2017
ANNUAL REPORT

NOVO BANCO

NOVO BANCO, S.A.

Av. da Liberdade, n.º 195, 1250-142 Lisbon, Portugal

Share Capital: 5 900 000 000.00 euros

Registered at Lisbon Commercial Registry under the single registration

and tax identification number: 513 204 016

I. Management Report 5

This Annual Report is a free translation into English of the original Portuguese version. In case of doubt or misinterpertration the Portuguese version will prevail.

I. MANAGEMENT REPORT

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1. Message from the Chairman of the General and Supervisory Board

Dear Stakeholders,

On 18th October 2017, Nani Holdings SGPS S.A. ("Nani Holdings") completed the acquisition of 75% of NOVO BANCO S.A. ("NOVO BANCO" or "the Bank"). This represented a new beginning for NOVO BANCO, its customers and its employees ending three years of significant uncertainty.

A General Shareholders Meeting on the same day introduced and approved a new strengthened governance model for NOVO BANCO, with the establishment of a two-tier corporate body supervisory and management structure. The General and Supervisory Board ("GSB") was established and its members were duly appointed, including a Chairman and Vice Chairman. The Executive Board of Directors ("EBD") and its members were appointed at the same time.

In addition to the GSB, separate GSB Committees were also established: the Financial Affairs Committee, Risk Committee, Compliance Committee, Nomination Committee and Remuneration Committee. All GSB Committees are chaired by independent appointed members. As of April 2018, the GSB consists of nine members, five members (including the Chairman and Vice Chairman) are independent appointed members and four members are appointed by the owners of Nani Holdings.

GSB and the respective GSB committees have focused on establishing and operating the new governance structure in NOVO BANCO and supervising and supporting the EBD in the execution of the Bank's strategic goals and targets for the remainder of the year.

With the period of shareholder uncertainty over, the EBD and the rest of the leadership team of NOVO BANCO are now focusing on transforming the organisation in support of our customers, our employees and our other stakeholders. This includes further developing and investing in the core commercial businesses on the one hand while at the same time continuing to clean up the legacy issues from the past, including the disposal of non-core businesses.

This transformation will continue at a good pace in 2018. Ambitious but realistic strategic, financial and operational goals and targets for the Bank have been approved and set by the GSB for the upcoming year.

In conclusion, I would like to express my sincere thanks to the Executive Board of Directors as well as all employees of NOVO BANCO in the name of the General and Supervisory Board for their performance, hard work and sustained commitment in 2017.

Byron Haynes

Chairman of the General and Supervisory Board

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Message from the Chief Executive Officer

NOVO BANCO was established on 3rd August 2014 as a transition bank to operate as such for a period of two years later extended for a further year. This decision was made in accordance with the national rules of the banking resolution.

The year 2017, the third full year following its creation, will be flagged in its history as the year in which NOVO BANCO ceased to be a transition bank to assume its role as a fully fledged Credit Institution in the markets in which it performs.

That was what happened on 18th October with the formal entry of Lone Star funds into NOVO BANCO, which, through a 1,000 million euro capital injection in 2017, became holder of 75% of the capital.

It should also be noted that the Bank's overall market placement was preceded by the successful completion of an LME ("*Liability Management Exercise"*) on the Bank's senior bonds, allowing the creation of more than 200 million euro of capital and relevant future savings, and was accompanied by the creation of a Contingent Capital Agreement on problem assets under the responsibility of the Resolution Fund, up to a maximum of 3,890 million euro, that thus preserved 25% of the share capital.

NOVO BANCO is thus in a position to restart a rebuilding process with the agreement of the European Commission, which will allow it to develop in the future its natural ability for the corporate and private individuals segments, focused on the domestic market but not neglecting its Iberian nature.

The start of the rebuilding took place immediately, in the last quarter of the year, with the inevitable effects in the income statement. These effects are justified by a reinforcement of provision and impairments for loans, securities and equity participations amounting to 2,057 million euro and a negative tax impact of 445 million euro, resulting mainly from the write-offs of deferred taxes assets on tax losses, in the amount of 520 million euro. These factors contributed decisively to the negative net income of 1,395 million euro after Contingent Capital Agreement (CCA), an amount not comparable to the previous year.

Rebuilding in banking has been shown to be all the more effective as faster and decisive.

But 18th October 2017 will mark the future, and with it a total reform of the governance model in line with the best market practices, the definition of a Strategic Plan capable of solving the weaknesses of the Bank but creating the bases that a new challenge of digitalisation and differentiation will impose on NOVO BANCO, and above all a renewed commitment to our corporate and private individual customers, in the tireless search for transparent, professional and competent financial solutions and services able to respond to their needs.

A word to thank the shareholders who in 2017 invested in the future of the Bank. That investment undertaken in a context of high uncertainty is a powerful incentive for our ambition to create shareholder value.

Another word for all the employees of the Bank and its subsidiaries who showed competence and professionalism, as was their duty, but also showed an availability and resistance that were unmatched. This, I am sure, will continue to be the spirit of our employees for the future.

And finally, one last word to our customers. Without them, NOVO BANCO would have no reason to be. It was your confidence, your demand and your urge for professionalism that allowed your NOVO BANCO, in these three years, to preserve its market share in small and medium-sized enterprises and to deserve the increased confidence of its private individual customers.

António Ramalho

Chief Executive Officer

2. Main Indicators

FINANCIAL HIGHLIGHTS	31-Dec-16	31-Dec-17
ACTIVITY (€ million)		
Net Assets	52 333	52 055
Gross Loans	33 750	31 422
Customer Deposits	25 585	29 691
Equity	5 148	4 832
SOLVENCY(1)		
Common EquityTier I /Risk Weighted Assets	12.0%	12.8%
Tier I /Risk Weighted Assets	12.0%	12.8%
Total Own Funds/Risk Weighted Assets	12.0%	13.0%
LIQUIDITY (€ million)		
Net Funding from the European Central Bank (ECB) (net) (2)	5 123	2 790
Eligible Assets for Repo Operations (ECB and other), net of haircut	11 587	12 706
(Total Credit - Credit Provisions)/ Customer Deposits (1)	110%	88%
Liquidity Coverage Ratio (LCR)	107%	124%
Net Stable Funding Ratio (NSFR)	99%	108%
ASSET QUALITY		
Overdue Loans > 90 days/ Gross Loans	17.0%	16.3%
Overdue and Doubtful Loans / Total Loans (1)	18.7%	18.3%
Overdue and Doubful Loans, net of impairments / Total Net Loans (1)	2.6%	0.4%
Credit at Risk / Total Loans (1)	25.6%	23.6%
Credit at Risk (net)/ Total Net Loans (1)	10.9%	6.9%
Restructured Credit (1)/ Gross Loans	23.7%	22.6%
Restructured Credit not included in Credit at Risk (1)/ Gross Loans	11.9%	10.8%
Non-Performing Loans (NPL)/ Gross Loans	33.4%	30.5%
Credit Provisions / Overdue Loans > 90 days	97.2%	109.8%
Credit Provisions / Gross Loans	16.5%	17.9%
Cost of Risk	1.99%	3.91%
PROFITABILITY		
Net Income (€ million)	-788.3	-1 395.4
Income before Taxes and Non-Controlling Interests / Average Net Assets (1)	-1.9%	-1.8%
Banking Income /Average Net Assets (1)	1.8%	3.3%
Income before Taxes and Non-Controlling Interests / Average Net Assets (1)	-17.0%	-16.8%
EFFICIENCY		
Staff Costs + General and Admin. Costs + Depreciation / Banking Income (1)	60.4%	32.6%
Staff Costs / Banking Income (1)	31.0%	16.4%
EMPLOYEES		
Total	6 096	5 488
- Domestic	5 687	5 156
- International	409	332
BRANCH NETWORK		
Total	537	473
- Domestic	507	448
- International	30	25

(1) According to Banco de Portugal Instruction n. 16/2004, in its version in force
(2) Includes funds from and placements with the ESCB; positive = net borrowing; negative= net lending

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3. NOVO BANCO

3.1. Origin

NOVO BANCO, S.A., the main entity of the financial Group NOVO BANCO, centres its activity on banking, having been incorporated by deliberation of the Board of Directors of Banco de Portugal dated 3 August 2014 (8 p.m.), under no. 5 of article 145-G of the General Law on Credit Institutions and Financial Companies ("*Regime Geral das Instituições de Crédito e Sociedades Financeiras*" (RGICSF)[1] , approved by Decree-Law no. 298/92, of 31 December, following the resolution measure applied by Banco de Portugal to Banco Espírito Santo, S.A. (BES), under the terms of paragraphs 1 and 3-c) of article 145-C of the RGICSF. Pursuant to the resolution measure, the assets, liabilities, off-balance sheet items and assets under management of BES defined in Annex 2 to the said deliberation were transferred to NOVO BANCO, S.A..

On 29 December 2015 the Board of Directors of Banco de Portugal approved a deliberation (hereafter "Deliberation of 29 December 2015"), which resulted in a revised and consolidated version of Annex 2 to the Deliberation of 3 August 2014 and consolidated the perimeter of assets, liabilities, off-balance sheet items and assets under management of NOVO BANCO.

On 31 March 2017 Banco de Portugal informed the market it had selected Lone Star to complete the sale of NOVO BANCO's share capital and that the Resolution Fund had signed the operation's contract documents. The sale process of NOVO BANCO to Nani Holdings, S.G.P,S., S.A., a subsidiary fully controlled by funds managed by Lone Star Group, was concluded on 18 October 2017 through a 750 million euro capital increase. Upon completion of the sale and the 250 million euro capital increase of 21 December 2017, the share capital of NOVO BANCO had increased to 5,900,000,000.00 euro, represented by 9,799,999,997 dematerialised registered shares with no par value, of which 75% were fully subscribed, paid up and held by Nani Holdings S.G.P,S., S.A. and 25% by the Resolution Fund.

The conditions of the sale operation also include the setting up of a Contingent Capital Agreement (CCA), under which the Resolution Fund, as a shareholder, undertakes to make payments in the event of certain cumulative conditions being met, related to the performance of a defined set of assets of NOVO BANCO and the evolution of the Bank's capitalisation levels. The agreed conditions also provide for the existence of mechanisms to safeguard the interests of the Resolution Fund and to align incentives, as well as supervision mechanisms, notwithstanding the limitations arising from the application of State aid rules.

[1] References made to RGICSF refer to the version in force at the date of the resolution measure.

Upon completion of the operation, the transition institutions regime ceased to apply to NOVO BANCO and started to operate under normal conditions although being subject to certain measures imposed by the European competition authority that limit its activity.

3.2. Developments (main events in 2017)

Sale of NOVO BANCO and new governance model

On 18 October, with the completion of the sale process NOVO BANCO ceased to be a transition bank.

On that date Nani Holdings, SGPS S.A. ("Nani Holdings", an entity held by investment funds of Lone Star) subscribed and paid up a 750 million euro capital increase that reinforced the Bank's capital and created a new shareholder structure where Nani Holdings holds 75% of the share capital and the Resolution Fund the remaining 25%. With this operation NOVO BANCO's share capital increased from 4,900 million euro to 5,650 million euro, represented by 9,799,999,996 registered nominative shares, with no par value, fully subscribed and paid up.

Also on 18 October the Bank held a General Meeting of Shareholders that approved an amendment to the Articles of Association and the appointment of the corporate bodies. The amendments to the Articles of Association included changes in the management and supervisory structure, which is now composed of a General and Supervisory Board, an Executive Board of Directors and a Statutory Auditor. Following the above mentioned resolution on the amendment of the Articles of Association, it was resolved to appoint new members to the General and Supervisory Board and to the Board of the General Meeting for the 2017-2020 term of office. The General and Supervisory Board in turn appointed the members of the Executive Board of Directors for the same 2017-2020 term of office.

At the end of December NOVO BANCO made a new capital increase, which was fully subscribed and paid up by the shareholder Nani Holdings, through new cash inflows in the amount of 250 million euro. This operation increased NOVO BANCO' share capital from 5,650 million euro to 5,900 million euro, represented by 9,799,999,997 registered nominative shares with no par value, fully subscribed and paid up and held at 75% by Nani Holdings and at 25% by the Resolution Fund.

Contingent Capital Agreement

In line with the conditions agreed in the sale process of NOVO BANCO, a Contingent Capital Agreement was created.

Under this agreement, in case its capital ratios decrease below a predefined threshold, and cumulatively, losses are recorded in a delimited portfolio of assets, the Resolution Fund makes a payment corresponding to the lower of the losses recorded and the amount needed to restore the capital ratios at the relevant level, up to a limit of 3.89 billion euro over a period of eight years.

The capital thus managed corresponds to a previously established set of assets with an initial net book value (in June 2016) of approximately 7.9 billion euro. On 31 December 2017 the net value of those assets was 5.4 billion euro, essentially as a result of both the recording of losses and the occurrence of receipts and recoveries.

The loss reported in 2017 mainly resulted from the high level of impairments recognised in order to address the requirements of the European authorities, which aim to set up the conditions for banks to regain profitability in a faster and more consistent manner.

On 31 December 2017, conditions were established determining that, in 2018, the Resolution Fund will have a payment obligation of 791.7 million euro, aimed at allowing the Bank to remain a financially solid institution, well capitalised and with capital ratios and levels of profitability capable of furthering its activity.

Purchase and reimbursement of senior debt

The Liability Management Exercise (LME) concluded on 4 October last was one of the conditions precedent for the completion of the sale of NOVO BANCO to Lone Star under the terms of the purchase and sale agreement announced on 31 March 2017.

The LME was a tender offer launched on several senior debt securities issued directly and indirectly by NOVO BANCO, with the objective of strengthening its equity. It ran between 25 July and 2 October 2017, with financial settlement on 4 October. The offer targeted the purchase of all bonds from 36 issues of NOVO BANCO, against a cash consideration, providing the bondholders with a price that was in line with the market price; the offer was combined with a solicitation of consent to change the terms and conditions of the debt issuances to include the possibility for early reimbursement by initiative of the issuer (the "Consent Solicitation"). The option for the cash consideration made this a simpler and more perceptible solution as well one that was better adjusted to institutional and retail investors. The operation concerned 36 bond series, maturing between 2019 and 2052, whose global nominal value of 8.3 billion euro corresponded to around 3 billion euro in book value.

The completion of the operation involved the purchase and early redemption, under the terms of the tender offer and consent solicitation, of 4.7 billion euro of bonds representing 57% of the nominal value of the bonds subject to the offer, for a total amount of 2.0 billion euro. The transaction allowed the fulfilment of the objectives in terms of capital increase (Core Tier 1) and gross equivalent gains, including interest savings. The success of the transaction was due to the fact that the offer allowed for the purchase and early reimbursement of bonds representing 73% of the book value.

Bank clients who opted for selling or who were early reimbursed were offered term deposits with specific conditions.

Process of Divestment of Non-Strategic Assets

The strategy of focusing on the domestic banking business involved the identification, for sale, of assets considered non-strategic for NOVO BANCO's activity of which the following operations are highlighted:

- Sale to BANCAMIGA, Banco Universal, CA (Venezuela) of the assets and liabilities of NOVO BANCO's Branch in this country. With the completion of this transaction in 2018 NOVO BANCO ceases to have any banking activity in Venezuela and that will be followed with the closure of the Branch.
- Sale of the 36.65% stake held in Vortal SGPS, SA, an electronic procurement platform, to Vallis Sustainable Investments I, SCA, SICAR fund.
- Signature of a sale and purchase agreement with IIBG Holdings B.S.C., in respect of 90% of the share capital of Banco Internacional de Cabo Verde. The completion of this transaction is pending the necessary authorisations, namely from the Banco de Cabo Verde.
- Sale to Amkor Technology, Inc. of a 41.06% stake in the share capital and credits of Nanium, SA - a world-class firm in the semiconductors sector, namely supplying 'wafer-level fan-out' (WLFO) packaging solutions.
- Sale of 75% of the share capital of NOVO BANCO Ásia to a group of investors led by Well Link Group Holdings Limited, a company incorporated in Hong Kong, for 145.8 million euro. The sale agreement provides for a set of put and call options, under conditions already agreed, for the remaining 25%. These options can be exercised within a period of up to 5 years, making up a total price for the 100% holding of 183 million euro.
- The indirect subsidiary ES Concessions International Holding BV completed the sale of a 22.21% stake in Empark – Aparcamientos y Servicios, SA to ASSIP, Asesoría y Estudios de Mercado SA and ESIF I, BV.
- Launch of an organised process to sell up to 100% of the share capital of GNB Companhia de Seguros de Vida, S.A..

Cultural and Artistic Heritage

On 29 January 2018 NOVO BANCO and the Portuguese State, through the Ministry of Culture, assumed the commitment to make available to the public the cultural and artistic heritage of NOVO BANCO through partnerships with public and private entities, such as museums and universities at national and regional level. This commitment involves the creation of the NB Cultura brand, which gathers under a single concept all the Bank's collections of paintings, contemporary photography, humanities studies and numismatics.

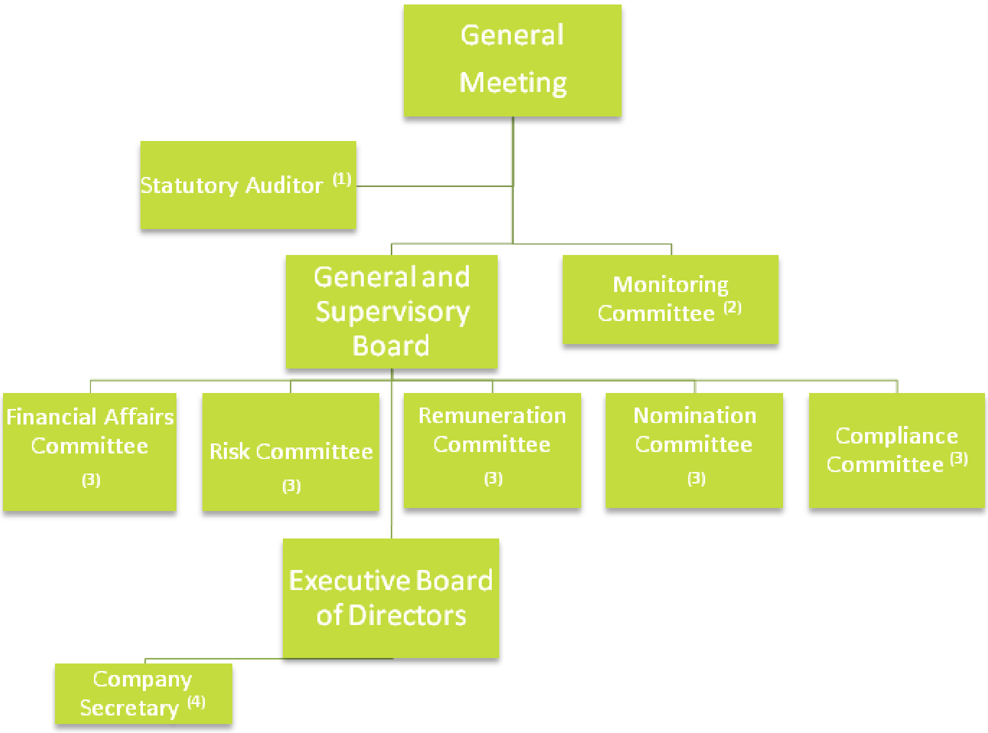
3.3. Corporate and Statutory Bodies

Under the terms of the Bank's Articles of Association, the corporate and statutory bodies of NOVO BANCO are the General Meeting, the General and Supervisory Board, the Executive Board of Directors, the Monitoring Committee, the Statutory Auditor and the Company Secretary.

The corporate bodies are elected for four-year terms of office and they may be re-elected once or more than once.

Also in accordance with the Articles of Association, the members of the Board of the General Meeting, of the General and Supervisory Board, of the Monitoring Committee and the Statutory Auditor are elected by the General Meeting. The members of the Executive Board of Directors are appointed by the General and Supervisory Board. The Company Secretary and Alternate Secretary are appointed by the Executive Board of Directors.

NOVO BANCO corporate governance organisation chart:



(1) Elected by the General Meeting upon a proposal of the General and Supervisory Board.
(2) The Monitoring Committee is composed of three members. The Monitoring Committee is an advisory body for the purposes of the Contingent Capital Agreement.
(3) The Special Committees are composed of members of the General and Supervisory Board. The General and Supervisory Board sets up, appoints the members and approves the internal rules of the Special Committees.
(4) The General and Supervisory Board is consulted prior to any proposal of the Executive Board of Directors related to the appointment of the Company Secretary and Alternate Secretary.

Composition of the corporate and statutory bodies of NOVO BANCO at the signature date of this report:

Board of the General Meeting

- Chairman: Nuno Azevedo Neves
- Vice-Chairman: João Costa Quinta
- Secretary: Ana Isabel Vieira

General and Supervisory Board

- Chairman: Byron James Macbean Haynes
- Vice-Chairman: Karl-Gerhard Eick
- Member: Donald John Quintin
- Member: Kambiz Nourbakhsh
- Member: Mark Andrew Coker
- Member: Benjamin Friedrich Dickgiesser
- Member: John Ryan Herbert
- Member: Robert Alan Sherman
- Member: Carla Antunes da Silva[2]

Executive Board of Directors[3]

- Chairman: António Manuel Palma Ramalho - Chief Executive Officer (CEO)
- Member: Vítor Manuel Lopes Fernandes - Chief Commercial Officer
- Member: Jorge Telmo Maria Freire Cardoso – Chief Financial Officer (CFO)
- Member: Luísa Marta Santos Soares da Silva Amaro de Matos - Chief Legal and Compliance Officer
- Member: José Eduardo Fragoso Tavares de Bettencourt – Chief Operating Officer
- Member: Rui Miguel Dias Ribeiro Fontes - Chief Risk Officer

Monitoring Committee

- Chairman: José Rodrigues de Jesus
- Member: José Bracinha Vieira
- Member: Miguel Athayde Marques

Statutory Auditor

The term of office of the Statutory Auditor, PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, LDA., represented by José Manuel Henriques Bernardo or Aurélio Adriano Rangel Amado, ended on 31 December 2017. The General Meeting elected as new Statutory Auditor for the 2018-2020 term of office Ernst & Young Audit & Associados - SROC, S.A., represented by António Filipe Dias da Fonseca Brás and João Carlos Miguel Alves, as deputy.

Company Secretary

- Pedro Moreira de Almeida Queiroz de Barros
- Alexandra Maria dos Reis Gaspar (Alternate Secretary)

[2] Her taking office is pending authorization by the European Central Bank
[3] Isabel Maria Ferreira Possantes Rodrigues Cascão was a member of the Executive Board of Directors during 2017 and ceased her mandate on 31 March 2018.

4. NOVO BANCO Group

4.1. Strategy

NOVO BANCO Group is a reference financial group in the Portuguese domestic market, with a strong franchise in the corporate and retail segments. The Group stands out for the excellence of its services, adopting a customer-centric approach supported by a specialised sales force, a broad multi-channel network and a wide-range offer of products.

Over the year the NOVO BANCO Group maintained its strategic focus on meeting its customers' needs through an offer of high quality innovative products, while concentrating its activity on the domestic business and stepping up the reduction of the relative weight of its non-core/non-strategic assets.

NOVO BANCO assumes its vocation as a Customer-oriented Bank and is recognised as a reference bank for highly demanding corporate and private individual clients.

As a complement to the Restructuring Plan drawn in the context of the commitments assumed with the DG Comp (*Directorate-General for Competition*), a set of Transformation Projects were created for NOVO BANCO Group at the end of 2016, with a focus on (i) maximizing cost efficiency through adjustments to the installed capacity - rationalisation of the structure (central services and retail network) and processes, and cost optimisation - and (ii) optimisation of revenues. A total of 29 Transformation Projects have been launched, each sponsored by a “Transformation Champion” responsible for the success of the Project. Some of these Projects were completed during 2017 (e.g., reorganisation of the Bank's organisational structure).

In 2017 the Bank continued to act upon the following guiding principles:

- **Leadership**, with particular focus on commercial banking, aiming to reach a leading position in each segment where it operates;
- **Strength**, by maintaining high liquidity and solvency levels;
- **Profitability**, by striving for ever better profitability levels, with low market risks, and through a selective divestment of assets;
  - at banking income level, by maintaining the focus on the small and medium size enterprises (SMEs), and in the exporting sector, in particular through trade finance, and developing the cross-selling business, upholding service quality in residential mortgage loans, and developing responsible personal loans;
  - at the level of operating costs, by developing a 'best in class' policy, ensuring the adequate management of spaces and human resources and creating a product factory model;

- **Simplicity**, in processes and through an efficient customer service.

We also strived to secure a reputation as a "fair bank" and to develop an engaged and responsible social dividend policy, namely in the ethical, social and environmental areas.

The sale process of NOVO BANCO included a liability management exercise that will allow the fulfilment of the objectives in terms of capital increase (Core Tier 1) and equivalent gains including interest savings in excess of 500 million euro.

With the completion on 18 October 2017 of the sale of 75% of NOVO BANCO's share capital to Lone Star, the Bank received a capital injection of 1,000 million euro, in two tranches (October and December), and ceased to fall under the status of transition bank. In addition, the Bank will benefit from a Contingent Capital Agreement for a period of eight years that allows that under certain conditions NOVO BANCO can be compensated up to a maximum of 3,890 million euro by the shareholder, Resolution Fund.

At the same time a new governance model was defined whereby the management and supervisory structure is composed of a General and Supervisory Board, an Executive Board of Directors and a Statutory Auditor.

Together with the continuing sale of non-strategic assets and the optimisation of the risk weighted assets, the operations described above permit to guarantee the Bank's financial strength and allow it to provide steadfast support to its clients and to consolidate its position amongst the largest Portuguese financial groups.

4.2. Commercial and Business Activity

The NOVO BANCO Group ("NB Group", the "Group" or "GNB") develops its activity centered on the financial industry sector and focused on the corporate, institutional and private individual clients. It has its decision center in Portugal, which gives to the domestic territory its natural business market.

When monitoring the performance of each business area, the Group considers the following business operating segments:

- Domestic Commercial Banking, which includes the Retail, Corporate, and Institutional sub-segments;
- International Commercial Banking;
- Asset Management;
- Life Insurance;
- Markets.

4.2.1. Commercial Banking

In Portugal, NB Group operates through a single-brand network of 434 branches (excluding NB Açores, Banco Best and SFE Madeira), 20 Corporate Centres and 12 Private Banking Centres. Given the adverse environment surrounding the creation of NB Group, the commercial dynamism was key to the resilience of the Bank's competitive positioning.

Retail Banking

Throughout the year NOVO BANCO focused its concerns on providing comprehensive solutions facilitating the daily life of its Retail clients, thus stressing its character of a bank geared to forward-looking solutions. From the various instances of innovative products and services launched during the year, the following is highlighted:

- **NB Micro Cartão Contactless** (NB Micro Contactless Card), a card that lets one go shopping without taking one's wallet; This is a micro debit card, unique in Portugal, that can be stuck onto the mobile phone or any other object, and used for payments worldwide with a simple touch at a point of sale (POS) terminal, with the same security as traditional bank cards using contactless technology. This technology is widely spread in Europe and in Portugal is already available in more than 45 thousand terminals;
- **Cartão Branco** (White Card), the only credit card with zero percent interest;
- **NB smart app**, with fingerprint access, enabling all transactions with much fewer clicks;
- **Crédito Ordenado online** (Online Salary Advance) - possibility to request a salary advance online to deal with any unexpected expenses;
- **Poupança por Objetivos,** (Saving for Objectives) - A solution exclusive to the NB smart app, allowing the client to customise different goals for his savings, define whether or not to make regular

deposits and for how long he/she will save to reach his objective, and to monitor the evolution of his savings in an intuitive and attractive interface;

- **Online request to open an account**, in just four steps, a fast, convenient and innovative way to trigger the account opening process;
- **Online Auctions of Term Deposits** at NBnet, with very attractive rates;
- **NB Chat Pay**, a new payment facility that allows social network users to transfer up to 50 euro per day (150 euro per month) to their mobile phone contacts who have MB WAY installed in all chat environments.

This innovation matrix is enhanced by a segmented approach to the market, featuring differentiated value propositions adjusted to the various Client profiles:

- for the affluent clients segment, the **NB 360°** service is a reference proposition that includes monitoring by a specialised account manager who receives his/her clients in a secluded space and strives to deliver the best solution to their requests;
- The **Small Businesses** segment is based on a specialised relationship service, where the permanent adaptation of the offer of products and services to the needs detected has propelled its growth in terms of the customer base, customer funds and customer loans. NOVO BANCO's offer of innovative cash management and payment and collection solutions for micro and small companies allows its clients to manage their working capital requirements more effectively;
- In the **mass market** segment, the Bank reinforced its offer of credit products, in particular of residential mortgage loans and personal loans, but also of saving products, and everyday protection and insurance products;

The main Retail activity indicators mirror the success of the bet on providing permanent attention to the Clients' specific needs.

