powers of representation, and it shall comply with the decisions 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 shall comply with the recommendations and instructions given by Banco de Portugal, as Resolution Authority.

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

The Board of Directors meets 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
António Ramalho	Chairman	1960	22 August 2016	Audit and Inspection department; Chief of Staff of the President of Board of Directors Cabinet; Communication department; Spain Branch; Offshore Madeira Branch; Switzerland, Paris, South Africa and London Representation Office’s; BEST

Francisco Ravara Cary	CFO	1965	12 March 2015	Financial department, Planning and Capital Management department; Accounting; Compliance Department; Consolidation and Tax department; Control and Information Management department; Investor Relations; Cayman Branch; NB Finance; BESIL; BIBL; Banco Económico; Luxembourg Branch; London Branch; BES Beteiligungs GmbH; Espirito Santo plc.
Jorge Freire Cardoso	Board Member	1971	17 September 2014	President of Credit and Financial Council; Business Development department; Credit department; Global Risk department; Credit Recovery department; Real Estate Management department; International Development department; Venezuela Branch; Xangai Representation Office; NB Asia; BES Vénétie; NB África; Moza Banco; BICV-Banco Internacional Cabo Verde; Ijar Leasing; BMCE-Banque Marocaine du Commerce Extérieur; Banco delle Tre Venezie, Spa; ES Tech Ventures SGPS, S.A.; ES Ventures; SCR, S.A.; GNB Recuperação de Crédito, ACE.
Vítor Fernandes	Board member	1963	17 September 2014	Corporate Banking department; Promotion Commercial of Corporates Cabinet; North Enterprises department; South Enterprises department; Marketing Business and Innovation department; Leasing and Factoring department; International Business department; International Premium department; Real Estate Credit Monitoring department; Structured Financing Projects; Corporate Monitoring and Structuring department; Representation at Unicre; Representation at SIBS; Edenred; Locarent; NOVO BANCO DOS AÇORES; Marketing, Innovation and Channels department; North Commercial department; South Commercial department; Cards and Loans to Individuals department; Private Banking department; International Business and Private Banking department.
Francisco Vieira da Cruz	Board member	1973	12 March 2015	Legal department; Human Resources department; Compliance department; General Secretary of the Board of Directors; Internal Control department.

Novo Banco informed CMVM on 23 November 2016 that Director Francisco Vieira da Cruz resigned to the position as member of the Board of Directors, but will remain in office until 31 December 2016, unless one or more new members are appointed by the shareholder, in which case he shall cease functions on the date of such appointment.

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:

António Ramalho

A. Corporate positions held in companies of the Novo Banco Group:

Novo Banco, S.A. – Chairman of the Board of Directors.

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

Infraestruturas de Portugal, S.A. – Chief Executive Officer;

REFER, EPE – Chief Executive Officer;

EP – Estradas de Portugal, S.A. – Chief Executive Officer;

Banco Comercial Português, S.A. - Vice President and Chief Financial Officer.

Francisco Ravara Cary

A. Corporate positions held in companies of the Novo Banco Group:

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

Member of the Board of Directors of ES Tech Ventures;

B. Corporate positions held in companies outside the Novo Banco Group:

Director at ES TECH VENTURES, SGPS, S.A..

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

Chairman of GNB Gestão de Activos SGPS, S.A.;

Chairman of GNB Vida, S.A.;

Chairman of Banco BEST SA.;

Director of Banque Espirito Santo et de la Vénétie;

Director of Pharol SGPS, S.A.;

Director of Oi, S.A.;

Director of BESI Brasil, S.A.;

Vice-President of the Board of Directors at Banco Espírito Santo de Investimento SA. (BESI);

Director of BESI Holdings Limited;

Director of Espírito Santo Investimentos;

Vice-President of the Board of Directors of Espírito Santo Capital, S.A. (Portugal);

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

2bCapital, S.A. - Member of the Board of Directors;

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

Emparque Portugal, S.A. - Member of the Board of Directors;

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

Dornier, S.A. - Member of the Board of Directors;

Fomentinveste, SGPS, S.A. - Member of the Board of Directors;

BRB International, S.A. - Member of the Board of Directors;

Apolo Films, SL Member of the Board of Directors;

Swan Street - Member of the Board of Directors;

Pro Sport Comercializaciones Deportivas, S.A. - 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).

A. Corporate positions held in companies of the Novo Banco Group:

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

LOCARENT – 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 Novo Banco 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;

Member appointed by Novo Banco for the APB - Associação Portuguesa de Bancos.

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.

A. Corporate positions held in companies of the Novo Banco Group:

NB Finance Ltd – Member of the Board of Director;

Banque Espírito Santo et la Vénétie – Member of the Board of Director;

Chairman of ES Tech Ventures SGPS, S.A..

B. Corporate positions held in companies outside the Novo Banco Group:

Pharol, SGPS, S.A. – Member of the Board of Director;

Enternext, S.A. – Member of the Board of Director;

Member appointed by Novo Banco for the Consulting Board of Fundo de Recuperação, FCR;

Member appointed by Novo Banco for the Consulting Board of Fundo de Recuperação Turismo, FCR;

Member appointed by Novo Banco for the Consulting Board of Flitptrel SICAV – SIF SCA.

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

Executive Member of the Board Of Directors of Caixa Geral de Depósitos SA. ended September 2014;

Chief Executive Officer of Caixa Banco de Investimentos, S.A., ended August 2013;

Executive Member of the Board of Directors of Caixa – Banco de Investimento, S.A. since March 2008 until May 2011.

Francisco Vieira da Cruz

A. Corporate positions held in companies of the Novo Banco Group:

Secretary at General Meeting – NB ÁFRICA, SPGS, S.A.;

President at General Meeting – GNB Recuperação de Crédito, ACE;

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

Remuneration Committee – NOVO BANCO dos Açores S.A.;

Remuneration Committee – Moza Banco S.A..

B. Corporate positions held in companies outside the Novo Banco 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 Hoteis, 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 Boina – 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, which were appointed by Banco de 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 Articles of Association and Article 15 of Notice no. 13/2012, as well as the principles for action and strategic goals established by Banco de

Portugal for the institution.

In addition to other competencies defined by law and in the Articles of Association, the Board of Auditors will:

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

The Board of Auditors meets once every month 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. 20161485, 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 and 31 December 2015 represented by the partner José Manuel Henriques Bernardo, statutory auditor registered with the CMVM under no. 20160522 and with the Chamber of Statutory Auditors under no. 903.

Novo Banco monitors the existence of conflicts, between the interests of Novo Banco and of those of the above listed persons. As at the date of this Prospectus, Novo Banco is not aware of any existing conflicts of interest between the duties to Novo Banco of the above listed persons and their private interests and/or other duties.

RISK MANAGEMENT

The Risk Function within the Group

Novo Banco Group is exposed to the different types of risk inherent to the banking system arising from external and internal factors, namely from the nature of the markets in which it operates. The principal risks faced by the Bank include credit risk, market risk, liquidity risk and operational risk.

The risk management function, key to the development of the Novo Banco Group's activity, aims to identify, assess, monitor and report all material risks faced by the Bank, both internally and externally. The risk management function operates independently from the functional areas, providing advice on risk management to the Board of Directors. The evolution of risk levels is reported on a monthly basis to the Risk Committee, which is a committee made up of members of the Board of Directors that oversees all risk management functions.

Organisation of the Risk Management function within the Group

At an organizational level, the risk management function is centralised in the Global Risk Department ("GRD") and is independent from other business areas.

The key functions of the GRD include:

- To identify, assess, monitor and report on the different types of risk assumed, allowing the management of risk exposure and compliance with internal and regulatory rules, and promoting and monitoring mitigation actions;
- To implement the risk policies defined by the Board of Directors;

- To contribute to the value creation targets through the development and monitoring of methodologies for the identification and quantification of risks, such as internal rating models and liquidity ratios, and support tools for the structuring, pricing and approval of operations;
- To develop the risk component of the Internal Capital Adequacy Assessment Process, Internal Liquidity Adequacy Assessment Process and stress tests.

The following chart describes the Novo Banco Group’s structure of the relevant risk management committees and departments:



Senior Governing Bodies

- Board of Directors** Responsible for defining the target risk profile and establishing global and specific limits. Its responsibility also includes establishing the general principles of risk management and risk control and ensuring that the Novo Banco Group has the necessary skills and resources for that purpose.
- Supervisory Board** Responsible for assessing the functioning of the internal control system, e.g. the risk control, compliance and internal audit functions within this system, as well as for assessing whether the internal control system is adjusted to the Novo Banco Group’s needs.

To ensure efficient control over the Board of Directors’ strategic decision making and implementation process, several specialised committees were created and play a relevant role in the area of risk management and risk control, in line with the decisions of the Board of Directors:

Specialised Committees

- Risk Committee** Responsible for monitoring the evolution of the Novo Banco Group’s integrated risk profile, and for analysing and proposing methodologies, policies, procedures and instruments to deal with all types of risk, namely credit and operational.
- Financial and Credit Committee** Responsible for deciding the main credit operations in which the Novo Banco Group participates, in line with the risk policies defined for the Novo Banco Group.
- Capital, Assets and Liabilities Committee – (“CALCO”)** Responsible for setting targets and monitoring performance for customer loans and customer funds, defining the funding strategy (mismatch balance sheet management) and price / margin strategy, as well as capital

optimisation. It also approves the funding product offer and pricing.

Product Committee Responsible for approving Novo Banco Group units and commercial structures' products and services, including asset and liability products.

Risk Management Within The Novo Banco Group

Credit Risk

Credit Risk represents the potential financial loss arising from the failure of a borrower or counterparty to honour the contractual obligations established with the Novo Banco Group within the scope of its credit granting activity. Management and control of this type of risk are based on an internal system for risk identification, assessment and quantification.

The Novo Banco Group's exposure to credit risk arises mostly from corporate and retail credit. The level of risk associated with such credit exposure depends on various factors including the general economic and market conditions, debtors' financial condition, the amount, type and duration of exposure and the amount of collateral and guarantees.

The Novo Banco Group holds the internal ratings based ("**IRB**") certification, and uses the IRB approach for measuring and managing credit risk in order to calculate regulatory capital requirements, which comprises internally developed risk models that cover the main corporate and individual credit portfolios: medium-sized companies, small companies, start-ups, entrepreneurs, mortgage loans, consumer credit and credit cards. In addition, the Novo Banco Group uses customised models to assign internal ratings to the large corporates, municipalities, financial institutions, project finance and acquisition finance portfolios, among others.

The Novo Banco Group has also developed models of Loss Given Default ("**LGD**") and Credit Conversion Factors ("**CCF**") for its retail portfolios, both of which are based on internal data. The process to determine the Expected Loss Best Estimate ("**ELBE**") was concluded in 2015.

The performance of the risk models (Probability of Default - PDs, LGDs and CCFs) is monitored by a model validation unit working separately from the model development unit that developed these risk models, which since the end of 2014 is integrated in the Internal Audit Department. The transfer of this unit from the GRD to the Internal Audit Department followed a recommendation of Banco de Portugal. The model validation unit is responsible for assessing the predictive ability of each of the internal risk models to ensure they remain accurate and maintain proper calibration, which are fundamental for the support of business decisions and for the calculation of regulatory capital. Model validation occurs at least once a year.

Organisational Adjustment

The Novo Banco Group created in November 2014 a new credit department ("**Credit Department**") for the purpose of executing the Novo Banco Group's credit decisions. Under the new organization, the decision to provide credit is supported by three departments: the Risk Department, the Commercial Department, and the new Credit Department. In 2015 the scope of action of the Credit Department was expanded to cover decisions on the credit operations of the majority of the Novo Banco Group's commercial areas, namely retail and corporate loans, and transactions originated by the Novo Banco Group's international branches and subsidiaries.

The Credit Department segregated responsibilities such that commercial relationships remain under the remit of the Commercial Departments, which involve price approval, structuring of operations and maintaining customer relationships, while the credit decision-making function of credit operations is now of the Credit Department. The Risk Department continues to support both departments by providing internal ratings, financial and risk analysis, and technical opinions.

This change of the Bank's organisational structure reinforces the functional specialisation within the Novo Banco Group while increasing the weight of technical and risk analysis in the decision-making process. After 18 months since the Credit Department began operating, the Directors believe that the activity of the Credit Department and its alignment with the Novo Banco Group's overall governance model are well stabilised. The current credit decision model includes a system of checks and balances that allocates the decision-making process to three distinct areas with well-defined roles (commercial,

credit and risk).

The creation of the Credit Department had a vast impact on the enforcement of the Novo Banco Group's credit and risk policies and processes. As a result, the Novo Banco Group has reduced its risk appetite, including reducing its exposure to real estate development and construction, and its concentration in credit exposure per client. Clients' credit ratings are a key element supporting the decision-making process.

Credit Risk Monitoring

The credit risk monitoring and control activities implemented in the Novo Banco Group aim to quantify and control the evolution of credit risk and to allow early definition and implementation of particular measures to deal with situations where there is a deterioration of risk with a view to mitigate potential losses, as well as to outline global strategies for credit portfolio management.

The credit risk monitoring function comprises the following processes:

- Monitoring of Clients with warning signals (CRMC);
- Risk Monitoring Group (RMG); and
- Global analysis of the credit portfolio risk profile.

Monitoring of Clients with warning signals (CRMC)

Clients with warning signals are monitored throughout the year in meetings with all commercial structures, which decide on specific follow-up actions that are regularly reported to the relevant directors.

The main functions of the CRMC are:

- To analyse and assess clients whose creditworthiness shows signs of deteriorating, based on:
 - The clients' economic and financial profile;
 - Type of credit exposure;
 - Nature and value of the guarantees and collaterals received, bearing in mind the dates of the valuations and the entities that carried out these valuations;
 - Warning signals detected in the behavioural profile of clients in their relationship with the Bank and with the financial system in general.
- To define strategic options for the commercial relationship and the level of active surveillance required by the profile and specific circumstances of each of the entities / groups under analysis;
- To analyse credit impairment levels.

Risk Monitoring Group (RMG)

The Risk Monitoring Group (RMG) aims to further reinforce the credit risk analysis and control performed by the CRMC. Given the particular risk presented by the real estate sector, a specific monitoring group, the Real Estate Risk Monitoring Group (RERMG), was created to analyse clients in this industry sector. While the CRMC is held annually for each commercial department analysing its portfolio, the RMG / RERMG is a monthly exercise, analysing the evolution in the period.

The RMG and RERMG classify clients into three risk categories on a daily basis - Pre-Watchlist, Watchlist and Recovery – according to certain pre-defined risk criteria. For clients allocated to each of these risk categories, the actions to be executed are established based on standardised work tools (risk cause questionnaire, mitigating actions, or recovery plans).

When there is a deterioration of risk based on the classifications automatically attributed by the model, higher risk clients are analysed at the RMG and RERMG monthly meetings. The RMG and RERMG analyses the clients' economic and financial characteristics, considers the mitigation actions currently under implementation and/or to be carried out, decides on the risk classification and any additional required actions, including determining the appropriate department to follow up on any new risk

mitigation measures.

During 2015, the RMG and RERMG analysed 370 clients with debts exceeding €3.3 billion at such meetings.

In 2016, the Novo Banco Group has merged the RMG/ RERMG and the CRMC for SME and Large Corporate sectors, creating the Credit Risk Monitoring Group (CRMG).

Global analysis of the credit portfolio risk profile

Credit portfolio management is an ongoing process that requires interaction among the various teams involved in risk management during the different stages of the credit process. The risk profiles of the credit portfolios are reported on a monthly basis to the Risk Committee and the Financial and Credit Committee. Compliance with the approved credit limits and the correct functioning of the mechanisms for approval of credit lines used by the commercial areas in their day-to-day activity are also regularly subject to analysis.

Concentration Risk

Concentration risk can be defined as any exposure to single counterparties or groups of connected counterparties with the potential to produce losses large enough to have a significant adverse impact on the institution's health or ability to maintain its core operations. It can also arise in relation to any other significant exposures to a specific country or sector.

The Novo Banco Group has internal policies and procedures to identify, manage, monitor and report concentration risk which it believes to be suitable to the nature, scale and complexity of its business.