In retail, 2017 was characterised by a strengthening of individual clients' confidence in NOVO BANCO, driving a 984 million euro increase in new deposits (excluding deposits created following the LME and the commercial solution presented by NOVO BANCO to the client holders of preference shares) compared to 2016 (+18% YoY - year-on-year).
Structured Deposits production, which reached 349 million euro, gave a significant boost to this growth. This growth of the deposits portfolio was achieved while significantly reducing its cost (- 59bps in the production vs. December 2016).

Loans to individuals showed very positive results in 2017: residential mortgage loans production grew by 59% year-on-year, bolstered by a differentiating offer:

- Introduction of a commitment to respond to loan requests within 24 hours.
- Enlarged and adjustable offer in tems of terms, rates and amounts;
- Enlarged terms that can go up to 40 years;
- Possibility of fixing interest rate at the beginning of the loan, or when found adequate, given changes in Euribor;
- Favourable conditions to exchange house (“*Oferta Spread Troca de Casa*”);
- Wide NOVO BANCO real estate offer and real estate financed by NOVO BANCO in competitive conditions.

Thanks to this new facility NOVO BANCO managed to obtain higher spreads than the competition in residential mortgage loans.

Consumer loans production soared by 89% year-on-year. This dynamics was driven, among others, by the growth of sales through the digital channels. In **car leasing**, production growth was equally expressive, reaching +56% relative to 2016.

In the segment of **small businesses** monitored by the Retail Area, we note the contribution of the '*Capitalizar*' credit line, under which a total of 2,170 operations were concluded in 2017, corresponding to 69 million euro. The active support provided to the Clients in the preparation and submission of credit applications gave NOVO BANCO the second place in the ranking of the sub-line for small and micro companies.

The results obtained by NOVO BANCO continue to reflect the Bank's rigour, professionalism and quality in the provision of banking services and products, as reflected in the fact that it receives fewer complaints than the average for the financial system. This was the conclusion reached by the Banking Conduct Supervision report published by Banco de Portugal, which analyses the complaints made by Bank Clients during the first half of 2017. According to this report, NOVO BANCO received the following number of complaints per product:

- **Deposits** - **NB** received 0.13 complaints per a thousand sight deposit accounts, which compares with 1.13 complaints reported by the institution with the largest number of complaints **(8x fewer)**;
- **Mortgage Loans – NB** received 0.41 complaints per a thousand contracts, well below the 1.12 per a thousand complaints reported by the institution that leads the ranking **(3x fewer)**:
- **Consumer Credit** - 0.14 complaints per a thousand contracts, which compares with 0.61 reported by the institution with the largest volume of complaints **(4x fewer)**.

In terms of the international recognition for retail customer services, NOVO BANCO was awarded the best provider of Securities and Custody services in Portugal (“Best Securities Services Provider 2017”) by the Global Finance international magazine. This award provides international recognition to the Bank's capabilities, service to clients and performance in this important business area.

These very positive results are even more significant considering the support which NB's Retail network provided to the LME operation since July, whose success and widespread acceptance by the Clients concerned proved essential for the sale process of the Bank, concluded on 18 October.

Specialised Offer

To build a strong and lasting relationship with the Clients, it is not enough to continuously reinforce their trust in the Bank; it is also essential to offer the Clients simple banking services that are adapted to their needs, and to gradually integrate social and environmental concerns in all products and services, namely:

- Saving Products;
- Microcredit;
- Products and services for the Universities segment;
- Environmental Products and Services (e.g. carbon neutral NB 18.31 Account).

Saving Products

The attention paid to the needs of its Clients and the growing need to adapt savings solutions to family budgets led NOVO BANCO to offer a package of micro-saving solutions that comprises three products, namely 'Planned Saving', Micro-Saving' and the 'Saving for Objectives' smart app.

NOVO BANCO's micro saving solutions permit to adjust savings to the extent of one's possibilities, namely through the regular deposit of small amounts or the rounding up of payments, or others, therefore gradually changing the Clients' behaviour and frame of mind with regard to saving.

Planned Saving	The Planned Saving permits to build up savings from as low as 10 euros per month through the subscription of a monthly plan in which the Client sets the amount and the time of month of deposits, thus adjusting the savings to the family budget.	287,000 clients using the service **1,117 million euro in savings**
Micro Saving	The Micro Saving solution allows any client to start saving money by small amounts through the rounding up of debits of day-to-day expenses (such as residential mortgage loan instalments or personal loan repayments, insurance premiums, or direct debits), which are transferred to a savings account.	Used by ca. 37 thousand clients **9.4 million euro in savings**
***Smart app* (Saving for Objectives)**	The 'Saving for Objectives' product launched in September 2017 is exclusive for Clients who have installed the NB smart app: once the Client has defined his/her saving objectives (how much and for how long he/she wants to save) the smart app traces the path to reach this objective.	1,168 Contracts **364 thousand euro in savings** **In 3 months of production**

Overall these Saving Solutions allowed to create approximately 102 million euro 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 sorts and organises 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 revenues and expenses, identifying expenditure that could be reduced and thus facilitating the creation of savings.

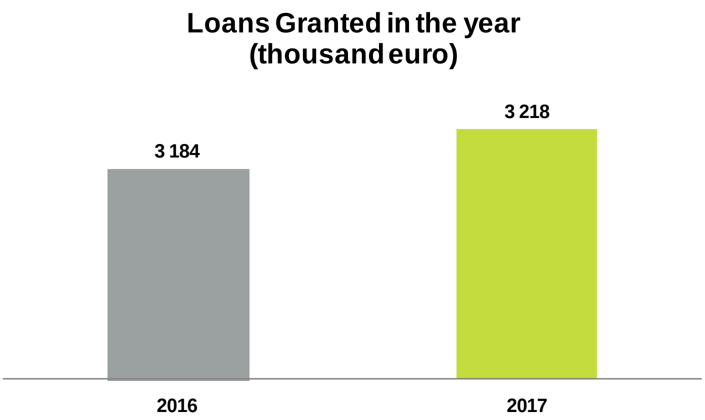
Microcredit

In line with the socio-economic context and its strategy for entrepreneurship, NOVO BANCO offers Microcredit in its branch network. This product was developed to address the financial needs of people who are unemployed and thus incapable of otherwise obtaining credit from credit institutions due to their low creditworthiness, which is turn makes it difficult for them to re-enter the labour market. Microcredit should be seen as a complementary tool to rescue people from under-investment cycles, whenever this is related to their poor capacity to access credit, but providing these people have an entrepreneurial spirit and a business plan.

Beneficiaries of Microcredit:

- The unemployed;
- Salaried workers who wish to start their own business;
- New residents;
- Artisans;
- Micro entrepreneurs.

The microcredit solution includes two financing mechanisms - the NOVO BANCO's own solution, Microcrédito NB, and protocols signed with the *Associação Nacional de Direito ao Crédito* (ANDC – National Association for the Right to Credit) and *Instituto de Emprego e Formação Profissional* (IEFP- Institute of Employment and Professional Training) (the latter via the Microinvest and Invest+ credit lines). Under these solutions, in 2017 the Group financed 159 projects, corresponding to a total amount of credit of *circa* 3.2 million euro, which allowed the creation of 253 jobs. During 2017, the Bank opened 233 new processes under the Microcredit and Entrepreneurship lines.



Currently, NOVO BANCO Group's Microcredit portfolio holds 1,513 projects approved, corresponding to total loans of 26.6 million euro (of which 24% were granted under the Microcrédito NB solution) that permitted the creation of more than 2,400 jobs. The average per loan is 8 thousand euro, for an investment of around 10 thousand euro.

The breakdown of these loans by industry sector shows that the most sought after businesses continue to be in the services sector (around 34%), followed by retail (24%), and hotels and restaurants (19%). Roughly 57% of the projects financed are individual initiatives, with 43% taking a corporate form.

The profile of clients with access to the Microcredit and Entrepreneurship lines shows that the majority are men (51%), below 40 years old (42%), and hold qualifications at secondary education level (41%).

Universities

NOVO BANCO offers a range of products and services specifically catering to the needs of university students during this period of their lives, including day-to-day solutions, saving solutions, digital channels and tuition loans.

The Bank maintains cooperation protocols with several higher education institutions of reference on account of the excellence of the training they provide, their students' future potential and their impact on regional growth, which aim to ensure a relevant and distinctive presence within this market and its public - students, teachers, staff and researchers.

In addition, various internships for university students were offered in 2017 – curricular, introduction to working life and summer internships -, which gave them a meaningful experience in a professional context during their higher education period;

Finally, NOVO BANCO also distributed grants and merit awards to students who distinguished themselves through the excellence of their results in the universities with which the Bank has established partnerships.

Minimum Banking Services Account

The minimum banking services account is a current account with an associated debit card, with an annual cost of 4.12 euro. This account is intended for individuals who hold no other current account in any other institution, or who hold only one current account which is converted into a Minimum Banking Services Account.

Environmental Products and Services

NOVO BANCO Group is committed to looking out for the environmental impacts of its financial products and services and to any resulting business opportunities, adapting its offer in accordance with the expectations of its stakeholders.

Recognising the important role played by the financial sector in promoting sustainable development, NOVO BANCO Group has a specific offer of innovative financial products and services designed to encourage environmental accountability amongst its clients.

More information on environmentally responsible services is provided in 4.3.2. #NB Environment – Environmental Footprint.

Carbon neutral NB 18.31 Account

Specifically designed to have a low environmental impact, the NB 18.31 Account is carbon neutral, not only because it is an online account but also because its already low carbon emissions are neutralised.

In partnership with the consulting firm e)mission, NOVO BANCO quantified the CO_2 emissions associated with the NB 18.31 Account namely resulting from the use of computers and paper and card production, amongst others.

The greenhouse gas (GHG) emissions associated with the account during its entire life cycle, from opening to closure, were measured in accordance to the PAS 2050:2008 method for assessing the life cycle of GHG emissions associated to products and services. This analysis concluded that each new NB 18.31 Account has an estimated impact of 1.06 kg CO_2eq/year, which is 20% less than a conventional account. Moreover, if the account is opened online, its estimated carbon impact is 912g.

At 31 December 2017, NOVO BANCO had 120,447 NB 18.31 Accounts with offset emissions, which corresponds to neutralise 1,102 tonnes of CO_2.

In 2017 the carbon emissions were offset through the support provided to the GE Teobaldo Project, a fuel replacement project, for renewable biomass, at a ceramic mill in the State of Pernambuco, Brazil. The mills previously burned wood from the Caatinga biome, one of the most threatened ecosystems in the world due to the high heating power of its wood. The replacement for renewable biomass has contributed to lower the negative impact on the Caatinga ecosystem, while also permitting to invest in sustainable initiatives (environmental, social and economic). More information on this project may be found in the Bank's corporate website.

https://www.novobanco.pt/site/cms.aspx?plg=7FAD1277-08AB-4AFD-A558-E51959548E3A

The emissions resulting from the NB 18.31 Account that are fully offset by NOVO BANCO correspond to 343 single return flights between Lisbon and São Paulo, Brazil.

Still in the Retail segment the NOVO BANCO subsidiaries NOVO BANCO dos Açores and Banco Best should be highlighted.

NOVO BANCO dos Açores

NOVO BANCO dos Açores ("NB Açores") continues to be the only bank headquartered in the Autonomous Region of the Azores. In line with its client acquisition strategy NB Açores undertook several initiatives addressed to companies and public services and entities that resulted in gaining new clients in 2017. The bank also pursued several activities aimed at promoting deposit taking and loan granting, and at reinforcing its market share, while continuing to improve the quality and safety of the products and services made available to its clients. In 2017 both customer loans and customer funds decreased (by 1.7% and 2.4%, respectively), however, the average monthly balance of customer deposits increased by 3.6%. Credit impairments totalled 23.2 million euro, with overdue loans decreasing by 1.4 million euro compared to 2016, to 17.5 million euro. The Bank closed the year with assets of 538.6 million euro, reporting a net income for the year of 1.96 million euro.

Banco Best

In 2017 Banco Best strongly advanced its leadership in digital banking and in innovation in the offer of financial products and services in Portugal, having introduced a fully digital account opening process by video call, using a smartphone or computer and with no need for the client to go to a branch. The client is identified by video call, the documents are digitally signed, and the client himself decides when to start and end the process. This is a current account in euros, with no management or maintenance fees and requiring no mandatory minimum balances.

During the year, several other initiatives supported Banco Best's position as innovation leader: (i) introduction of 'Best Voice' in Best's APP, featuring a series of speech recognition user-controlled commands; (ii) facial recognition login - made available at the same time as it was launched in iPhone X; (iii) launch in Portugal of the Allianz Global Artificial Intelligence Fund, the first artificial intelligence fund in Europe; (iv) launch of the ACATIS AI Global Equities fund in Portugal, the first artificial intelligence managed investment fund, where decisions are taken by a robot, with no intervention of the fund manager; and (v) at the same time, Banco Best also promoted financial literacy amongst investors, having organised 5 seminars in Lisbon and Oporto on robotics and artificial intelligence in the context of investment.

Banco Best is the diversity leader in the offer of investment funds in Portugal, with more than 3,000 funds from over 50 domestic and international asset management companies. Assets under management reached 2.1 billion euro at year-end, increasing by 5% YoY in B2B. Banco Best also reported good economic and financial indicators, posting a net income for the year of 3 million euro (+9.8% YoY).

Corporate Banking

In Corporate Banking NOVO BANCO has a network focusing on the corporate clients, which is as follows:

- 20 Corporate Centres distributed throughout the country, with dedicated teams that serve Medium-Sized Companies with turnover (at individual or group level) between 2.5 million euro and 200 million euro; at the end of 2017 there were more than 14.8 thousand such clients, accounting for circa 7.8 billion euro of financial flow (the sum of the total volume of resources and credit including guarantees);

- 3 Corporate Clusters that serve companies with turnover (at individual or group level) of more than 200 million euro. At the end of 2017 this segment has more than 1.7 thousand clients, accounting for circa 7.6 billion euro of financial flow.

Within this segment, production of medium and long-term loans reached 1.5 billion euro in 2017, upholding NOVO BANCO's reference role in supporting the development of companies and economic activity in Portugal. Moreover, production also increased under the 'NB FEI Inovação III' (under a partnership with the European Investment Fund), 'PME Crescimento', 'IFD 2016-2020', 'Linha Capitalizar', and 'Linha NB Empresas Prime' Lines, under which disbursements reached 601.4 million euro between January and December 2017. This set of instruments has proven an important pillar of support to the Small and Medium-Sized companies (SMEs), namely in terms of investment and reinforcement of permanent capital, where we note the projects approved under the Portugal 2020 programme.

As regards the day-to-day support provided to companies the Treasury Solutions of NOVO BANCO boast a complete and innovative offer tailored to the needs of each client, which is reflected in products such as factoring solutions, the management of payments to suppliers and the NB Express Bill (forward payment orders with guarantee of payment by NOVO BANCO, which allows beneficiaries, providing they have an account with the Bank, to receive the funds in advance). In 2017 the factoring, confirming and NB Express Bill portfolios registered an increase of 137 million euro (+19.8% YoY).

In terms of customer funds, deposits increased by approximately 1.05 billion euro in 2017 (+26% YoY).

The services provided to corporate clients also include solutions targeting their employees. In this area, we should stress the good response to the social and tax benefits afforded to corporate clients' staff, in particular through Meal Cards and Life Insurance, as well as the partnership protocols designed for these employees.

The trade finance area, an important business area of NOVO BANCO, provides a wide range of products and specialised advice designed to support international trade. The Bank's know-how in this segment is evidenced by its market share, which stood at around 21% in December 2017[4].

If we broaden the scope to include the corporate segment (Non-Financial Companies), in December 2017 NOVO BANCO has market shares[5] of 16.9% in Deposits (+1.6 pp YoY) and 18.1% in Customer loans (-0.4pp YoY), which is revealing of NOVO BANCO's strong foothold in the corporate segment.

In 2017 NOVO BANCO was awarded the best provider of Securities and Custody services in Portugal ("Best Securities Services Provider 2017" award) by the Global Finance international magazine. The choice considered institutions providing safe and consistent services in local markets to global custodians, based on criteria such as customer relations, quality of service, and knowledge of local regulations and practices.

As to the assessment made by the corporate clients to NOVO BANCO and to its team, the level of "Customer Service Satisfaction" in 2017 reached 89% (percentage of responses of 8 to 10 in a scale of 1 to 10, being 10 the best), which represents an increase of 1pp relative to 2016. Moreover, the results of other surveys conducted, namely relating to "Global Satisfaction with the Bank" "Trust", "Repurchase intention" and "Recommendation", also improved steadily since 2015.

Because it is keen on creating value for its corporate clients, NOVO BANCO offers them innovative and added value products and services, including, among others, the Fine Trade service: based on the analyses of potential markets this tool identifies global export opportunities for Portuguese companies, matching the tradable goods produced or sold by these companies to up to 20 countries where sales of such goods are more likely to succeed. The Fine Trade service is available for free at NBnetwork, providing valuable information on markets and export opportunities for the Portuguese companies.

[4] December 2017 as measured by the number of swift messages.
[5] Management estimate: Non-Financial Companies based in countries of the Economic and Monetary Union, for operations in Euro; NOVO BANCO perimeter: domestic activity, excluding NOVO BANCO Açores and Best;Infornation on industry sector: Banco de Portugal.

During 2017 the Bank also developed several initiatives addressed to the corporate segment and promoted the visibility of economic sectors, regions and ocompanies, namely in the following industry sectors:

(i) Agriculture -
Conference “The New Crops and Trends in the Agricultural Sector", held in Évora on 22 February:
National Agricultural Trade Fair (Santarém, 10 to 18 June);
Wine Harvest Fair (Viseu, 21 to 24 September);

(ii) Agroindustry -
Presence in the International Trade Fair for Portuguese Food and Beverages - SISAB (Lisbon, 2 March);

(iii) Tourism -
NOVO BANCO has been the exclusive sponsor of the Publituris Awards for the last 10 years: the “Publituris Portugal Trade Awards”, which annually distinguishes excellence in tourism (held this year on 15 March as part of the Bolsa de Turismo de Lisboa - BTL, the Lisbon Tourism Fair) and the “Portugal Travel Awards” (held in Óbidos on 21 September);

NB promoted also the Conference "Tourism potential, strategies and challenges for an island destination of excellence", held in Funchal on 26 October;

(iv) PME Líder - a conference under the theme "Innovation and Internationalisation as cross-cutting factors of competitiveness" of leading SMEs, which coincided with the launch of the 9th edition of the PME Líder magazine, which is published under a partnership between NOVO BANCO and the Exame magazine. (Porto, 30 March).

(v) Regional Initiatives: NOVO BANCO also supported the "The Setúbal Region - a Pillar of the National Economy" conference, held in Setúbal on 17 May, and

"The Centrality of the Iberian Hinterland - Opportunities and Challenges for Companies" conference, held in Viseu on 26 September;

In another edition of the of the Portuguese-French Chamber of Commerce and Industry Awards, held in Lisbon on 22 September, NOVO BANCO rewarded successful companies within the scope of trade relations between Portugal and France;

It should be highlighted the Export & Internationalization Awards, an initiative of NOVO BANCO and Jornal de Negócios (in partnership with Ignios) that aims to distinguish SMEs and Large Companies in different areas, namely successful internationalisation and best exporting performance, held in Lisbon on 4 November.

Lastly NOVO BANCO also promoted “*Portugal Exportador*” ('Portugal Exporter'), the largest national event dedicated to business internationalisation, under a partnership with *Associação Industrial Portuguesa* (Portuguese Industrial Association) and AICEP (*Agência para o Investimento e Comércio Externo de Portugal* – Portugal Global Trade & Investment Agency);

the purpose of this event is to promote capacity building and assert the exporting skills of Portuguese companies in international markets; This event, held in Lisbon on 22 November, boasted more than 1,500 participants and over 100 Portuguese and international speakers;

NOVO BANCO kept its commitment to support the companies based in Portugal, placing a particular focus on the small and medium size enterprises (SMEs) and on the exporting and innovative companies that compete in the global markets, which make it one of the main players in Portugal.

International Commercial Banking

Within the defined strategy NOVO BANCO develops its business activities for the corporate and retail segments focused in the domestic market but not neglecting its Iberian nature.

During the year the restructuring and operational streamlining plan for the Spain, London and Luxembourg branches was pursued.

In **Spain**, the Branch carried out a business reorganisation during the year that entailed the downsizing of its commercial network. Business volume decreased by 5.9%, with both loans and deposits contracting, but assets under managements increased by 33 million euro. Operating costs were up by 6%, mainly on the back of higher administrative costs and depreciation.

The London Branch (**United Kingdom**) focused its activity on the management of its portfolio, with total assets decreasing by 2.5 billion euro, mainly as a result of the LME operation and the sale of some loans. Total assets amounted to 1.3 billion euro at the end of the year, with the loan book accounting for 87% of the total. The Branch posted net operating income for the period of 3.6 million euro.

Similarly to the London Branch, the **Luxembourg** Branch focused its activity in 2017 on the management of its portfolio, while its assets were equally impacted by the LME operation, totalling 1.8 billion euro at year-end. The Branch posted a net operating income for the year of 18.9 million euro.

In line with the pre-established strategy, in July 2017 a promissory agreement was signed to sell 90% of the share capital of Banco Internacional de Cabo Verde to IIBG HOLDINGS BSC.

On 28 February 2018 NOVO BANCO completed the sale of the assets and liabilities of its branch in Venezuela to BANCAMIGA, Banco Universal, C.A., which will be followed by the closure of the Branch in Venezuela.

4.2.2. Digital Banking

The relationship between people and institutions has been undergoing a profound transformation due to the growing prevalence of the so-called digital relationship channels, which in all market contexts have rapidly grown from niche solutions to become the channels of choice of an ever-increasing diversity of client profiles.

In NOVO BANCO, this trend has not only been observed, but also stimulated in different ways, fostering the enrichment of the daily relationship with the Clients, the best response to their most diverse needs and even an increase in the number and quality of their interactions with the Bank.

Although the levels of use of the main digital channels made available by the Bank - namely NB*net*, NB*network* and NB *smart app* - have always been high, 2017 was particularly noteworthy in terms of the increase in new adhesions and in digital activity, reflecting an intense dynamics of innovation and launch of new functionalities and a promotional effort always well received by the Clients.

In the corporate segment (large and medium-sized companies), approximately 80% of the Clients have installed NB*network*. Moreover, 88% of these Clients use the platform to carry out operations, and according to the internal satisfaction survey conducted to the clients, 80% of them responded they were "Very Satisfied" with the service.

In 2017 the number of frequent Digital Clients surpassed the half a million mark, while in the NB *smart app* it reached 250 thousand, having increased by 44% relative to 2016. Also noteworthy is the fact that the number of companies using the app grew by 59% over the previous year, once again showing how widespread is the adoption of mobile channels across all client profiles. This very positive assessment of the NB *smart app* is also substantiated by its continuing position at the top of national banking app users in the main app stores.

2017 was also marked by the intense pace at which new and innovative solutions for the Clients were launched, designed to facilitate their daily management of finances and permitting the subscription of a wider range of products and services.

In the NB *smart app*, and among many others, the following solutions deserve a note: **Saving for Objectives**, which permits to define and monitor saving targets, **Transfers to Contacts**, whereby one needs only indicate the phone number of the beneficiary in order to make a transfer, **Mortgage Loan and Consumer Loan Inquiries**, **Loan Simulators**, **Credit Card Statements**, or **Fingertip Access**.

In internet banking (NB*net* and NB*network*) the main novelties were the possibility to simulate and apply for a **Consumer Loan** online, the **Deposits Auctions**, where, in a bidding process, the Clients may obtain favourable conditions for deposits, the application for a **Salary Advance**, which allows clients who domicile their salary with the Bank to access this versatile solution to cope with unexpected higher expenses, and the simplified initiation of an application for a **Loan for Small Businesses and Companies** in NB*network*.

Finally, the **NB Chat Pay** is an innovative solution, unique in the market, which permits to make payments during a conversation between friends without leaving the messaging app or social network, with immediate credit of the money it the beneficiary also has MB WAY installed.

4.2.3. Asset Management

GNB - Gestão de Ativos, which mainly operates in Portugal, Luxembourg and Spain, closed the year with a total of 10.8 billion euro in assets under management, which represents a 9.3% reduction relative to the end of 2016. This reduction was mainly driven by decreases in mutual funds (in Luxembourg and Spain) and in the area of wealth management, but on the positive side, pension funds registered an increase of around 5.7% in 2017 (4.6% in Portugal).

Operating Costs fell by 11.4% in 2017 as a result of the reorganisation and restructuring plan. The company posted a net income for the year of 8.0 million euro, a year-on-year reduction of 6.9%.

Responsible Investment Funds

Responsible investment is an approach to traditional investment that recognises the importance of environmental, social and governance factors for the success of investment and for long-term stability.

NOVO BANCO Group, through Banco Best, sells responsible investment funds from third party asset managers with a diversified investment strategy and geographic allocation. In 2017 client subscriptions of Banco Best's range of 118 responsible investment funds totalled approximately 7.9 million euro.

The list of funds offered is available in the corporate website:

www.novobanco.pt/institutional, in the Sustainability / The Environment and Climate Change, under Environment Products.

4.2.4. Life Insurance

This busoness segment includes the activity developed by Companhia de Seguros GNB Vida, that operates with traditional life insurance products, capitalization products and pension plans.

On 3 August 2017 NOVO BANCO informed on the launch of an organized sale process of up to 100% of the share capital of Companhia de Seguros GNB Vida ("GNB Vida"). Within the sale process it will also be evaluated the agreement for distribution of GNB Vida insurance products through the branch network of NOVO BANCO. Considering the above-mentioned GNB Vida was allocated to discontinuing activities.

4.2.5. Markets

This segment includes the overall financial management of the NB Group, including the taking and placement of funds on the financial markets, as well as the investment and risk management of credit financial instruments, interest rate, currency and securities financial instruments, whether of a strategic nature or related to the current activity of the markets' area. It includes also the effects of strategic decisions with a transversal impact on the NB Group.

4.3. Corporate Responsibility

4.3.1. Involvement with the Stakeholders

An effective involvement with its stakeholders is one of the major challenges faced by NOVO BANCO Group (“NB Group”, the “Group” or “GNB”), in so far as this will shape how many of its business issues are dealt with and thus contribute to the definition of policies, principles, strategies and transformation processes.

The Group’s vision is oriented by the way it interacts with its stakeholders and the impact it has on the creation of value. Hence, NOVO BANCO Group defined guidelines and established communication channels, namely involving different stakeholder consultation processes, in order to build a structured approach aligned to what it believes are the expectations of its clients, employees, investors and suppliers, and of the communities where it is present.

Main communication channels with the stakeholders

Employees – Channels
- *Intranet* - NBweb
- Human Resources Portal
- informa@ - Webmagazine
- NOVO Dia – on line daily newspaper
- Workers Committee
- Trade Union Secretariat
- Information and Consultation Procedure
- Training
- Performance Evaluation

Clients – Channels
- Branch Network, Corporate Centres and Regional Divisions
- Internet Banking
- Mobile Banking
- Phone Banking
- Operations Department
- Complaints Management System
- Contact Centre
- Communication and Advertising campaigns
- Customer Satisfaction surveys
- Public relations

Channels

Regulatory Entities and Investors
- Mandatory Reports
- Voluntary Communications
- Meetings and Contacts

Media
- Press Releases
- Press Conferences
- Replies to Information Requests
- Meetings and Contacts

Suppliers
- Meetings and Regular Contacts
- Suppliers Portal

NGO’s
- Meetings and Regular Contacts
- Social responsibility initiatives

4.3.1.1. Employees

In line with NOVO BANCO's strategy, its human capital is inclusive, well-structured and diversified and its management is focused on the performance, quality and continuous improvement of its employees, and on the existence of fair working conditions. Underpinned by these factors, allied to innovation, the conditions are in place for NOVO BANCO to build strong and long-lasting bonds with its employees.

Human capital issues are paramount within NOVO BANCO Group, with human resources management being supported by a set of systems, processes and systems and managed based on four pillars:

- **Unconditional respect for Human Rights:** to promote practices and an environment of respect for the human person, ensuring scrupulous compliance with the law on Human Rights, as well as respect for the principles of equality and non-discrimination.
- **Merit-driven approach**: to encourage professional development on the basis of ethics, commitment, professionalism, ability, commitment and performance.
- **Motivation and Sense of Belonging**: to provide a set of benefits to the employees that will tighten and humanise their bond to the Bank.
- **Relationship and Communication**: ensure that each employee has access to a dedicated manager, and all relevant human resources information is available to him/her in an area specifically created for the purpose in the Group's intranet.

The policies and strategies implemented by the NOVO BANCO Group thus value the essential principle of respect for and development of the employees, actively contributing to staff motivation and high standards of performance.

Human Capital

At 31 December 2017 NOVO BANCO Group had 5 488 employees, of whom 5 156 in Portugal.

Workforce distribution as of 31 December 2017:

Region / Country	
Portugal	**5 156**
Other European countries	**328**
Spain	291
United Kingdom	14
Luxembourg	13
Switzerland	7
France	3
Africa - South Africa	**2**
Asia - Shanghai	**2**
TOTAL	**5 488**

NOVO BANCO Group*	
Gender	
Men	49.1%
Women	50.9%
Employment contract	
Permanent - Men	
Permanent – Women	97.3 %
	97.1%
Average Hours of Training per employee	**65.2**
Absenteeism rate (excluding parental leave)	**2.2%**

*Scope: NOVO BANCO Group (NOVO BANCO Portugal; NOVO BANCO dos Açores; NOVO BANCO Branch in Spain; Banco Best; GNB Gestão de Ativos).

Strategic Goals

NOVO BANCO Group's strategic goals include the motivation, development and retention of talent, for which 6 major management drivers have been established:

- **Training** - to give all employees access to training that contributes to the development of their skills and thus promote a more efficient and effective performance of their functions;
- **Talent Management** – to develop a model permitting to identify and retain talent.
- **Performance** - to ensure that the performance of the employees is managed with fairness and impartiality and is regularly monitored, at both individual and collective level, ensuring that team work and the work of each employee are perfectly aligned to human development, an essential factor for the growth of Bank.
- ***#NB Work & Life,*** **#NB *Equal Gender*** - as part of the Social Dividend Model (more information on 4.3.3 Social Dividend) and human capital management model, in 2017 the Bank implemented two programmes aimed at promoting amongst its employees a set of good practices that go beyond the mere observance of legal impositions:
    - ***#NB Work & Life***: measures intended to help employees conciliate their professional with their family/personal life;
    - **#NB *Equal Gender-*** measures intended to promote gender parity within the Bank's workforce and increase the representation of the under-represented gender in directorship/management positions;
- **Internal Social Responsibility** – social support to employees in unexpected situations that may occur in their lives and social benefits directed to the education of their children or stepchildren and/or to retired employees, as well as initiatives and services promoting a healthy lifestyle, among others;
- **Health, Safety and Well-being in the Workplace** - to ensure compliance with the legislation on this matter, while promoting the well-being and health of the employees, the improvement of working and environmental conditions, and the increase in employees' satisfaction and motivation levels.

1) Training

Because it believes that it is through knowledge that talent is recognised and retained, NOVO BANCO invests on an ongoing basis in the design and implementation of distinctive and motivational training to ensure the improvement of performances and the development and progress of the employees within the organisation.

The Bank thus permanently invests in training activities that are comprehensive in terms of their target recipients, diverse in terms of methodologies and challenging with regard to their objectives and required results, at both technical and behavioural levels.

Investment in training significantly increased in 2017, namely to address the need to develop technical skills related to legal and regulatory requirements, and therefore there was an increase in the number of training hours. The average number of training hours per employee was 65.6 in 2017.

The first half of the year was marked by investment in training targeting the Retail Network, namely in technical areas such as "Banking Technique and Business Solutions" and in behavioural areas, including "Commercial Proactivity" and "Activity Planning and Management".

In the second half of the year, the focus was essentially placed on the need to impart knowledge about the requirements defined in the Markets in Financial Instruments Directive II (MiFID II) and in the Markets in Financial Instruments Regulation.

Taking into account the importance of the MiFID II for the Bank's activity, an Integrated Training Programme was set up in three phases: (1) Prior assessment of knowledge, (2) Training by e-learning and in-class certification, (3) Disclosure of requirements and procedures. This programme entailed a strong investment in internal communication, involving the participation of 2 170 employees from the commercial and central departments of NOVO BANCO.

In spite of the heavy training load provided to the commercial network, on-the-job training remained a prime method for reinforcing the operational, procedural and product skills of the retail network employees. This type of training continues to be provided by the 22 School Branches located in each of the Regional Divisions across the country.

2) Talent Management

In 2017 the Talent Management area focused on the training and development of skills within the senior management, having implemented the NBT2P programme (NOVO BANCO Training to Perform), a modular programme of continuous training, based on the development of strategic, management, technical and interpersonal skills that included the participation of Executive Board members and first-line managers.

Other initiatives were also developed that enabled the participation of some of the Bank's "Talents" in sharing events about social responsibility programmes, such as the "Conversations with the Chief Executive Officer".

Knowing and retaining the higher potential employees is crucial in the management of NOVO BANCO's Human Capital. Give the importance of a careful and rigorous management of human resources a platform was developed to identify, map out and characterise all employees, enabling an efficient management of the needs of the organisation in harmony with the employees' expectations and ambitions.

3) Performance

NOVO BANCO Group's performance assessment model is fundamental to building a culture based on merit whilst fostering the engagement of all through targets set for each function and team. In 2017 the Bank made the following 475 promotions:

- 303 on merit;
- 36 due to change of function;
- 136 based on length of service.

4) #NB *Equal Gender* and #NB *Work & Life*

Always concerned with the well-being of its employees, NOVO BANCO offers them a set of benefits and programmes that reflect a permanent diagnosis of the internal challenges as well as best market practices. By striving to find ways of increasing staff motivation and satisfaction, the Bank contributed to enhance talent retention as a key management driver.

In 2017, as part of its Social Dividend Model, an innovating tool whereby the Bank commits itself before society and its employees to give back what it originates from its activity, two Human Capital programmes were launched: the #NB *Equal Gender* and #NB *Work & Life* programmes establish specific objectives to be reached by 2020 and further increase the employee benefits already in place.

In the first year of implementation of the model, several social measures were taken that met with an excellent response, as shown by the indicators on takeaway meals, the percentage of women in first-line management positions and the number of employees taking leave on special days.

Programme	Indicators	Objectives 2020	% of the objetive achieved in 2017
#NB *Equal Gender*	% of women in management positions	40.0%	13.8%
	% of women in first-line management	34.5%	33.9%
	% Global wage disparity	5.0%	11.0%
#NB *Work & Life*	Leave on special days	11 912	63.2%
	Employees who purchased additional holiday days	580	14.3%
	Employees who adhered to #NB *Early Friday / Late Monday*	450	2.0%
	Takeaway meals	82 500	45.2%

In order to afford its employees more leisure time after work NOVO BANCO introduced a takeaway service in all its canteens, which in 2017 alone delivered 37 301 meals.

In addition, NOVO BANCO has seven canteens and bars located in the areas of greater concentration of employees, which provide nutritionally balanced meals at a low cost - in fact the Bank was the first entity in Portugal to adopt the concept of 'nutrition traffic light'. In 2017 the Bank's canteens served 246,143 lunches to NOVO BANCO Group's employees.

5) Internal Social Responsibility

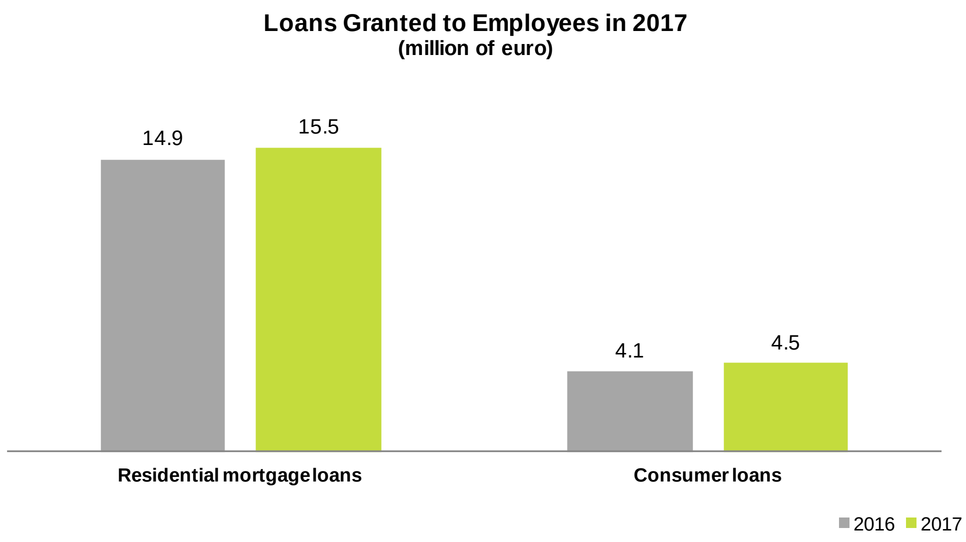
NOVO BANCO makes available to its employees a set of non-cash benefits as part of the overall value package offered by the company, which have a positive impact in terms of savings and personal satisfaction.

NOVO BANCO's policy on the attribution of allowances and assistance under its Internal Social Responsibility Programme covers the following areas:

Allowances	Performance in 2017
Current Employees - Education Support	
Attribution of child benefits, school grants, scholarships and support to children and youths with special needs.	✓ 409 child benefits worth 520.4 thousand euro; ✓ 207 scholarships worth 165.1 thousand euro; ✓ 281 school grants worth 39.6 thousand euro; ✓ 94 special need allowances worth 93.9 thousand euro.
Retired employees - Support for basic needs	
Co-payment of expenses with senior residences, day-centres, home support, drugs and other staple goods.	✓ 52 allowances worth 126,900 euro.

In line with the essential principle of valorisation of Human Capital, in 2017 NOVO BANCO supported 17 more employees than in the previous year.

The employees may also benefit from special conditions on the Bank's commercial offer, including loans at reduced rates. In 2017 NOVO BANCO Group granted mortgage and consumer loans to its employees for a total of 20 million euro. The accumulated outstanding value of these loans reached approximately 330 million euro on 31 December 2017.



6) Health, Safety and Well-being in the Workplace

NOVO BANCO's Human Capital strategy includes the implementation of an integrated management system for the safety, health and well-being of all its employees in the workplace. In this context, the Group assumes the following commitments:

- Conduct its activity within a balanced framework of sustainable development, client satisfaction and valorisation of human resources;
- Scrupulously comply with all relevant laws and regulations in terms of the environment, and safety and health in the workplace;
- Monitor the health and well-being of all employees;
- To perform medical examination protocols differentiated by gender, age and function;
- Encourage a healthy lifestyle among its employees:
- Assess function-related risks, including psychosocial risks;
- Assess the risks relating to conditions in the workplace;
- Provide a safe and healthy work environment for its employees, by eliminating or minimizing the risks that may result from the normal operation of its activity;
- Promote training and information to employees on the risks inherent to the work, sensitizing them to comply with safety standards;
- Ensure the safety of employees, clients and visitors;
- Inform all stakeholders and publicise the policy on safety, health and well-being in the workplace, in a responsible and transparent manner.

This strategic orientation goes beyond mere compliance with legal obligations since NOVO BANCO offers all its employees and Group companies healthcare services provided through its clinical services in Lisbon, Oporto and Tagus Park (Oeiras). These clinical services provide consultations and examinations of occupational medicine, curative medicine and nursing. In 2017, a total of 3 099 occupational medical exams (initial, regular, and one-off), 19 882 medical procedures (appointments and prescriptions) and 7 109 nursing acts were carried out by these services.

As a complement the Bank also provides a number of risk prevention and control programmes, including prevention of cardiovascular and oncology diseases, regular sight screenings for all employees and medical check-ups of senior management (Executive Check-up).

Number of check-ups in 2017	Cardiovascular screenings	Cancer screenings		Vision screenings	Executive Check-Ups
		Mammography	PSA		
NOVO BANCO	2 154	218	671	2 789	157
NOVO BANCO dos Açores	29	2	13	47	1
BEST	33	8	0	67	5
GNB GA	8	1	2	12	3
GNB FP	12	2	1	18	2
GNB II	14	2	2	14	6
GNB IM	2	3	0	2	2

As regards curative medicine, several specialities are available, with the following appointments in 2017:

- General Practice - 9 101 appointments,
- Mental Health (psychiatry and psychology) – 1 098 psychiatric and psychological appointments,
- Smoking Cessation - 2 appointments,
- Nutrition - 898 appointments.

In terms of safety at work, NOVO BANCO Group's policy is to minimise workplace accidents, occupational diseases, and to protect the integrity and the work capacity of its employees.

To this effect, NOVO BANCO Group performs regular risk assessments of the workplace. The following assessments were made in 2017 to the location and environment of workstations:

- 150 Safety audits of the facilities,
- 27 Ergonomic assessments of workstations,
- 136 Identification of hazards and assessments of the activity’s risks (IPAR - *Identificação de Perigos e Avaliação de Riscos*),
- 1 Assessment of thermal conditions,
- 4 Analyses of occupational accidents,
- 2 Assessments of indoor air quality,
- 5 Assessments of light conditions.

In 2017 a special survey was carried out to assess any psychosocial risks affecting the employees.

Diversity, Equality and Human Rights

NOVO BANCO Group respects and obeys the laws, rules and regulations of each country in which it operates as well as the various guidelines it endorses in this matter in line with its Equality and Non-Discrimination, and Human Rights Policies, drawn up based on the principles of the Global Compact of the United Nations Organisation’s Universal Declaration of Human Rights, OECD Guidelines for Multinational Enterprises and the Main Conventions of the International Labour Organisation (ILO). This legislation covers topics such as respect for freedom of association, gender equality, the rejection of forced and child labour, and discrimination, amongst other aspects related to Human Rights.

Approximately 90.4% of NOVO BANCO Group's employees are covered by collective bargaining agreements.

NOVO BANCO's relationship with all its employees is based on a policy of Non-Discrimination and Equal Opportunities. All Human Capital management practices in the Bank therefore observe the following principles:

- Prohibition of direct or indirect discriminatory practices based on gender, race, colour, creed, socio-economic conditions, health, disability, sexual orientation, political or ideological beliefs or trade union membership;
- Adequate working conditions for employees with disabilities;
- Prevention and control of practices that may give rise to discriminatory situations of any kind.

The key underlying basis of this policy, without which its implementation is not possible, is the principle of equal opportunities and the duty of non-discrimination. NOVO BANCO protects all employees from suffering discriminatory measures and any discriminatory conduct by any employee is considered a serious infraction and subject to disciplinary sanctions.

Human Capital Ethics, Principles and Values

For NOVO BANCO Group the existence of a framework of values and principles that guide its actions and the standards that govern the manner in which it conducts its business and runs its activity is fundamental. Accordingly, in 2017 the Group reinforced its commitment to ensure a proper conduct in its activity, always framed by the Code of Conduct, the Policy on Conflicts of Interest (additional information in 9. Corporate Governance, G - Policy on Conflicts of Interest), and the Policy on Related Party Transactions (additional information in 9. Corporate Governance, H - Policy on Related Party Transactions).

This commitment focuses on the prevention, detection, reporting and management of situations leading to risks of conduct or irregular conducts, based on principles of integrity, honesty, diligence, competence, transparency and fairness.

NOVO BANCO Group's Code of Conduct

NOVO BANCO Group's Code of Conduct, which entered into force in 2015, applies to all the employees, including the members of the Executive Board of Directors and of the General and Supervisory Board, all entities integrating the Group, and also all third parties which subscribed to this policy at the request of NOVO BANCO. The Code of Conduct promotes a set of rules and good practices to be followed by the employees in their relationship with the clients and with the Bank itself and aims to ensure that everyone knows the ethical and professional principles and standards that should guide their performance and be aware of the necessity and importance of their observance to ensure that the interests of shareholders, employees and clients are at all times respected.

NOVO BANCO Group's Code of Conduct aims to:

- Disseminate the principles by which the NOVO BANCO Group companies should steer their activities;
- Promote the ethical conduct of all employees, aligned with NOVO BANCO Group's values;
- Promote respect for and compliance with all applicable laws and regulations;
- Create a transparent system of relations between employees and outsiders.

The Code of Conduct is available in Portuguese and English. Any queries by employees concerning its content and application should be addressed to the Compliance Department, which, if necessary, may refer them to other areas, namely the Internal Audit Department and the Human Capital Department.

Prevention of Money Laundering and Terrorist Financing

A bank's ability to detect and prevent activities capable of constituting money laundering is directly linked to its knowledge of certain key elements relating to their counterparties and respective transactions.

The NOVO BANCO Group, through its Compliance Department, has established the procedures required to set the conditions in place to detect and prevent the possibility of the Bank being used as a vehicle for money laundering or terrorist financing activities, which is a risk inherent to its presence and activity in the national and international financial markets.

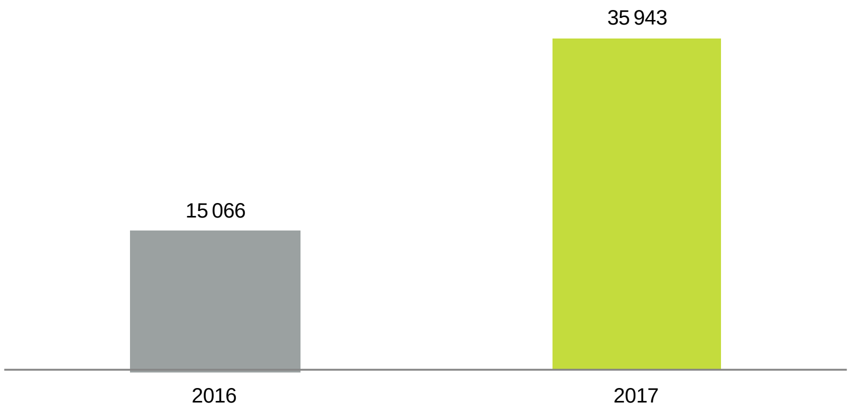
Given the growing importance that the fight against phenomena such as money laundering and terrorist financing has assumed, the NOVO BANCO Group takes increasingly great care in the identification of weaknesses and areas of greater exposure to ensure the existence of adequate methods to control and mitigate the risks inherent to transactions and counterparties, identifying two moments where greater care should be used:

- Opening of contract or change of holder of existing contract, which is referenced through KYC (Know Your Customer) - i.e., the identity of contract holders, representatives and beneficiaries must be effectively established;
- Monitoring contracts' transactionality - KYT (Know Your Transaction), spotting unusual situations, either beforehand or by contacting the client after the situation was detected.

To that end, NOVO BANCO Group, using software tools with internationally recognised results to complement the experience of its human capital, has created and developed assessment models that will ensure that greater scrutiny is applied where this proves more necessary.

NOVO BANCO Group, complying with its regulatory obligations, develops training exercises in preventing money laundering and terrorist financing for all its employees (commercial and central structures, including senior management). Training can be remote or face-to-face, the latter mainly directed to new employees, and the objective is to equip them with skills that enable them to collaborate with the control functions in mitigating the risks inherent to the execution of their functions. In 2017, NOVO BANCO reinforced training on money laundering and terrorism financing prevention, having provided 34 302 hours of online training (including 3 041 hours for senior management) and 1 641 hours of face-to-face training (of which 347 hours for senior management), making a total of 35 943 hours.

Training in preventing money laundering and terrorist financing (no. of hours)

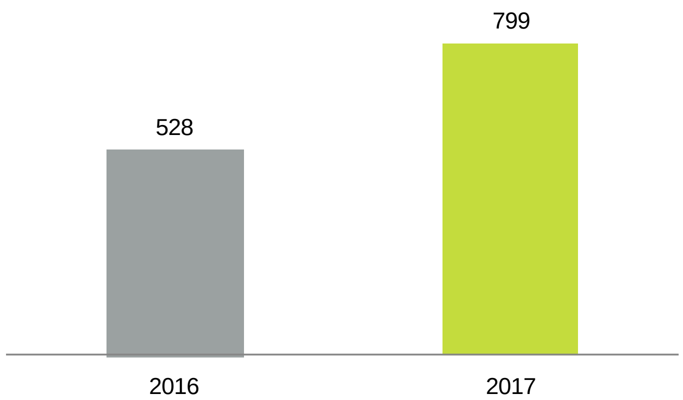


Training is seen as a key tool for a correct flagging by the employees of potential situations of money laundering and terrorist financing. On the other hand it is also useful for compliance with the legal and regulatory duties to which the Bank is subject.

In 2017 the NOVO BANCO Group examined 5 896 new contracts. Of these, 64 were rejected and 2 746 were examined considering that they had their ownership changed after inception. It also analysed 23 898 transactions under existing contracts, of which 799 were reported to the competent authorities.

The prevention of money laundering and terrorist financing is one of the foundations for confidence in the financial system and as such will continue to deserve permanent attention by the NOVO BANCO Group.

Notifications to the authorities



Consciousness of behavioural responsibilities and prevention of misselling risk

Ethical behaviour and the priority of client interests are major guidelines in NOVO BANCO’s practices. The concern with offering clients a wide range of products and services does not prevent, but rather implies that these should be carefully assessed beforehand to ensure that they are adjusted to the real needs of the clients. At the same time, assessing the selling conditions and training the employees are key pillars for preventing misselling.

Through the action of the Product Committee (see 7. Risk Management), the subsequent internal monitoring mechanisms and an effort to provide in-class training (over the year more than 1,200 employees received training on compliance in financial intermediation activities), NOVO BANCO seeks to be permanently updated, concerned with the behaviour of its employees and committed to a strict screening of its offer.

Adaptation to the requirements arising from the new legal and regulatory framework

In 2017 NOVO BANCO made a cross-cutting effort to adapt to the new legal and regulatory requirements arising from application as from January 2018 of the Markets in Financial Instruments Directive and the Regulation on key information documents for packaged retail and insurance-based investment products. As a result, NOVO BANCO aimed to act in compliance with the legal requirements under Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments (MiFID) and Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs).

The directive and regulation address common concerns with regard to the following:

- Protection of investors,
- Transparency,
- Prevention of conflicts of interest,
- Enhancement of operating regulations to the benefit of clients and markets.

This enhanced framework is also important to protect the financial instruments and funds of clients and for a stricter definition of obligations concerning product governance and the rules applying to the payment or receipt of remunerations, fees or any other cash or non-cash benefits.

The new behavioural reality resulting from adaptation to the requirements of the new legal and regulatory framework, fully endorsed by the Bank involved training more than 3,000 employees (with practical effects in the way these interact with the clients and the clients interact with the Bank) and the revision, among others, of the Policy on the Prevention of Conflicts of Interest, the Treatment of Complaints Policy, and the Policy on the Execution and Transmission of Orders.

In line with its stance on transparency, these policies are published in the investor relations area of the Bank's website.

4.3.1.2. Clients

For NOVO BANCO's strategy, it is essential to build strong and long-lasting relationships with its clients. To reach this end, NOVO BANCO centres its business model not only on addressing the expectations of its clients but also on continuously improving its services, thus consolidating the trust of this group of stakeholders, which has been a key factor for the results achieved.

In order to live up to clients' expectations and considering that they are the gravity centre of all the activity developed, NOVO BANCO is committed to providing them a safe and transparent banking service, based on the highest standards of integrity and confidence. This is ensured through the development of mechanisms to assess service quality and customer satisfaction.

At operational level NOVO BANCO’s "Customer-Oriented Strategy" is deployed in four dynamic and seamless stages:

1 Define and monitor

Definition and monitoring of quality objectives and indicators, for all the departments and employees of NOVO BANCO.
Development of a number of customer analyses, studies and consulting mechanisms.

2 Engage the employees

Setting the conditions in place to allow employees to focus on service quality, namely:
- Include service quality objectives and levels in the Bank's objectives and incentives scheme;
- Availability of diagnosis information;
- Training

3 Assess results and implement improvements

All the client satisfaction results are evaluated monthly in order to improve and innovate processes.

4 Communicate and recognise

The results are communicated regularly to all the employees, viewing their involvement and full internalisation of a culture of service to the client.
The best performances are therefore recognised.

Through these mechanisms, NOVO BANCO obtains the contributions needed to develop appropriate services to provide to the clients - one of its most important assets -, continuously improving processes and service levels by monitoring indicators that track the Bank's progress.

Aware of the importance of feedback concerning the activity developed, in 2017 NOVO BANCO carried out the following service quality surveys:

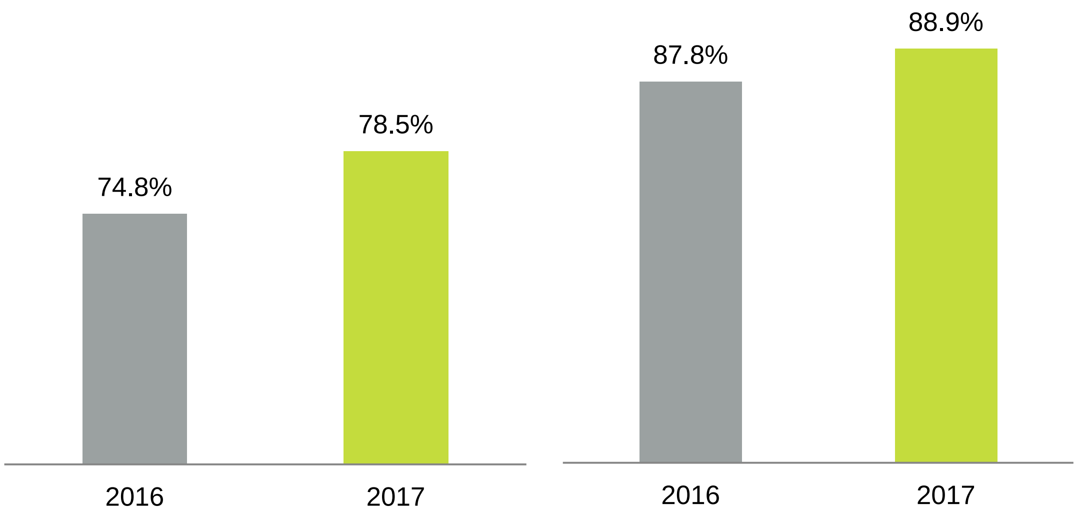
Mystery Client	Assessment of customer service quality in the commercial network	*1 348 Visits*
Customer satisfaction surveys	Assessment of customer service quality in the various segments of the Bank	*77 347 customer surveys*
Internal customer survey	Assessment of the quality of central services	*75 781 surveys*

Source: Surveys carried out by NOVO BANCO's Operational Resources Department - Quality

According to the customer service satisfaction surveys conducted in 2017 to the clients of the Bank's various segments, the share of very satisfied clients in the Retail segment was 87.8%. In the Medium Sized and Large Companies segments this share was 88.9% and 78.5%, respectively. The improvement relative to 2016 in the corporate segments should be stressed.

Very Satisfied Clients (%)
Large Companies

Very Satisfied Clients (%)
Medium-sized Companies



Source: Surveys carried out by NOVO BANCO's Operational Resources Department - Quality

The management of complaints is one of the components of NOVO BANCO's quality monitoring system, providing an opportunity to recover unhappy clients. For each complaint received, NOVO BANCO analyses the respective causes, quantifies the ensuing losses and implements corrective and preventive measures to avoid the recurrence of failures. In 2017, the rate of complaints per thousand active clients was 1.04.

Clients may file complaints by phone, online or in person. NOVO BANCO seeks to solve problems at the client's first contact with the Bank in order to reduce the possibility of complaints escalating to an external level.

As part of its strategy of open and continuous dialogue with the clients, NOVO BANCO also provides this group of stakeholders the following means of contact:

- NB Net
- NB Direto – +351 707 247 365
- NOVO BANCO Branches and Corporate Centres
- E-mail: satisfacao@novobanco.pt
- By submitting a form on-line
- Letter

4.3.1.3. Suppliers

The NOVO BANCO Group, as a relevant buyer of products and services in the market in which it operates, has since 2007 established a relationship model with its suppliers (around 9 thousand in 2017) which is based on a commitment to follow good international practices and principles. This model was developed based on the recognition of the importance of the economic, environmental and social impacts produced by this group of stakeholders. This relationship is oriented by two main elements:

1. The NOVO BANCO Group Code of Conduct, which determines, among others, that the supplier assessment and selection process must be conducted with rigour and according to the highest standards of **transparency and ethics**; and
2. A set of **Principles of Relationship with the Suppliers of NOVO BANCO Group** that describe the minimum requirements demanded not only from suppliers but also from the Group concerning business practices, health and safety in the workplace, ethics and environmental management. These Principles are fully aligned with the OECD Guidelines for Multinational Enterprises and the United Nations Global Pact. Available at NOVO BANCO's website,
   link: http://www.novobanco.pt/suppliers

NOVO BANCO Group Suppliers' Platform

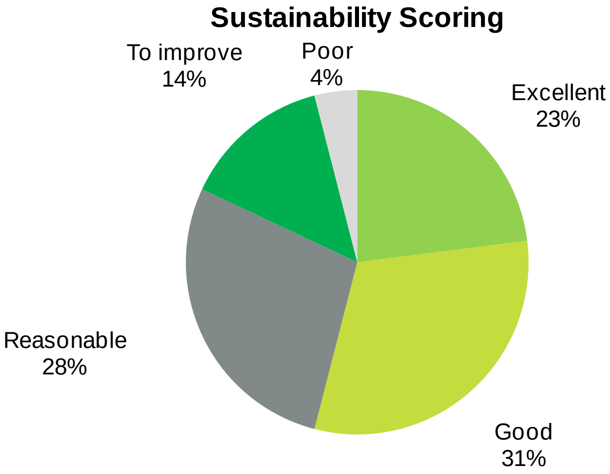
NOVO BANCO Group's responsible and consistent attitude in the selection of suppliers starts with its openness to receive all presentations and proposals from the most varied entities that wish to provide services or goods to the Group.

In this context, the GNB Supplier Platform, (https://fornecedores.novobanco.pt/), is the where all current and potential suppliers may introduce themselves and register. In addition to working as a primary sourcing basis in market consultation processes, the platform's database on the registered entities allows for an easier and faster detection, assessment and comparison of the suppliers' characteristics, technical skills and commercial propositions. The quality of this information permits to select the best propositions, i.e., the suppliers best capable of meeting the Group's needs and service requirements.