Market risk

Market risk represents the potential loss resulting from an adverse change in the value of a financial instrument due to fluctuations in interest rates, foreign exchange rates, equity prices, commodity prices, real estate prices, volatility and credit spreads.

Market risk is monitored on a short-term perspective (10 days) for the trading book and on a medium-term perspective (1 year) for the banking book. Trading book refers to derivatives not held for risk management purposes and securities bought with the intention of being held for a short period. Banking book portfolio refers to the structural position of the bank, including credit, deposits, and securities held with the intention of being held for a medium to long term period.

Trading Book Risk

Trading book risk arises from adverse movements in interest rates, foreign exchange rates, equity prices, commodity prices, volatility and credit spreads concerning trading exposures registered in the balance sheet.

Management Controls

Market risk is primarily measured by assessing potential losses under adverse market conditions, for which the Value at Risk (VaR) methodology is used. The VaR measure is an estimate of the maximum potential loss in the net present value of a portfolio over a specified time period within a specified confidence level. In order to calculate VaR, the Novo Banco Group uses the Monte Carlo simulation method, with a 99% confidence level and holding period of 10 business days. Volatilities and correlations are historical, based on an observation period of one year.

To calibrate the VaR assessment, daily back testing exercises are performed which allows risk management to compare the losses foreseen by the VaR model with actual losses. In this way, these exercises allow management to fine-tune the model and enhance its predictive capacity. As a complement to the VaR model, stress testing is also carried out to assess the potential losses under extreme scenarios. These analyses are performed either based on a real stress period, or by performing individual sensitivity analysis tests applying extreme individual shocks to risk factors.

The Novo Banco Group's portfolios are subject to VaR, as well as stop loss, limits imposed to limit potential losses. There are pre-established limits for the trading areas and the portfolio consisting of high quality liquid securities for liquidity risk management purposes (as of December 2015, this consisted of sovereign debt booked in the available-for-sale and fair value portfolios). The control of VaR and stop loss limits is made daily.

Market risk is compared daily with defined limits and reported daily to the business areas and respective managers, to the head of the Risk Department and to the regulator. It is also analysed monthly at the Risk Committee

The Novo Banco Group manages the foreign exchange risk inherent in its activity within established VaR limits, and hedges such risks through derivative products whenever appropriate.

Banking Book Risk

Banking book risk arises from adverse movements in interest rates, in credit spreads, the market value of equity securities and real estate concerning non-trading exposures registered in the Balance Sheet.

Interest Rate Risk

Interest rate risk is the risk of a negative impact on the Novo Banco Group's financial condition due to changes in the interest rate markets. Changes in interest rate markets affect both the Novo Banco Group's net interest margin, as well as impact the Novo Banco Group's own funds.

Fluctuations in market interest rates impact the net interest margin of the Bank through changes in revenue and costs associated with interest rate products and through changes in the underlying value of its assets, liabilities and off-balance sheet elements.

The banking book exposure to interest rate risk is calculated on the basis of the Bank for International Settlements (BIS) methodology, which follows the recommendations of Basel II (Pillar 2) and Instruction no. 19/2005 of Banco de Portugal. This method classifies all interest rate sensitive assets, liabilities and off balance sheet items which are not part of the trading portfolio, using re-pricing intervals.

The model uses a stress testing scenario corresponding to a parallel shift of 200 basis points in the yield curve for all interest rate levels (Banco de Portugal's Instruction 19/2005).

The interest rate risk of the banking book results mainly from the combination of long-term fixed rate credit and bonds with liabilities represented by long-term fixed-rate securities and customer funds.

In addition to the parallel shifts, the yield curve is also subject to non-parallel shifts in order to measure the impact of the resulting variations on economic capital sensitivity.

The repricing gap is a measurement of interest rate exposure consisting on the difference between assets and liabilities that will reprice within a specific time period and is used to identify the interest rate risk and develop hedge positions.

Additionally, the Novo Banco Group measures the banking book interest rate risk based on the one-year Monte Carlo VaR measure, with a 99% confidence level, and applying a floor on the simulation of rates. On 31 December 2015 this value was €176 million.

The balance sheet interest rate risk is reported monthly to the business areas and respective managers, being analysed at the CALCO and quarterly reported to the Risk Committee.

Other Banking Book Risks

Other banking book risks includes credit spreads, equity, mutual funds and real estate risk. An asset's credit spread risk reflects the difference between the yield associated to that asset and the interest rate of a risk-free asset in the same currency. The credit spread risk is associated to the decrease in the value of positions in bonds due to changes in that spread. The risk of equity holdings, the risk of mutual funds, the risk of bearer insurance certificates (BICs) and the risk of real estate assets can be described as the loss resulting from an adverse change in the market value of these financial instruments associated with a certain probability.

These risks are assessed in a situation of stress, calculating the 15-year historical stressed VaR at

99.9% with a holding period of one year. In addition, the simulation of extreme scenarios is analysed.

Pension Fund Risk

The pension fund risk results from the possibility of the value of the fund's liabilities (the responsibilities of the fund) exceeding the value of its assets (the fund's investments). In this situation, the Bank must cover the difference and incur in the respective loss (Group contributions to the fund).

The Novo Banco Group's pension fund risk is measured on the estimated value of assets and liabilities with a time frame of one year.

The estimated return on the fund's assets represents the maximum loss that the fund may incur in a period of one year. This return is calculated based on the 15-year historical stressed VaR with a holding period of one year of the Pension Fund's assets portfolio at the reference date, with a confidence level of 99.9%.

The responsibilities are updated based on the projected current cost within one year.

To quantify the pension fund risk the Novo Banco Group uses the same models and methodologies used to determine the material risks incurred by the assets of the Novo Banco Group.

Operational risk

Operational risk may be defined as the probability of occurrence of events with negative impacts on results or equity, resulting from inadequacies or weaknesses in procedures, information systems, staff behaviour, or external events, including legal risk. Operational risk is, therefore, understood to be the sum of the following risks: operational, information systems, compliance and reputational.

Resulting that operational risk is inherent to all the activities of the Novo Banco Group, with no exception, i.e., to all businesses, processes, activities and systems. To attempt to eliminate all operational risks is not viable from a cost-benefit perspective. Hence the occurrence of events with immaterial net individual losses is therefore tolerable. As to material losses, whose frequency tends to be low, the Novo Banco Group seeks to eradicate the inherent risk source.

Management Controls

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

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

The operational risk management model implemented is supported by a specific structure within the GRD exclusively dedicated to designing, monitoring and maintaining the model. This structure guarantees the dissemination, implementation and standardisation of the operational risk management model within the various entities of the Novo Banco Group, in compliance with the methodologies approved by the Board of Directors. For the model to be effective, close coordination with and the active participation of the GRD, the operational risk representatives from the Novo Banco 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 within their sphere of responsibility, is crucial.

The participation of other departments, with a comprehensive role in the Novo Banco Group, such as the Compliance Department, namely its Internal Control Management System Unit, the Organisation and Quality Department and the Internal Audit Department, in the model is also essential.

The GRD and the operational risk representatives appointed in each of the Novo Banco Group's relevant financial institutions are responsible for implementing the operational risk management practices in accordance with the established methodologies, including the following:

- Identification and reporting of operational risk incidents in the Novo Banco Group's corporate IT platform. This database is designed to consider all incidents, with no restrictions in terms of financial limits or type of impacts, i.e., it takes into account incidents with no accounting impact or incidents with positive impacts. Knowledge of these situations is essential to allow the mitigation of risk;
- Execution of procedures to control the registration of events, in order to verify the effectiveness of the processes of risk identification implemented in each financial institution and at the same time ensure the recording and conformity of the information on incidents with financial impacts. The main control process consists in checking the financial movements booked under certain items against the incidents recorded in the database;
- Identification and systematisation of risk sources and potential incidents in order to define incident reporting responsibilities within the institutions and promote a risk awareness culture and further improve the established identification process;
- Regularly carrying out self-assessment exercises to identify the larger risks and corresponding mitigation actions;
- Monitoring of risk sources through Group-wide Key Risk Indicators (KRI), allowing a comparative analysis, and specific indicators to meet the risk control needs of certain business units;
- Analyses of one-off scenarios for certain sources of risk;
- Definition and monitoring the implementation of measures to remove or mitigate risk sources identified, through the analysis of incidents, self-assessments, KRI or workshops with several unit managers;
- Reporting of consolidated management information for the Novo Banco Group's senior management, as well as specific reports for certain business units;
- Training and sharing of experiences in a "lessons learned" perspective and adoption of best practices by the Novo Banco Group's several business units;
- Active participation in the process of signing off new products and services of the Novo Banco Group;
- Development, dissemination and monitoring of the IT risk models adopted by the financial institutions of the Novo Banco Group, namely in terms of the severity of the incidents detected.

Liquidity risk

Liquidity risk derives from an institution's present or future inability to settle its liabilities as they mature, without incurring in excessive losses.

Liquidity risk can 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 funding costs or to the requirement of collaterals to obtain funding. Difficulties in (re)financing may lead to the sale of assets, even if incurring 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 due to their business of transformation of maturities and therefore a prudent management of liquidity risk is crucial.

Management Controls

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

Liquidity risk is reported internally and to the regulator on a weekly basis and analysed on a monthly basis in the CALCO and later reported to the Risk Committee.

The Novo Banco Group continues to follow all the legislative changes in order to comply with regulatory requirements, namely the new Basel III liquidity ratios - LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio).

LIQUIDITY AND FUNDING

Novo Banco manages the liquidity risk in accordance with all the regulatory rules in force in every geography where it operates, simultaneously guaranteeing that all its responsibilities are met, whether in normal market conditions or under stress conditions.

Novo Banco's liquidity risk is managed under the following perspectives in normal market conditions or under stress conditions:

- Short-term liquidity;
- Structural liquidity; and
- Contingency liquidity.

Novo Banco monitors its short-term liquidity levels through daily mismatch reports, prepared in accordance with pre-established guidelines and internally warning signals of crisis with potential impacts on the Bank, namely through idiosyncratic risk, contagion risk (due to market tensions) or the repercussions of an economic crisis in the Bank. This process ensures an ongoing and active role in liquidity risk management and risk assessment from the Board of Directors. Simultaneously, the Bank also reports its liquidity position to the Banco de Portugal and the European Central Bank.

On a weekly basis, the Board of Directors monitors the evolution of the liquidity position, namely eligible assets and liquidity buffers, main cash inflows and outflows, deposits' evolution, medium- and long-term funding, central banks funding, the liquidity and treasury gap evolution by business unit, as well as the defined warning signals.

Regarding to structural liquidity, Novo Banco prepares a monthly liquidity report (for more details see Chapter 5. Risk Management, namely the Liquidity Risk point), taking into account not only the effective maturity but also behavioural maturity of the various products which allows to determine the structural mismatches for each time bucket. Based on this map the funding activity annual plan is prepared taking into account the established budget targets. This plan, which is regularly reviewed, favours, as far as possible, medium / long-term funding instruments over short-term instruments.

Moreover, the CALCO, which meets monthly, also analyses the liquidity position of the Bank, namely the balance sheet evolution, broad analysis of the gaps and key indicators of the activity (liquidity and commercial gaps, deposit and credit rates). To sum up, CALCO performs a comprehensive analysis of the liquidity risk and its evolution, with special focus on liquidity buffers and generation / maintenance of eligible assets, in order to comply with the regulatory liquidity ratio, the Liquidity Coverage Ratio (LCR).

For the liquidity contingency plan, the Bank has defined a set of measures that, when triggered, allow to address and / or minimise the effects of a liquidity crisis. These measures aim to meet the liquidity needs in stress scenarios, remaining in force since the beginning of August 2014, to address the crisis that led to the resolution measure and the incorporation of the Bank.

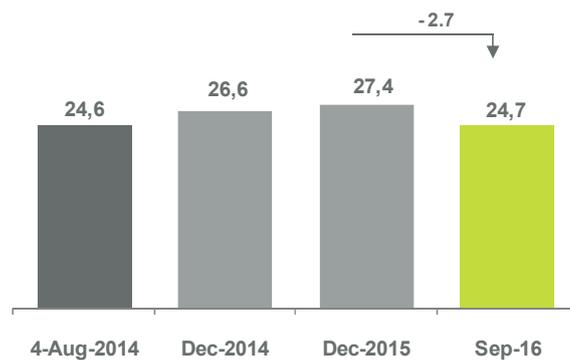
Novo Banco has thus implemented internal procedures to increase its resilience under stress situations. Besides measuring accurately the liquidity risks faced by the Bank, these procedures also

take in consideration liquidity and funding shortages. The efficiency of Novo Banco policy regarding liquidity risk management enabled it to successfully endure the harshest period of the crisis that took place between early August and mid-October 2014.

Novo Banco' Group implemented internal procedures to increase its resilience under its risk management, which stresses the diversification of funding sources. Novo Banco continues to place greater focus on customer funds, its largest funding source, with customer deposits increasing their weight in the total funding structure compared to the end of 2014. Having bottomed out in September 2014, customer deposits grew by around 5 billion Euros in 2015, bearing out the success of the policy to recover the trust of the clients. On the other hand, and in so far as access to the financial markets has not yet been normalised since the application of the resolution measure, market funding sources have been decreasing.

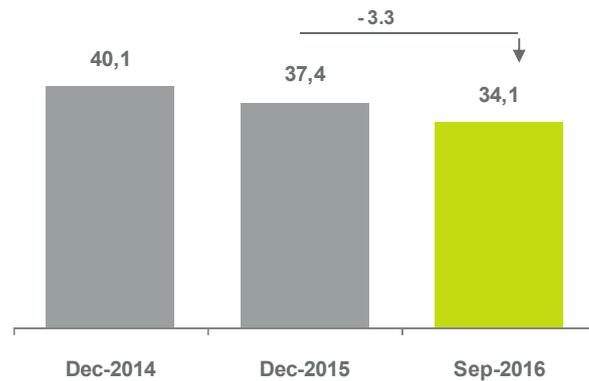
At the same time, Novo Banco pursued in 2015 a strategy of liquidity enhancement through the deleveraging of non-core assets. Moreover, following the entry into force of the new regulatory liquidity ratio (Liquidity Coverage Ratio), additional liquidity buffers were created during the year, leading to a significant increase in the Group's sovereign debt portfolio.

Customer Deposits Evolution (EUR billion)



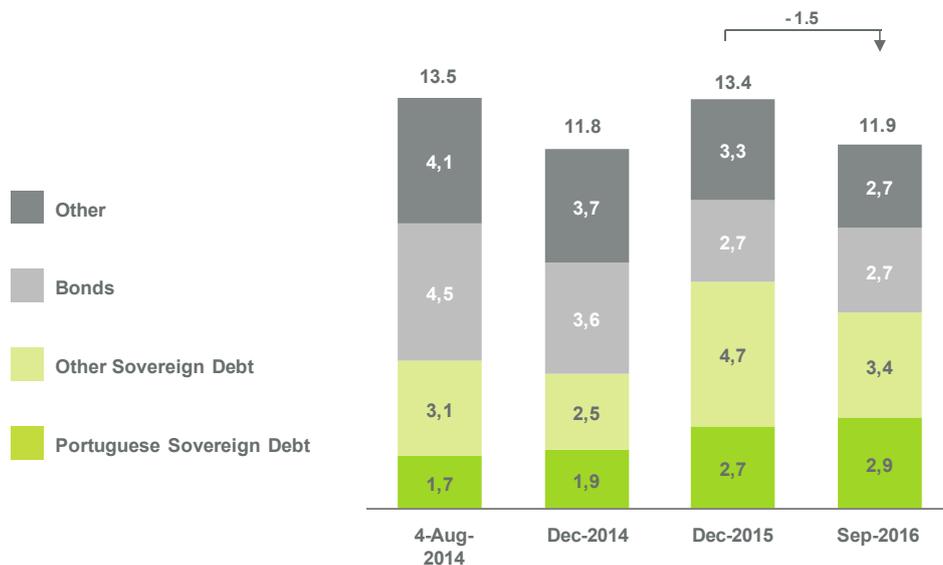
In line with the trend seen since the end of 2014 and as a result of the efforts undertaken, customer deposits increased significantly during the first half of the year. However, the interruption of Novo Banco's sale process at the end of September 2015 and then Banco de Portugal's decision to re-transfer five senior bonds to BES at the end of the year had a negative impact on the perception of the Bank's risk, penalising the capture of customer funds. Even so, deposits increased by around 0.7 billion euros in 2015 and by 2.7 billion Euros since the date Novo Banco was created. Compared to December 2014 retail customer funds grew by circa 10%. In 30 September 2016 total deposits amounted to 24.7 billion Euros, which represents a decrease of 2.7 billion euros since 31 December 2015. This reduction, which was more noticeable in the large depositors, also reflects the impact of the transfer of BES Vénétie and NB Ásia to assets being discontinued (-0.4 billion Euros). The positive performance of the retail banking segment should be stressed, with customer deposits registering an increase of more than 0.8 billion Euros since 31 December 2015.