As of 31 December 2017, 3,851 entities had applied for registration in the GNB Supplier Platform, of which 896 are registered suppliers with their process duly completed and updated. On that date the share of suppliers that had completed their registration or were in the process of registering (pre-registered) in the Supplier Platform corresponded to 95.06% (93.7% in 2016) of total suppliers turnover with the Group.

Sustainability Scoring

For a more rigorous selection of suppliers, and based on information provided by each element in this value chain, NOVO BANCO Group calculates the "sustainability score" which takes into consideration labour and ethical aspects, aspects of hygiene and safety at the workplace and environmental aspects. About 23% of NOVO BANCO Group's suppliers registered in the Platform have a score of excellent/good and 82% have a positive score cumulatively.



Supplier payment period

NOVO BANCO's payment policy is based on the following responsible conduct guidelines:

- Negotiation of reduced payment periods, in line with good market practices. With regard to payment periods contracted with suppliers, the standard payment period is 30 days.
- Payment guaranteed on established deadlines, ensuring security, commitment and respect in the client / supplier relationship.
- Availability of information on the status of the payment notice and billing documents in a simple, direct manner, and at any time, by logging in to the supplier account in the Suppliers Platform (*Portal do Fornecedor*, via internet).

In 2017, the "average supplier payment period" was 18 days (19 days in 2016).

4.3.2. #NB Environment - Environmental Footprint

NOVO BANCO is increasingly committed to reduce the environmental footprint resulting from its activity and one of its main challenges is to meet the objectives set for 2020 through initiatives undertaken within the scope of its Social Dividend model aimed at lowering its environmental impacts. For more information on the Social Dividend Model, see 4.3.3. Social Dividend.

The performance so far permits to be optimistic regarding the achievement of the targets, mainly due to the continuous consolidation of saving initiatives. The main challenge is now to contain further increases that would prevent reaching the objectives set for 2020.

Environmental Targets

After conducting an environmental diagnosis and defining its environmental targets, NOVO BANCO maintains its commitment to further consolidate a responsible management and reduce its environmental footprint. In order to achieve the defined targets, the Bank has implemented priority actions and monitors their results on a half-yearly basis.

The environmental targets set for 2020 in terms of energy and paper consumption, increasing document digitalization, reducing CO_2 emissions and increasing waste separation, show NOVO BANCO Group's degree of commitment and consequent involvement and motivation of all the intervenients within the organisation to achieve greater environmental efficiency.

	Objectives 2020*	2017 Results
Photocopy Paper (paper sheets)	*-50%*	*-30%*
Document Dematerialisation	*83%***	*79%*
Energy	*-40%*	*- 25%*
CO_2 Emissions (from company cars emissions)	*-50%*	*-25%*
(from electricity consumption)	*-20%*	*-51% (goal achieved)*
Water	*-16%*	*-25% (goal achieved)*
Waste Separation	*100%*	*10%*

* Base year: 2015. ** to digitalise 83% of all the Bank's communications to the clients

Paper Consumption

The rationalisation of paper is a structural commitment that was assumed by NOVO BANCO Group for both internal and external use of paper.

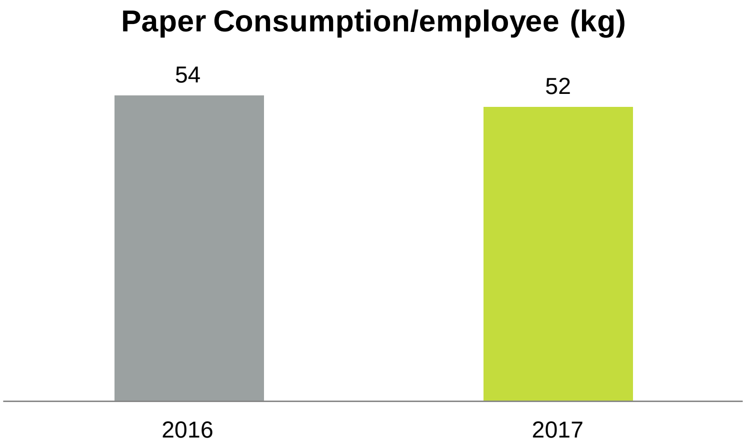
This commitment mainly implies minimising the use of paper, in both the central departments and the branch network, by raising awareness and changing habits among employees and clients, and through the progressive dematerialisation of processes and the increasing digitalisation of communications to the clients.

In 2017 NOVO BANCO continued to raise awareness among these two groups of stakeholders to the importance of making a more efficient use of printed paper.

Internal paper consumption values in 2017 were as follows:

- White paper for internal use - 246.3 tonnes;
- Finishing forms and account statements - 123.7 tonnes;
- Recycled paper for internal use - 0.05 tonnes;

In 2017, each employee consumed *circa* 52 kilograms of paper, which is 3.4% less than in 2016.



These were some of the measures reinforced or implemented in 2017:

- Avoid printing documents in internal meetings and use digital signatures whenever possible;
- Reduction in the number of printers;
- Standard back and front printing;
- Use of paper up to 75 gr.

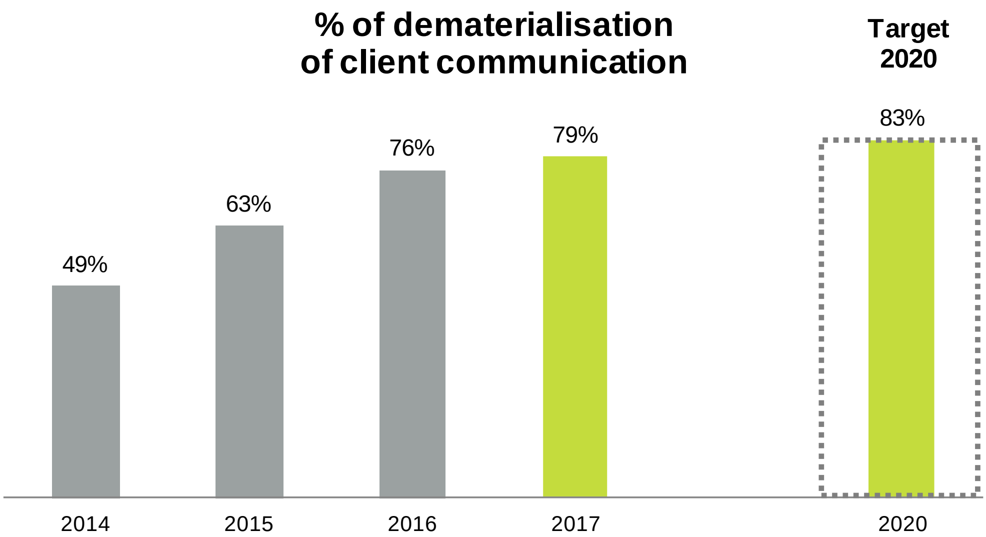
Taking into account the reduction and reuse of its waste, in 2017 NOVO BANCO sent approximately 197.68 tonnes of paper for recycling.

Dematerialisation of Client Communication

In 2017 NOVO BANCO pursued its strategy of optimising the communication to clients, namely through the dematerialisation of documents, with a consequent improvement in environmental quality.

The Bank's continued commitment to the development of pioneering and environmentally responsible solutions has allowed clients full autonomy to access their banking movements and documents electronically, thus contributing to the protection of the environment by reducing the consumption of paper and its transportation and eliminating the printing and finishing process.

In addition to the account statements, NOVO BANCO also sends most other banking documents to its clients in digital format (credit card statements, deposit certificates, account entry notices, integrated billing notices, and sundry notices). In the second half of 2017 the dematerialisation process was reinforced through the issuance of digital statements of securities portfolio holdings and movements, and investment funds portfolios. This permitted to reach an overall level of client communication dematerialisation of 79% in 2017, which compares with less than 50% in 2014.



Our clients' adherence to digital solutions, the growing digitalisation and dematerialisation of processes, and the employees' awareness of the need to avoid printing documents in their day-to-day work, were crucial factors in the decrease in paper consumption.

Energy Consumption

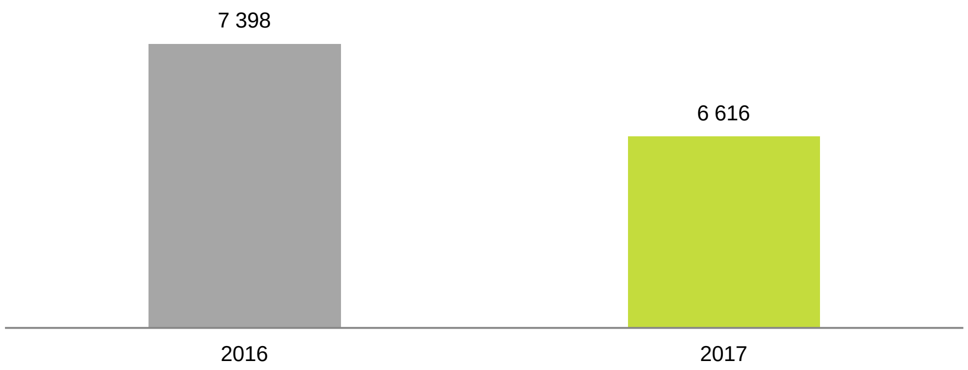
To reinforce the reduction of its electricity consumption, the Bank has implemented several initiatives, including:

- Reduction of the number of consumption locations - branch network and buildings;

- Installation of higher energy-efficient lighting and equipment (ex: HVAC);
- Re-implementation of an alarm system for anomalous consumptions and for equipment connected but not in use.

In 2017 NOVO BANCO consumed about 31 232 543 kWh of electricity, of which 8 283 294 kWh were consumed by the data centre. Consumption per employee was 6 616 kWh.

Electricity Consumption / employee (kWh)

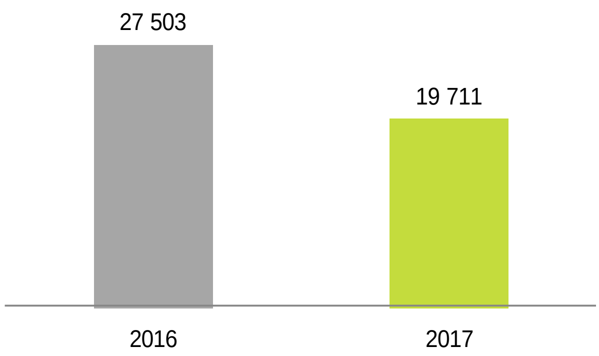


To reach the 40% reduction target, NOVO BANCO will keep the procedures already in place and also implement a series of new measures, including: launching a new awareness campaign targeting its employees on consumption reduction; analysis and implementation of more efficient lighting systems in the central buildings; and reinforcing the consumption monitoring programme and preventive and corrective measures.

CO_2 Emissions

Aware of the importance of monitoring CO_2 emissions, NOVO BANCO considered it essential to make an inventory of emissions resulting from its activity. This is done by annually calculating the direct and indirect emissions (scopes1, 2 and 3), according to the guidelines of the Intergovernmental Panel on Climate Change (IPCC) and of the WRI/WBCSD's Greenhouse Gas Protocol.

CO_2 emission (ton)



In 2017 emissions of CO_2 totalled 19,711 tonnes (scopes 1, 2 and 3), a reduction of 28.7% comparing with 2016, with the consumption of electricity and fossil fuels representing the largest sources of greenhouse gas emissions.

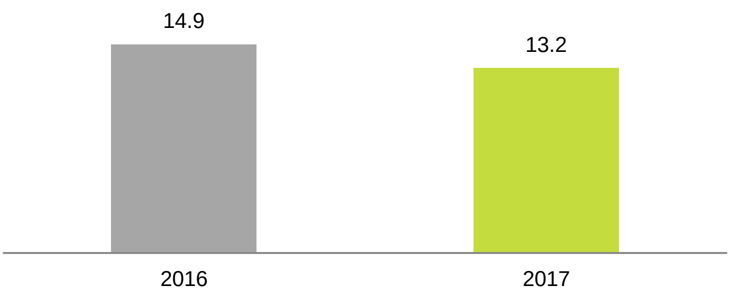
Origins	Tonnes	Tonnes / employee
Electricity	8 882	1.88
Fossil fuel	4 241	0.89

The CO_2 emissions from the car fleet (scope 1) amounted to 4,241 tonnes in 2017 and the emission related to electricity (scope 2) to 8,882 tonnes, a decrease of 7% and 44%, respectively, comparing with 2016.

Water Consumption

Although water consumption is not materially relevant to its environmental footprint, the Bank is aware of the risks of drought and water scarcity and therefore proactively manages water consumption. Therefore it has been able to reduce water consumption by implementing various measures, namely the replacement of traditional taps for taps with timers, the installation of dual-flush toilets, whenever feasible, in both the central buildings and the branch network, and raising the awareness of employees to the importance of reporting any detected anomalies. In 2017 water consumption totalled 62 441 m^3, which corresponds to approximately 13.2m^3 per employee.

Water Consumption / employee (m^3)



Waste Separation

The Bank has set as an objective to extend waste separation to all its activity in order to reach a separation level of 100% in 2020. In 2017 the Bank maintained this commitment and sought to minimise the quantity of waste produced and also to reuse and recycle as much as possible, having

• reduced the quantity of paper used internally and distributed to the clients;

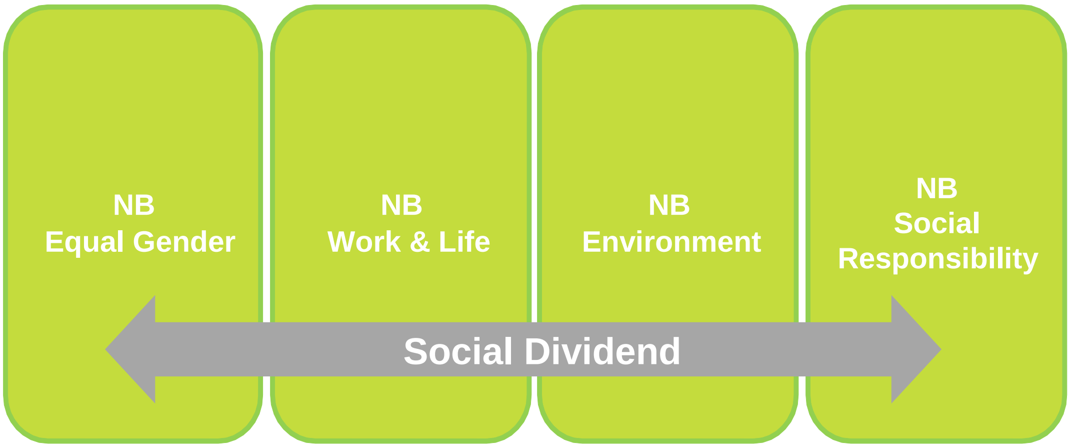
• recycled consumables used by the commercial areas, namely paper and toner cartridges;

• recycled the materials used in the canteens and medical facilities;

• found recycling solutions for used office furniture, whenever possible, namely donating it to Private Social Solidarity Institutions (IPSS) and Non-Governmental Organisations (NGOs).

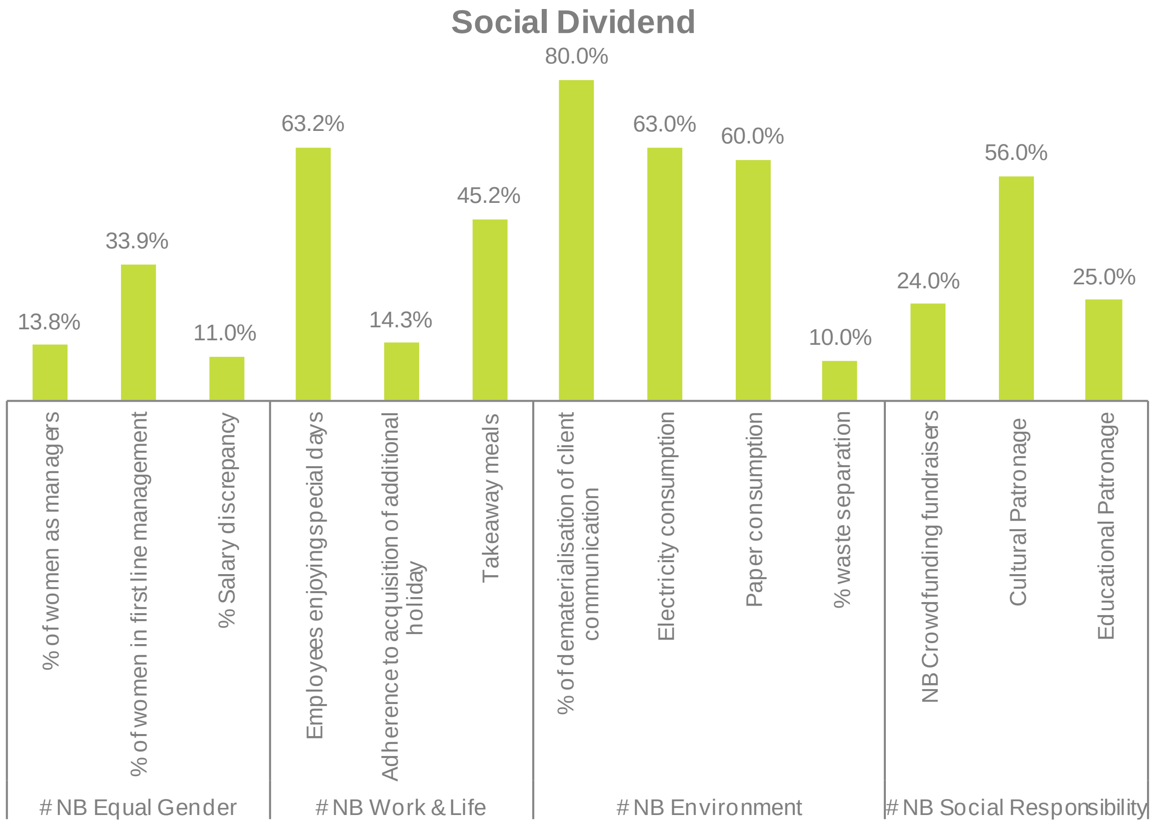
4.3.3. Social Dividend - the new Corporate Social Responsibility model

In 2017 NOVO BANCO designed a new Corporate Social Responsibility (CSR) model and concept, creating the **Social Dividend** assessment model. The new model, which encompasses four programmes, undertakes to give back to society and its employees what the Bank originates through its activity, setting concrete objectives until 2020 and assuming a leading role in this area.



In the first year in which the results of the Social Dividend model were monitored, several items, in the four programmes, made particularly good progress towards the targets set for 2020, namely:

- Women in "First Line" positions - 33.9% of the target reached;
- Leave on special days - 63.2%;
- Takeaway meals - 45.2%;
- Digital communication with the clients - 80% of the target reached;
- Energy and paper consumption - 63% and 60%, respectively; and
- Cultural patronage - 56% of the target reached.



For more information on the targets please refer to 4.3.2. #NB Environment – Environmental Footprint and 4.3.1.1. Employees.

During 2017 NOVO BANCO continued to build on the previously defined architecture of its NB Responsibility programme, with the aim of helping devise solutions for important issues in the community in which it operates. This programme is deployed in three areas, namely:

- Cultural Patronage
- Financial Inclusion
- Solidarity

NOVO BANCO Cultura (NOVO BANCO Culture) - a new approach to cultural patronage and sharing the Bank's cultural heritage with society

With the aim of reinforcing NOVO BANCO's bet on culture, the new "NB Cultura" project was outlined in 2017 and its brand was publicly announced in January 2018. This project reflects the Bank's commitment to preserve, promote and share with the Portuguese society its important cultural and artistic heritage, through partnerships with public and private entities, such as museums and universities, at national and regional level. "NB Cultura" brings together the four structured collections held by the Bank:

- NOVO BANCO Painting Collection - more than 90 relevant works of Portuguese and European painting from various periods;

- NOVO BANCO Contemporary Photography Collections - among the best corporate collections in the world;
- Library of Humanities Studies - one of the most valuable private libraries specialising in humanities studies;
- Numismatic Collection - one of the largest and most complete Portuguese numismatic collections.

Financial Inclusion - Train, educate and communicate financial concepts in order to promote the responsible acquisition of financial solutions

With its Financial Literacy programme, which is based on three main pillars (education, personal finances and commercial offer), NOVO BANCO aims to contribute to the education of a generation of financial services consumers that is increasingly better informed and has a stronger analysis and decision making capacity.

Solidarity - Assist organisations that provide social support in areas such as the fight against poverty and social exclusion, and healthcare, amongst others

Within the scope of its social Solidarity Programme NOVO BANCO Solidary developed its own actions as well as actions in partnership with social welfare institutions. As part of this programme, we highlight the NOVO BANCO Crowdfunding - an online fundraising platform, which in December 2017 counted with around 9 205 donors and had raised more than 433,000 euro.

In 2017, the Bank gave back to society around 763,000 euro in donations, through the various areas of its social responsibility programme, and assumed the commitment to pursue its Corporate Social Responsibility (CSR) programme, fostering responsible intervention towards the construction of a fairer society .

4.4. Outlook for NOVO BANCO

Main Risks and Uncertainties

With the sale of 75% of NOVO BANCO's share capital to Lone Star, on 18 October 2017, the transition bank status ceased to apply, although the obligation to meet certain commitments made by the Portuguese Republic to the *Directorate-General of Competition* (DG Comp) will remain until 2021, which will influence the Bank's activity, namely a focus on domestic activity and divestment of non-core assets and activities, and whose non-compliance may imply the adoption of additional measures, including the resizing of the branch network and the number of employees.

With this sale and subsequent capital injection in the amount of 1,000 million euro, the necessary conditions were set in place to reinforce NOVO BANCO Group's position as one of the main financial groups in Portugal and in Europe. The Group will thus concentrate its activity in supporting the small and medium-sized enterprises, which represent the main growth driver of the Portuguese economy. At the same time, the support provided to the domestic economy will also entail the launch of innovative products and services for companies and individuals, always geared by the objective of providing the best service to its clients.

Following the entry of the new shareholder, a Strategic Plan is being drawn up with the purpose of upholding NOVO BANCO Group's position within the 5 largest Portuguese financial groups, ensuring not only the creation of value but also that the strategic value of its positioning will be maintained.

The Strategic Plan aims to foster the preservation of NOVO BANCO Group's DNA as the basis of its positioning, leveraging on this DNA the improvement of its business models to **optimise** its intrinsic value steadily and consistently, while recognising the need to evolve in a disruptive context, where **digitalisation** will be the driving force of the change of the business model. Finally, the Strategic Plan will determine the genetic components (current and new) that will **differentiate** the Group.

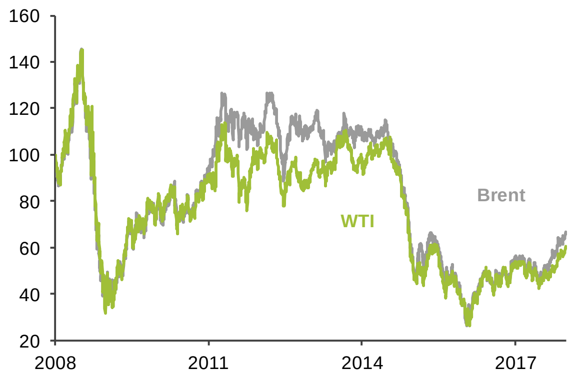
Activity in 2018 will thus be shaped by the objectives of the Strategic Plan, translating into the adequate growth of the core credit portfolio, a significant improvement of the commercial banking income and of the cost of risk, and the continuous reduction of operating costs.

As main Risks and Uncertainties, apart from those that result from the risks described in the respective chapter (7. Risk Management): Credit Risk, Market and Liquidity Risk and Operational Risk, one should highlight the regulatory risks, and in particular the risks associated to the achievement of the commitments made to the DG Comp as well as the intrinsic risks to the larger constraints of the internal and external macroeconomic context.

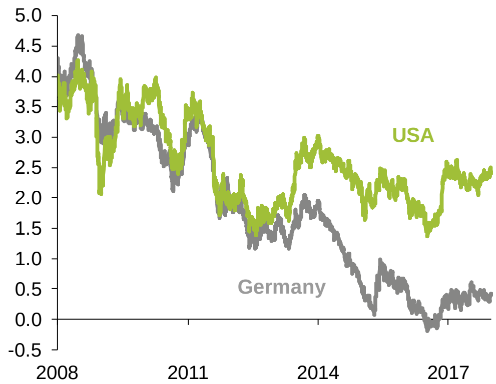
5. Economic Environment

2017 saw an acceleration of business activity in the main economic areas, with world GDP growth picking up from 3.2% to 3.7%. For the first time since 2010 global activity growth was simultaneously driven by the advanced and the emerging economies. While in the first group GDP growth expanded from 1.7% to 2.3%, supported by expansionary monetary and fiscal policies, in the second it quickened from 4.4% to 4.7%, driven, among others, by the rise in commodity prices and the vigour of international trade flows. The price of oil (Brent) retreated in the first half of the year from USD 55.4/barrel to a low of close to USD 44/barrel, only to rise again in the second half and closing the year with a gain of 20.6%, at USD 66.8/barrel. This increase was underpinned by the strengthening of demand and the agreement between the OPEC and Russia to extend crude oil output cuts. This movement was shared by the non-energy commodities, with the price of copper swelling by close to 31%.

Price of Oil (Brent and WTI) (USD/Barrel)



10-year Bunds and Treasuries yields, USA and Germany (%)



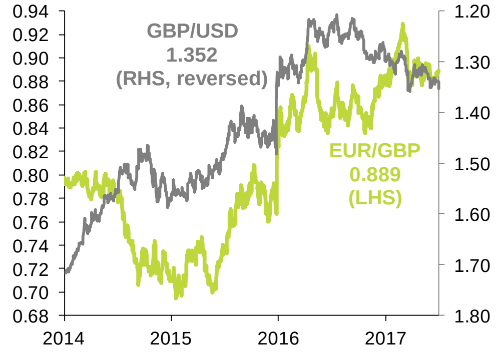
In the US, GDP grew by 2.3% in 2016, after expanding by 1.5% in 2016. Following a relatively subdued start of the year, economic activity gained pace in the second half, shored up by the solid performance of private consumption and even more so by the acceleration of corporate investment. This rally of economic activity pushed down the rate of unemployment, which fell from 4.7% to 4.1% of the labour force. The Euro zone economy grew by 2.3% in 2017, outpacing the initial expectations and accelerating from 1.8% in 2016. Private consumption and investment showed relatively stable growth during the year, of 1.6% and 3.5%, respectively. The expansion of domestic demand was supported by (i) expansionary monetary and financial conditions that fuelled the recovery of loans to families and non-financial companies; (ii) the contraction of the unemployment rate, from 9.6% to 8.6% of the labour force; and (iii) the strong improvement of consumer and business confidence, in part reflecting the abatement of political risks. The European Commission's Economic Sentiment Indicator reached a ten-year high. The Euro zone exports' annual growth rate accelerated to 4.9% in 2017, up by 1.5 p.p. on 2016. In the United Kingdom, GDP growth slowed from 1.9% in 2016 to 1.7% in 2017.

This slackening of activity is mainly ascribed to the deceleration of private consumption and the eroding effect of rising inflation (up from 0.7% to 3%) on the purchasing power. In turn, this rise in inflation mainly reflects the lagged effects of the depreciation of the pound following the Brexit referendum in June 2016. In China GDP climbed by 6.9% in 2017, outpacing expectations. This acceleration from the 6.7% growth rate observed in 2016 was the first hike since 2010 and occurred despite the adoption of certain restrictive policy measures that slowed down credit and consumption during the year. Net exports gave the highest contribution to growth since 2008, induced by the quickening pace of global economic activity.

Despite this scenario of accelerating growth in 2017 inflationary pressures remained subdued in the main economic areas. In the US year-on-year inflation inched up from 1.8% to 2.1% between December 2016 and December 2017. In the Euro zone the rate of inflation advanced from 1.1% to 1.4% over the same period, remaining clearly below the ECB target for price stability (inflation close to 2%). As to core inflation, it retreated from 2.2% to 1.8% in the US and remained unchanged in the Euro zone, at 0.9%. The subdued performance of prices in 2017 in part reflected structural factors such as globalisation and technological innovation that put a lid on wage growth. However, it also translates a set of conjunctural factors such as the lagged effects of the slump in oil prices in 2015-2016, the persistent production capacity surplus in some economies, including the Euro zone, and downward adjustments in certain prices (e.g. mobile telecommunication services in the US). In China inflation retreated from 2.5% to 1.8% in 2017. The United Kingdom was an exception to this scenario, with year-on-year inflation climbing from 1.8% to 3%, mainly driven by the lagged effects of the depreciation of the pound.