Loan Book Evolution (EUR bn)



The Group's liquidity position was also positively influenced by the continuing deleveraging process of non-core assets from both the loan portfolio (2.6 billion Euros reduction in 2015 and 3.3 billion Euros in the first nine months of 2016, of which 1.9 billion euros relate to the international activity, where the reduction mainly reflects the transfer of BES Vénétie and NB Asia to discontinued assets) and the securities portfolio, which totalled 11.9 billion Euros as of 30 September 2016, reflecting a reduction of 1.5 billion euros since 31 December 2015.

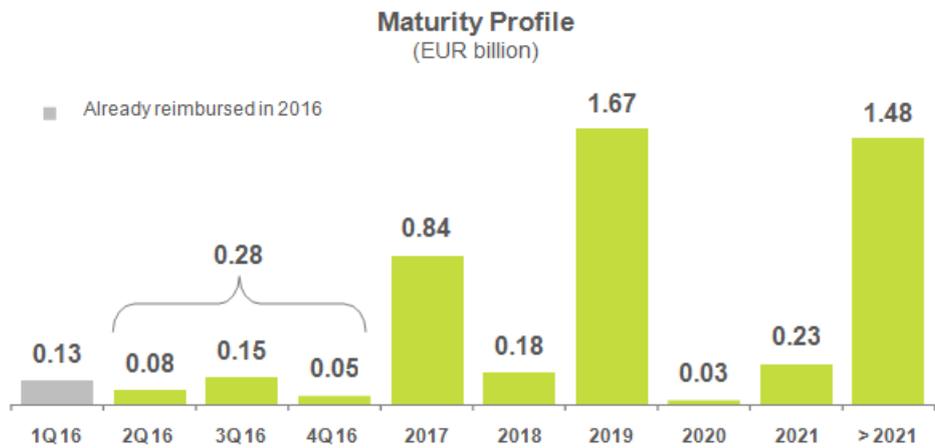
Evolution of Securities Portfolio (EUR bn)



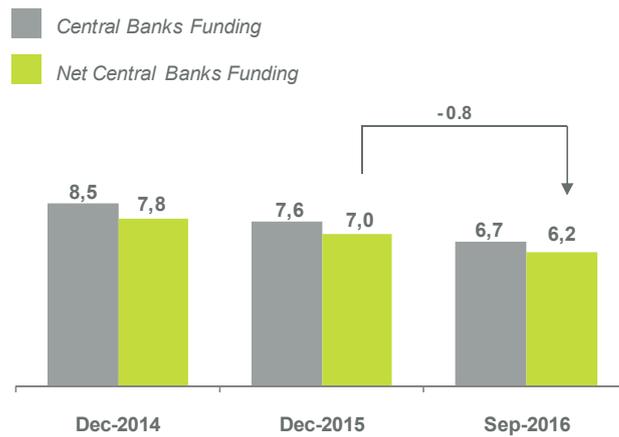
The breakdown of the securities portfolio reflects a conservative portfolio management approach, based on securities with lower risk and higher liquidity, namely sovereign debt of Eurozone countries, which account for roughly 52% of the total available securities as at 30 September 2016.

In 2015 the largest negative impact on liquidity resulted from the reimbursements of debt: approximately 2.9 billion Euros in medium/long-term issues placed with institutional investors, of which 1.5 billion Euros were reimbursed in the first half of the year and 1.4 billion Euros in the second half of the year. In so far as access to the financial markets remained much constrained, these reimbursements were secured through strict balance sheet management.

In 2016 the amount of scheduled reimbursements of medium and long-term debt placed with institutional investors was quite low, and quite evenly distributed through the four quarters of the year.

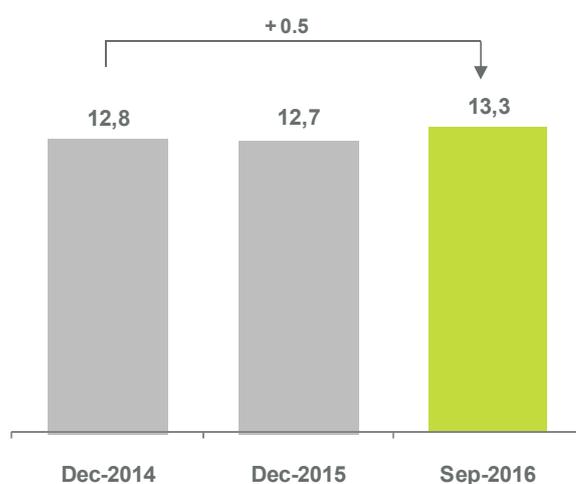


Evolution of Net Funding from the European System of Central Banks (EUR bn)



Hence in 2015 the profile of the Bank's funding shows an increase in the weight of customer deposits against a decrease in the weight of medium and long-term market funding. In addition, the treasury gap slightly deteriorated. This reflects the increase in net funding from European central banks, to 7 billion Euros in December 2015, corresponding to a reduction of around 1 billion Euros in deposits with central banks relative to the end of 2014, and of nearly 1.4 billion Euros compared to 4 August 2014. As at 30 September 2016, the funding structure remained fairly stable, with customer deposits reducing slightly. Net funding from European central banks reduced 0.8 billion Euros in the first nine months of 2016.

Evolution of Assets Eligible for Rediscount (ECB) (EUR bn)



On the other hand, the Bank kept the levels of its portfolio of securities eligible for rediscount with the ECB, at 13.3 billion Euros as at 30 September 2016, which compares to 12.7 billion euros as of the end of 2015. This figure included 4.7 billion Euros exposure to sovereign debt, of which 2 billion Euros in treasury bills (excluding GNB Vida's exposure). The sovereign debt portfolio was primarily concentrated in European countries, including 2.0 billion Euros of Portuguese sovereign debt, 1.5 billion Euros of Italian sovereign debt, 1.0 billion Euros of Spanish sovereign debt and 0.2 billion Euros of German sovereign debt (all excluding GNB Vida's exposure). At the end of September the Liquidity Coverage Ratio (LCR) was 105% (up from 77% at the end of December 2015), largely surpassing the current regulatory requirements.

HUMAN RESOURCES

As at 31 December 2015 the Group had 7,311 employees, of which 6,571 worked at Novo Banco.

The table below shows the distribution of employees as at 31 December 2015 by geographic location, activities and professional categories:

Region / Country	December 2015
Portugal	6 573
Other European countries	
• Spain	455
• United Kingdom	25
• Other countries	173
Africa	2
South America	64
Asia	19
TOTAL	7 311

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 30 September 2016 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.

NOVO BANCO GROUP

CONSOLIDATED BALANCE SHEET AS AT 30 SEPTEMBER 2016 AND 31 DECEMBER 2015

	31.12.2015	30.09.2016
		EUR thousand
ASSETS		
Cash and deposits with Central Banks	775 608	677 762
Deposits with banks	340 209	273 611
Financial assets held for trading	775 039	760 947
Other financial assets at fair value through profit or loss	1 526 193	1 283 029
Available-for-sale financial assets	11 810 712	10 567 981
Loans and advances to banks	1 690 628	628 225
Loans and advances to customers	31 583 759	28 515 746
Financial Assets held to maturity	-	-
Assets with Repurchase Agreement	-	-
Derivatives held for risk management purposes	318 596	261 914
Non-current assets held for sale	3 182 479	156 067
Non-current assets held for sale - Discontinued operations	40 327	1 412 938
Investment properties	54 625	1 299 889
Other tangible assets	312 437	216 009
Intangible assets	221 168	198 145
Investments in associated companies	405 486	342 638
Current tax assets	38 848	45 380
Deferred tax assets	2 535 423	2 583 315
Technical reserves of reinsurance ceded	7 696	6 697
Other assets	1 910 126	3 499 489
Debtors for direct and indirect insurance	3 019	1 023
Other assets	1 907 107	3 498 466
TOTAL ASSETS	57 529 359	52 729 782
LIABILITIES		
Deposits from Central Banks	7 632 794	6 710 140
Financial liabilities held for trading	743 860	732 937
Other financial liabilities at fair value through profit or loss	-	-
Deposits from banks	4 157 132	4 017 136
Due to customers	27 582 142	24 959 414
Debt securities issued	4 224 658	3 417 468
Financial liabilities related to transferred assets	-	-
Derivatives held for risk management purposes	77 846	116 115
Investment contracts	4 043 488	3 546 374
Non-current liabilities held for sale	162 709	120 155
Non-current liabilities held for sale - Discontinued operations	92 893	722 055
Provisions	465 114	379 622
Technical reserves	1 344 216	1 349 040
Current tax liabilities	38 643	34 183
Deferred tax liabilities	12 336	18 016
Equity Instruments	-	-
Subordinated debt	56 260	47 637
Other liabilities	947 625	952 044
Creditors for direct and indirect insurance	17 301	11 179
Other liabilities	930 324	940 865
TOTAL LIABILITIES	51 581 716	47 122 336
EQUITY		
Share Capital	4 900 000	4 900 000
Share premium	-	-
Other equity instruments	-	-
Treasury stock	-	-
Revaluation Reserves	(249 748)	(224 550)
Other Reserves and Retained Earnings	2 221 368	1 239 673
Profit / (loss) for the period	(980 558)	(358 995)
Interim Dividends	-	-
Non-controlling Interests	56 581	51 318
TOTAL EQUITY	5 947 643	5 607 446
TOTAL LIABILITIES AND EQUITY	57 529 359	52 729 782

NOVO BANCO GROUP

CONSOLIDATED INCOME STATEMENT FOR THE NINE-MONTH PERIODS ENDED ON 30 SEPTEMBER 2016 AND 2015

	EUR thousand	
	30.09.2015	30.09.2016
Interest and similar income	1 133 728	911 409
Interest expense and similar charges	831 050	520 350
Net Interest Income	302 678	391 059
Dividend income	10 234	35 066
Fee and Commission income	365 471	280 849
Fee and Commission expense	99 835	85 153
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	(122 736)	(66 618)
Net gains / (losses) from available-for-sale financial assets	224 021	108 551
Net gains / (losses) from foreign exchange revaluation	21 287	(11 235)
Net gains/ (losses) from the sale of other assets	9 508	(16 457)
Insurance earned premiums, net of reinsurance	27 693	33 181
Claims incurred, net of reinsurance	194 319	132 590
Change in technical reserves, net of reinsurance	149 045	89 298
Other operating income and expenses	(110 263)	(6 161)
Operating Income	582 784	619 790
Staff costs	302 451	230 236
General and administrative expenses	225 602	176 832
Depreciation and amortisation	66 598	42 863
Operating Costs	594 651	449 931
Provisions, net of reversals	(70 718)	52 684
Impairment losses on loans, net of reversals and recoveries	374 262	475 846
Impairment losses on other financial assets, net of reversals and recoveries	140 846	113 683
Impairment losses on other assets, net of reversals and recoveries	19 924	120 392
Provisions and Impairments	464 314	762 605
Sale of subsidiaries and associates	33	3 648
Negative consolidation differences	-	-
Results from associated companies consolidated by the equity method	8 868	6 386
Profit / (loss) before income tax	(467 280)	(582 712)
Income tax		
Current tax	49 586	11 497
Deferred tax	(99 806)	(223 972)
	(50 220)	(212 475)
Income from continuing activities	(417 060)	(370 237)
Income from discontinued operations	5 750	884
Net Income for the period	(411 310)	(369 353)
Attributable to shareholders of the Bank	(418 743)	(358 995)
Attributable to Non-controlling interests	7 433	(10 358)
	(411 310)	(369 353)

HIGHLIGHTS AND RECENT DEVELOPMENTS

On 4 January 2016, Novo Banco informed that, following the announcement by Banco de Portugal on 29 December 2015, the Rating Agency Moody's had taken a rating action on Novo Banco and its supported entities on that date. It also informed that, following Moody's decision on 18 November 2015 to place Novo Banco's ratings on review for downgrade, Moody's has decided at that date to:

- (i) confirm Novo Banco's Baseline Credit Assessment (BCA) at caa2 and to downgrade its senior debt and long-term deposit ratings to Caa1 from B2 and its counterparty risk assessment (CRA) to B2(cr) from B1(cr),
- (ii) affirm Novo Banco's short-term deposit and senior debt ratings at Not-Prime and the short-term CRA at Not-Prime(cr).

It further announced that the outlook on Banco's deposit and senior debt ratings was then Developing and that the Ba1 rating of Novo Banco's senior bonds guaranteed by the Republic of Portugal (which maturity was extended by one year at the end of 2015) is unaffected by this rating decision.

On 7 January 2016, Novo Banco announced that, following the announcement by Banco de Portugal on 29 December 2015, the Rating Agency DBRS has taken a rating action on Novo Banco on 7 January 2016. It also informed that DBRS decided at that date to downgrade the Novo Banco's senior long-term debt and deposits rating to CCC (high) from B and its short-term debt & deposits rating to R-5 from R-4. Furthermore, it informed that the trend on the long term ratings is Negative and on the short term ratings is Stable. Finally, it has informed that the agency confirmed the rating on Novo Banco's unsubordinated notes guaranteed by the Republic of Portugal at BBB (low) with a Stable trend.

Novo Banco has also announced, on 19 February 2016, that following the announcement dated 29 September 2015, after having satisfied the conditions to which the sale of the participation in the share capital of Tertir – Terminais Portuários, S.G.P.S., S.A. was subject, it has concluded at that date the sale of the stake to Yildirim Group, along with the sale of the stake of the majority shareholder Mota-Engil, SGPS, S.A..

On 4 March 2016, Novo Banco informed on the execution of a commercial solution for clients that hold preferential shares in the vehicles Poupança Plus, Top Renda and EuroAforro 8.

On 30 March 2016, Novo Banco informed that the Rating Agency Dagong Europe had taken a rating action on Novo Banco on 30 March 2016. It also informed that Dagong Europe decided at that date to downgrade the Novo Banco's long-term credit rating to CCC+ from B- and its short-term credit rating to C from B. It informed that the watch Evolving was removed and it was assigned a "Stable" outlook for all the ratings. Furthermore, it informed that, on the same date, Dagong Europe decided to withdraw the rating of the following entities: Espírito Santo, plc (Ireland), Banco Espírito Santo North American Cap. LLC and Novo Banco S.A., New York Branch.

Finally, Novo Banco also informed that there were no debt securities issued by Espírito Santo, plc (Ireland) and that the entities Banco Espírito Santo North American Cap. LLC and Novo Banco S.A., New York Branch, were closed.

On 27 May 2016, Novo Banco informed about the Novo Banco Group Activity and Results in 1st quarter 2016.

Highlights:

Results

- Net operating income of EUR 78.9 million (more 152.1% compared to the quarterly average of 2015), corresponding to 63% of the 2015 full year net operating income (EUR 125.0 million), demonstrates the recovery capacity of Novo Banco Group's activity.

- Commercial banking income of EUR 210.9 million, underpinned by net interest income growth of 24.9% comparing with quarterly average of 2015, that confirms its increasing contribution to the improvement of revenues.
- Capital markets results reached EUR 27.3 million.
- Operating Costs registered a sharp reduction of -17.8% compared to the quarterly average of 2015, to EUR 155.2 million, driven by the cost-cutting effort undertaken by the Group, namely through the simplification and improvement of processes and the optimisation of the operational and commercial structures.
- Provisions totalled EUR 348.2 million, including a EUR 109.6 million provision for the costs of the ongoing restructuring process.
- The 1Q16 net consolidated results were a loss of EUR -249.4 million, influenced (i) on the negative side, by the referred provision for restructuring costs and the recognition of the full annual amount of the Special Tax on Banks and (ii) on the positive side by the non recognition on a monthly basis of the cost of the contribution to the Portuguese Resolution Fund. Excluding these effects the quarter's results would be a loss of EUR -140.1 million.