EUR/USD Exchange Rate

EUR/GBP and GBP/USD Exchange Rate



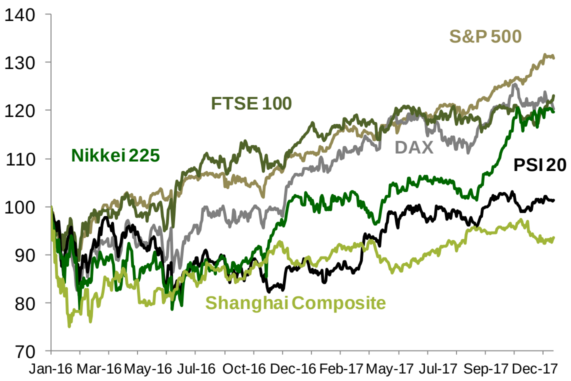
Together with the improved outlook for activity, the slight acceleration in prices that even so was observed in 2017 allowed for a gradual rise in inflation expectations in the US and the Euro zone that was particularly visible in the second half of the year. The dispersal of the deflation risks that had marked the previous years allowed the main central banks to purse in 2017 a very gradual move towards the normalisation of the monetary policy. In the US the Federal Reserve lifted the key interest rate in three 25 bps movements (in March, June and December), leaving the fed funds target rate in the range of 1.25%-1.5%. In addition, the Fed gradually started cutting its balance sheet as from the fourth quarter and signalled its intent to pursue the steady unwinding of monetary stimuli in 2018. In the Euro zone the ECB maintained the main refinancing rate and the deposit facility rate unchanged, at 0% and -0.4%, respectively. On the other hand, in its communication with the markets it explicitly abandoned the monetary policy easing bias. Moreover, as from April the ECB reduced its asset purchase programme (quantitative easing) from 80 billion euro to 60 billion euro/month, announcing a further cut, to 30 billion euro, for the start of 2018.

In this context, the yield on the 10-year *Bunds* rose from 0.208% to a high of nearly 0.6% in July, subsequently retreating down to 0.427% at the end of the year (+22 bps compared to the end of 2016). The *Bund* yield curve, measured by the spread between the 10- and 2-year bond yields, registered a slight steepening in 2017 (from 96 to 105 bps). Market interest rates for longer maturities were sustained by the improvement of growth and inflation expectations. However, shorter-term rates remained anchored on the ECB's guidance, i.e., that the Euro zone monetary policy should maintain an expansionary posture for yet quite a long period of time. The 3-month Euribor fell marginally, from -0.319% to -0.329%. On the other hand, the US Treasuries' yield curve flattened, with the spread between the 10- and 2-year yields retreating from 126 to 52 bps. The yield on the 10-year Treasures slid from 2.445% to a low of close to 2% until the end of September, as expectations about the fiscal stimuli proposed by the Trump administration abated and the market showed some scepticism about the Fed's intentions concerning the normalisation of the monetary policy. The approval by the US Congress of a programme of tax cuts and a slight upward revision of market expectations of inflation and interest rates contributed to push up the 10-year yield, which reached 2.406% at the end of the year, but even so remained 4 bps below its value at the end of 2016. The 2-year Treasuries yield rose from 1.19% to 1.885% in the year.

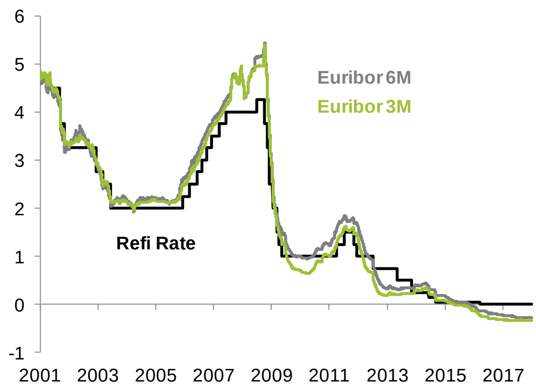
In the foreign exchange market, the euro gained 14% against the dollar in 2017, closing the year at EUR/USD 1.2022. The appreciation of the euro was supported by the narrowing of the spread between the US and the Euro zone market interest rates, and also by the improved economic and political outlook in Europe, leading to a recovery of capital inflows into the euro area. Against the pound, the euro advanced by 3.9% in 2017, to EUR/GBP 0.8879. Despite some uncertainty surrounding the Brexit negotiations, the sterling remained resilient during the year, gaining 9.6% against the dollar on the back of a better than expected economic activity performance and growing expectations of a "soft Brexit".

The expansion of economic activity, the persistence of low interest rates and the improvement in corporate earnings translated in 2017 into significant stock market gains, notwithstanding some political risks, namely arising from North Korea's nuclear programme, the issue of Catalonia's independence and uncertainty around the Brexit negotiations. In the US, in particular, the bright scenario in the equity market was further enhanced by positive investor sentiment about the technology sector. The Nasdaq advanced by 28.2% in the year, while the Dow Jones and S&P 500 registered gains of 25.1% and 19.4%. In Japan, the Nikkei climbed by 19.1%, while in Europe the DAX, CAC 40 and IBEX gained 12.5%, 9.3% and 7.4%, respectively. The FTSE 100 increased by 7.6%. In the emerging markets, the main achievers were the Sensex and Bovespa indices, which surged by 27.9% and 26.9%, respectively, the first having benefiting from the strong performance of India's economy and the latter by the improved outlook for Brazil's growth. China's Shanghai Composite index closed 2017 with a gain of 6.6%.

Selected stock market indices, (January 2016=100)



Refi rate, 3 and 6 months Euribor (%)

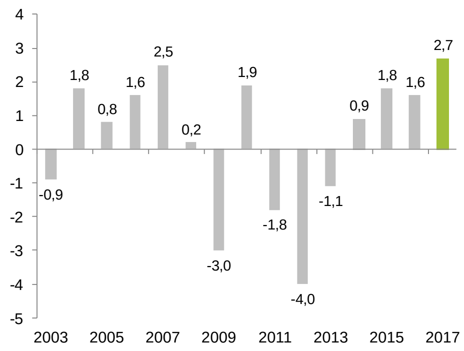


Spain's economy maintained a strong performance in 2017, with GDP expanding by 3%, in slight deceleration compared to 3.2% in 2018. This performance reflects a small decline in the growth of domestic demand, particularly visible in the second half of the year. Private consumption grew by 2.4% (vs. 2.9% in the previous year), as the effects of tax cuts, the drop in oil prices and the postponement of expenses during the financial crisis abated. Investment expanded by 5.0% (vs. 3.3% in 2016), driven by expenditure in both construction and capital goods. The uncertainty generated by the political crisis in Catalonia may have conditioned some consumption and investment decisions, but its impact proved limited. The favourable external environment contributed to accelerate the growth of exports, which increased from 4.8% to 5% in the year. The continuation of strong economic activity growth led to a reduction in the rate of unemployment, from 19.6% to 17.1% of the labour force, while allowing the budget deficit to decrease from 4.3% to 3.1% of GDP. Inflation reached 2% in 2017, resuming positive ground after three years of annual price declines. In a context of risk propensity in the financial markets, the good performance of the economy also underpinned a reduction in the Spanish 10-year sovereign bond yields from a peak of 1.9% in March to 1.57% at the end of the year, while their spread against the German *Bund* retreated from a high of 152 bps in April to 114 bps in December, and continued to drop at the start of 2018.

In Portugal, economic activity grew by 2.7% in 2017, above expectations and accelerating from 1.6% in 2016. In contrast to the previous year, domestic demand increased its contribution to GDP, with private consumption growth remaining relatively stable, at 2.2%, and investment sharply accelerating, from 0.8% to 8.4%. Households' confidence reached a historically high level in 2017, buttressed by the reduction of the unemployment rate, from 11.1% to 8.9% of the labour force, and the increase in disposable income through the reduction in direct taxes and the increase in wages. In turn, investment benefited from improved financing conditions, the upturn in public investment, and in the case of companies, the need to renew or expand their production capacity in the context of a brighter outlook for domestic and external demand.

Due to the increase in imports growth in 2017 (from 4.2% to 8.7%) the contribution of net external demand to GDP growth was slightly negative, despite the strong performance of exports, which climbed by 7.9%. The tourism industry further stressed its dynamic performance of the previous years, underpinning a 10.9% increase in exports of services in 2017.

Portugal - Real GDP growth (%)



Portugal – 2 and 10 year Treasury Bond Yields (%)

The average rate of inflation (CPI) rose from 0.6% to 1.4%. House prices maintained the rising trend observed in 2016, growing by 10.4% year-on-year in the 3rd quarter. Though more expressive in the main urban centres and higher-up segments, this rise in house prices touched all regions and market segments. The rebound in real estate investment and the improvement in household confidence drove a sharp increase in new residential mortgage and consumer loan flows, even if these still remained below their level before the financial crisis. On the other hand, the flow of new credit to non-financial companies contracted slightly in 2017, in part reflecting the continued deleveraging of companies.

The budget deficit decreased from 2% to 1.2% of GDP while the public debt retreated from 130.4% to 126% of GDP. This benign performance of the public accounts helped Portugal exit the Excessive Deficit Procedure in June. In September the Portuguese sovereign debt regained investment grade status, after the S&P rating agency upgraded the sovereign rating from BB+ to BBB-, with stable outlook. In December the Fitch rating agency raised Portugal's rating to BBB, from BB+. In this context, and after reaching a 2-year high of 4.3% in March, the yield on the 10-year Treasury Bonds retreated to 1.9% at the end of the year, while their spread against the German *Bund* shrank from a high of 387 bps in February to 152 bps in December. In line with the main European stock market indices, the PSI-20 gained 15.2% in 2017.

6. Liquidity and Funding Management

NOVO BANCO manages liquidity risk in accordance with all the regulatory rules, guaranteeing that all its responsibilities are met, whether under normal market conditions or under stress conditions.

NOVO BANCO's liquidity risk is managed under the following perspectives:

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

Short-term liquidity levels are monitored through daily mismatch reports, prepared in accordance with pre-established guidelines and internally defined metrics, which permit to detect any signals of crisis with potential impacts on the Bank namely through idiosyncratic risk, contagion risk (due to market tensions) or the risk of repercussions of an economic crisis on the Bank. This process ensures an ongoing and active role in liquidity risk management and risk assessment from the Executive Board of Directors. In addition, the liquidity position is also reported to the Banco de Portugal and the European Central Bank (ECB).

Tthe Executive Board of Directors monitors the evolution of the liquidity position, namely eligible assets and liquidity buffers, main cash inflows and outflows, deposits' evolution, medium- and long-term funding, central banks funding, the treasury gap evolution by business unit, as well as certain warning signals pre-established for the purpose.

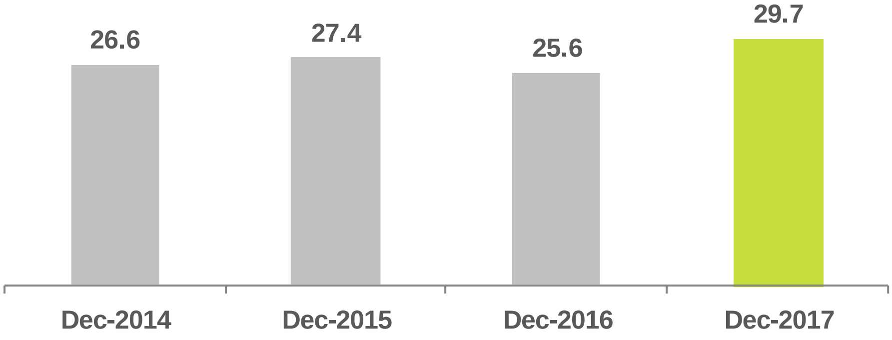
In terms of the structural liquidity, NOVO BANCO prepares a monthly liquidity report (for more details see Chapter 7. Risk Management, namely Liquidity Risk), taking into account not only the effective maturity but also behavioural maturity of the various products, which allows to determine the structural mismatches for each time bucket. Based on this map the activity funding 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.

The Capital and Asset Liability Committee (CALCO), which meets monthly, also analyses the liquidity position of the Bank, namely the balance sheet evolution, broad analysis of the gaps and key indicators of the activity (Liquidity Coverage Ratio (LCR), liquidity and commercial gaps, deposit rates and credit rates). To sum up, CALCO performs a comprehensive analysis of the liquidity risk and its evolution, with special focus on current liquidity buffers and generation / maintenance of eligible assets and respective impacts on the LCR.

For the liquidity contingency plan, the Bank has defined a set of measures that, when triggered, allow to manage and/or minimise the effects of a liquidity crisis. These measures aim to meet the liquidity needs in stress scenarios, and remained in force since they were triggered at the beginning of August 2014 until February 2018, 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.

NOVO BANCO's funding policy is one of the major components of the Bank's liquidity risk management, which stresses the diversification of funding sources. NOVO BANCO's strategy has from its incorporation largely relied on boosting customer deposits as its major source of funding, in so far as since the resolution measure was implemented access to the financial markets has not yet been normalised.

Customer Deposits Evolution
(billion of euro)



The completion of the sale process had a very positive impact on customer deposits, which, even excluding the deposits made in the context of the commercial offer to the senior bondholders as part of the tender offer and consent solicitation concluded at the beginning of October, registered an increase of 1.9 billion euro, which represents approximately 80% of their annual growth (2.3 billion euro) observed since 31 December 2016. At the end of 2017, NOVO BANCO held total deposits in the amount of 29.7 billion euro, the largest amount since its incorporation.

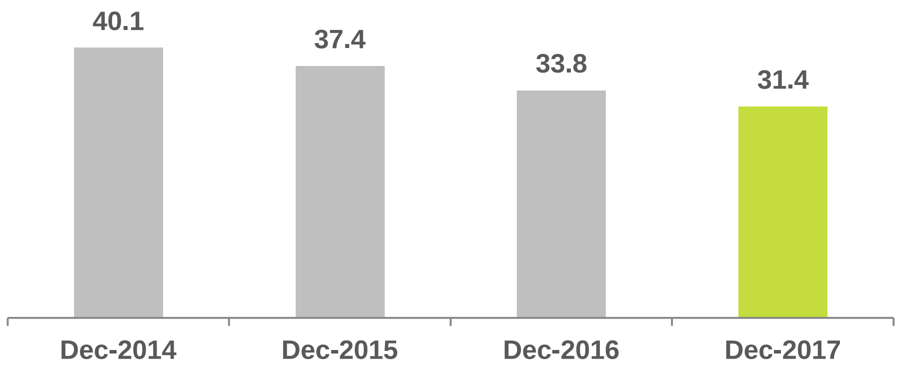
The tender offer and consent solicitation operation launched on 25 July aimed at reinforcing the Bank's capital, a condition precedent to the sale of NOVO BANCO to Lone Star announced on 31 March, had a strong impact on the medium and long-term funding portfolio since it involved various senior bonds series issued by NOVO BANCO Group.

This transaction allowed the purchase and early reimbursement by NOVO BANCO of bonds for a total nominal value of 4.7 billion euro (57% of the nominal value of the bonds subject to the offer), for a total amount of 2.0 billion euro. However, the impact of the operation on liquidity was quite low, in so far as the bondholders' acceptance of the commercial offer of deposits was highly successful.

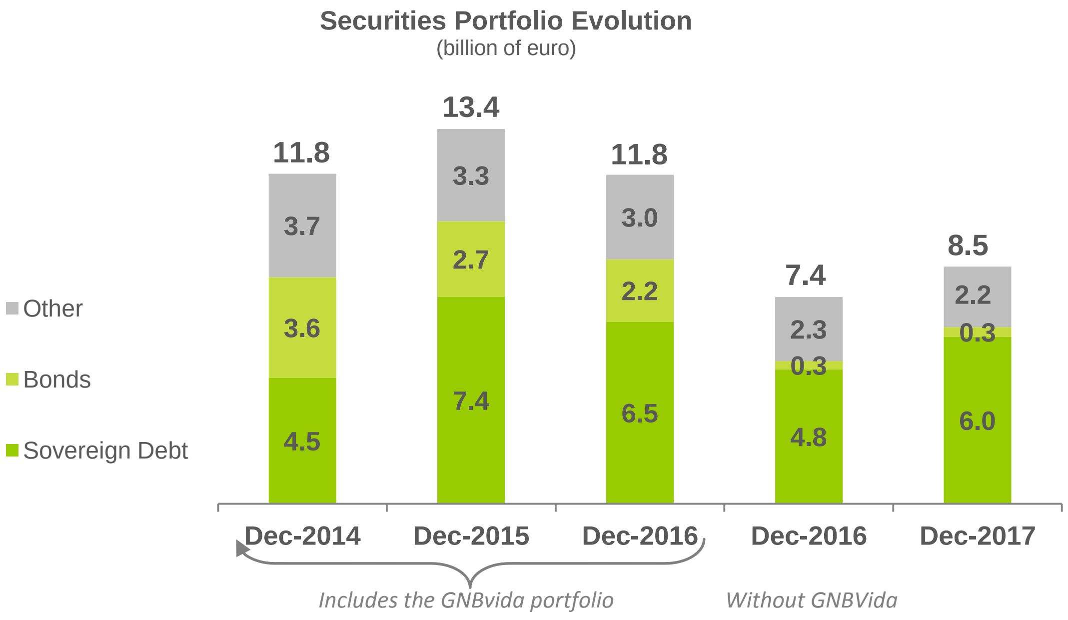
Having met the conditions precedent on 18 October 2017, the Resolution Fund formally sold 75% of NOVO BANCO's share capital through a 750 million euro capital increase that was fully subscribed by funds managed by the North-American Group Lone Star. Subsequently on 21 December 2017, Lone Star subscribed a second capital increase in the amount of 250 million euro. NOVO BANCO's share capital was thus increased by 1,000 million euro, resulting in a significant reinforcement of its liquidity position and financial strength.

Additionally, the deleveraging of non-core assets and other types of funding, in particular Repos contracted in the market, permitted to finance the activity and manage the reimbursements of debt, and also to build the regulatory liquidity buffers.

Gross Loan Book Evolution
(billion of euro)



Within the scope of the policy of reducing non-core assets, asset deleveraging continued to be particularly applied to the loan book, which in gross terms contracted by 2.3 billion euro in 2017. This reduction occurred only in corporate loans generating liquidity in the amount of 1,000 million euro.



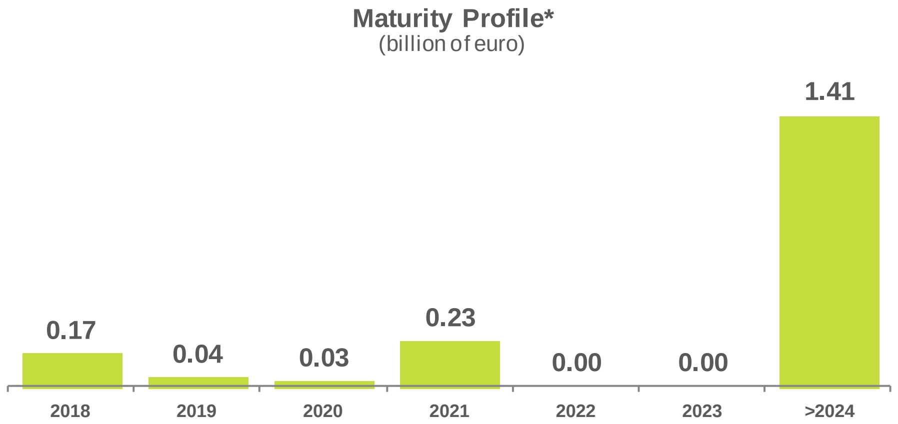
At the end of 2017, reflecting a comfortable level of liquidity, the securities portfolio reported an increase of around 1,000 million euro, namely resulting from investment in sovereign debt. The breakdown of the securities portfolio continues to show a larger share of Portuguese sovereign debt securities which increased by 1.6 billion euro.

Excluding the purchase and early reimbursement operation referred to above in 2017 NOVO BANCO reimbursed debt in the amount of approximately 1,000 million euro, of which 940 million euro in the first half of the year, before the launch of the tender offer and consent solicitation.

From the debt securities reimbursement resulted that in 2017 NOVO BANCO ceased to have any kind of debt instrument guaranteed by the Portuguese Republic, while at the time of its incorporation it had three such debt issues, totalling 3,500 million euro (to note that in November 2016 the Bank cancelled in advance the entire 1,000 million euro bond issue that matured in December that was followed in December by the early cancellation of 700 million euro of the 1,000 million euro bond maturing in January 2017. The remaining 1.8 billion euro was repaid in 2017).

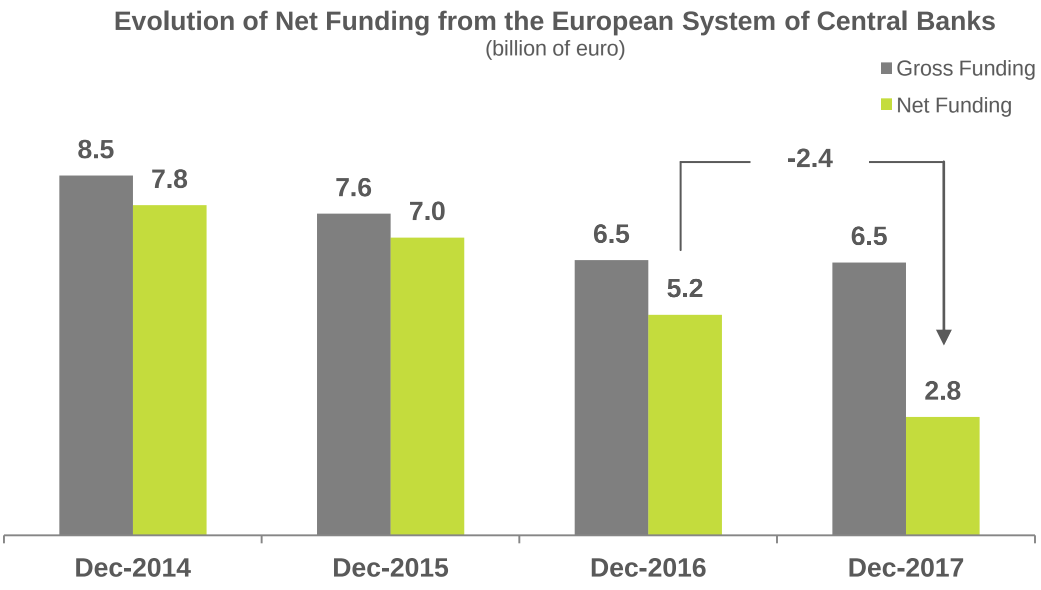
With regard to the medium and long-term customer funds, and as referred to above, upon completion of the tender offer and consent solicitation for senior debt issued by the Bank, NOVO BANCO reimbursed all bonds with shorter maturities (maturing up to 2022), with massive acceptance on the part of investors. As to the longer maturity bonds, for which acceptance of the tender offer and consent solicitation was lower, approximately 3,500 million euro (nominal value) of bonds were left outstanding (essentially zero-coupon bonds and four series of bonds maturing after 2043).

With a low reimbursement schedule going forward and therefore low funding needs, no liquidity strains are expected to occur in the next few years.

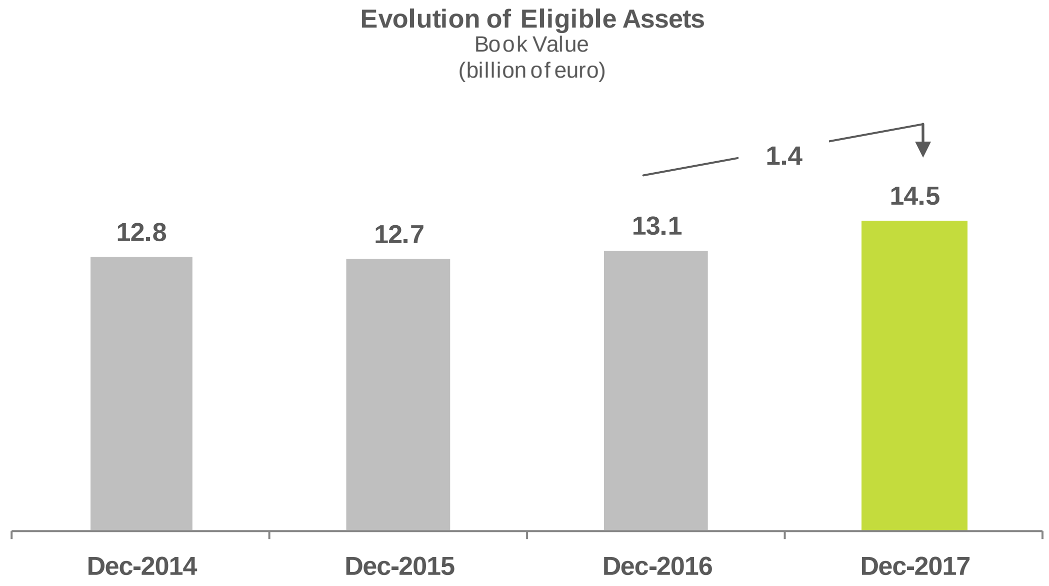


*: do not include the debt securities from the securitization operations

In this context, net funding from the European Central Bank totalled 2,790 million euro at the end of 2017, which is the lowest in the history of NOVO BANCO and represents a very significant contraction both in the last quarter of 2017 and in the full year (-2,331 million euro and -2,333 million euro, respectively).



Alongside its deleveraging and funding policy, throughout the year NOVO BANCO streamlined its portfolio of assets eligible for rediscount with the European Central Bank. In July NOVO BANCO increased the nominal amount of the 450 million euro covered bonds issued in December 2016 by 50 million euro, to 500 million euro. The overall amount in the portfolio of assets eligible for rediscount with the European Central Bank increased by circa 1.4 billion euro, to 14.5 billion euro, mostly through the reinforcement of the portfolio of sovereign debt from Euro zone countries (namely Portugal, Spain, Italy and Germany).



The improvement in the liquidity position is shown by the increase in the regulatory ratios - the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) reached 124% and 108%, respectively, at the end of 2017.

7. Risk Management

NOVO BANCO is naturally exposed to the various types of risk inherent to the banking system, arising from external and internal factors, namely from the nature of the markets in which it operates. The risks faced by the Bank include credit risk, market risk, liquidity risk and operational risk.

The risk management function, key to the development of NOVO BANCO's activity, aims to identify, assess, monitor and report all the material risks faced by the Bank, both internally and externally. The risk management function operates independently from the functional areas, providing advice on risk management to the senior management. On a monthly basis the risk levels evolution is reported to the Risk Committee.

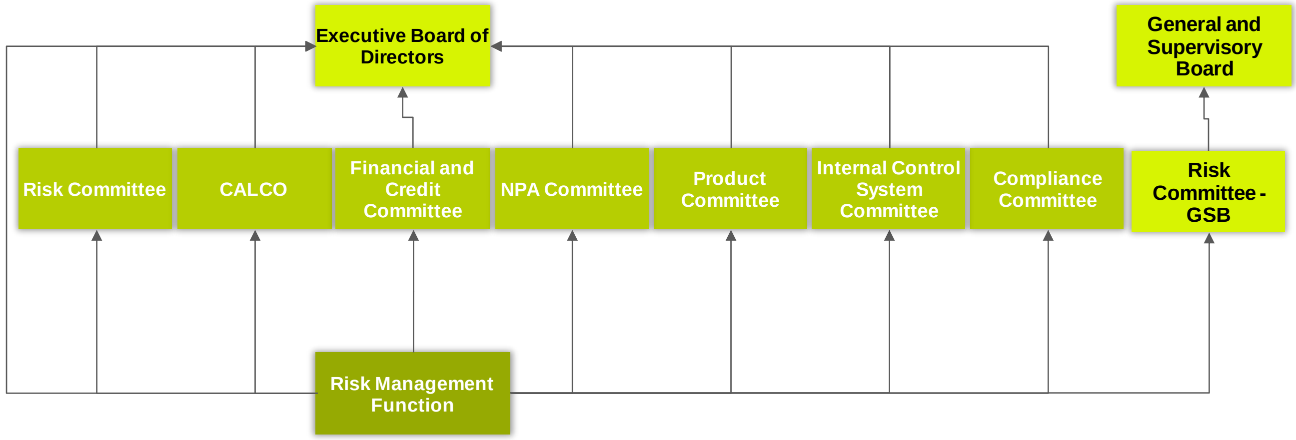
7.1. Organisation

At operational level, the Risk Management Function is centralised in the Global Risk Department (GRD) and Rating Department (DRT), being independent from the business areas.

The functions of the Global Risk Department (GRD) include:

- To identify, assess, monitor and report on the different types of risk assumed, thus managing the overall risk exposure, ensuring compliance with internal and regulatory rules, and promoting and monitoring mitigation actions;
- To implement the risk policies defined by the Executive 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 (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP) and stress tests.

The following chart presents the structure of NOVO BANCO Group's ("NB Group", the "Group" or "GNB") relevant risk function committees during 2017:



From October 2017 onwards with the change in the Articles of Association and in the governance model, the General and Supervisory Board and the respective Committees (see 9. Corporate Governance) assumed significant responsibilities in the supervision of the risk management of the group. At the level of the executive management the specialised committees shown in the table below were maintained:

Specialised Committees	
Risk Committee	Responsible for monitoring and following up on the evolution of the Group's integrated risk profile, and for analysing and proposing methodologies, policies, procedures and instruments to deal with all types of risk, namely credit, operational, and market risks.
Financial and Credit Committee	Responsible for deciding the main credit operations in which the NOVO BANCO Group (GNB) participates, in line with the risk policies defined for GNB.
Capital, Assets and Liabilities Committee – (CALCO)	Responsible for setting and monitoring growth targets for customer loans and deposits, defining the funding strategy (management of balance sheet mismatch) and price / margin targets, as well as capital optimisation.
Product Committee	Responsible for approving NOVO BANCO Group's units and commercial structures' products and services, including asset, liability and off-balance sheet products.
Non Performing Assets (NPA) Committee	Responsible for overseeing the implementation of the 5-year Strategic Plan approved for NPA, as well as compliance with the general and specific objectives defined in this Plan by all areas of NOVO BANCO Group.
Internal Control System Committee	Responsible for the oversight and monitoring of the Internal Control System (ICS) of NOVO BANCO Group in a group-wide and integrated way, notwithstanding the powers of the Corporate Bodies and of the other Committees of NOVO BANCO Group. The Committee was granted powers by the Executive Board of Directors to take decisions related with the implementation of measures to promote the efficiency of the ICS and improve the internal control environment in NOVO BANCO Group.
Compliance Committee	Responsible for the monitoring of all relevant Compliance matters, with particular emphasis on: analysis of new legislation and regulations and of any ensuing actions required for the necessary adaptations, matters of conflicts of interest / conduct.

Support Committees	
Credit Risk Analysis Committee (CRAC)	The main objective of the process developed by the Credit Risk Analysis Committee (CRAC) is the regular monitoring of current credit risk in the Retail segment. This process, which involves the analysis and assessment of clients that show symptoms of worsening creditworthiness, is conducted at least on an annual basis in each of the Regional Divisions. The analysis carried out throughout the CRAC process results in recommendations being issued per client, intended to mitigate the risk associated to each credit.

Support Committees	(cont.)
Credit Risk Monitoring Group (CRMG)	Monthly process of analysis and assessment of clients showing symptoms of worsening credit quality and definition and monitoring of their strategic options, with the participation and intervention of technical areas of the Bank The clients analysed by the CRMG are monthly classified into three risk categories - Pre-Watchlist, Watchlist and Recovery – according to certain pre-defined risk measurement criteria. The CRMG issues recommendations and actions to be taken concerning these clients, also defining the structures responsible for managing these clients. This analysis covers the corporate commercial segment, and on a annual basis all corporate groups with liabilities above 15 million euro (including good risk clients).
Operational Risk Committee	Responsible for providing advice and recommendations to support the decision-taking by the Executive Board of Directors, keeping track of its responsibilities regarding the strategy, model, policies and risks related with Operational Risk in NB Group.

7.2. Credit Risk

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

The credit risk management process is carried out by the Credit Department as the credit decision maker, by the Rating Department that conducts the financial analysis of clients and by the Global Risks Department that defines the policies and activities for follow-up and for the risks control.

- **Organisational Adjustment**

The Credit Department (CD) is entrusted with implementing the credit decision function of NOVO BANCO, ensuring the separation between the functions of managing the commercial relation with the clients - in charge of NOVO BANCO Group's commercial departments - and the decision on the credit operations of these clients.

This organisational structure reinforces the functional specialisation within the Group while increasing the weight of technical and risk analysis in the decision-making process.

The CD's scope of action covers all the Bank's commercial areas in general, namely loans to individuals, loans to companies and operations originating in the international units of NOVO BANCO Group, as well as the operations of the credit monitoring and recovery departments (companies).

The credit decision process uses as key support elements the clients' credit risk scorings and ratings and the analyses and recommendations issued by the Rating Department (DRT) and the Credit Risk Monitoring Group (CRMG). The current credit decision model thus includes a system of checks and balances that allocates the decision-making process to three distinctive areas with well-defined roles (commercial area, credit area and risk area).

NOVO BANCO has been reducing its risk appetite, namely in sectors such as real estate development and construction, and by reducing the concentration of credit exposure per client. Clients' credit ratings are a key element supporting the decision-making process.

In August 2017 the Credit Risk and Credit Risk Monitoring areas of the GRD were split, leading to the creation of the Rating Department (DRT). The function of the DRT is to assess the credit risk of NOVO BANCO Group's clients through the assignment of ratings, non-binding technical opinions and the determination of credit impairments on an individual basis, to advise the Executive Board of Directors on the management of the credit risk of Large Clients, and to monitor single name exposures' credit risk. The separation of the credit risk areas from the credit risk monitoring areas allowed not only for greater focus and better monitoring of clients' risk, and strengthened credit decision process and a complete segregation of functions between the risk valuation and risk control areas.

Credit Risk Rating Systems

Given the specific characteristics of NOVO BANCO Group's different clients, internal rating systems and risk parameters were developed for both companies and individuals.

The assignment of ratings is centralised in the Rating Department (DRT), in the Ratings area, which, despite being an organisational unit of NOVO BANCO, also serves its branches (London and Spain), through the centralised validation of all internal ratings assigned to risk groups monitored by the DRT. It should be noted that the functions of the DRT cover all the financial institutions controlled by the NOVO BANCO Group.

- **Internal rating models for corporate and institutional clients' credit portfolios**

Corporate credit portfolios are approached differently according to client size and industry sector, using different models specifically adapted to *project finance, acquisition finance, object finance, commodity finance*, and *construction finance*.

The table below summarises the types of risk models used for the internal assignment of risk ratings:

Expert Judgement

Segmentation Criteria	Model Type	Description
Sector, Dimension, Product • Financial Institutions • Municipalities • Institutional clients • Local and Regional Admin. • Large Corporate [Sales > 50 M€] • Real estate (Investment/ Promotion) • Acquisition Finance • Project Finance • Object Finance • Commodity Finance	Template	Ratings attributed by teams of analysts, using sector specific models (templates) and financial and qualitative information.
Medium Sized Companies: Sales [1.25 M€ to 50 M€]	Semi-Automatic	Ratings model based on financial, qualitative and behavioral information validated by analysts.
Small Businesses: Sales up to 1.25 M€ Start-Up's and Individual Entrepreneurs	Automatic	Ratings model based on financial, qualitative and behavioral information. Ratings model based on qualitative and behavioral information.

Statistics

Credit ratings for Large Companies (turnover above 50 million euro), Financial Institutions, Institutional Clients, Local and Regional Public Administration, and Specialised Finance (i.e. project finance, object finance, commodity finance and acquisition finance), are assigned by NOVO BANCO Group's Rating Desk. The Rating Desk is composed of seven multi-sector teams, each one headed by a team leader and comprising several specialised analysts.

To assign internal risk ratings to these risk segments, classified as low default portfolios, the Rating Desk uses expert-based rating systems (templates) that include quantitative and qualitative variables strongly linked to the industry sector in question. Except for Specialised Finance, the rating methodology used by the Rating Desk includes a risk analysis of the maximum consolidation scope, identifying the status of each subsidiary within the respective conglomerate. Ratings are validated daily by a Rating Committee formed by members of the Department Management and members of the various specialised teams.

For the medium-sized corporate segment (companies with turnover between 1.25 million euro and 50 million euro, except when in sectors classified as specific risk segments, such as real estate development), NOVO BANCO Group uses statistical rating models, which combine economic and financial data with behavioural and qualitative data.

The disclosure of risk ratings also requires previous validation by a technical team of risk analysts, who also take into account behavioural factors.

The teams also monitor the credit portfolios of NOVO BANCO Group's clients by preparing risk analysis reports that take into account the client's current liabilities versus rating, as established in internal regulations, issuing specific recommendations concerning the credit relationship to be adopted with the client in question as well as technical opinions on loans to support investment, restructuring or other operations subject to credit risk.

In the Small Businesses segment (corporate with turnover below 1.25 million euro), ratings are also determined through statistical rating models, which in addition to financial and qualitative data, also use behavioural information concerning both the companies and the respective partner(s).

Specific rating models have also been implemented to quantify the risk of Start-ups (corporate in business for less than two years and turnover below 25 million euro in the first year) and *Entrepreneurs*. These clients, together with small businesses, depending on the amount of the exposure, are included in the regulatory retail portfolios.

Finally, in the Real Estate sector (property developers, in particular small and medium-sized firms), given its characteristics, ratings are assigned centrally by a specialised team, using specific models that combine quantitative and technical variables (property valuations conducted by specialised units) with qualitative and behavioural variables. This team is also responsible for making the risk analyses included in credit proposals.

Internal models used for credit risk assessment

NOVO BANCO holds the Internal Rating Based (IRB) certification, using internally developed risk models that cover the main corporate and individual credit portfolios: Medium-sized Companies, Small Companies, Start-Ups, *Entrepreneurs*, Residential Mortgage Loans, Consumer Credit and Credit Cards In addition, the Bank uses the templates developed by Risk Solutions firm, customised to the Portuguese reality, to assign internal ratings to the Large Corporates, Municipalities, Financial Institutions, exposures to the Real Estate Sector, Project Finance and Acquisition Finance, among other portfolios.

Finally, NOVO BANCO also developed models of Loss Given Default (LGD), Expected Loss Best Estimate (ELBE) and Credit Conversion Factors (CCF) for the retail portfolios, based on internal data.

In 2017 the following activities were carried out within the GRD's modelling area:

- Recalibration of the main corporate credit portfolios following the supervisor's specific provisions on this matter and incorporating the most recent information available on the level of default observed in NOVO BANCO for these portfolios. In accordance with the legislation in force applicable to the so called relevant changes to the IRB approach, the results were submitted to the supervision authorities, pursuant to the Commission Delegated Regulation no. 529/2014;

- Development of the LGD models through the inclusion of updated information on the activity and results of the Bank's recovery areas. This included both the LGD parameters used for the calculation of impairment and the LGD and ELBE parameters used to calculate regulatory capital, in the last case only for the Retail portfolios, for which NOVO BANCO is certified to use the A-IRB approach.

In terms of the governance model, 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, which since the end of 2014 is integrated in the Internal Audit Department (IAD). The independent validation unit is responsible for assessing whether each of the internal risk models maintains a good predictive ability and a proper calibration, which are fundamental for the support of business decisions and for the calculation of regulatory capital. The validation exercise is recurrent, and the validation of the model occurs at least once a year.

In 2017, a particular approach is justified for the new accounting standard, that came into force in 2018 (IFRS9) and, on the other hand, for the Targeted Review of Internal Models (TRIM) exercise, carried out by the European Central Bank (ECB).

- IFRS9

After the severe global crisis of 2007-2009 and following the challenge set by the G20 group of countries, IASB (*International Accouinting Standard Board*) introduced a new accounting standard. This new accounting standard should provide an adequate response to the realisation that, during the crisis, banks' recognition of credit losses had been "too little too late". This is the context that gave rise to the IFRS9, and it can be said that this standard is part of the set of initiatives that political leaders and regulators promoted with the aim of laying the foundations for a better capitalised and more resilient banking system.

The changes introduced by IFRS9 may be grouped under three categories: (i) changes in the classification of financial assets, (ii) changes in the measurement of financial assets, and (iii) changes in the model used to calculate impairment. The short text below will focus only on the changes relating to impairment.

In a high-level approach the changes introduced by IFRS9 may be summarised as follows: as from, January 2018 impairment losses will be determined based on an expected loss model, whereas under the model in force until 31/12/17 (IAS39) impairment losses were determined using the incurred loss model.

This represents a structural change and one with profound impacts. Allegedly and according to some authors, for many banks the adoption of the expected loss model in the accounting of impairment losses will be an event with maximum impact, even larger than the transition to the IFRSs.

Bearing in mind the structural nature of this change, as explained above, NOVO BANCO undertook a set of actions within the scope of an IFRS9 project which was started in 2016 and involved a large number of the Bank's staff, namely from the risk, accounting and financial areas. Concerning the changes introduced in the impairment model, the following should be referred:

- The GRD's models team, with the support of external consultants, developed risk parameters designed to address the IFRS9 regulatory guidelines, namely ensuring that no lifetime parameters will be used, and considering forward looking information, i,.e., macroeconomic and financial information available for a given projection timeframe, under three scenarios:
- The credit portfolio was classified in the three stages foreseen in IFRS9: Stage 1; Stage 2; and Stage 3;
- This classification required defining criteria, in particular those to be used in Stage 2, to identify credit exposures with a significant increase in credit risk, to be measured between the moment of initial recognition and the time of reporting.
- For credits in Stage 2, impairment losses must be lifetime losses, calculated using a lifetime PD. Hence the definition of the relevant events (criteria) that trigger the transfer of a credit exposure from Stage 1 to Stage 2 was one of the main challenges of the work carried out.
- Development of the technical support infrastructures.

- Targeted Review of Internal Models (TRIM)

The Targeted Review of Internal Models (TRIM) is an exercise initiated by the ECB in 2016 that applies to all banks supervised by the European single supervisor, having as main objectives to:

- explain and reduce the differences found in the internal risk models used by the various institutions for regulatory purposes;

- reinforce the credibility of internal models and confirm they are adequate for the purposes they are used for;
- harmonise practices in relation to data and modelling principles; and
- harmonise supervision at European level.

The TRIM exercise will entail a large number of on-site inspections to be undertaken by the ECB teams over several years. These inspections will apply to Banks with IRB certification, as is the case of NOVO BANCO. The first on-site inspection to NOVO BANCO was announced in 2017 and started in January 2018.

This inspection, examines the Residential Mortgage Loans portfolio (or 'Retail – Secured by Real Estate non-SME', to use the regulatory classification). NOVO BANCO's internal PD (scorings) and LGD models are covered by this inspection.

Credit Risk Monitoring

The credit risk monitoring and control activities implemented at 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 specific situations where there is a deterioration of risk – with a view to mitigating potential loses -, as well as to outline global strategies for credit portfolio management.

These goals are achieved through the following processes, undertaken by (i) the Credit Risk Analysis Committee (CRAC), which monitors outstanding credit risk in the retail segment on an annual basis, and ii) Credit Risk Monitoring Group (CRMG), which analyses the corporate segment on a monthly basis.

The CRAC holds face-to-face meetings with the commercial structures to monitor clients with warning signals of a deterioration in credit quality, namely observed in their financial accounts, assets, behavioural profile and type of exposure to the banking system.

These meetings define risk mitigation recommendations adjusted to the specific context of each client, whose implementation is subsequently assessed.

Moreover, a review of any clients with credit incidents/warning signals is carried out and sent to the relevant retail structures on a monthly basis.

The CRMG methodology combines the analysis of deterioration of risk classes (Pre-Watchlist, Watchlist and Recovery), against pre-established credit risk assessment criteria, with the analysis of the exposure of clients/groups.

Divided into three levels, corresponding to different schedules and the hierarchy of the participants (Department Management, Managing Directors) the CRMG meetings analyse the clients' economic and financial characteristics, the risk mitigation actions under way and/or to be carried out, the adequacy of the risk classification, the necessary steps to be taken and also the appropriate structure within the Bank to implement the new risk mitigation measures.

The monthly meetings (Levels I, II and III), attended by the management staff of the various departments, analyse clients showing a deterioration in their risk classification, regardless of their liabilities, and groups with liabilities between 15 million euro and 50 million euro.

The quarterly meetings (Level IV), attended by the Managing Directors of the various departments, analyse the Bank's largest corporate clients (with liabilities above 50 million euro), including good risk clients.

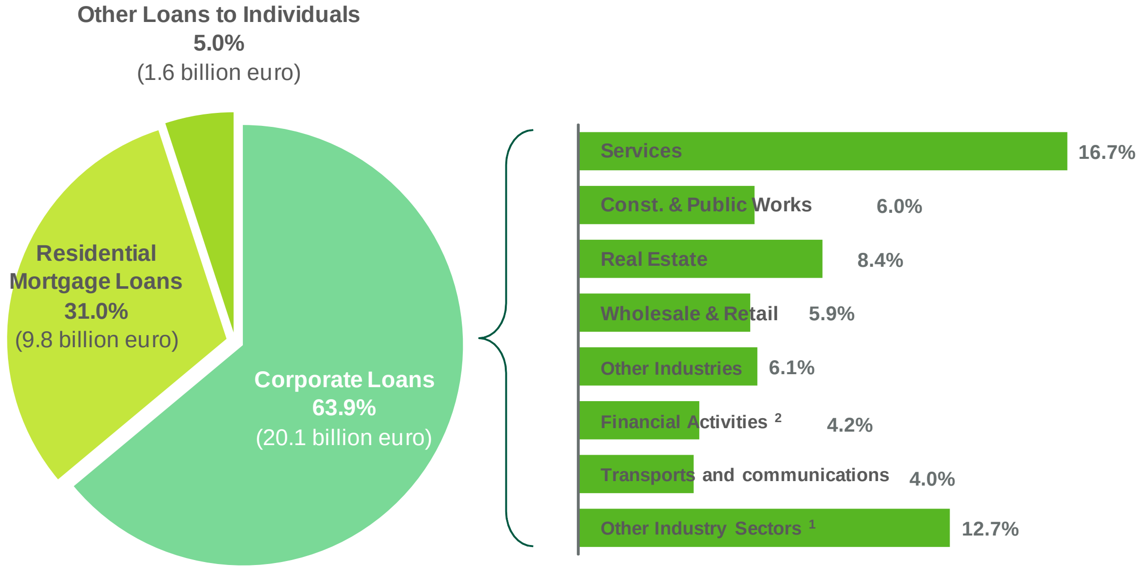
Global analysis of the credit portfolio risk profile

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

Credit Portfolio Breakdown by Industry Sector

The breakdown of the credit portfolio by industry sector shows not only NOVO BANCO Group’s continued support to the business community but also that concentration levels by industry sector remained within prudent levels.

Gross Loan Portfolio as of 31 December 2017 (31.4 billion euro)



[1] Represents a composite of other sectors of the economy none representing more than 3% individually
[2] Includes investment funds

Credit Portfolio Geographic Breakdown

In December 2017 the domestic activity accounted for an 88.3% share of the gross loan portfolio, and mainly consisted in loans to corporate.

million of euro

	Domestic Activity			International Activity			Total NOVO BANCO Group		
	Dec-16	Dec-17	weight to total	Dec-16	Dec-17	weight to total	Dec-16	Dec-17	weight to total
Residential Mortgage	9 472	9 511	34.3%	254	241	6.5%	9 726	9 751	31.0%
Loans to Individuals (other)	1 298	1 330	4.8%	276	249	6.8%	1 574	1 579	5.0%
Subtotal	10 769	10 841	39.1%	530	490	13.3%	11 300	11 330	36.1%
Corporate	18 325	16 904	60.9%	4 125	3 188	86.7%	22 451	20 092	63.9%
Total Loans	29 095	27 745		4 656	3 678		33 750	31 422	

Asset Quality

The table below shows the evolution of NOVO BANCO Group's main loan loss ratios and provisioning levels.

Asset Quality

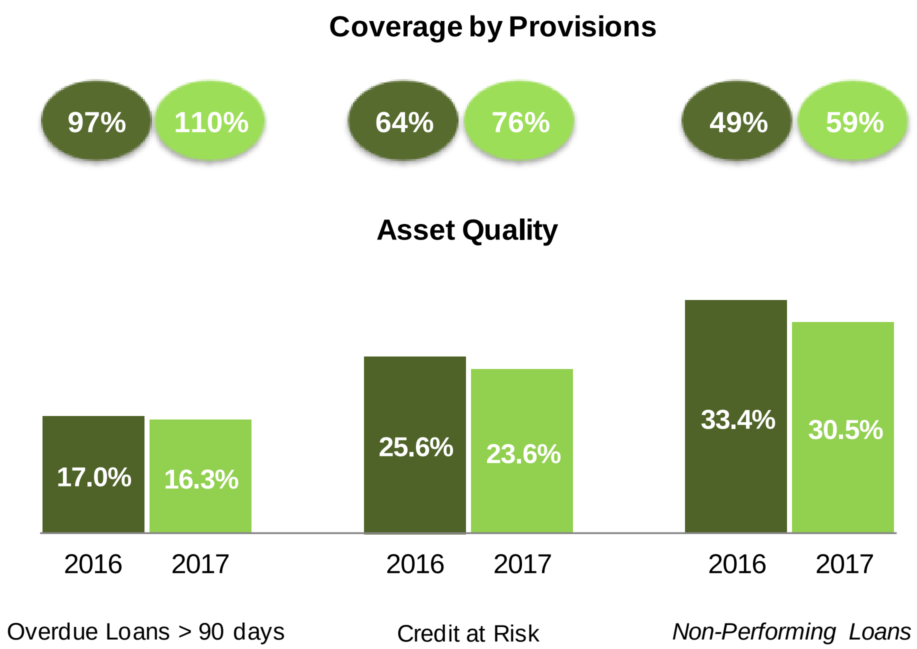
	Dec. 2016	Dec. 2017	Change	
			absolute	relative
Base Data (€ million)				
Gross Loans	33 750	31 422	(2 328)	-6.9%
Overdue Loans	5 936	5 215	(721)	-12.1%
Overdue Loans > 90 days	5 728	5 127	(601)	-10.5%
Credit at Risk (1)	8 636	7 423	(1 213)	-14.0%
Restructured Credit (2)	8 007	7 099	(908)	-11.3%
Restructured Credit not included in Credit at Risk (1), (2)	4 008	3 384	(624)	-15.6%
Non-Performing Loans (NPL)	11 288	9 594	(1 694)	-15.0%
Credit Provisions	5 566	5 631	65	1.2%
Additional Credit Provisions (accumulated)	673	1 229	557	82.7%
Indicators (%)				
Overdue Loans / Gross Loans	17.6	16.6	-1.0 p.p.	
Overdue Loans > 90 days / Gross Loans	17.0	16.3	-0.6 p.p.	
Credit at Risk (1) / Gross Loans	25.6	23.6	-2.0 p.p.	
Restructured Credit (2) / Gross Loans	23.7	22.6	-1.1 p.p.	
Restructured Credit not included in Credit at Risk (1), (2) / Gross Loans	11.9	10.8	-1.1 p.p.	
Non-Performing Loans (NPL) / Gross Loans	33.4	30.5	-2.9 p.p.	
Credit Provisions / Overdue Loans	93.8	108.0	14.2 p.p.	
Credit Provisions / Overdue Loans > 90 days	97.2	109.8	12.7 p.p.	
Credit Provisions / Credit at Risk (1)	64.5	75.9	11.4 p.p.	
Credit Provisions / Non-Performing Loans (NPL)	49.3	58.7	9.4 p.p.	
Credit Provisions / Gross Loans	16.5	17.9	1.4 p.p.	
Cost of Risk (%)	2.0	3.9	1.9 p.p.	
Cost of Risk net of recoveries (%)	1.9	3.8	1.9 p.p.	

(1) According to definition included in instruction no. 23/2011 of Banco de Portugal.
(2) According to definition included in instruction no. 32/2013 of Banco de Portugal.

The overdue loans > 90 days / gross loans ratio decreased to 16.3% (December 2016: 17.0%). The corresponding provision coverage ratio is at 109.8, representing an increase compared with December 2016 (+12.7 pp) maintaining a high level of coverage of overdue loans.

The 1.7 billion euro reduction in non-performing loans - from 11.3 billion euro in December 2016 to 9.6 billion euro in December 2017 - was particularly noticeable, with the respective asset quality ratio improving by 290 bps, to 30.5%. The coverage of non-performing loans by impairments reached 58.7% (Dec.16: 49.3%).

Asset quality and Provisions Coverage



Reflecting the improvement of the overdue loans ratio, the credit at risk ratio decreased from 25.6% to 23.6% in 2017. In what regards coverage by provisions, there was an increase in both figures, and therefore these coverages were maitained at a high level (110% for overdue loans > 90 days and 76% for credit at risk).

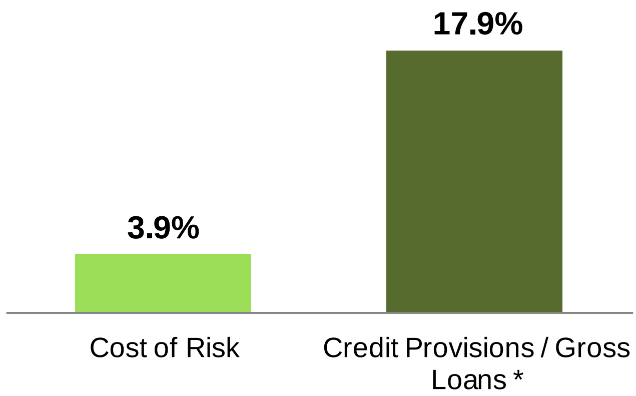
Credit at Risk* by Type of Credit and balance sheet provisions

	Credit at Risk (a)		**Coverage** (b)		**Balance Sheet Provisions** (c)	
	Dec-16	Dec-17	Dec-16	Dec-17	Dec-16	Dec-17
Total Loans	**25.6%**	**23.6%**	**64.5%**	**75.9%**	**16.5%**	**17.9%**
Corporate	33.4%	32.3%	68.5%	81.0%	22.9%	26.2%
Residential Mortgage	7.7%	6.6%	24.6%	24.8%	1.9%	1.6%
Loans to Individuals (other)	24.5%	18.2%	63.2%	73.1%	15.5%	13.3%

* Credit at Risk according to definition included in Instruction no. 23/2011 of Banco de Portugal
(a) Credit at Risk / Gross Loans
(b) Credit Provisions / Credit at Risk
(c) Credit Provisions / Gross Loans

Credit provisions were reinforced by 1,229 million euro, corresponding to a cost of risk of 3.9%. The cost of risk net of written-off credit recoveries was 3.8% in 2017.

Credit Provisions in 2017



* On Balance Sheet Credit Provisions / Gross Loans

7.3. Market and Liquidity Risks

NOVO BANCO has in place a risk management framework that includes the definition of Risk Appetite and the approval of the Risk Appetite Framework (RAF) and Risk Appetite Statement (RAS), and consequently the definition of the most relevant metrics and objectives, which are regularly monitored and controlled in accordance with the pre-established limits and objectives.

The market and liquidity risks are managed in accordance with the three lines of defence principle, with the interaction between the Bank's treasury and financial area and the risk area being defined in such a way as to separate the management of the risk monitoring, control and reporting functions. The audit area, acting as the third line of defence, is responsible for reviewing the processes implemented against existing legal standards and guidelines, producing recommendations to ensure their integrity, quality and compliance.

The management of market and liquidity risks is centralised at NOVO BANCO Group's headoffice in Lisbon and is presented to and discussed on a monthly basis by the CALCO, and monitored on a monthly basis by the Risk Committee.

Market and liquidity risks are calculated, monitored and reported at prudential level.

7.3.1. Market Risk

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

Market Risk is monitored on a short-term perspective (10 days) for the trading book and liquidity management portfolio and on a medium-term perspective (1 year) for the remaining banking book.

- **Trading Book and Liquidity Management Portfolio Risks**

Management Controls

The main measure of market risk is given by the assessment of potential losses under adverse market conditions, for which the Value at Risk (VaR) methodology is used. NOVO BANCO Group uses the Monte Carlo simulation to calculate the VaR, with a 99% confidence level and an investment period of 10 business days. Volatilities and correlations are historical, based on an observation period of one year and applying a decay factor in order to give more weight to the more recent observations.

To calibrate the VaR assessment, daily back testing exercises are performed, allowing the comparison of losses foreseen by the VaR model with theoretical losses given by the model. These exercises allow the model to be fine-tuned and its predictive capacity improved. As a complement to the VAR model, stress testing is also carried out to assess the potential losses under extreme scenarios. These analyses are performed either based on a real stress period (stressed VaR, sVaR), or through sensitivity analysis, applying extreme individual shocks to risk factors.

NOVO BANCO Group's portfolios are subject to VaR and stop loss limits, in order to limit potential losses. There are pre-established limits for the trading areas and banking book - the liquidity management portfolio, which includes sovereign debt securities and others considered High Quality Liquid assets. Market risk compared with its defined limits is reported daily to the business areas and respective managers, to the risk department managers and to the regulator.

Market Risk Analysis

NOVO BANCO Group's value at risk (VaR) at 31 December 2017 was 34.4 million euro in its trading portfolio positions in equities, interest rate instruments, volatility and credit spreads, commodities as well as FX positions and liquidity management portfolios. On 31 December 2016 this value was 27.0 million euro. The increase in risk observed in 2017 was mostly driven by the increase in interest rate risk and credit spread risk due to the growth of the liquidity management portfolio and the extension of its maturity.

million of euro

Value at Risk 99% 10 days					
	31-12-2016	**31-12-2017**	**Change**	**Maximum**	**Minimum**
FX	1.9	1.2	-0.7	1.9	0.6
Interest Rate	10.4	21.4	11.0	28.7	13.5
Equities and Commodities	2.6	0.9	-1.7	2.9	0.5
Credit	29.5	34.0	4.5	41.1	18.1
Volatility	0.1	0.1	0.0	0.3	0.1
Diversification effect	-17.6	-23.2	-5.6	-39.3	-13.9
Total	**27.0**	**34.4**	**7.4**	**35.5**	**18.9**

- **Banking Book Risks**

For the other banking book risks, and in accordance with the RAS, there are general position limits, which are assessed through stressed VaR (SVaR) at 99.9% for a selected stress period of one year based on historical data series, with the respective annual shocks being applied to the portfolio.

Banking Book Interest Rate Risk

Interest Rate Risk may be understood in two different but complementary ways, namely as the effect on the net interest margin, or as the impact on capital, resulting from interest rate movements that affect the institution's banking book.