Activity

- Novo Banco is the third largest bank in Portugal by assets and a benchmark in financing the Portuguese corporate. At the end of 1Q16 total assets were ca. EUR 56.0 billion, a reduction of EUR 1.6 billion (-2.7%) relative to December 2015 that is in line with the ongoing balance sheet deleveraging process. Customer loans contracted by EUR 2.2 billion in the quarter, though not impacting the support provided to the small and medium-sized exporting companies. A considerable part of this reduction (EUR 1.4 billion) resulted from the transfer of BES Vénétie and NB Asia to assets from discontinued operations. In retail banking the 1Q16 average monthly production of consumer loans grew by 36% compared to the average monthly production in 2015 and in residential mortgage the average monthly production increased by 53%.
- Retail banking deposits continued to increase in the 1Q16 (+EUR 44 million), reflecting the recovery of retail clients' confidence in the Group (and despite the slide of household savings to historically low levels), reaching its highest level since the incorporation of Novo Banco (EUR 18.1 billion).
- Customer deposits were down by EUR 2.2 billion (-8.1%) in 1Q16 (BES Vénétie and NB Asia explain 0.4 billion of this reduction), driven by the decrease in large corporate and institutional clients' deposits influenced by the pricing reduction that made the offer in this segment less competitive and by the repercussions of the re-transfer of five senior bond issues to BES's perimeter. Following this transfer, in early January 2016 Moody's and DBRS rating agencies downgraded the long-term deposit ratings of Novo Banco, leading some large institutional and corporate clients to reduce their deposits with Novo Banco.

Liquidity and Capital Management

The loan to deposit ratio decreased to 115% (119% on 31 March 2015), while funding from the European System of Central Banks (ESCB) totalled EUR 8.0 billion on 31 March 2016, up by EUR 0.9 billion on the end of 2015.

The estimated phased-in Common Equity Tier 1 ratio was 12.4% on 31 March 2016 (10.7% under the full implementation regime applicable as from 1 January 2018). The change relative to 31

December 2015 reflects on the risk-weighted assets the continuation of the deleveraging effort, and on the own funds, the negative results reported and the effect of the change of year in the transitional regime.

Asset Quality

- The Overdue Loans > 90 days / Gross Loans ratio was 15.1%, with the corresponding provision coverage standing at 110.8%. The Provisions for Credit / Gross Loans ratio was 16.7%.
- Credit at risk accounted for 23.0% of the loan book and the respective provision coverage increased to 72.6%.
- Provisions for non-current assets held for sale represent 28.0% of these assets' gross value (27% on December 2015).

On 23 June 2016, Novo Banco announced a tender offer addressed to the noteholders of eight outstanding notes (the “Noteholders”), seven of which notes were issued by Novo Banco acting through its London branch and one of which was issued by Novo Banco acting through its Luxembourg branch (the “Notes”). All such Notes were originally issued by BES acting through its London and Luxembourg branches, respectively, and transferred to Novo Banco following the application of the Resolution Measure. Noteholders were invited to tender their Notes for purchase by Novo Banco for cash (the “Tender Offer”) at prices to be determined pursuant to an unmodified Dutch auction procedure. On 30 June 2016, Novo Banco announced the results of its Tender Offer and the acceptance amount and aggregate purchase consideration for each series of Notes. The total aggregate nominal amount of the Notes purchased was €339.9 million (which is respect of the US dollar denominated notes was based on the Euro equivalent as at 30 June 2016), for an aggregate cash purchase consideration of €243.6 million, which was paid to Noteholders on 4 July 2016.

On 28 June 2016, Novo Banco informed on the conclusion of the implementation of the commercial solution for clients that hold preferential shares in the vehicles Poupança Plus 1, Poupança Plus 5, Poupança Plus 6, Top Renda 4, Top Renda 5, Top Renda 6, Top Renda 7 and EuroAforro 8.

On 31 July 2016 Novo Banco informed about the Novo Banco Group Consolidated Activity and Results in the first half of 2016.

Highlights:

Results

- Positive net operating income of EUR 142.3 million was higher than the 2015 full year net operating income (EUR 125.0 million), which shows Novo Banco Group's growing incomegenerating capacity.
- Banking income was up by +7.7%, to EUR 446.5 million, underpinned by a 22.0% rise in net interest income, which accounted for 59% of banking income.
- Capital markets results amounting to EUR 60.6 million.
- Operating costs were reduced by 23.4% YoY, to EUR 304.2 million, reflecting the effort undertaken by the Group, namely through the reduction of its workforce, the simplification and improvement of processes and the optimisation of the operational and commercial structures.
- Cost to Income was 68% in the 1H2016, which compares with 96% in the 1H2015;
- Provisions totalled EUR 576.7 million (EUR 305.1 million more than in June 2015), including a EUR 109.6 million provision for the ongoing restructuring process costs.
- The 1H2016 consolidated net income was a loss of EUR 362.6 million, which is in line with the targets set in the Restructuring Plan; these results were negatively influenced by the referred provision for restructuring costs and the recognition of the full amount of the Special

Tax on Banks and of the contributions to the Portuguese Resolution Fund and Single Resolution Fund. Excluding these effects the 1H2016 net income would be a loss of EUR 243.9 million, which is broadly the same as in the 1H2015.

- The 2nd quarter net income was a loss of EUR 113.3 million, which evidences an improving trend over the previous quarter.

Activity

- On 30 June 2016 Novo Banco had total assets of EUR 55.3 billion, a reduction of EUR 2.2 billion (-3.9%) relative to December 2015 that is in line with the ongoing balance sheet deleveraging process. Customer loans contracted by EUR 2.8 billion in the 1H2016, though not impacting the support provided to the small and medium-sized exporting companies. A considerable part of this reduction (EUR 1.4 billion) resulted from the transfer of BES Vénétie and NB Asia to assets being discontinued. In retail banking the 1H2016 average monthly production of consumer loans grew by 53% compared to the average monthly production in 2015, while in residential mortgage loans the average monthly production increased by 78%.
- Customer deposits of EUR 25.1 billion were practically flat relative to March 2016 and stabilized after the fall in the 1st quarter, which reflected the contraction in large corporate and institutional clients deposits, influenced by the pricing reduction that made the offer in this segment less competitive, and by the repercussions of the re-transfer of five senior bond issues to BES's perimeter. The positive performance of the retail banking segment should be stressed, with customer deposits growing by roughly EUR 500 million in the 2nd quarter of 2016.

Liquidity and Capital Management

- The loan to deposit ratio remained close to the December 2015 level, at 113%, while funding from the European System of Central Banks (ESCB) was reduced by EUR 1.5 billion since the end of 2015, to EUR 5.5 billion on 30 June 2016.
- The estimated phased-in Common Equity Tier 1 ratio was 12.0% on 30 June 2016 (10.2% under the full implementation regime applicable as from 1 January 2018).

Asset Quality

- The annualised cost of risk decreased to 163 bps, down by 35 bps relative to December 2015 (198 bps) and by 48 bps compared to March 2016 (211 bps).
- The Overdue Loans >90 days / Gross Loans ratio was 15.7%, with the corresponding provision coverage standing at 104.3%. The Provisions for Credit / Gross Loans ratio was 16.4%.
- Credit at risk accounted for 23.9% of the loan book and the respective provision coverage was 68.5%.
- Provisions for non-current assets held for sale represented 28.8% of these assets' gross value, which compares with 27.3% in December 2015.

On 3 August 2016, Novo Banco informed that, its indirect subsidiary Ascendi Group, S.G.P.S., S.A. (“Ascendi”), owned in partnership with Mota-Engil, has entered into an agreement with Ardan Infrastructure to sell a group of assets for a total consideration of 600 million Euros, which may be increased by an additional amount of 53 million Euros via a variable price mechanism. The completion of the transaction as per the agreed terms will result in a positive impact on the Common Equity Tier 1 ratio of Novo Banco.

On 4 August 2016, Novo Banco informed that entered into a sale and purchase agreement with the company WELL LINK GROUP HOLDINGS LIMITED, a company incorporated in Hong Kong, in respect of the whole share capital of Novo Banco Ásia, S.A., which is wholly owned by Novo Banco. The execution of this agreement is conditioned to obtaining a set of authorisations from the relevant authorities.

On 5 August 2016, Novo Banco informed that it had entered into a sale and purchase agreement with a group of investors, led by SONAE INVESTMENT MANAGEMENT - SOFTWARE AND TECHNOLOGY, SGPS, S.A., in respect of limited partnership interests in tech venture capital funds FCR - ESPÍRITO SANTO VENTURES II, FUNDO DE CAPITAL DE RISCO ESPÍRITO SANTO VENTURES III and FUNDO DE CAPITAL DE RISCO ESPÍRITO SANTO VENTURES INOVAÇÃO E INTERNACIONALIZAÇÃO, as well as the whole share capital of ESPÍRITO SANTO VENTURES – SOCIEDADE DE CAPITAL DE RISCO, S.A. which will be controlled by the management team.

On 19 August 2016, Novo Banco informed that the European Central Bank confirmed the appointment of Mr. António Manuel Palma Ramalho as Chairman of the Board of Directors of Novo Banco, S.A. with executive functions, as decided by the Banco de Portugal, based on a proposal by Fundo de Resolução. This agreement is subject to certain regulatory and contractual approvals.

On 30 September 2016, Novo Banco informed that its indirect subsidiary ES Concessions International Holding B.V., has entered into an agreement with Parkinvest B.V., a company incorporated and operating under Dutch Law, to sell a 22.21% share capital position in Empark – Aparcamientos y Servicios, S.A. (“Empark”) for a total consideration of 69 million Euros.

On 10 October 2016, Novo Banco informed that its subsidiary ES Tech Ventures, SGPS, S.A., has sold its 41,66% share capital position in E.S. Contact Center – Gestão de Call Centers S.A. to Armatis – LC Ibéria, S.A., a company incorporated in Portugal.

On 10 November 2016, Novo Banco informed about the Novo Banco Group Activity and Results in 3rd quarter 2016:

Novo Banco posts marginally positive quarterly result, for the first time

For the first time, Novo Banco reported a marginally positive quarterly result, in the amount of EUR 3.7 million.

This result evidences a clear improvement over the previous quarters. We remind that since its creation in 2014 Novo Banco has reported quarterly net losses averaging more than EUR 250 million, posting a loss of EUR 249.4 million in the first quarter of this year and a loss of EUR 113.3 million in the second quarter. The third quarter net income is still negatively impacted by the high provisioning level, but positively influenced by the tax function. At the level of current business activity, the results benefited from the improvement of banking income and the very sharp reduction in operating costs.

This mitigated the accumulated net income for the first nine months of 2016, which were still a loss of EUR 359.0 million, though improving by 14.3% relative to the same period last year, when Novo Banco posted a loss of EUR 418.7 million.

Net operating income in the year to September was positive, at EUR 217.7 million, a significant growth compared with EUR 26.4 million in the same period in 2015.

Banking income reached EUR 667.7 million at the end of September, a YoY increase of 7.5% underpinned by the 29.2% growth of net interest income.

In line with the ongoing balance sheet deleveraging process, particularly targeted at the international portfolio, customer loans contracted by EUR 3.1 billion in the first nine months of the year.

Customer funds resumed a levelling trend in the reporting quarter. Even so, total deposits decreased by EUR 2.7 billion since December 2015, to EUR 24.7 billion. Still, in the retail banking segments, deposits had a very positive performance, growing by more than EUR 800 million, which sends a clear sign of the consolidation of clients' confidence in Novo Banco.

Higher impairments, lower costs

Provision charges totalled EUR 762.6 million, an increase of EUR 298.3 million over the first nine months of 2015 that reflects the continuing effort towards the consolidation of Novo Banco. Impairments include EUR 425.8 million for credit, EUR 113.7 million for securities and EUR 110.6 million for restructuring costs.

Operating costs were reduced by 24.3% YoY, to EUR 449.9 million.

The Bank decided to bring forward the achievement of a large part of the objectives set out in the announced Restructuring Plan. Hence the planned headcount downsizing was achieved in September (1062 departures against the target of 1000), the reduction of operating costs has already been secured (EUR 145 million reduction up to September versus a target contraction of EUR 150 million by the end of the year), and the final number of branches at year-end, following the last scheduled closures, will be 540, which compares with the 550 foreseen in the plan.

The estimated regulatory capital ratio Common Equity Tier 1 (CET1) for 30 September 2016 was 12.3%, an improvement of 30 bps relative to June 2016.

In 11 November 2016, Novo Banco informed that it had cancelled €1,000 million (one billion euros), of senior bonds guaranteed by the Portuguese State (ISIN: PTBENFOM0027).

On 18 November 2016, Novo Banco informed that it had launched and priced LUSITANO SME NO. 3, its third securitisation transaction of credit rights in relation to SME Receivables. It also informed that Deutsche Bank AG, London Branch and J.P. Morgan Securities plc acted as Joint Arrangers and Joint Lead Managers. Furthermore, it informed that Novo Banco, S.A. successfully placed the entire amount of EUR 385.6 million of the Class A Notes with institutional investors. Finally, Novo Banco informed that the transaction was approved by CMVM and settlement was going to occur on 22 November 2016.

On 13 December 2016, Novo Banco informed that Novo Banco and its subsidiary, ES TECH VENTURES, SGPS, S.A., had completed on that date - following the previous announcement dated 5 August 2016 and having obtained the authorization by Banco de Portugal - the sale, to a group of investors led by SONAE INVESTMENT MANAGEMENT - SOFTWARE AND TECHNOLOGY, SGPS, S.A., in respect of limited partnership interests in tech venture capital funds FCR - ESPÍRITO SANTO VENTURES II, FUNDO DE CAPITAL DE RISCO ESPÍRITO SANTO VENTURES III and FUNDO DE CAPITAL DE RISCO ESPÍRITO SANTO VENTURES INOVAÇÃO E INTERNACIONALIZAÇÃO, as well as the whole share capital of ESPÍRITO SANTO VENTURES – SOCIEDADE DE CAPITAL DE RISCO, S.A.

On 19 December 2016, Novo Banco informed that it had on that date cancelled 14,000 senior bonds guaranteed by the Portuguese State (ISIN: PTBENHOM0017), amounting to EUR 700 million (seven hundred million euros).

On 20 December 2016, Novo Banco informed that the Rating Agency DBRS had taken a rating action on NOVO BANCO on that date. DBRS decided also on that date to confirm the NOVO BANCO's senior long-term debt and deposits rating at CCC (high) and changed the trend to Stable from Negative. The agency confirmed the short-term debt & deposits rating at R-5 with a Stable trend. The change in the trend to Stable from Negative reflects DBRS's view that some of the risks faced by the Bank have materially reduced. The agency also confirmed the Critical Obligation Rating (COR) at BB (low) / R-4, with the trend on the long-term COR revised to Stable from Negative. The agency confirmed a Stable trend on the short-term COR. The rating on NOVO BANCO's senior and unsubordinated notes guaranteed by the Republic of Portugal was confirmed at BBB (low) with a Stable trend.

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 European Central Bank (“**ECB**”) becomes responsible for the prudential supervision of the credit institutions considered significant which operate in the European Union (the “**Single Supervisory Mechanism**,” or “**SSM**”). Behavioural supervision of these credit institutions shall remain with their respective national regulators. Credit institutions from European Union countries outside of the Eurozone may elect to be supervised by the ECB, under the banking union, having to ensure that their national regulator cooperates closely with the ECB.

Single Supervisory Mechanism

Council Regulation (EU) No 1024/2013 of 15 October 2013 established the SSM for Eurozone banks and other credit institutions. The SSM maintains an important distinction between significant and non-significant entities, which are subject to different supervisory regimes. The ECB carries out the prudential supervision of significant entities and Novo Banco has been included in the list of significant supervised entities published by the ECB on 4 September 2014 and as last updated on 31 March 2016. As a result, the ECB has been granted certain supervisory powers as from 4 November 2014, which include:

- the authority to grant and revoke authorizations regarding credit institutions;
- with respect to credit institutions incorporated in a participating Member State establishing a branch or providing cross border services in Member States that are not part of the Eurozone, to carry out the tasks of the competent authority of the home Member State;
- the power to assess notifications regarding the acquisition and disposal of qualifying holdings in credit institutions;
- the power to ensure compliance with respect to provisions regarding requirements on own funds requirements, securitisation, large exposure limits, liquidity, leverage, as well as on the reporting and public disclosure of information on those matters;
- the power to ensure compliance with respect to corporate governance, including fit and proper requirements for the persons responsible for the management of credit institutions, risk management processes, internal control mechanisms, remuneration policies and practices and effective internal capital adequacy assessment processes (including internal ratings based models);
- the power to carry out supervisory reviews, including, where appropriate and in coordination with the EBA, stress tests, which may lead to the imposition of specific additional own funds requirements, specific publication requirements, specific liquidity requirements and other measures;

- the power to supervise credit institutions on a consolidated group basis, extending supervision over parent entities established in one of the Member States; and
- the power to carry out supervisory tasks in relation to recovery plans, provide early intervention where a credit institution or group does not meet or is likely to breach the applicable prudential requirements and, only in the cases explicitly permitted under law, implement structural changes to prevent financial stress or failure, excluding any resolution powers.

The SSM framework Regulation (EU) No 468/2014 of the ECB of 16 April 2014 sets out the framework for cooperation within the SSM between the ECB and the relevant national authorities, while Regulation (EU) No 1163/2014 of the ECB of 22 October 2014 lays down the calculation methodology and the collection procedure regarding the annual supervisory fees which are born by the supervised credit institutions.

The ECB directly supervises significant banks, including Novo Banco, whereas each national competent authority (“NCA”, as is the case of Banco de Portugal in Portugal) is in charge of supervising less significant banks within its jurisdiction. The ECB will have the right to impose pecuniary sanctions and set binding regulatory standards. Notably, the relevant entities are subject to continuous evaluation of their respective capital adequacy by the SSM and could be requested to operate with higher than minimum regulatory capital and/or liquidity ratios.

As regards the monitoring of financial institutions, the NCAs, in addition to supporting the ECB in day-to-day supervision of significant banks and supervising directly less significant banks, will continue to be responsible for supervisory matters not conferred on the ECB, such as consumer protection, money laundering, payment services, and branches of third country banks. The ECB, on the other hand, will be exclusively responsible for prudential supervision of credit institutions with the abovementioned supervisory powers.

In order to foster consistency and efficiency of supervisory practices across the Eurozone, the EBA is continuing to develop the EBA rulebook, a single supervisory set of rules applicable to the Eurozone Member States (the “**EBA Rulebook**”).

CRD IV contains specific mandates for the EBA to develop draft regulatory or implement technical standards as well as guidelines and reports, in order to enhance regulatory harmonization in Europe through the EBA Rulebook. A series of regulations concerning regulatory or implementing technical standards have already been published.

Single Resolution Mechanism

The European Commission established the Single Resolution Mechanism, which came into effect on 1 January 2016 and establishes uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund. The Single Resolution Mechanism is responsible for coordinating the application of resolution tools within the Eurozone and, from 1 January 2016, is responsible for the resolution of credit institutions, which shall be funded through the Single Resolution Fund and not by any national resolution fund, such as the Resolution Fund. However, in Portugal the Resolution Fund will remain responsible for funding decisions, taken by Banco de Portugal as the national resolution authority, that occurred until 31 December 2015, including those relating to the Resolution Measure applied to BES and the resolutions regarding Banif – Banco Internacional do Funchal, S.A., as well as for funding resolution decisions of certain financial institutions that fall outside the scope of the Single Resolution Fund.

Bank of Portugal

Banco de Portugal is part of the 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.

Banco de 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 Banco de Portugal, as mentioned below.

According to the RGICSF, and subject to the powers conferred upon the ECB in the context of the SSM and to the cooperation between the ECB and Banco de Portugal where applicable, Banco de Portugal authorises the establishment of credit institutions and financial companies based on technical-prudential criteria, monitors the activity of the institutions under its supervision and their compliance with the rules governing their activities, issues recommendations for the correction of any deviations from such rules, sanctions breaches should they occur and possesses the ability to take extraordinary measures of reorganisation. See "*—Single Supervisory Mechanism*" for more information on the role Banco de Portugal plays as Portugal's NCA.

Banco de Portugal has established and/or is responsible for supervising and monitoring, subject to the powers conferred upon the ECB in the context of the SSM and to the cooperation between the ECB and Banco de Portugal where applicable, rules governing solvency ratios, reserve requirements, control of major risks and provisions for specific and general credit risks. Subject to the same terms, it monitors compliance with these rules through periodic inspections, review of regularly filed financial statements and reports, and continuing assessment of adherence to current legislation.

Banco de Portugal is also charged with the duty to regulate, oversee and promote the smooth operation of payment systems within the scope of its participation in the ESCB.

Bank Recovery and Resolution Directive

The Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms (the "BRRD") was transposed into Portuguese law by Law no. 23-A/2015, of 26 March 2015. The provisions of the BRRD aim to harmonize the resolution procedures of, among other things, credit institutions of European Union Member States and provide the authorities of such Member States with tools that aim to prevent insolvency or, when insolvency occurs, to mitigate its adverse effects, by maintaining the systemically key functions of said institutions.

The BRRD implemented into Portuguese law provides among others for the following:

- (i) **Preparation and planning stage:** Preparation for adopting measures of recovery and resolution, including (a) drawing up and submitting recovery plans by credit institutions to the competent authority for evaluation, which shall provide for the measures to be taken for restoring their financial position following a significant deterioration of their financial position and (b) drawing up of a resolution plan for each credit institution or group;
- (ii) **Early intervention stage:** When the institution breaches the applicable legal requirements governing its activity or is likely to breach them in the near future, the competent authority is conferred with the power to:
 - a) require that the board of directors of the credit institution draws up an action plan, with a specific timeline,
 - b) require that the chair of the general meeting of the credit institution convenes a general meeting of its shareholders or, in case the chair of the general meeting does not comply, promptly convene itself a general meeting of the shareholders of the credit institution,
 - c) require that one or more members of the board of directors or the supervisory board be removed or replaced if they are considered unsuitable in light of the applicable provisions to perform their duties,
 - d) require that the credit institution draws up and submits for consultation a plan for debt restructuring with its creditors according to the recovery plan,
 - e) require changes in the legal or business structures of the credit institutions, and
 - f) collect (including through on-site inspections) all necessary information for the update of the resolution plan and the preparation of the potential resolution of the credit institution and the valuation of its assets and liabilities for the

resolution purposes.

In case of significant deterioration of the financial condition of an institution due to significant infringements of the law, regulatory acts or the constitutional documents of the institution or in case the competent authority believes that significant administrative irregularities have taken place, that the current shareholders and board of directors of the institution are unable to ensure its prudent management or its financial recovery or that there are other reasons to suspect of irregularities that put into serious risk the interests of depositors and creditors, and provided that the above early intervention measures listed above in subparagraph (ii) are not sufficient to reverse the deterioration of the institution, the competent authority may require the removal of the board of directors of the institution. When the competent authority considers the removal of the management body as insufficient for addressing any of the above-mentioned situations, one or more temporary directors may be appointed to the institution.

(iii) Resolution measures: The resolution authority shall take action only if it considers that all of the following conditions are met:

- a) The competent authority or the resolution authority considers that the institution is failing or is likely to fail;
- b) having regard to timing and other relevant circumstances, no alternative private sector measures or supervisory action, including early intervention measures or the exercise of the powers to write-down or convert own funds instruments, would prevent the failure of the institution within a reasonable timeframe;
- c) a resolution action is necessary for public interest reasons, as it is required for the achievement of and is proportionate to one or more of the resolution objectives established by law; and
- d) winding up the institution under normal insolvency proceedings would not meet those resolution objectives more effectively.

The resolution measures that may be implemented by the resolution authority, either individually or in conjunction, are the following:

(i) **Sale of business tool:** transfer to a purchaser, by virtue of a decision of the resolution authority, of shares or other instruments of ownership or of some or all of the rights and obligations, corresponding to assets, liabilities, off-balance sheet items and assets under management, of the institution under resolution, without the consent of the shareholders of the institution under resolution or of any third party other than the acquirer.

(ii) **Bridge institution tool:** establishment of a bridge institution by the resolution authority, to which shares or other instruments of ownership or some or all of the rights and obligations, corresponding to assets, liabilities, off-balance sheet items and assets under management, of the institution under resolution are transferred without the consent of the shareholders of the institution under resolution or of any third party.

(iii) **Asset separation tool (to be used only in conjunction with another resolution measure):** transfer, by virtue of a decision of the resolution authority, of rights and obligations, corresponding to assets, liabilities, off-balance sheet items and assets under management, of an institution under resolution or of a bridge institution to one or more asset management vehicles, without the consent of the shareholders of the institutions under resolution or of any third party other than the bridge institution. The asset management vehicles are legal persons owned in total or partially by the relevant resolution fund.

(iv) **Bail-in tool:** write-down or conversion by the resolution authority of any obligations of an institution under resolution, except for the following obligations, as defined under the applicable law:

- a) covered deposits;
- b) secured obligations;
- c) obligations arising from holding of clients' assets or money;

- d) obligations to credit institutions and investment firms, excluding the members of the group, with an original maturity of less than seven days;
- e) obligations with a remaining maturity of less than seven days towards payment and securities settlement systems, to its administrators or to its participants, arising from the participation in said systems;
- f) obligations towards (i) employees, except for the variable component of their remuneration which is not regulated by a collective agreement, (ii) commercial or trade creditors, connected to the provision of goods and services to the institution which are critical for its daily operation, (iii) tax authorities and social security authorities, provided that these obligations are privileged according to the applicable law, and (iv) deposit guarantee schemes arising from contributions due to those schemes; and
- g) obligations towards a beneficiary in the context of a fiduciary relationship, provided that such beneficiary is protected under the application insolvency or civil law.

In exceptional circumstances, when the bail-in tool is implemented, the resolution authority may exclude or partially exclude certain liabilities from the application of the write-down or conversion powers. This exception shall apply in case it is strictly necessary and proportionate and shall fall under the specific requirements provided by law.

Further to the above resolution measures, the resolution authority shall exercise the write-down or conversion powers in respect of own funds instruments of the institution, either independently from the resolution measures implemented by the resolution authority or in combination with those resolution measures, under the circumstances provided under the applicable law, when for example it is established that the conditions for resolution are met or when the resolution authority establishes that if said power is not exercised, the institution will cease to be viable.

The application of the resolution measures shall ensure that the shareholders of the institution bear losses first, followed by creditors of the institution in accordance with the order of priority of their claims under normal insolvency proceedings. Additionally, creditors of the same class should be treated in an equitable manner and covered deposits should be fully protected. In any case, no creditor should incur greater losses than it would have incurred if the institution had been wound up under normal insolvency proceedings in accordance with the “no creditor worse off” principle.

To ensure the effective application of the resolution tools, the resolution authority may use financing arrangements, notably for the following purposes:

- (i) to guarantee the assets or the liabilities of the institution under resolution, its subsidiaries, a bridge institution or an asset management vehicle;
- (ii) to grant loans to the institution under resolution, its subsidiaries, a bridge institution or an asset management vehicle;
- (iii) to purchase assets of the institution under resolution;
- (iv) to make contributions to a bridge institution and an asset management vehicle;
- (v) to pay compensation to shareholders, creditors of the institution under resolution or the Deposit Guarantee Fund;
- (vi) to make a contribution to the institution under resolution in lieu of the write down or conversion of liabilities of certain creditors, when the bail-in tool is applied and the resolution authority decides to exclude certain creditors from the scope of bail-in.

Capital and Capital Ratios

In the wake of the financial crisis and due to insufficiencies in existing regulatory capital structures, as well as the lack of adequate capital reserves in systemically important financial institutions, the issue of capital requirements has been subject to numerous national and international initiatives. In December 2010, the Basel Committee published two recommendations to reform the global regulatory

framework applicable to credit institutions ("**Basel III**: A global regulatory framework for more resilient credit institutions and banking systems", and "Basel III: International framework for liquidity risk measurement, standards and monitoring", both of which have been subsequently updated). These recommendations, known as "Basel III", revised certain aspects of the recommendations contained in Basel II which introduced new rules on capital and liquidity. In the EU, these recommendations were implemented through new banking regulations adopted on 26 June 2013: a) Directive 2013/36/EU of the European Parliament and of the European Council on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (the "**CRD IV Directive**"), which has been transposed into Portuguese law by Decree-Law No 157/2014 of 24 October 2014, and b) Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (the "**CRD IV Regulation**", and together with the CRD IV Directive, "**CRD IV**"), which is legally binding and directly applicable in all EU Member States. Implementation began on 1 January 2014, while particular elements are being phased in over a period of time. The requirements are generally intended to be effective by 2018 and some minor transitional provisions provide for the phase-in until 2024.

Capital requirements

CRD IV amended existing regulatory capital items which are divided as described below, subject to certain further deductions as described in CRD IV:

- Common Equity Tier 1 ("**CET1**"): This category includes share capital, share premiums, eligible reserves and the net profit for the year retained when certified and non-controlling interests adjusted in proportion to the risk of entities that give rise to them; goodwill, intangible assets, negative actuarial deviations arising from liabilities related to post-employment benefits to employees and, when applicable, the negative results for the year are also deductible;
- Additional Tier 1 ("**AT1**", together with CET1 items, "**Tier 1**"): This category includes certain preferred shares and hybrid capital instruments; and
- Tier 2 ("**Tier 2**"): essentially incorporates subordinated eligible debt.
- Total Own Funds is Tier 1 and Tier 2 ("**Total Own Funds**").

Subject to any applicable transitional periods, the CRD IV general Total Own Funds requirement is 8% of the total risk-weighted assets, while at least 6% and 4.5% of the minimum Total Own Funds shall be composed by Tier 1 and CET1, respectively. Accordingly, the maximum eligible capital that can be covered through Tier 2 instruments is 2%. The above is subject to capital conservation and other buffers, as indicated below and which, where applicable, need to be covered by CET1 amounts.

Regulatory Notice ("*Aviso*") 6/2013 issued by Banco de Portugal regulates the transition provided in CRD IV and has determined a minimum CET1 ratio of 7.0%, calculated under the transitional periods requirements, to be complied with from 1 January 2014 onwards. As at 30 September 2016 the Company had a CET1 ratio (phased in, i.e. under a transitional period) of 12.3% and a CET1 ratio (fully implemented, i.e. assuming no such transitional period) of 10.7%.

CRD IV required credit institutions to hold additional CET1 capital buffers as fixed by the relevant supervisory authorities:

- A "conservation buffer" of 2.5% that will be applied gradually between 2016 and 2019 with an annual step up of 0.625%. This means that by the end of 2019, the minimum CET1 ratio will be 7%. In case of non-compliance, the regulator will impose the constraints on dividends distribution and executive bonuses inversely proportional to the level of the actual CET1 ratio.
- A "countercyclical capital buffer" ranging between 0% and 2.5% depending on macroeconomic factors. This buffer will also be applied gradually from 2016 to 2019 having a range of 0%-0.625% for 2016, 0%-1.25% for 2017, 0%-1.875% for 2018 and 0%-2.5% for 2019.
- A "systemic risk buffer" of at least 1% set at the discretion of national authorities of EU Member States to be applied to institutions at consolidated or solo level, or even at the level of exposures in certain countries at which a banking group operates. Currently no systemic risk buffer has been set by Banco de Portugal.

- Additional buffers are applied to O-SIIs. For global systemically important institutions, the additional buffer ranges between 1% and 3.5%, whereas for O-SIIs it could reach 2%. Banco de Portugal, through Regulatory Notice 4/2015 on 29 December 2015, imposed O-SII capital buffers which, in the case of the Company, will be 0.75%. On 29 July 2016, Banco de Portugal specified that a two-year phase-in regime would apply for this buffer. In case of the Company, the applicable buffer for O-SIIs shall be 0.375% from 1 January 2018 until 31 December 2018 and 0.75% from 1 January 2019 onwards.

Local capital requirements

In addition, members of the Novo Banco Group, which are subject to local supervision in their respective countries of incorporation may, on an individual and on a consolidated basis, be required to comply with applicable local regulatory capital requirements. It is therefore possible that individual entities within the Novo Banco Group or sub-groups require additional own funds, even though the own funds of the Novo Banco Group on a consolidated basis are sufficient.