Fluctuations in market interest rates impact the net interest margin of the Bank through changes in the revenue and costs associated with interest rate products and on the other hand impact economic value through changes in the underlying value of its interest-sensitive assets, liabilities and off-balance sheet elements other than in the trading book. At NOVO BANCO Group the interest rate risk of the banking book results mainly from the mismatch between the repricing of credit and long-term fixed rate bonds and the repricing of liabilities represented by long-term fixed-rate securities and of customer funds.

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

Additionally, every month NOVO BANCO Group measures the banking book interest rate risk in stress situations, based on the one-year historical VaR, with a 99.9% confidence level, and applying a floor on the simulation of rates. On 31 December 2017 this value was 129 million euro, which compares with 197 million euro on 31 December 2016. This change mainly reflects the decrease in fixed-rate debt securities following the Liability Management Exercise and the increase and extension of the maturity of the sovereign debt portfolio.

Other Banking Book Risks

The other banking book risk include credit spread risk, equity risk, real estate risk, foreign-exchange risk in structural exposures and pension fund risk.

An asset’s credit spread risk reflects the difference between the interest rate associated to that asset and the interest rate of a risk-free asset in the same currency. The credit spread risk is associated to the value decrease of positions in bonds due to changes in that spread.

The risk of equity holdings, the risk of mutual funds and the real estate risk can be described as the probability of loss resulting from an adverse change in the market value of these assets.

The foreign exchange rate risk in structural exposures arises from the potential loss resulting from the estimated devaluation of the currencies in which exposures in equity holdings are denominated.

- **Pension Fund Risk**

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

To monitor the limits and quantify the pension fund risk NOVO BANCO Group uses the same models and methodologies used to determine the material risks incurred by its assets.

NOVO BANCO Group's pension fund risk is measured based on the fund's asset portfolio and the estimated cash flows related to the fund's liabilities, assuming for these a stress scenario on the reference date.

7.3.2. 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.

Banks are subject to liquidity risk due to their business of transformation of maturities (providing long term loans and receiving short term deposits) and therefore a prudent management of liquidity risk is crucial.

Management Controls

In addition to the implementation of the Risk Appetite framework, the centralisation of risk management in the Bank's head office and the governance model covering all market and liquidity risks, the liquidity risk framework also includes the following:

- Management of Collaterals

  The management of collaterals is a process that aims to maximize the potential for financing through the balance sheet assets.

- Funding adequacy and diversification

  In line with its prudent liquidity management policy, NOVO BANCO Group strives for an adequate diversification of its funding sources, stressing in particular the increase in deposits and funding, that can be or not guaranteed by collaterals, with market counterparties.

- Definition of a transfer pricing policy

  The defined transfer pricing structure supports a relationship between customer loans and customer deposits according to the annual budget. As such it is possible to allocate to each transaction/business unit the Bank's funding costs so that the pricing of each transaction is correctly defined.

- Implementation of internal liquidity stress tests

  The Bank has in place a process to identify and regularly review the material liquidity risk drivers to which it is or may be exposed, which are part of the liquidity stress scenarios. These scenarios take into account the historical perspective of NOVO BANCO Group and simultaneously combine idiosyncratic, regional and market stress events that are considered plausible and sufficiently severe in terms of their material impact on the bank's liquidity position.

- Development of a liquidity contingency plan

  The liquidity contingency plan (LCP) makes the link between the liquidity required by NOVO BANCO Group and the maximum level of liquidity required in a stress scenario. The LCP has two main components: the early detection of liquidity crises; and the strategy of response to such crises.

NOVO BANCO Group continues to follow all changes in the legislation in order to comply with regulatory requirements, namely the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), as well as to meet all regulatory reporting requirements in terms of liquidity, namely through the development and analysis of information in connection to the Additional Liquidity Monitoring Metrics (ALMM), Liquidity Risk Monitoring Tool (LRMT) and Single Supervisory Mechanism Liquidity Exercise (Crisis Management Liquidity Template). These three reports are intended, respectively, to complement the liquidity reporting previously carried out with additional liquidity monitoring measures, to allow the regulator to assess weekly the liquidity ratios, survival periods, and liquidity gaps of the institutions, and to endow banks with liquidity tools for temporary and opportune use in real crisis situations.

Liquidity Risk Analysis

NOVO BANCO Group's liquidity risk registered a marked improvement in 2017, as reflected in a 4.4 billion euro increase in available net assets[6], essentially through an increase in deposits that more than made up for

[6] In accordance with the LRMT definition of available net assets

the decrease in debt securities resulting from the LME, the deleveraging of the Bank's assets and the capital increases carried out during the year.

The successful completion of the Liability Management Exercise (LME), which consisted in the repurchase and early redemption of 4.7 billion euro of senior bonds issued by NOVO BANCO Group (representing 57% of the nominal value of the bonds subject to the offer), for a total amount of 2.0 billion euro, under the terms of the tender offer and consent solicitation concluded on 2 October 2017, allowed for the conclusion of the sale of NOVO BANCO.

Net funding from the European Central Bank (ECB) dropped to 6.4 billion euro (gross) or 2.8 billion euro (net) on 31 December 2017, which represents a year-on-year reduction of 2.3 billion euro. At the end of 2017 the portfolio of assets eligible as collateral (after haircuts) for rediscounting operations with the ECB totalled 12.7 billion euro, which compares with 11.6 billion euro in 2016.

Due to the increase in available net assets, the Liquidity Coverage Ratio (LCR) rose by 17 p.p., from 107% on 31 December 2016 to124% at the end of 2017.

The Net Stable Funding Ratio (NSFR) increased from 99% on 31 December 2016 to 108% on 31 December 2017, mainly underpinned by the deleveraging of non-liquid assets.

There was also a decrease in the loan to deposit ratio, from 110% in 2016 to 88% at the end of 2017 resulting from the positive evolution of its components, increase in deposits and decrease of the loan book.

With regard to the internal liquidity stress tests, NOVO BANCO Group's balanced liquidity position would allow it to survive a severe market and idiosyncratic shock in the conditions defined for three months, using only its available net assets and with no need to resort to additional mitigation measures.

7.4. 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.

Consequently, Operational Risk is inherent to all the activities of the Group, with no exception, i.e., to all businesses, processes, activities and systems. Therefore all the employees are responsible for the management and control of operational risk within their sphere of responsibility. The attempt to eliminate all Operational Risks is not feasible 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 NB Group seeks to eradicate the inherent risk source. The Operational Risk Appetite established for the Group reflects this unquestionable reality in the management and control of this risk.

Management Practices

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, recognised as translating the best practices in this area.

The operational risk management model implemented is supported by a specific structure within the Global Risk Department 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 NOVO BANCO Group, in compliance with the methodologies approved by the Executive Board of Directors. For the model to be effective, close coordination with and the active participation of the Global Risk Department, the operational risk representatives from NOVO BANCO'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 Operational Risk Control and Management Model also complies with the 3 Lines of Defence principle.

The Operational Risk management and control model currently in place entails the following steps:

- Definition of Risk Policies and Methodologies to manage and control operational risk;
- Monitoring of Operational Risk Appetite (including the risk appetite defined for its various categories) through Group-wide Key Risk Indicators (KRI), allowing a comparative analysis, and specific indicators to meet the risk control needs of certain business units;
- Identification and reporting of operational risk incidents in NOVO BANCO Group's corporate Operational Risk 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

impacts or incidents with positive impacts. Knowledge of these situations is essential to allow the control and 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 thus promote a risk awareness culture and further improve the established identification process;
- Regularly performing self-assessment exercises to identify the larger risks and corresponding mitigation actions;
- 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 to NOVO BANCO Group's top management, as well as specific reporting to certain business units;
- Training and sharing of experiences in a "lessons learned" perspective and adoption of best practices by NOVO BANCO Group's several business units;
- Active participation in the process of signing off new products and services of NOVO BANCO; Monitoring of two types of exclusions to the sign off process of new products and services that enhance or generate Operational Risk;
- Development, dissemination and monitoring of the IT Risk Models adopted by the financial institutions of NOVO BANCO Group, namely in terms of the severity of the incidents detected.

Considering that Operational Risk comprises Operative Risk, Information Systems Risk, Compliance Risk and Reputational risk, in 2017 the Bank continued to define and implement risk indicators to monitor risk appetite across these components.

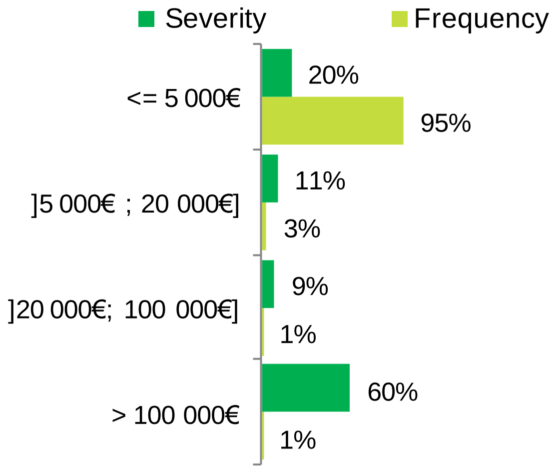
In the area of Compliance and Reputational risks, the Compliance Department plays a particularly important role, reviewing and implementing metrics viewing the constant monitoring and control of these risks, as well as their prevention. The consolidation of these instruments improved the monitoring of the actions required for the proper mitigation of risks.

Moreover, other activities carried out concurrently also reinforced the control environment in NOVO BANCO, namely: i) the projects undertaken to adjust the Bank's processes to regulatory changes, in particular those arising from the comprehensive legislative framework, including the Markets in Financial Instruments Directive

II (MIFID II), and legislation on Product Oversight and Governance and Packaged Retail & Insurance-Based Investment products; ii) the definition/revision of the Policy on Conflicts of Interest and the Policy on Related Party Transactions; iii) the reporting of compliance risks to the Compliance Committee; and iv) the consolidation of the product sign-off process through the Product Committee.

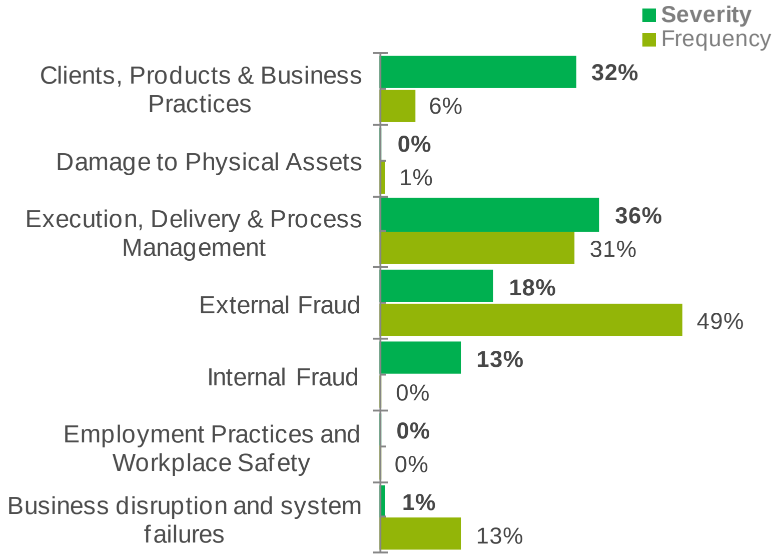
Analysis of Operational Risk

NOVO BANCO Group's operational risk profile shows a high frequency of incidents with low financial impact, and very few incidents with a material impact 95% of the incidents had a net financial impact of less than 5 thousand euro each, representing 20% of the total reported losses related to Operational Risk. Incidents with an impact above 100 thousand euro were few and represented 60% of the total impact. Measures were taken to solve the problems which were identified.



The operational risk incidents identified and reported are classified in the corporate information system in accordance with the risk categories of the taxonomy approved for the Group and Basel's Business Lines and Risk Types.

The 'External Fraud' incidents (mostly involving credit cards) registered the highest score in terms of frequency, with 49% of the incidents representing 18% of the lost amount, which is broadly in line with the average in the financial system. The "Execution, delivery & process management" events registered the highest score in terms of severity (36%), corresponding to 31% of the reported incidents. Clients, Products and Business Practices was responsible for 32% of the losses. This was due to a particular failure that was promptly and efficiently corrected.



7.5. Solvency

- ### Capital Management and Regulatory Solvency

The main objective of NOVO BANCO Group's capital management is to ensure compliance with the Group's strategic targets in terms of capital adequacy, respecting and enforcing the rules regarding the calculation of capital requirements and solvency levels set by the supervisors, namely the Banco de Portugal and the European Central Bank (ECB).

The capital adequacy strategy is defined by the Executive Board of Directors as part of NOVO BANCO Group's global setting of objectives.

NOVO BANCO Group's solvency ratios are calculated based on the rules stipulated in Directive 2013/36/EU and Regulation (EU) no. 575/2013, which define the criteria for access to the activity of credit institutions and investment firms and determine the prudential requirements for these institutions, and also in Regulation (EU) no. 2016/445, which regulates the transitional (phased-in) arrangements for own funds set forth in Regulation (EU) no.575/2013 NOVO BANCO Group is authorised to use the internal ratings based approach (IRB) for the calculation of risk weighted assets for credit risk. For the calculation of risk weighted assets for market and operational risk it uses the standardised approach.

Under the terms of the above-mentioned rules, the capital ratios of NOVO BANCO Group, as of 31 December 2016 and 31 December 2017, were as follows:

Solvency

	31-Dec-16	31-Dec-17	
	Phased-in	*Phased-in*	*Fully implemented*
Common Equity Tier I Ratio	12.0%	12.8%	12.0%
Tier 1 Ratio	12.0%	12.8%	12.0%
Solvency Ratio	12.0%	13.0%	12.4%

The phased-in Common Equity Tier 1 (CET1) ratio for 31 December 2017 was 12.8%. The decline in the ratio reflects the reduction of CET1 due to the 2017 phasing in criteria and the net income for the year. The fully implemented CET1 ratio for 31 December 2017 was 12.0%.

Own Funds

Currently, under the Basel III legal framework, the calculation of NOVO BANCO Group's solvency ratios considers the following capital elements: Common Equity Tier I, Own Funds level 1 (Tier I), Own Funds level 2 (Tier II) and Total Own Funds (Total Equity).

NOVO BANCO Group's prudential capital is mainly composed of Common Equity Tier I elements.

The main regulatory and accounting capital items (from a prudential perspective) are as follows:

million of euro

	Consolidated	
	31-Dec-16	31-Dec-17
Realised ordinary share capital	4 900	5 900
Reserves and Retained earnings	1 289	420
Net income for the year	(837)	(1 389)
Revaluation reserves	(275)	(153)
Non-controlling interests	55	52
A - Accounting Equity	**5 132**	**4 830**
Revaluation Reserves	(49)	(54)
Non-controlling interests	(24)	(28)
B - Prudential adjustments to Equity	**(73)**	**(82)**
Goodwill and other intangibles	(62)	(26)
Deferred taxes	(796)	(635)
Equity participations in financial entities	(146)	(11)
Other	(4)	(29)
C - Prudential deductions	**(1 008)**	**(701)**
D - Common Equity Tier I (A+B+C)	**4 051**	**4 047**
Eligible instruments for Tier I	2	3
Deductions to Tier I	(2)	(3)
E - Tier I	**4 051**	**4 047**
Eligible instruments for Tier II	127	138
Deductions to Tier II	(127)	(68)
F - Tier II	**-**	**70**
G - Eligible Own Funds	**4 051**	**4 117**

Risk Weighted Assets

As of 31 December 2017, risk weighted assets totalled 31,740 million euro, of which 29,844 million euro (94% of the total) resulted from credit and counterparty risk, 418 million euro from market risk and 1,477 million euro from operational risk.

Credit and Counterparty Risk

As stated above, NOVO BANCO Group uses the Internal Rating Based (IRB) approach for calculating risk weighted assets for credit risk in accordance with the rules stipulated in Regulation (EU) no. 575/2013.

As of 31 December 2017 the 'corporate' risk class was the main contributor to risk weighted assets (55% of the total).

Risk Weighted Assets for Credit Risk by risk class

million of euro

	31-Dec-16	31-Dec-17	
	Risk Weighted Assets	Risk Weighted Assets	Risk Weighting Factor (1)
Central Administrations or Central Banks	12	12	0%
Institutions	3 624	3 610	96%
Corporate	19 474	16 339	63%
Retail Portfolio	2 057	1 936	16%
Other	6 859	7 947	52%
Total	**32 026**	**29 844**	**52%**

(1) Risk Weighting Factor: Risk Weighted Assets / Position in Original Risk

Market Risk

As referred above, market risk weighted assets are calculated using the standardised approach.

As of 31 December 2017, market risk weighted assets amounted to 418 million euro, with the main contributors being the interest rate / debt instruments risk (81% of the total) and FX risk (16% of the total).

Change in the year of the Market Risk Weighted Assets

million of euro

		31-Dec-16	31-Dec-17	Change
Debt Instruments	Specific Risk	3	0	-3
	General Risk	146	335	190
	Non-Delta Risk*	0	0	0
	CIE**	0	2	1
Equity Instruments	Specific Risk	1	2	2
	General Risk	67	4	-62
	Non-Delta Risk*	13	0	-13
	CIE**	0	8	8
Commodity Risk	General Risk	0	0	0
	Non-Delta Risk*	0	0	0
Foreign Exchange Risk	General Risk	97	66	-32
	Non-Delta Risk*	2	1	-2
Total		**330**	**418**	**89**

* Risk applied to non-linear products (options) and includes the gama and vega risks. The gama risk corresponds to the risk of the subjacent asset (second derivative) and the vega risk to the volatility risk

** Collective Investment Entities - Investment Funds

The change in market risk weighted assets mainly resulted from the increase in the general interest rate risk, in part offset by the decrease in the general equity instruments risk and general FX risk.

Operational Risk

Operational risk weighted assets are calculated according to the standardised approach. This approach considers the average, of the last three years, of the sum of the risk weighted relevant indicators, which are determined on a yearly basis, related to the regulatory activity segments.

From December 2016 to December 2017, operational risk weighted assets increased by 205 million euro.

Change in the year of the in Regulatory Capital Requirements and Operational Risk Weighted Assets

million of euro

	31-Dec-16		31-Dec-17	
	Capital Requirements	Risk Weighted Assets	Capital Requirements	Risk Weighted Assets
NOVO BANCO Group	**102**	**1 272**	**118**	**1 477**
Corporate financing	0	0	0	0
Trading and sales	-64	-804	-33	-411
Retail brokerage	1	14	1	11
Commercial banking	119	1 485	107	1 336
Retail banking	40	501	38	478
Payment and settlement	0	0	0	0
Agency services	0	3	0	3
Asset management	6	73	5	61

8. Results and Activity

At the beginning of the 4th quarter of 2017 NOVO BANCO ceased to be considered as a transition bank and started to operate under normal conditions although being subject to certain measures imposed by the European competition authority that limit its activity.

The conditions are therefore in place for NOVO BANCO to carry out its repositioning in the domestic banking market, consolidating its strategic reorganisation process geared towards the creation of value.

8.1. Results

NOVO BANCO Group reported a negative net income of 1,395.4 million euro in 2017, which compares with the loss of 788.3 million euro in the previous year.

million of euro

INCOME STATEMENT	2016	2017	% Change
Net Interest Income	514.5	394.6	-23.3%
+ Fees and Commissions	277.1	324.8	17.2%
= **Commercial Banking Income**	**791.6**	**719.4**	**-9.1%**
+ Capital Markets Results	147.6	214.3	45.2%
+ Other Operating Income	38.2	749.0	....
= **Banking Income**	**977.5**	**1 682.6**	**72.1%**
- Operating Costs	590.9	549.2	-7.1%
= **Net Operating Income**	**386.6**	**1 133.4**	**....**
- **Net Impairments and Provisions**	**1 374.7**	**2 056.9**	**49.6%**
Credit	672.6	1 229.2	82.8%
Securities	315.9	134.8	-57.3%
Other Assets and Contingencies	386.2	692.9	79.4%
= **Income before Taxes**	**- 988.1**	**- 923.5**	**6.5%**
- Corporate Income Tax	- 227.6	445.1	....
- Special Tax on Banks	37.0	30.8	-16.6%
= **Income after Taxes**	**- 797.5**	**-1 399.5**	**-75.5%**
- Non-Controlling Interests	- 9.1	- 4.0	56.1%
= **Net Income**	**-788.3**	**-1 395.4**	**-77.0%**

Main highlights of the activity developed in 2017:

- commercial banking income totalled 719.4 million euro (-9.1% YoY), being penalised by a reduction in net interest income (-23.3%) that offset the improvement in fees and commissions (+17.2%);
- capital market results, in the amount of 214.3 million euro, benefited from the impact of the LME operation;
- operating costs decreased by 7.1% YoY, to 549.2 million euro, underpinned by the improvements made in terms of simplifying processes and streamlining the structure, with the consequent reduction in the number of branches and employees;
- net operating income (before impairments and taxes) was positive, at 1,133.4 million euro, including the triggering of the Contingent Capital Agreement (791.7 million euro);
- the total provision charge of 2,056.9 million euro includes 1,229.2 million euro for credit, 134.8 million euro for securities, and 692.9 million euro for other assets and contingencies, of which 398.0 million euro for discontinuing operations and 134.3 million euro of provisions for restructuring.
- the tax amount of 445.1 million euro largely reflects the write-off of tax losses carried forward, which, under the terms of the current business plan do not meet the conditions for inclusion in the Bank's assets, given the review of the Business Plan after the negotiations with the DG Comp.

Not considering the triggering of the Contingent Capital Agreement, NOVO BANCO Group reported a positive net operating income of 341.7 million euro in 2017.

million of euro

NET OPERATING INCOME EXCLUDING CONTINGENT CAPITAL AGREEMENT	2016	2017	% Change
Net Interest Income	514.5	394.6	-23.3%
+ Fees and Commissions	277.1	324.8	17.2%
= **Commercial Banking Income**	**791.6**	**719.4**	**-9.1%**
+ Capital Markets Results	147.6	214.3	45.2%
+ Other Operating Income	38.2	- 42.7	....
= **Banking Income**	**977.5**	**890.9**	**-8.9%**
- Operating Costs	590.9	549.2	-7.1%
= **Net Operating Income**	**386.6**	**341.7**	**-11.6%**

Net Interest Income

The performance of net interest income was impacted by the fact that benchmark interest rates remained on negative ground, by the high cost of debt securities (offset by the LME operation carried out in October) and by the need to stabilise funding through customer funds.

Due to these constraints and also the ongoing deleveraging process, net interest income contracted by 23.3% year-on-year, to 394.6 million euro. It should be noted that the positive impact from a 34 basis points (bps) reduction in the cost of liabilities (from 1.39% in Dec.16 to 1.05% in Dec. 17) was not sufficient to offset the reduction in the interest rate on assets (-55 bps), causing the net interest margin to drop by 21 bps, to 0.89%, from 1.10% in December 2016.

The decrease in the interest rate on deposits, from 0.91% in December 2016 to 0.86% at the end of 2017, contributed to lower the rate of liabilities. On the side of interest earning assets, there was a reduction in income not only from customer loans but also from the other financial assets.

million of euro

NET INTEREST INCOME AND NET INTEREST MARGIN	2016			2017		
	Average Balance	Avg. Rate	Income / Costs	Average Balance	Avg. Rate	Income / Costs
INTEREST EARNING ASSETS	46 823	2.49%	1 166	44 347	1.94%	862
Customer Loans	34 695	2.68%	932	32 474	2.32%	752
Money Market Placements	2 480	2.31%	57	2 650	1.08%	29
Securities and Other Assets	9 647	1.84%	177	9 223	0.88%	81
OTHER NON-INTEREST EARNING ASSETS	-	-	-	-	-	-
INTEREST EARNING ASSETS AND OTHER	**46 823**	**2.49%**	**1 166**	**44 347**	**1.94%**	**862**
INTEREST BEARING LIABILITIES	43 978	1.48%	652	41 066	1.14%	467
Due to Customers	25 123	0.91%	229	26 319	0.86%	226
Money Market Funding	11 442	0.36%	41	8 985	0.36%	33
Other Liabilities	7 413	5.15%	382	5 761	3.61%	208
OTHER NON-INTEREST BEARING LIABILITIES	2 845	-	-	3 282	-	-
INTEREST BEARING LIABILITIES AND OTHER	**46 823**	**1.39%**	**652**	**44 347**	**1.05%**	**467**
NIM / NII		**1.10%**	**514**		**0.89%**	**395**

The average rate on customer loans, the main component of financial assets (73.2%), was 2.32%. As to liabilities, the average balance of deposits was 26.3 billion euro, with an average interest rate of 0.86%.

Fees and Commissions

Fees and commissions on banking services contributed with 324.8 million euro to the results, up by 17.2% from 277.1 million euro in December 2016. This improvement reflects the reduction in the cost of bond issues guaranteed by the Portuguese Republic, which were fully reimbursed and cancelled in early 2017, as otherwise fees and commissions would have increased by 5.4% YoY.

million of euro

FEES AND COMMISSIONS	2016	2017	% Change	Weight	
				2016	2017
Payments and Account Management	98.6	112.4	14.0%	31.8%	34.4%
Commissions on Loans, Guarantees and Similar	128.0	123.0	-3.9%	41.3%	37.6%
Asset Management and Bancassurance	62.3	71.1	14.2%	20.1%	21.8%
Advising, Servicing and Other	21.1	20.3	-3.7%	6.8%	6.2%
SUBTOTAL	**310.0**	**326.8**	**5.4%**	**100.0%**	**100.0%**
Costs with Portuguese Republic Guarantees	32.9	2.0	-94.0%		
TOTAL	**277.1**	**324.8**	**17.2%**		

In the activity of NOVO BANCO Group the relevance of the following should be stressed:

- Support services to companies – including income from guarantees provided, documentary credits, and services related to loan management and other (37.6% of total fees and commissions);
- Commissions on payment services (34.4% of the total) – cards and payment processing, including cheques, transfers, payment orders, electronic terminals POS and ATMs, and also account management fees; and
- Asset management and *bancassurance* products, which accounted for 21.8% of total fees and commissions.

Capital Markets and Other Results

Capital markets results increased by 45.2%, underpinned by the gains obtained on the sale and revaluation of sovereign debt securities and on the LME operation (209.7 million euro).

The increase in other operating results mainly reflects the triggering of the Contingent Capital Agreement (791.7 million euro) and also part of the capital gain on the sale of 75% of the subsidiary NB Ásia (66.0 million euro), and on the negative side, the loss recorded on the sale of international loans (-30.9 million euro) and the cost of the contributions to the Single Resolution Fund (19.7 million euro) and to the Portuguese Resolution Fund (7.8 million euro).

Operating Costs

Operating costs show a YoY reduction of 7.1%, reflecting the ongoing implementation of the restructuring measures that involved the downsizing of the distribution network and the simplification and scaling down of the organisational structure and processes, with the consequent reduction of the workforce.

million of euro

OPERATING COSTS	2016	2017	% Change
Staff Costs	303.5	275.7	-9.1%
General and Administrative Costs	231.4	215.4	-6.9%
Depreciation	56.1	58.1	3.6%
TOTAL	**590.9**	**549.2**	**-7.1%**

Staff costs decreased by 9.1% YoY, to 275.7 million euro, underpinned by a headcount reduction of 608 employees since 31 December 2016. At 31 December 2017 NOVO BANCO Group had 5,488 employees (Dec. 16: 6,096).

General and administrative costs dropped by 6.9% YoY, to 215.4 million euro. This reduction, which occurred across most cost categories, reflects the rationalisation and streamlining policy under way. Depreciation increased by 3.6%.

The contraction in operating costs also reflects the downsizing of the distribution network in line with the new business reality. On 31 December 2017 NOVO BANCO had 473 branches, which is 64 fewer units than a year earlier.