Liquidity Requirements

With respect to liquidity requirements, CRD IV changed requirements related to liquidity, including the provision for near and medium/long-term liquidity and financing requirements referred to as the liquidity coverage requirement (the “**liquidity coverage requirement**”) and net stable funding ratio (“**NSFR**”).

The liquidity coverage requirement seeks to ensure that institutions maintain levels of liquidity buffers which are adequate to face possible imbalances between liquidity inflows and outflows under gravely stressed conditions, and does so by defining an amount of unencumbered, high quality liquid assets that must be held by a credit institution to offset estimated net cash outflows over a 30 day stress scenario. Under the CRD IV framework, the liquidity coverage requirement is being phased in gradually, starting at 60% in 2015, and expected to be 100% in 2018. As at 30 September 2016, the Novo Banco Group had a liquidity coverage ratio (LCR) of 105% (77% as at 31 December 2015).

CRD IV also provides for the NSFR, the implementation of which is recommended for 2018, which requires that institutions maintain a stable funding profile in relation to the composition of their assets and off-balance-sheet activities over a one-year period. The EBA published on 17 December 2015 its report on the impact assessment and calibration of the NSFR, recommending the introduction of the NSFR in the EU to ensure stable funding structures. The EBA analysis did not find strong statistical evidence of significant negative impacts of the NSFR on bank lending, financial assets markets or trading book positions. The EBA’s report will inform the work of the European Commission on potential legislative proposals on NSFR to be delivered, if appropriate, by 31 December 2016. Moreover, Banco de Portugal establishes minimum provisioning requirements regarding loans, non-performing loans, overdue loans, impairment for securities and equity holdings, sovereign risk and other contingencies.

In both cases, EU Member States may maintain or introduce national provisions until binding minimum standards are introduced by the European Commission or otherwise become fully effective, or as an addition to those standards, depending on the relevant legislative measures at EU level.

Leverage ratios

With respect to leverage requirements, CRD IV also introduced a leverage ratio aimed at monitoring possible under-estimations of risk-weighted assets and avoiding excess leverage through a simple calculation. The leverage ratio should be introduced first as an additional feature that can be applied on individual institutions at the discretion of supervisory authorities. Reporting obligations for institutions would allow appropriate review and calibration, with a view to migrating to a binding measure in 2018. Currently, this ratio is calculated by dividing the total Tier 1 capital by the total exposure measure of all assets and off-balance sheet items not deducted when determining the Tier 1 capital, and shall be expressed as a percentage, as defined in CRD IV.

Risk Weighted Assets

Risk-weighted assets (“**RWAs**”) is a metric used to reflect components of risk in an asset, including credit, market and operational risk. RWAs are used to calculate key capital adequacy ratios, including

CET1 ratio and Tier 1 Ratio. Under CRD IV, credit institutions in Portugal may calculate the risk weighting of their assets, insofar as credit risk is concerned, according to a standard-based approach or based on their own internal risk-management models, in the latter case subject to authorisation by the banking supervisor. However, in March 2016, the Basel Committee proposed standards to prohibit credit institutions from using internal risk management models to calculate credit risk with respect to, amongst others, large corporations; requiring, instead, the use of the standard-based approach.

Supervisory Review and Evaluation Process

In December 2014, the EBA published its final guidelines on the procedures and methodologies that will form its SREP assessments. Novo Banco is subject to an annual SREP assessment by the SSM to determine the adequacy of its capital, to identify risks that are not covered by its own funds requirements and to identify the need for Pillar 2 capital requirements. The SREP assessments include capital assessment, business model analysis, assessment of internal governance and control, liquidity assessment and broader stress testing. The purpose of these SREP assessments is to evaluate whether institutions have adequate arrangements, strategies, processes and mechanisms as well as capital and liquidity to ensure a sound management and coverage of risks, to which they are or might be exposed, including those revealed by stress testing. Where the results of a SREP assessment identify areas of risks which are not adequately covered by the Pillar 1 capital requirements or the combined buffer requirement, competent authorities can determine the appropriate level of the institution's own funds requirement under CRD IV and assess whether additional own funds shall be required.

Own Funds and Large Exposures

Credit institutions are required by Portuguese law to maintain an adequate level of own funds, which shall be at least equal to the minimum share capital. The relevant criteria to determine the level of own funds are determined by the Bank of Portugal.

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.

On 16 April 2014, the European Parliament and the Council adopted Directive 2014/49/EU providing for the establishment of deposit guarantee schemes and the harmonisation of such deposit guarantee systems throughout the EU (the “**recast DGSD**”), which was implemented into Portugal through Law no. 23-A/2015, of 26 March, that amended the RGICSF.

The annual contributions to the Deposit Guarantee Fund are calculated according to the monthly average of the deposits balance accepted in the previous year. An annual contributions rate is determined annually by the Bank of Portugal. The rate 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, as amended.

The Bank of Portugal may determine that the payment of up to 75% of the annual contributions may be partly replaced by an irrevocable undertaking to make full or partial payment upon request from the fund at any moment, guaranteed where necessary by securities having a low credit risk and high liquidity. The Bank of Portugal determined that this limit would be 10% for the 2011 annual contribution. On 15 October 2013, the Bank of Portugal issued Instruction 23/2013 which established the annual contribution rate (0.03% for all territory) and the minimum contribution amount (€17,500) for 2014, and it also issued Instruction 24/2013, which established that in 2014 the participating credit institutions could not replace their annual contributions by irrevocable undertakings. In January 2015, Bank of Portugal issued Instruction 32/2014 which established the annual contribution rate (0.005% for all territory) and the minimum contribution (€4,000) for 2015, and also Instruction 32/2014, which established that in 2015 the participating credit institutions could not replace their annual contributions by irrevocable undertakings. In January 2016, Bank of Portugal issued Instruction 21/2015 which established the annual contribution rate (0.0001% for all territory) and the minimum contribution (€80) for 2015, and also established that in 2016 the participating credit institutions could not replace their annual contributions by irrevocable undertakings.

Without prejudice to the foregoing, account may in the future need to be taken of EBA’s guidelines on methods for calculating contributions to deposit guarantee schemes (EBA/GL/2015/10), dated 22 September 2015 and last amended on 13 June 2016.

When a credit institution is unable to comply with its commitments, the Deposit Guarantee Fund guarantees the repayment to depositors of up to €100,000 per depositor, subject to certain statutory exceptions, as mentioned below. The deposits made on Portuguese territory are guaranteed regardless of the currency in which they are denominated, and whether the depositor is resident or non-resident in Portugal. However, some deposits are excluded from the deposit guarantee scheme, such as those made by credit institutions, financial companies, insurance companies, investment funds, pension funds, pension fund management companies, and central or local administration bodies, among others, in their own name and for their own account, with exception for those made by (i) pension funds whose associates are small and medium enterprises and (ii) local authorities with an annual budget equal to or less than € 500,000.

Also excluded from the guarantee scheme are certain deposits relating to anti-money laundering criminal convictions or where its holder has not been properly identified in accordance with the anti-money laundering and prevention of terrorism law. Finally, excluded as well are deposits of persons and entities that, in the two years before the date on which deposits become unavailable, or a resolution has been adopted, held, directly or indirectly, 2% or more of the share capital of the credit institution or have been members of its corporate bodies, unless it is clearly established that they did not cause the financial difficulties of the credit institution, through act or omission, and did not contribute through act or omission to the worsening of the situation.

Borrowing from the Bank of Portugal

The Bank of Portugal has followed a policy of intervening as a lender of last resort in cases of

liquidity shortfalls in the banking system. The basic method of lending used takes the form of advances and overdrafts against collateral. For this purpose, the Bank of Portugal discloses a list of securities eligible as collateral. The rediscount rate is now 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

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 CMVM is the regulatory entity in charge of the supervision and regulation of the securities markets and financial intermediation services. This includes the supervision of a wide range of activities and entities that fall under the scope of a number of EU Directives and Regulations, including Directive 2004/39/EC of 21 April 2004, as amended (MiFID) and implementing legislation, and the succeeding Directive 2014/65/EU of 15 May 2014 (MiFID II) and Regulation (EU) No. 600/2014 of 15 May 2014 (MiFIR).

The CMVM is an autonomous administrative entity overseen by the Ministry of Finance, and by law and regulations not subject to direct intervention by the Ministry of Finance. Its directors are appointed by the Minister of Finance for a 6-year, non-renewable term. In particular, the responsibilities of the CMVM include the supervision of certain conduct of business rules relating to financial intermediation activities and markets in financial instruments and the prudential supervision of certain entities.

For this purpose, the CMVM may issue regulations on matters within the scope of its powers of supervision, including the conduct of business rules for providers of investment services, the recognition of markets for financial instruments and the establishment of rules for the operation of such markets as well as rules on public offers and prospectus requirements. The CMVM has also the responsibility to evaluate claims presented by investors, regarding the (mis)conduct of financial intermediaries, and may determine compensations to an investor or group of investors.

The CMVM may, within the course of its supervision activities, carry out inspections, issue information requests, conduct hearings, require the collaboration of other persons or entities, including police authorities, disclose information, including in substitution of supervised entities, conduct investigations and organise a registration system, carry out enforcement actions and impose administrative sanctions.

The Bank is subject to the CMVM's supervision both as a financial intermediary and an issuer of securities admitted to trading on a regulated market.

The Ministry of Finance may establish policies relating to markets in financial instruments, investor protection, financial intermediation activities and generally any matters regulated by the Portuguese Securities Code. The Ministry of Finance also oversees the CMVM and coordinates the supervision and regulation relating to financial instruments when powers have been delegated to more than one public entity. When a disturbance in the markets in financial instruments puts the national economy at serious risk, the Ministry of Finance may, by means of a joint Ministerial Order by the Prime Minister and the Minister of Finance, impose necessary measures. These may include the temporary suspension of: (i) the regulated markets and certain categories of transactions or activities of their management entities; (ii) multilateral trading facilities; (iii) settlement systems; (iv) clearing houses or central counterparties; and (v) central securities depositories.

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 *Autoridade de Supervisão de Seguros e Fundos de Pensões* (“ASF”, Portuguese Insurance and Pension Funds Supervisory Authority) insofar as it is registered as a tied insurance mediator type 1, for both Life and Non-Life segments. Novo Banco dos Açores, S.A. is also subject to ASF’s supervision as it is registered as a tied insurance mediator type 1, for both Life and Non-Life segments.

ASF is the national authority responsible for the regulation and supervision of insurance, reinsurance, pension funds and their management companies and also insurance mediation activity, both from a prudential and a market conduct perspective. ASF is the supervisory authority of Novo Banco’s insurance undertaking subsidiary, GNB Vida.

Supervision of Insurance and Reinsurance activity

Law no. 147/2015, of 9 September 2015, approved the current Legal Framework for Access and Development of the Insurance and Reinsurance Activity, which came into force in 1 January 2016 and implemented Directive 2009/138/EC of the European Parliament and of the Council, of 25 November 2009 (Solvency II Directive) (the “**Insurance Legal Framework**”).

The Insurance Legal Framework contains, *inter alia*, the main rules applying to:

- The authorisation process for the incorporation of insurance and reinsurance undertakings;

- Capital and solvency requirements which such undertakings are subject to;
- Governance structure and risk assessment;
- Disclosure of information;
- Market conduct;
- Development of cross border activities (through the incorporation of a branch or on free provision of services basis);
- Group supervision;
- Recovery and liquidation measures and procedures;
- Insurance related misdemeanour and criminal infractions.

Financial and Solvency Requirements of Insurance Undertakings

Portuguese insurance and reinsurance undertakings are subject to the Insurance Legal Framework, approved by Law no. 147/2015, of 9 September, which revoked Decree-Law 94-B/98, of 17 April 1998. According to new Solvency II Directive (Directive 2009/138/EC, of 25 November, as amended) regime insurance and reinsurance undertakings shall, among other obligations set forth therein:

- Establish and calculate technical provisions corresponding to the liabilities arising from insurance contracts and operations of such undertakings in accordance with certain actuarial and statistical methodologies and rules;
- Comply with specific rules for the valuation of assets and liabilities;
- Ensure the availability of eligible own funds to cover the following risk-sensitive requirements: (i) the Solvency Capital Requirement ("SCR"), which reflects a level of eligible own funds that enables insurance and reinsurance undertakings to absorb significant losses and that gives reasonable assurance to policyholders and beneficiaries that payments will be made as they fall due based on a prospective calculation and ensures an accurate and timely intervention by supervisory authorities; and (ii) the Minimum Capital Requirement ("MCR"), i.e., the minimum level of security below which the amount of financial resources should not fall.
- Adopt the prudent management principle with regard to their investments.

The adaptation of insurance and reinsurance undertakings to the new capital and solvency requirements lay down in the new Insurance Legal Framework is subject to a phasing-in period.

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)). This decision was amended by the European Commission in December 2015, in case SA.43976, further to the notification by the Portuguese authorities of, *inter alia*, a set of revised commitments concerning Novo Banco.

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-C 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.

As a bridge institution, Novo Banco is also subject to the regime set forth in the Notice of the Bank of Portugal no. 13/2012. The Board of Directors is appointed by the Bank of Portugal upon proposal from the Resolution Fund and it must comply with the instructions and recommendations issued by the Bank of Portugal under its statutory powers.

SHAREHOLDERS' STRUCTURE

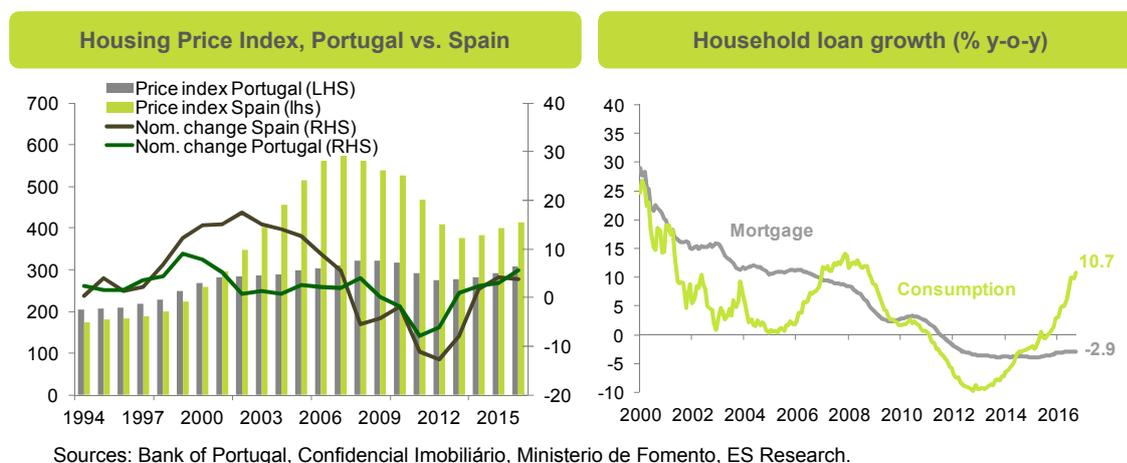
Novo Banco's share capital is fully underwritten by the Resolution Fund.

THE PORTUGUESE MORTGAGE MARKET AND THE SERVICING OF THE COVER POOL

THE PORTUGUESE MORTGAGE MARKET

According to data from August 2016, the Portuguese residential mortgage market is valued at around, € 96.0 billion, or 53% of GDP (sources: Bank of Portugal and INE). This compares with € 105.8 billion in December 2013 (62.1% of GDP) and with a historical high of € 114.5 billion (64% of GDP) in March 2011. On a year-on-year basis, the stock of mortgage loans has been declining since November 2011, reflecting the contraction in economic activity observed between 2011 and 2013 and the deleveraging of households that started in 2012 and that is still proceeding.

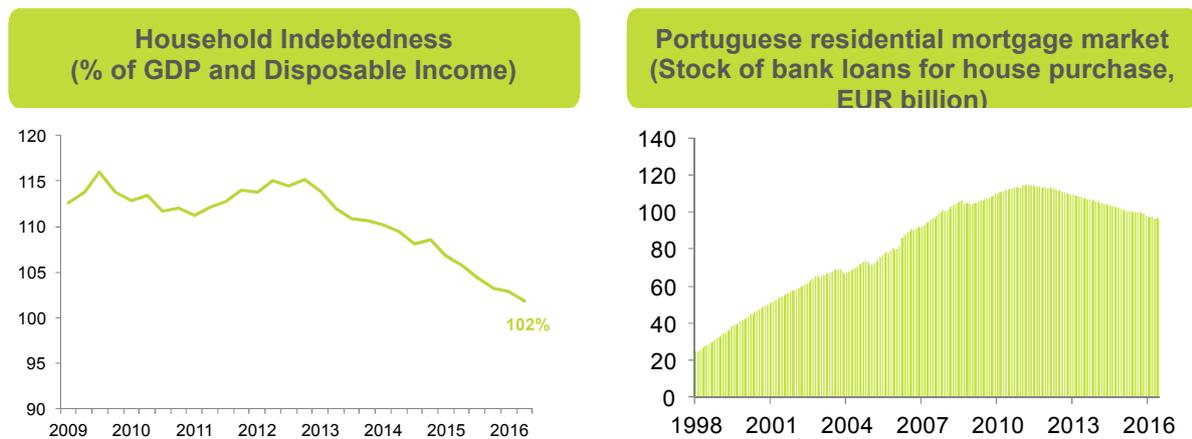
The behaviour of Portugal's housing market over the last two decades followed closely the economic cycle. House prices have therefore been supported by fundamentals. In the 2nd half of the 1990s, Portugal benefited from very favourable macroeconomic conditions. As part of the process of convergence towards the European and Monetary Union, interest rates declined very rapidly, from slightly above 20 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 75 per cent (data for 2014), above the EU and euro area averages of 70% and 67%, respectively.



The increase in demand for housing led to a rise in house price growth. However, annual average real house price growth in Portugal was moderate, particularly compared with other European economies. Between 1998 and 2011 (the year when the mortgage market peaked), the accumulated real house price growth in Portugal was only 3%, which compares with 96% in Spain, 53% in Ireland and 41% in the Euro Area. The moderate real house price growth in Portugal in this period can be explained, in part, by the fact that the strong increase in housing demand was accompanied by a strong increase in supply. Also, the increase in demand was mainly

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

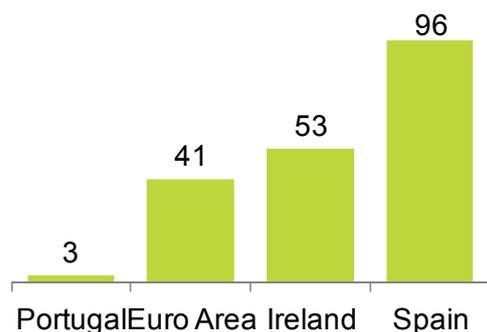
The Portuguese housing market therefore faced the recent global financial crisis in a very different cyclical position from those in economies such as Ireland or Spain. In 2011, in the context of a global financial crisis, with a rise in risk aversion and a contraction in global liquidity, Portugal was forced to request external financial assistance from the IMF, the EU and the ECB. Economic policy focused on tax consolidation, deleveraging and structural transformation, with the aim of regaining market confidence and market access. This effort coincided with a period of lower growth in the Euro Area, where some economies (e.g. Spain) pursued similar goals. As a result, the Portuguese economy went through a period of recession, with GDP declining 1.8% in 2011, 4.0% in 2012 and 1.1% 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 (-0.5% in 2011, -3.0% in 2012, -3.6% in 2013, -3.9% in 2014 and -3.9% in 2015). This process is still proceeding, with the stock of mortgage loans contracting 3.5% year-on-year in August 2016. House prices reflected this period of recession in the economy. According to the new House Price Index from INE, house prices declined 16.7% from peak to trough, i.e. between mid-2010 and mid-2013. Since then, however, prices have shown a recovery trend, supported by a moderate upturn in economic activity and, mainly, by a surge in external demand for housing. The latter is associated, in part, with the Golden Visa programme, which has attracted significant investments in real estate from outside the EU, but also with an increase in demand from EU nationals (e.g. French, British), in some cases associated with a more favourable tax regime. Since the lowest level, in March 2013, prices have increased 9.7% until September 2016. In Q3 2016, house prices increased 3.3% (source: INE).



Source: Bank of Portugal.

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 101.9% of disposable income in June 2016.

Residential Property, Accumulated Real Price Growth 1998-2011 (%)



Nominal House Price Index (2009=100)



Sources: INE, ECB, Novo Banco Economic 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 9.4% 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 2.7% of total mortgage loans between 2009 and 2016.

Going forward, the ongoing recovery in economic activity and the gradual improvement in financing conditions should support a stabilisation of the mortgage market, although a return to the very strong growth rates of the period 1995-2010 should not be expected. GDP is expected to grow around 1.2% in 2016 and 2017, maintaining growth rates around 1.5% 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 has become 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:

- a) Novo Banco's in-house assessment of risk factors in relation to borrowers such as delinquencies on mortgage, consumer and other loans, bounced cheques, etc.;
- b) Credit reference agency data (Bank of Portugal), other sources (Financial Institutions);
- c) Employment status;
- d) Certified tax income;
- e) Global and partial debt-to-income; and
- f) Expected loan to value.

Specialised credit analysts assess each proposal based on an established credit power matrix and a well-established underwriting expertise. The main variables of the credit power matrix are credit scoring, loan to value, debt-to-income, loan amount and risk factors.

After a favourable decision, a valuation request is sent to the Real Estate Department within Novo Banco which is responsible for property valuation, who randomly selects an independent certified appraiser from a pre-approved list. Valuations are undertaken based upon conservative open market value and an assessment of the property characteristics.

Life and property insurance is required at origination. Property insurance is mandatory for every mortgage loan, while the 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 yieldcurve.

For the purposes of the calculation of the level of overcollateralisation, as well as of the remaining financial and prudential requirements, Institutions are required to use the following criteria:

- a) the mortgage credits shall be accounted for the nominal value of their outstanding principal, including any accrued but unpaid interest;
- b) the covered bonds shall be accounted according to the nominal value of outstanding principal, including accrued but unpaid interest; and
- c) in relation to any other assets:
 - i. deposits shall be accounted for according to their amount together with any accrued but unpaid interest; and
 - ii. securities eligible for Eurosystem credit transactions shall be accounted for under margin valuation rules laid down by the Eurosystem or, if lower, according to their nominal value, including accrued but unpaid interests.

If the relevant covered bonds are denominated in any currency other than euro, the Institution must use the exchange rates published by the ECB as a reference.

The Covered Bonds Law also contains rules regarding the management of the cover pool allocated to one or more issues of covered bonds, allowing the Institution, *inter alia*, to assign new mortgage credits to the cover pool. The Institution may also enter into irrevocable credit facilities for the

provision of liquidity in connection with the liabilities arising under the covered bonds. The liquidity facility counterparty must have a minimum credit rating of “A-” or equivalent.

An Institution is entitled to enter into derivatives contracts to hedge interest, exchange rate and liquidity risks. These derivatives contracts are also included in the cover pool and the derivative counterparties (who also benefit from the special creditor privilege) have to be rated “A-” or above. If a particular issue of covered bonds is denominated in a currency other than euro, the Institution must enter into adequate hedging contracts for the purpose of hedging the relevant currency exchange risk.

If the limits and requirements established in the Covered Bonds Law are exceeded, the issuer is required to remedy the situation immediately by (i) allocating new mortgage credits, (ii) purchasing outstanding covered bonds in the secondary market and/or (iii) allocating other eligible assets.

Mortgage credits that become delinquent after being allocated to the cover pool may still remain in such cover pool provided that the delinquency period is not equal to or higher than 90 days, in which case such mortgage credits must be removed from the cover pool by the Institution and, if necessary to comply with the prudential requirements established in the Covered Bonds Law, substituted by new mortgage credits.

Mortgage credits underlying covered bonds may only be sold or pledged if the Institution allocates new mortgage credits to the covered bonds sufficient to maintain compliance with the financial and prudential requirements set forth in the Covered Bonds Law.

Instruction 13/2006 contains rules to be followed in respect of notices to the Bank of Portugal regarding the issue of covered bonds under the Covered Bonds Law. Prior to a first issuance of covered bonds, and on each subsequent issuance, an Institution is required to provide the Bank of Portugal with certain documentation and information, including a chart showing the detailed composition of the autonomous pool of assets allocated to the covered bonds. On a monthly basis, the Institution is required to provide the Bank of Portugal with information on the number and amount of covered bonds outstanding and on any new issues of covered bonds and any redemptions occurred.

COVER POOL MONITOR, COMMON REPRESENTATIVE AND BANKING SUPERVISION

The Board of Directors of the Institution is required to appoint an independent auditor registered with the CMVM for the purposes of monitoring the compliance by such Institution of the financial and prudential requirements established in the Covered Bonds Law.

Pursuant to the Covered Bonds Law, the independent auditor is required to issue an annual report covering the compliance by the issuer with the applicable legal and regulatory requirements.

For these purposes, an independent auditor must be an auditor which is not related or associated to any group of specific interests within the issuing entity and is not in a position that hinders its independent analysis and decision-making process notably by (i) holding 2 per cent or more of the share capital of the Issuer, either directly or on behalf of a third party; or (ii) having been reelected for more than two terms (either consecutive or not).

Also, a common representative of the holders of the covered bonds – common to all mortgage or public covered bond issues – must be appointed by the Board of Directors of the Institution in order to represent the interests of the holders of covered bonds.

The Bank of Portugal and the CMVM carry out banking and capital markets supervision respectively.

SEGREGATION OF COVER ASSETS AND INSOLVENCY REMOTENESS

Asset segregation

The assets and hedging contracts allocated by the Institution to the issues of covered bonds will remain and be registered in separate accounts of the Institution. The register will be maintained in codified form and the code key will be deposited with the Bank of Portugal. This information will be deposited with the Bank of Portugal in the form of a code key. If the holders of covered bonds decide

to accelerate the relevant covered bonds pursuant to article 4.5 of the Covered Bonds Law, the common representative of such holders shall request the Bank of Portugal to disclose the information associated to such code key.

The assets included in the register maintained by the Institution will form a 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

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 surtax of up to 3.5 per cent. is to be added (however, under the Portuguese State Budget Proposal for 2017, already approved by the Portuguese Parliament, such surtax will be subject to gradual revocation throughout the year 2017 according to the income brackets of taxpayers). 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 surtax of up to 3.5 per cent. is to be added (however, under the Portuguese State Budget Proposal for 2017, already approved by the Portuguese Parliament, such surtax will be subject to gradual revocation throughout the year 2017 according to the income brackets of taxpayers). Also in this circumstance, an additional income tax rate will be due on the part of taxable income exceeding €80,000 as follows: (i) 2.5 per cent. on the part of the taxable income exceeding € 80,000 up to € 250,000 and (ii) 5 per cent. on the

remaining part (if any) of the taxable income exceeding € 250,000. In this case, the tax withheld is deemed a payment on account of the final tax due.

Stamp tax at a rate of 10 per cent. applies to the 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 to 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.

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.

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, 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 (a) the share capital of the holder is more than 25 per cent., directly or indirectly, held by Portuguese resident entities or if (b) the holder is resident in a country, territory or region subject to a clearly more favourable tax regime included in the “low tax jurisdictions” list approved by Ministerial Order 150/2004, amended by Ministerial Order 292/2011. Accrued interest qualifies as interest for tax purposes.

Regarding item (a) above the capital gains are still exempt if the following requirements are cumulatively met: (i) the beneficial owner is a resident in an EU Member State, in an European Economic Area Member State which is bound to cooperate with Portugal under an administrative cooperation arrangement in tax matters similar to the exchange of information schemes in relation to tax matters existing within the European Union, or in a country with which Portugal has a double tax treaty in force which foresees the exchange of information; (ii) the beneficial owner is subject and not exempt from a tax referred to in article 2 of Council Directive 2011/96/UE, of 30 November 2011, or from a tax of similar nature with a rate not lower than 60 per cent of the Portuguese Corporate Income Tax rate (currently 12,6 per cent.); (iii) the beneficial owner holds, directly or indirectly, at least 10 per cent. of the share capital or voting rights for at least 1 year uninterruptedly of the entity disposed; (iv) the beneficial owner is not part of an arrangement or series of arrangements which have been put into place for the main purpose or one of the main purposes of obtaining a tax

advantage. Although the abovementioned cumulative requirements have been in full force since 31 March 2016 and apply to securities in general, the law is not clear on its application for the holder of debt securities to benefit from the relevant capital gain tax exemption, seeing as some of the alluded requirements appear not to apply to debt securities.

If the exemption does not apply, the gains will be subject to corporate income tax at a rate of 25 per cent. Under the tax treaties entered into by Portugal, such gains are usually not subject to Portuguese tax, but the applicable rules should be confirmed on a case by case basis.

No stamp tax applies to the acquisition through gift and inheritance of Covered Bonds by an individual who is not domiciled in Portugal.

The 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 of 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).

The special regime approved by Decree-law 193/2005 sets out the detailed rules and procedures to be followed on the proof of non-residency by the holders of Covered Bonds to which it applies.

Under these rules, the direct register entity is to obtain and keep proof, in the form described below, that the beneficial owner is a non-resident entity that is entitled to the exemption. As a general rule, the proof of non-residency by the holders of Covered Bonds should be provided to, and received by, the direct register entities prior to the relevant date for payment of any interest, or the redemption date (for zero coupon Covered Bonds), and in the case of domestically cleared Covered Bonds, prior to the transfer of Covered Bonds date, as the case may be.

The following is a general description of the rules and procedures on the proof required for the exemption to apply at source, as they stand on the date of this Base Prospectus.

(a) Domestically Cleared Covered Bonds

The beneficial owner of Covered Bonds must provide proof of non-residency in Portuguese territory substantially in the terms set forth below.

- i. If a holder of Covered Bonds is a central bank, a public law entity or agency or an international organisation recognised by the Portuguese State, a declaration of tax residence issued by the holder of Covered Bonds, duly signed and authenticated or proof pursuant to (iv) below;
- ii. If the beneficial owner of Covered Bonds is a credit institution, a financial company, a pension fund or an insurance company domiciled in any OECD country or in a country with which Portugal has entered into a double taxation treaty and is subject to a special supervision regime or administrative registration, certification shall be made by means of the following: (A) its tax identification; or (B) a certificate issued by the entity responsible for such supervision or registration confirming the legal existence of the holder of Covered Bonds and its domicile; or (C) proof of non residence pursuant to the terms of paragraph (iv) below.
- iii. If the beneficial owner of Covered Bonds is either an investment fund or other type of collective investment undertaking domiciled in any OECD country or any country with which Portugal has entered into a double tax treaty 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 by 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 United States has reached a Model 1 Intergovernmental Agreement with Portugal, signed on 6 August 2015 and ratified by Portugal on 5 August 2016.

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

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

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

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, a 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 a proposal (the “**Commission’s Proposal**”) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”). However, Estonia has since stated that it will not participate.

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

Under the Commission’s Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings

in the Covered Bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

Finance Ministers of the above mentioned ten participating Member States during the regular Eurozone's meeting held in Luxembourg, on 10 October 2016, have come to an agreement to progress the FTT, with the EU Commission being tasked with drawing up the legal text for the proposal, which may still be finalized up to the end of 2016.

The FTT proposal still remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

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

ADMINISTRATIVE COOPERATION IN THE FIELD OF TAXATION

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. In this respect it should be noted that the Savings Directive, as amended by Council Directive 2014/48/EU, of 24 March 2014, was repealed by Council Directive 2015/2060, of 10 November 2015. The aim was the adoption of a single and more comprehensive cooperation system in the field of taxation in the European Union under Council Directive 2011/16/EU, of 15 February 2011. Notwithstanding the repeal of the Savings Directive as of 1 January 2016 (in all Member States other than Austria, where it will be repealed as of 1 January 2017), certain provisions will continue to apply for a transitional period.

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

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

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

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) 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. The update of the Programme was duly authorised by resolution of the Board of Directors of the Issuer dated 20 December 2016 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 2016 and there has been no material adverse change in the prospects of the Issuer since 31 December 2015.

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: <https://www.bportugal.pt/en-US/OBancoeoEurosistema/Esclarecimentospublicos/Pages/DeliberacoesBes.aspx> The Resolution Measure was followed during August 2014 by other decisions of the Bank of Portugal clarifying the Resolution Measure, its scope and the framework applicable to Novo Banco.

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

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

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 Limited to BES Luxembourg Branch, which Bank of Portugal has considered as not being transferred to Novo Banco and having remained a liability of BES on the basis that Oak Finance was acting on behalf of Goldman Sachs International (“GSI”) with respect to the loan, and GSI held a stake in BES exceeding 2% of its issued share capital in the two-year period preceding 3 August 2014. In March 2015, Novo Banco made an application challenging the jurisdiction of the English courts to hear this matter. In August 2015, the English Commercial Court held in the first instance that the investors and Goldman Sachs debts recovery case against Novo Banco could be heard in the English courts. Novo Banco obtained permission to appeal this decision in October 2015, and the appeal hearing was held in the Court of Appeal in London in July 2016. In November 2016, the Court of Appeal decided in favor of Novo Banco, considering that this matter should be challenged in the Portuguese courts. The investors and Goldman Sachs have requested permission to appeal to the Supreme Court, the investors having also requested for the English proceedings to be stayed (and not dismissed). The Court of Appeal refused the permission to appeal on 18 November 2016 and no stay in the proceedings has been ordered. The claimants have requested directly to the Supreme Court for permission to appeal.

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

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

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

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

amounting to a principal amount of approximately 2,000 million.

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

The Bank of Portugal also disclosed on 29 December 2015 that it adopted a decision clarifying that it is the Resolution Fund's responsibility, upon the fulfillment of certain conditions, to make neutral for Novo Banco – through an appropriate compensation measure – potential negative effects of future judicial decisions resulting in liabilities that should have been attributed to BES according to the contents of the Resolution Measure and related decisions. Based on this decision from the Bank of Portugal, a court decision in a litigation, in Portugal or another jurisdiction, against the Resolution Measure or any other decisions of the Bank of Portugal is not expected by the Issuer to have an ultimate direct and detrimental effect on Novo Banco to the extent that the Resolution Fund assumes such responsibility.

There is a significant number of proceedings related to the application of the Resolution Measure and subsequent decisions of Bank of Portugal, including the ones mentioned above. Novo Banco is not a party to all the above mentioned judicial proceedings and there may be other similar judicial proceedings of which Novo Banco is not a party. As such, any final court decision that may be issued in the context of such judicial proceedings may adversely affect the capacity of Novo Banco to carry out its obligations under the Transaction Documents. Several court decisions (in Portugal and abroad) have been determined favourably to Novo Banco, consistent with the Resolution Measure and subsequent decisions of Banco de Portugal. However, in one instance, from a court in Portugal where the sale by BES of preference shares issued by special purpose vehicles created by BES was being discussed, the court considered that the Resolution Measure and the 29 December 2015 Decision were invalid and unconstitutional. Novo Banco is appealing the decision to a superior court. In the event this decision is not revoked, notwithstanding the neutrality decision mentioned in the previous paragraph, this decision may impact other ongoing proceedings.

It is not possible to know or make a full assessment of the impact of any such decisions and they may adversely affect the capacity of Novo Banco to carry out its obligations under the Programme Documents and/or the Covered Bonds.

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

Covered Bonds holders should be aware that the legal proceedings and consequences arising therefrom may adversely affect the incorporation, financial condition and/or the capacity of Novo Banco to carry out its obligations under the Programme Documents and/or the Covered Bonds, without prejudice to the potential application of any legal provisions allowing for the mitigation of the effects such proceedings, including the possibility of the Bank of Portugal invoking, in the relevant administrative proceeding, a legitimate cause for non-execution of an award annulling the Resolution, in the terms and subject to the limits provided for in articles 145-AR/3 of the RGICSF and articles 175/2 and 163 of the Portuguese Administrative Courts Procedural Code, in which case a proceeding for determination of a compensation shall be initiated in accordance with articles 178 and 166 of the latter Code.

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

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

process, including the opening of an in-depth investigation by the European Commission.

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

As such, any final court decision that may be issued in the context of such judicial proceedings may adversely affect the capacity of Novo Banco to carry out its obligations under the Programme Documents and/or the Covered Bonds, without prejudice to the protection granted to the holders of the Covered Bonds in the terms and subject to the limits provided for in the applicable legislation, as mentioned in the “Insolvency of the Issuer” section of this 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 2015 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 2015 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 audited consolidated financial statements of the Issuer and the auditor's report in respect of the financial period ended 31 December 2015 in English;
- d) the interim report and accounts of the Issuer in respect of the six-month period ended 30 June 2016 in English;
- e) the Programme Agreement and the Set of Agency Procedures, both dated 5 October 2015;
- f) the Common Representative Appointment Agreement dated 5 October 2015;
- g) this Base Prospectus;
- h) 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
- i) 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 was not liable for any payment under those Subordinated liabilities/preference shares and was 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 were 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 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 2015, 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.

On 29 December 2015 the Board of Directors of Banco de Portugal, acting as the Resolution Authority, approved decisions that completed the resolution measure applied to Banco Espírito Santo (BES), including the re-transfer to BES of the the entire stake held by Novo Banco in BES Finance Ltd.

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 were 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.

The auditors' report scheduled to the audited consolidated financial statements of the Issuer in respect of the financial year ended 31 December 2015 contains the following qualifications:

“7 Novo Banco has at 31 December 2015 a total exposure of around Euro 838 million to Banco Económico, S.A., for which it has recorded an impairment of Euro 82.8 million, decomposed into a participation on its share capital of around Euro 47 million recorded in the caption of Available for sale financial assets and two loans, senior and subordinate, of respectively, around Euro 397 million and Euro 394 million, including accrued interests, recorded in the caption of Loans and advances to banks. Despite the loans being performing at 31 December 2015, considering the lack of 2014 and 2015 audited financial information for Banco Económico S.A., the unavailability of a business plan to allow us to appreciate its future capacity of generate free cash flows for the settlement of the mentioned loans, the current economic situation in Angola and the fact that, as referred in Note 24 of the notes to the accounts, there are, at the present date, ongoing negotiations on the potential need to redefine the reimbursement conditions of the senior loan, it is not possible for us to conclude, with reasonable assurance, on the recoverability of the above mentioned total exposure.⁸ As referred in Note 40 of the notes to the accounts, the consolidated balance sheet of the Bank at 31 December 2015 includes Euro 1.183 million of deferred tax assets related to tax losses estimated in 2014 and 2015, for which, the effective recoverability is dependent on the generation of future taxable profit. Given that the maximum period for the use of these tax losses is 12 years, 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 2016 through 2017, that assumes a stability of the results as from 2020, incorporates assumptions that we consider optimistic given the current economic situation and the fact that it is a bridge bank. Under these circumstances, the captions of Deferred tax assets, Reserves, retained earnings and other comprehensive income and Net income for the period, contained in the consolidated balance sheet of the Bank at 31 December 2015, 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.”

During October 2014, Banco Nacional de Angola ((BNA), the Angolan Central Bank) made several financial restructuring decisions in respect of BES Angola (now Banco Económico) with an impact on the Novo Banco loan. In this context, it (i) a new senior loan in an amount equivalent to USD 425 million (Euros 390 million at 31 December 2015), maturing in April 2016, 50% of which covered by Angolan sovereign debt securities for which a negotiation process with Banco Económico has already started in order to evaluate the eventual need to redefine the reimbursement conditions, was constituted, (ii) a subordinated loan of USD 425 million (Euros 390 million at 31 December 2015), maturing on 30 October 2024, was constituted and (iii) USD 52 million of debt were converted into 9.7% of Banco Económico's share capital. The differential from the original debt, amounting to Euros 2750.4 million, fully provided in the opening balance sheet, was derecognised and the referred provision was used.

The restructuring measures imposed to Banco Económico included the approval of a share capital increase of Kwanzas 65 billion, to be paid for in cash which, together with the Kwanzas 7 billion of Novo Banco debt conversion, resulted in a share capital totalling Kwanzas 72 billion (equivalent to Euros 487 million, at the 31 December 2015 foreign exchange rate).

Taking into account (i) the implicit haircut of 80% as a result of the restructuring measures applied by BNA, which resulted in an impairment already recognised by Novo Banco of Euros 2750.4 million, (ii) the capital inflows (new money) referred to above made by the new Banco Económico

shareholder structure, (iii) the current performance of the loans from Novo Banco and (iv) the inexistence of audited financial information of Banco Económico for the 2014 and 2015 financial periods, an impairment of Euros 83 million was set up during the 2015 financial period for the above mentioned exposure.

As referred in the accounting policy and in accordance with the requirements defined in IAS 12, the deferred tax assets were recognised based on the Bank's expectation 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 2016-2020, and considering a constant activity growth after that date and up to the expiry of the deferred tax assets generated in 2014 and 2015 (12 years).

The expectation of generating future taxable income in Portugal is 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 activity of the Bank based on macroeconomic projections;
- fees and commissions, reflecting a growth with the expectation of the end of the guarantee from the Portuguese Government over the Bank's debt securities issued, with an annual cost higher than Euros 30 million.

The projections made by the senior management for the period 2016-2020 and that support the future taxable profits estimated by Novo Banco do not incorporate any effect resulting from the entry of a new shareholder, which could have direct impacts, namely in terms of additional funding cost reduction, over and above those already contained in the business plan, in Novo Banco's ability to attract business but, essentially, in terms of the strategy defined by the current Board of Directors for Novo Banco. Nevertheless, it should be noted that these projections were made on a going concern basis, based on historical and forecast information considered appropriate for this purpose as at this date but that should be reviewed after the completion of the sale process of Novo Banco.

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 20161485, 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 21 December 2016 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.

"**Central de Valores Mobiliários**" means the Portuguese Centralised System of Registration of Securities.

"**Clearing System**" means Interbolsa and/or, in relation to any Series of Covered Bonds, any other clearing system depositary as specified in the relevant Final Terms, and each a "**Clearing System**".

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

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

"**Common Representative**" means BNP Paribas Trust Corporation UK Limited, in its capacity as representative of the holders of the Covered Bonds pursuant to Article 14 of the Covered Bonds Law in accordance with the Terms and Conditions of the Covered Bonds and the terms of the Common Representative Appointment Agreement, having its registered office at 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 20161485 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 depositary.

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

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

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

- Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if “**Actual/365 (Fixed)**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
 - (iii) if “**Actual/365 (Sterling)**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
 - (iv) if “**Actual/360**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
 - (v) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
 - (vi) if “**30E/360**” or “**Eurobond Basis**” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).

“**DBRS**” means DBRS Ratings Limited.

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

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

“**ECB**” means the European Central Bank.

“**EEA**” means the European Economic Area.

“**EU**” means the European Union.

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

“**Novo Banco Group**” means Novo Banco and its consolidated subsidiaries.

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

- (a) deposits with the Bank of Portugal in cash or securities eligible for credit transactions in the Eurosystem (which is the monetary authority of the euro area which comprises the ECB and the national central banks of the Member States whose currency is the euro);
- (b) current or term account deposits with credit institutions (which are not in a control or group relationship with the Issuer) having a rating as required pursuant to the Covered Bonds Law and which will include, for the avoidance of doubt, funds standing to the credit of the Reserve Account which are subject to the same legal requirements and regime as such deposits (and which compliance at all times the Issuer shall ensure); and
- (c) other assets complying simultaneously with the requisites of low risk and high liquidity as defined by the Bank of Portugal;

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

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

“**Overcollateralisation**” has the meaning given in Condition 15.1.

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

“**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 and updated on 21 December 2016.

“**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 6 October 2015 (as amended from time to time).

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

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

“**Securities Act**” means the United States Securities Act of 1933, as amended.

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

“**Set of Agency Procedures**” means the set of agency procedures (such set of agency procedures as amended and/or supplemented and/or restated from time to time) dated 5 October 2015 and made and agreed by Novo Banco, S.A., in its capacity as Agent, Paying Agent and the Issuer and agreed to by

any subsequent agent, paying agent, transfer agent, agent bank and/or registrar appointed by the Issuer.

“**Stabilising Manager**” means the Dealer or Dealers (if any) named as the stabilising manager(s) for a particular Tranche of 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.

“**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.

ANNEX I – ALTERNATIVE PERFORMANCE MEASURES (GLOSSARY)

In addition to the financial information contained in this Base Prospectus prepared in accordance with the financial reporting framework applicable to the Issuer, some Alternative Performance Measures (“APMs”), in accordance with ESMA Guidelines on Alternative Performance Measures dated 5 October 2015 (ESMA/2015/1415en) (the “ESMA Guidelines”), are also herein disclosed. Novo Banco discloses these APMs for better understanding of its financial performance. These APMs constitute additional financial information and shall not, in any circumstance, replace the financial information produced under the applicable reporting framework. The definition and calculation of APMs by the Issuer may differ from the definition and calculation of APMs used by other issuers of securities and may not be compared.

For the purposes of the ESMA Guidelines an APM is understood as a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.

Pages	Note	Definition
Pages 22, 134, 135, 138, 155	Note 1 – Liquidity Coverage Ratio	Calculated in accordance with CRD IV/CRR
Pages 22, 30, 134, 155	Note 2 – Net Stable Funding Ratio	Calculated in accordance with CRD IV/CRR
Pages 23, 137	Note 3 – Net funding from the European central banks	Corresponds to the funds borrowed from the European central banks deducted from the deposits held with the European central banks
Page 24, 145, 146	Note 4 – Overdue loans > 90 days/Gross loans	Corresponds to the ratio of overdue loans for more than 90 days and the gross total loans to customers
Page 24, 145, 146	Note 5 – Coverage Ratio of Overdue Loans > 90 days	Corresponds to the ratio total provisions for credit and overdue loans for more than 90 days
Page 24, 145, 146	Note 6 – Ratio of Credit at Risk	Calculated in accordance with the Bank of Portugal Instruction n° 23/2011
Page 24, 145, 146	Note 5 – Coverage Ratio of Credit at Risk	Corresponds to the ratio total provisions and Credit at Risk
Page 25, 26, 136	Note 7 – Securities portfolio	Corresponds to the consolidated assets recorded on the balance sheet as Financial Assets and Liabilities Held For Trading, Other Financial Assets At Fair Value Through Profit and Loss and Available For Sale Financial Assets, excluding derivative financial instruments
Pages 29, 144, 146, 154	Note 8 – Phased-in Common Equity Tier 1 ratio	Calculated in accordance with the CRD IV/CRR
Pages 128, 131, 135, 147	Note 9 - Customer funds	Includes deposits and other customer funds, which corresponds to the line item Due to Customers

		on the Balance Sheet.
Pages 135	Note 10 – Retail customer funds	Includes deposits and other customer funds which are placed with customers from the Retail reporting segment
Page 143, 145, 147	Note 12 – Net operating income	Corresponds to the net interest income less operating costs plus results from the sale of subsidiaries and associated companies and results from associated companies
Page 144	Note 13 – Commercial banking income	Corresponds to net interest income plus net fees and commissions
Pages 144, 145	Note 14 – Capital markets results	Includes (i) dividend income consists of income from equity instruments (dividends); (ii) net gains / (losses) from financial assets and liabilities at fair value through profit or loss, which includes the gains and losses from the valuation and sale of assets recognized as trading or at fair value through profit and loss portfolios, namely derivatives and securities; (iii) net gains / (losses) from available-for-sale financial assets, including bonds, shares, derivative financial instruments (over interest, credit and currency) and other variable income securities; (iv) net gains / (losses) from foreign exchange differences; and (v) other operating income and expenses attributable to the revaluation of liabilities.
Pages 144, 146	Note 15 – Loan to deposits ratio	Calculated in accordance to Bank of Portugal Instruction n° 16/2004
Page 145	Note 16 – Cost to income	Corresponds to the ratio of operating costs and the banking income
Page 146	Note 17 – Cost of Risk	Corresponds to the annualized provisions for loan losses in the Profit and loss account divided by the amount of gross loans to customers. Annualized provisions are calculated by dividing the total provisions for loan losses in the profit and loss account for the period in reference by the number of months of the period in reference and then multiplying those results by 12. Annualized cost of risk is not necessarily indicative of the cost of risk that

		may be expected for a full year.
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