Impairment and Provisions

The NOVO BANCO Group reinforced provisions by 2,056.9 million euro (+682.2 million euro compared to December 2016), the bulk of which was allocated to credit (1,229.2 million euro). The year's provision charge also includes 134.8 million euro for securities, 134.3 million euro for restructuring (Dec.16: 98.2 million euro) and 398.0 million euro for operations being discontinued, allocated to other assets and contingencies.

million of euro

NET IMPAIRMENTS AND PROVISIONS	2016	2017	% Change
Customer Loans	672.6	1 229.2	82.8%
Securities	315.9	134.8	-57.3%
Real Estate and Equipment	126.3	56.7	-55.1%
Other Assets and Contingencies	259.9	636.2	144.8%
TOTAL	**1 374.7**	**2 056.9**	**49.6%**

8.2. Activity

Funding

On 31 December 2017 customer deposits totalled 29.7 billion euro, up by 3.7 billion euro from 26.0 billion euro in September 2017. In addition to the consolidation of the relationship with the clients alongside the resumption of normal operating conditions and the recovery of funding, this increase reflects the impact of the LME operation carried out in the last quarter of 2017 (new deposits in the amount of ca. 1.8 billion euro).

million of euro

CUSTOMER FUNDS	31-Dec-16	30-Sep-17	31-Dec-17	YoY Change		Absolute change in 4Q2017
				absolute	relative	
Deposits	25 585	25 960	29 691	4 106	16.1%	3 731
Other Customer Funds (1)	404	539	517	113	27.8%	- 22
Debt Securities (2)	3 818	3 483	1 217	-2 601	-68.1%	-2 266
Sub -Total	**29 807**	**29 981**	**31 425**	**1 617**	**5.4%**	**1 444**
Life Insurance Products (3)	4 730	4 391	-	-4 730	-100.0%	-4 391
Off-Balance Sheet Funds	5 069	4 780	4 829	- 240	-4.7%	49
Total Customer Funds	**39 606**	**39 152**	**36 254**	**-3 352**	**-8.5%**	**-2 898**

(1) Includes cheques and pending payment instructions, REPOS and other funds

(2) Includes funds associated to consolidated securitisation operations

(3) Taking into account the intention of NB of selling the insurance activity, developed by GNB Vida, the company has been allocated to discontinuing activities

Customer Loans

NOVO BANCO's strategy of support to the domestic business community was underlined by its strict and selective lending policy. This support has been provided across all industry sectors and all companies, placing a particular focus on the exporting small and medium-sized companies and those that incorporate innovation in their products, services or production systems. At the end of 2017 corporate loans accounted for a 63.9% share of the total loan book.

million of euro

CUSTOMER LOANS	31-Dec-16	31-Dec-17	Change	
			absolute	relative
Corporate Lending	**22 451**	**20 092**	**-2 359**	**-10.5%**
Loans to Individuals	**11 300**	**11 330**	**30**	**0.3%**
Residential Mortgage	9 726	9 751	25	0.3%
Other Loans	1 574	1 579	5	0.3%
Customer Loans (gross)	**33 750**	**31 422**	**-2 328**	**-6.9%**
Provisions	5 566	5 631	65	1.2%
Customer Loans (net)	**28 184**	**25 791**	**-2 393**	**-8.5%**

Customer loans contracted by 2.3 billion euro in 2017. The stability of loans to individual clients, which remained flat at around 11.3 billion euro, is worth noting, with mortgage loans increasing by 25 million euro, driven by commercial innovations in the relationship with the clients. Moreover, production of both mortgage loans and other loans to individuals has increased when compared to 2016.

Securities Portfolio

The securities portfolio, the main source of eligible assets for funding operations with the European Central Bank (ECB), totalled 8.5 billion euro on 31 December 2017 and represented 16.3% of assets.

net of impairments — million euro

SECURITIES PORTFOLIO	31-Dec-16	31-Dec-17	YoY Change	
			absolute	relative
Portuguese Sovereign Debt	3 538	3 855	317	9.0%
Other Sovereign Debt	2 971	2 113	- 859	-28.9%
Bonds	2 775	962	-1 813	-65.3%
Other	2 478	1 549	- 929	-37.5%
Total	**11 762**	**8 479**	**-3 284**	**-27.9%**

The breakdown of the securities portfolio reflects a portfolio management approach based on securities with lower risk and higher liquidity, namely sovereign debt of Euro zone countries, which account for 69.4% of the total available securities. The overall amount of the portfolio contracted by around 3.3 billion euro, mainly through the decrease in bonds following the transfer of GNB Vida to activities being discontinued.

The securities portfolio had a positive fair value reserve of 241.6 million euro (Dec. 2016: 151.4 million euro).

The sovereign debt portfolio (excluding the exposure to sovereign debt of GNB Vida) amounted to 5.9 billion euro. This portfolio was essentially concentrated in European countries, with the exposure to Portuguese sovereign debt amounting to 3.9 billion euro, of which 1.2 billion euro in Treasury Bills and 2.7 billion euro in Treasury Bonds. As to other European peripheral countries, the Bank's exposure to Spanish sovereign debt was 1.5 billion euro, while its exposure to Italian sovereign debt was 336 million euro.

Equity

The changes in equity mainly reflect the capital increases of 1,000 million euro and the losses reported in 2016, and 2017, and the negative value of the revaluation reserves (securities portfolio fair value reserves and actuarial deviations in the Pension Fund). On 31 December 2017 the Group's equity was 4.8 billion euro.

million of euro

EQUITY	31-Dec-16	31-Dec-17	Absolute Change
Share Capital	4 900	5 900	1 000
Revaluation Reserves	- 289	- 176	113
Other Reserves and Retained Earnings	1 244	424	- 820
Net Income for the Year	- 788	-1 395	- 607
Non-controlling interests	81	79	- 2
Total	5 148	4 832	- 316

The evolution in revaluation reserves is related with gains / losses realised on sales in the available-for-sale securities portfolio and the recognition of 24.7 million euro negative actuarial deviations in the Pension Fund.

8.3. Results and Activity of NOVO BANCO (Separate)

Results

NOVO BANCO reported a net loss of 1,253.0 million euro in 2017, which compares with a net loss of 744.7 million euro in 2016.

Commercial banking income totalled 574.4 million euro (-8.5% YoY), being penalised by a reduction in net interest income (-25.0%) that offset the improvement in fees and commissions (+15.9%).

Operating costs decreased by 6.1% YoY, to 522.3 million euro, underpinned by the staff cuts and the improvements achieved in terms of simplifying processes and streamlining the structures.

Net operating income (before impairments and taxes) was positive, at 1,110.1 million euro, including the triggering of the Contingent Capital Agreement (791.7 million euro).

The year's total provision charge of 1,894.3 million euro includes 1,141.6 million euro for credit, 193.6 million euro for securities, and 559.1 million euro for other assets and contingencies.

million of euro

INCOME STATEMENT	2016	2017	Relative Change
Net Interest Income	374.8	281.2	-25.0%
+ Fees and Commissions	252.9	293.2	15.9%
= Commercial Banking Income	**627.7**	**574.4**	**-8.5%**
+ Capital Markets and Other Results	246.5	1 058.1	….
= Banking Income	**874.2**	**1 632.4**	**86.7%**
- Operating Costs	556.3	522.3	-6.1%
= Net Operating Income	**317.9**	**1 110.1**	**….**
- Net Impairments and Provisions	1 232.3	1 894.3	53.7%
Credit	555.9	1 141.6	105.4%
Securities	326.6	193.6	-40.7%
Other Assets and Contingencies	349.9	559.1	59.8%
= Income before Taxes	**- 914.4**	**- 784.2**	**14.2%**
- Corporate Tax	- 206.0	438.6	….
- Special Tax on Banks	36.3	30.3	-16.7%
= Net Income	**- 744.7**	**-1 253.0**	**-68.3%**

Activity

NOVO BANCO's activity in 2017 was developed under the same guidelines already referred to for NOVO BANCO Group.

million of euro

ACTIVITY	31-Dec-16	31-Dec-17	Change	
			absolute	relative
Assets	**46 843**	**46 477**	**- 366**	**-0.8%**
Gross Loans	**31 414**	**29 187**	**-2 227**	**-7.1%**
Loans to Individuals	8 855	9 049	194	2.2%
Residential Mortgage	7 412	7 625	213	2.9%
Other Loans to Individuals	1 443	1 424	- 19	-1.3%
Corporate Loans	22 559	20 138	-2 421	-10.7%
On-Balance Sheet Customer Funds	**28 626**	**30 580**	**1 954**	**6.8%**
Deposits	25 201	29 453	4 252	16.9%
Other Customer Funds (1)	399	509	110	27.5%
Debt Securities	3 026	618	-2 408	-79.6%

(1) Includes cheques and pending payment instructions, REPOS and other funds

On 31 December 2017 customer deposits totalled 29.7 billion euro, up by 4.2 billion euro from 25.2 billion euro in December 2016. In addition to the consolidation of the relationship with the clients alongside the resumption of normal operating conditions and the recovery of funding, this increase reflects the impact of the LME operation carried out in the last quarter of 2017.

Regarding the loan portfolio a very strict and selective policy continued to be implemented, without ceasing to support the small and medium-sized companies in general and the exporting companies in particular. Gross customer loans fell by 2.2 billion euro, driven by the contraction in corporate loans (-2.4 billion euro). On the other hand, a 213 million euro increase in residential mortgage loans should be noted.

The Overdue loans > 90 days / Gross loans ratio retreated to 17.2% (from 18.0% in Dec. 2016), with the corresponding coverage ratio rising from 97.7% to 113.6% The Provisions for Credit / Gross Loans ratio improved, reaching 19.5% at the end of 2017 (17.5% on 31 December 2016).

ASSET QUALITY	31-Dec-16	31-Dec-17	Change	
			absolute	relative
BASE DATA (million of euro)				
Gross Loans	31 414	29 187	- 2 227	-7.1%
Overdue Loans	5 711	5 068	- 643	-11.3%
Overdue Loans > 90 days	5 639	5 012	- 627	-11.1%
Provisions for Credit	5 508	5 694	186	3.4%
INDICATORS AND COVERAGE (%)				
Overdue Loans / Gross Loans	18.2%	17.4%	-0.8 p.p.	
Overdue Loans > 90 days / Gross Loans	18.0%	17.2%	-0.8 p.p.	
Provisions for Credit / Gross Loans	17.5%	19.5%	2.0 p.p.	
Provisions for Credit / Overdue Loans	96.5%	112.3%	15.7 p.p.	
Provisions for Credit / Overdue Loans > 90 days	97.7%	113.6%	15.9 p.p.	

9. Corporate Governance

Information on Corporate Governance

A - Qualified holdings in NOVO BANCO's share capital

Qualified holdings in NOVO BANCO's share capital as at 31 December 2017 were as follows:

NOVO BANCO has share capital of €5,900,000,000.00 (five billion nine hundred million euro), divided into 9,799,999,997 (nine billion, seven hundred ninety nine million, nine hundred ninety nine thousand and nine hundred ninety seven) nominative and dematerialised shares with no nominal value, fully subscribed and paid up.

Qualified holdings in NOVO BANCO's share capital as at 31 December 2017 are as follows:

Shareholder	Number of shares	% of share capital
Nani Holdings S.G.P.S., S.A.	7,349,999,998	75%
Fundo de Resolução (Resolution Fund)	2,449,999,999	25%

B - Equity holders with special rights

Identification and description of shareholders with special rights

There are no shareholders with special rights.

C - Restrictions on voting rights

Any restrictions on the right to vote, such as restrictions on voting rights subject to holding a number or percentage of shares, deadlines for exercising voting rights or systems whereby the financial rights attaching to securities are separated from the holding of securities.

In view of the commitments assumed by the Portuguese State before the European Commission in the context of the approval of the sale of the share capital of NOVO BANCO under EU rules on State aid, the shareholder Resolution Fund should refrain from exercising its non-equity rights, namely its voting rights.

D - Appointment and replacement of members of the Board of Directors and changes in the Bank's Articles of Association

Rules on the appointment and replacement of members of the Board of Directors and on changes in the Bank's Articles of Association

Amendments to the Articles of Association

Changes to NOVO BANCO's Articles of Association are the responsibility of the General Meeting.

In 2017 NOVO BANCO's Articles of Association were twice amended: the first amendment, in May, was intended to establish an Anglo-Saxon management and supervision governance structure, providing for the existence of a Board of Directors with an Audit Committee and a Statutory Auditor; the second was made in October, at the time of the sale of NOVO BANCO's 75% share capital, and once again changed the management and supervision structure through the adoption of the German governance model, which provides for the existence of a General Meeting, an Executive Board of Directors, a General and Supervisory Board and a Statutory Auditor.

General and Supervisory Board

In addition to the Executive Board of Directors, the current management and supervision governance structure of NOVO BANCO provides for the existence of a General and Supervisory Board whose members are elected and/or removed by the General Meeting.

Under the applicable law, and NOVO BANCO's Articles of Association, and in accordance with best market practices, as of the date of this Annual Report, five of the nine members of the General and Supervisory Board, including its Chairman, are independent.

The General and Supervisory Board has the powers that are granted to it by law and by the Articles of Association, including overseeing all matters related to risk management, compliance and internal audit.

In its activity, the General and Supervisory Board is directly supported by 5 (five) Committees, namely the Financial Affairs Committee, the Risk Committee, the Compliance Committee, the Nomination Committee and the Remuneration Committee.

These Committees are composed and chaired by members of the General and Supervisory Board and can also have the presence of the members of the Executive Board of Directors responsible for the subjects that are dealt with by said committees.

The General and Supervisory Board (GSB) holds meetings on a monthly basis and has properly fulfilled its duties incumbent upon it by law, the Bank's Articles of Association and its Rules of Procedure. The Executive Board of Directors (EBD) informs the GSB of all material matters in a timely and comprehensive manner either in writing or verbally. There is regular dialogue and communication, at least once a week, between the Chairman of the GSB and the CEO of NOVO BANCO.

Since October 2017, six GSB meetings have been held where a number of different topics were discussed, reviewed and approved including the establishment and implementation of the new governance structure and the annual financial statements and the consolidated financial statements for NOVO BANCO for year ending 2017. GSB also discussed the appointment of the new external auditors for year 2018, following a normal auditor rotation. Among other things, the GSB approved the risk strategy and appetite as well as approved the budget for 2018. During the period, the GSB also reviewed the Human Resource agenda over the next years including talent development, succession and career planning. GSB also approved all major Mergers & Acquisitions (M&A) activity including the disposals of GNB Vida and BESV (not yet completed) and the sale of the assets and liabilities and subsequent closure of the Venezuelan Branch.

The agenda of each meeting included the discussion of business development as well as the capital and liquidity position of the Bank. All meetings of the individual GSB Committees are presented and summarised at the next scheduled GSB meeting.

Financial Affairs Committee

Three Financial Affairs Committee meetings have been held during the period since October 2017. The Committee has focused on reviewing the Bank's financial statements for year 2017 and the external auditor reports as well as discussing and reviewing the update reports by Internal Audit. The Committee further monitored the independence and work of the external auditor on an ongoing basis. This included the review and approval of the provision of non-audit services by the external auditor. The annual audit process for 2017 was a topic in the meetings. During the period, the Committee also discussed the recommendation for the appointment of the new external auditor for year 2018, as part of a normal auditor rotation. The agenda of the meetings included an update on Bank regulatory topics, including the implementation of IFRS 9 and resolution of SREP findings. The external auditor as well as the Head of Internal Audit and the Chief Financial Officer (CFO) attended the meetings on invitation as required. Furthermore, committee meeting members met in private sessions with the external auditor as well as the Head of Internal Audit without the members of the EBD being present.

Risk Committee

Three Risk Committee meetings have been held during the period since October 2017. In addition to the approval of loans to individual borrowers or groups of associated customers, in accordance with the Rules of Procedure, the Risk Committee also reviewed and discussed the risk strategy and risk appetite for 2018 aligned with the budget for 2018. Other topics discussed at the Risk Committee included the monthly key risk indicators (credit, market and operation risks) and the loan provisioning and impairments for year-end 2017 financial statements. The Bank's non-performing loan ("NPL") portfolio was also reviewed and compared to

Bank peers and EBA benchmarks. The risk governance model was also reviewed during the period. The agenda of the meetings included an update on the Bank's risk regulatory topics, including TRIM and resolution of SREP findings. The calculation of the Bank's risk-bearing capacity is a regular item on the Risk Committee agenda. The Head of Risk and the CRO attended the meetings on invitation as required.

Compliance Committee

Two Compliance Committee meetings have been held during the period since October 2017. The Compliance Committee meetings have discussed and reviewed the governance and regulatory compliance and legal environment that the Banks operates within. The Committee has discussed and reviewed the Bank's Compliance regulatory topics, including the implementation of MIFID2, the law about Anti Money Laundering, and data protection legislation as well as other regulatory and legal matters and more relevant ongoing projects. The Committee has also updated and revised important policy documents during this period including Related Parties Policy, Conflicts of Interest Policy and Whistle-Blowing Policy.

Nomination Committee

Two Nomination Committee meetings have been held during the period since October 2017. The Nomination Committee has established an independent Fit & Proper office in the Bank, led by the Head of Human Capital to support the committees work. The annual Fit & Proper evaluations of the EBD members (individual and collective body) and the GSB members (individual and collective body) were conducted, including the approval of a new member to the GSB. The committee also drafted two important policy documents during this period, the policy of Election and Evaluation of Management and Supervisory Bodies and the Succession Planning policy document.

Remuneration Committee

One Remuneration Committee meeting has been held during the period since October 2017. At this meeting the Remuneration policies of the Management and Supervisory Bodies as well as for Staff Members of NOVO BANCO were updated, discussed and reviewed. This committee meeting also set and agreed the Key Performance Indicators for the EBD's members for 2018 based on the approved budget for year 2018.

Executive Board of Directors

The members of the Executive Board of Directors are appointed and/or removed by the General and Supervisory Board, which also appoints the Chief Executive Officer (CEO).

In its activity the Executive Board of Directors is supported by several committees, namely the Financial and Credit Committee, the Capital, Assets and Liabilities Committee (CALCO), the Risk Committee, the Compliance Committee, the Product Committee and the Internal Control System Committee.

The main responsibilities of the Committees that support the Executive Board of Directors are described in point 7. Risk Management.

Supervision is in part the responsibility of the General and Supervisory Board and of the Statutory Auditor.

The Statutory Auditor of the Bank and its deputy are elected and removed by the General Meeting, under proposal of the General and Supervisory Board.

The Monitoring Committee, a consulting body composed of three members elected by the General Meeting of Shareholders, one independent from both parties - NOVO BANCO and Resolution Fund-, and another a registered charter accountant, has as main tasks to discuss and opine on any Relevant Issue concerning the Contingent Capital Agreement upon which they are requested to issue an opinion. The opinions delivered by the Monitoring Committee are non-binding. The members of the Monitoring Committee are entitled to attend as observers all meetings of the General and Supervisory Board.

Detailed information about the members of the management and supervisory bodies is provided under point 3. NOVO BANCO.

E - Powers of the management body

Powers of the management body, namely regarding resolutions on share capital increases

The Executive Board of Directors is the corporate body in charge of the day-to-day management of the Bank and it is responsible, according to the law and the Articles of Association and respecting the powers of the other corporate bodies, for defining the general policies and strategic objectives of the Bank and of the Group and for ensuring the operational activity not attributed to other bodies of the Bank, in compliance with the rules and standards of best banking practice.

However, Article 15 of the Articles of Association lists a broad set of matters for which the adoption of resolutions by the Executive Board of Directors depends on the prior consent of the General and Supervisory Board, namely those relating to transactions between related parties and the Bank, and/or any transactions with shareholders having qualified holdings in the Company or in its related parties.

The Executive Board of Directors has no powers to resolve on capital increases, issuance of shares or other securities convertible into shares or securities granting subscription rights, such decisions being the responsibility of the General Meeting.

F - Internal control and risk management systems

Main details of the internal control and risk management systems implemented at the company regarding the financial reporting process.

Detailed information on the risk management system, the description of the main types of risk to which the institution is subject, and the risk management process (identification, assessment, monitoring, mitigation and reporting) is presented in 7 of this report (Risk Management).

The Internal Control System (ICS) of NOVO BANCO Group ("NB Group", the "Group" or "GNB") is defined as the set of strategies, systems, processes, policies and procedures, defined by the Executive Board of Directors, as well as the actions undertaken by this body and the institution's remaining staff, for the purpose of ensuring:

- **Strategic and Operational Performance Objectives** - the efficiency and profitability of the Group's activity in the medium and long term, ensuring the effective use of resources and business continuity through an adequate management and control of the activity's risks, a prudent and accurate assessment of assets and liabilities and the implementation of mechanisms to prevent errors and fraud;

- **Information and Reporting Objectives** - the existence of financial and management information that is complete, pertinent, reliable and timely to support decision-making and control processes at both internal and external level;

- **Compliance Objectives** - compliance with the applicable legal and regulatory provisions, including those concerning the prevention of money laundering and terrorist financing, as well internal and statutory rules, rules on conduct and relationship with the clients and the various stakeholders involved in the Group's activity, the guidelines from the corporate bodies and the recommendations of the Supervision and Regulatory Authorities, so as to preserve the reputation of the institution.

It is incumbent upon the General and Supervisory Board, among other aspects detailed in the Bank's Articles of Association, to ensure that the Executive Board of Directors establishes and maintains adequate, independent and effective internal control, specifically with regard to the reporting of financial and operational risks, in compliance with law, regulations and internal policies with operational efficiency and asset security, and to control and ensure the effectiveness of risk management, compliance and internal audit, its action plan and budget, as well as its reports and contacts with the external auditors and with the supervisory authorities.

The ICS is consistently implemented across all the entities of the NOVO BANCO Group, without prejudice to additional requirements of host territories and of the specificities of the functions involved in the ICS.

In order to effectively achieve the objectives defined, NB Group's Internal Control System is based on the following principles:

- **Adequate control environment** reflecting the importance of internal control and establishing the discipline and structure of the remaining elements of the internal control system;
- **Solid risk management system**, designed to identify, assess, monitor and control all risks that may influence the strategy and objectives of the Group, ensuring that the strategy and objectives are pursued and that the necessary steps are taken to respond adequately to undesired deviations;
- **Efficient information and communication system** that guarantees the collection, treatment and exchange of relevant, comprehensive and consistent information, in a timely manner and in a way that allows effective and timely management and control of the activity and the inherent risks;
- **Effective monitoring process**, implemented to ensure the adequacy and effectiveness of the internal control system over time, ensuring in particular the timely identification of potential or actual deficiencies and opportunities for improvement allowing to strengthen the ICS, and ensuring that corrective actions are triggered.

Under NB Group's Internal Control System (ICS), policies, processes, procedures, systems and controls are formalized in internal standards, process catalogues, internal control manuals, presentations supporting the main committees involved in the management of risk, information and communication, control function reports, and in the internal control report itself.

In addition, for the design and assessment of its ICS, NB Group adopted COSO's Internal Control – Integrated Framework international methodologies and COBIT's Framework for IT Governance and Control.

The Executive Board of Directors (EBD) is responsible for maintaining an adequate and effective ICS, which is based on the Three Defence Lines model. The Three Defence Lines model defines different intervention and responsibility levels in the management of risks and execution of controls, viewing the adequacy and overall effectiveness of the Organisation's ICS. The model thus establishes the following:

1st Line of Defence:

Organisational Units that daily assume and manage the risks of their activities, of the IT processes and systems they sponsor, and of the outsourced activities under their responsibility, within pre-established limits set by the Executive Board of Directors.

These units are responsible for the continuous identification, assessment and control of risks.

2nd Line of Defence:

The mission of the 2nd line of defence is to maintain the Bank within its risk limits by controlling, measuring and monitoring risks and reporting any deviations relative to the risk policies in force. This line of defence comprises the "Risk Management" and "Compliance" functions, for which the Global Risk Department (GRD) and Compliance Department, and the Internal Control Department (ICD) are respectively responsible.

These departments define risk management and control policies, methodologies and tools, exercising functional supervision to support and monitor the effectiveness of the First Line, control legal and regulatory compliance, and report to senior management and the competent external authorities, when applicable.

Global Risk Department

The mission of the Global Risk Department is to support the Executive Board of Directors in the definition of risk management policies, ensuring compliance therewith through the development of methodologies, tools and processes that, in line with NB Group's shareholder value creation objectives, support the assumption, control and mitigation of the various risks to which the Group is subject, as referred in 7. Risk Management of this Report

The Global Risk Department sponsors the Risk Committee referred to in point 7.1 of this report (Organisation, Specialised committees).

Compliance Department;

The mission of the Compliance Department is to promote compliance with the legal, regulatory, operational, ethical and conduct obligations and duties that are applicable at all times to the Bank and to its corporate bodies, managers and employees within the framework of institutional control and supervision defined by the competent regulatory bodies and the legislation to which they are subject.

The Compliance Department sponsors the Product and Compliance Committees referred to in point 7.1 of this report (Organisation, Specialised committees).

Internal Control Department

The mission of the Internal Control Department is to ensure the existence of an adequate and effective Internal Control System (ICS) in NB Group, in compliance with national regulations and in line with best international practices, namely those issued by the European Banking Authority (EBA).

Taking into account the size of the Group and the specific characteristics of the activity of each department, the dynamics of the Internal Control Department increases the robustness and specialisation of internal control matters, improves the coordination among the ICS's various lines of defence, promotes a culture of control, and permits the assessment of the control environment and the control coverage of the critical processes.

On the other hand, it also affords the Executive Board of Directors a more integrated and consistent view of the ICS, as well as support in the preparation of the Internal Control Reports required under Banco de Portugal's Notice no. 5/2008 and Regulation no. 2/2007 of the Portuguese Securities Market Commission (CMVM), as amended by Regulation no. 3/2008, while ensuring coordination with the statutory auditors with regard to the adequacy and effectiveness of the Internal Control System.

The Internal Control Department sponsors the Internal Control System Committee referred to in point 7.1 of this report (Organisation, Specialised committees).

In addition to the aforementioned departments, the Rating Department and the Accounting, Consolidation and Tax Department also have specific duties relating to the Rating and Financial and Management Information functions, namely the following:

Rating

The Rating Department also has assessment and monitoring functions with regard to credit risk, in accordance with its responsibilities and duties.

These include the assessment of clients' credit risk through the assignment of ratings and non-binding technical opinions and by determining single-name credit impairments and monitoring single-name credit risk. The Rating Department is also responsible for making client credit risk analyses, and for monitoring regulatory commitments with regard to single-name credit risk.

Financial and Management Information

The processes to capture the financial and management information are supported by the accounting system and management support system that record, classify, associate and file in a timely, systematic, reliable, complete and consistent manner, all the operations carried out by the institution and its subsidiaries.

To this end, the Accounting, Consolidation and Tax Department (DCCF) performs the accounting control of the operations carried out at the Institution, with the objective to prepare the separate financial statements (NOVO BANCO) and consolidated financial statements (NOVO BANCO Group), and if and when decided by the Executive Board of Directors, to disclose/report to the Portuguese and European supervisory authorities. In addition, it ensures the adequate production and operation of the Management Information System, supporting the production of information for purposes of (i) compliance with legal/regulatory obligations and (ii) to support the decisions of the Executive Board of Directors and General and Supervisory Board.

The Accounting, Consolidation and Tax Department sponsors the Management Information Committee.

3nd Line of Defence: Internal Audit Function

The mission of the Third Line of defence is to ensure the adequacy and effectiveness of the Internal Control System through its independent, objective and risk-based assessment of governance systems, risk management, and control of compliance with legal obligations and other duties, regularly reporting to the management and supervisory body any situations liable of indicating a deterioration in the internal control system, and following up on the recommendations issued for their correction.

G - Conflicts of Interest Policy

The Conflicts of Interest Policy establishes rules for the identification, management and monitoring of potential conflicts of interest in the various activities of NOVO BANCO and NOVO BANCO Group, in compliance with applicable legal and regulatory provisions, as well as the recommendations of Banco de Portugal and the European Central Bank (ECB). It applies to all Group Employees, including members of the Executive Board of Directors and General and Supervisory Board.

This Policy was approved and adopted by NOVO BANCO and is also intended for approval and adoption by the other companies of the NOVO BANCO Group.

The policy aims to strengthen the governance model of the NOVO BANCO Group by pursuing the following objectives:

- Definition of rules and mechanisms to prevent, identify and manage any potential or actual situations of conflicts of interest;
- Ensure compliance with current legal and regulatory rules regarding the prevention and management of conflicts of interest to which NOVO BANCO and its employees may be subject;
- Reinforce employee knowledge and awareness on the subject of conflicts of interest, particularly with regard to their diagnosis, understanding of the inherent risks and information about the prevention and management rules and procedures to be applied.

The Conflicts of Interest Policy is a central issue in NOVO BANCO's financial intermediation activity. All the employees' activities are guided by the principle of transparent and equitable treatment of all clients. All NOVO BANCO employees who work in areas where conflicts of interest are liable to emerge must act with an adequate level of independence.

By December 2017 several notifications and questions related to the internal regulations had been received, mainly concerning conflicts of interest and professional secrecy issues. 25 violations of the Bank’s internal regulations were detected, which resulted in the following sanctions:

- 7 Dismissals without any indemnity or compensation;
- 7 Temporary suspensions with loss of pay and seniority;
- 9 Disciplinary warnings;
- 1 Voluntary termination of labour contract at the employee's initiative;
- 1 Process filed.

H - Policy on Related Party Transactions

In 2017, in line with the recommendations of the regulators - ECB and Banco de Portugal - aimed at ensuring that credit institutions are managed taking into account the interests of all their stakeholders and implement mechanisms to control and prevent conflicts of interest with related parties, NOVO BANCO approved and disclosed its Policy on Related Party Transactions and corresponding standards, implementing specific mechanisms for their application, namely with regard to the identification of Related Parties through the Bank's computer system and the establishment of discussion and approval circuits for operations with such entities.

In addition, NOVO BANCO promoted an intense in-class training plan for all commercial areas' employees on the main rules and internal standards under the Policies on Conflicts of Interest and Related Party Transactions, certified by the Human Capital Department, as summarised in the table below:

	NOV0 BANCO	NOVO BANCO Açores	BEST
No. of sessions	62	4	2
No. of participants	1 019	32	56
% of participation in Certification	92.50%	69.46%	74.56%
Certification average	91.99	87.66	93.11

I - Credit to Members of the Corporate Bodies – article 85-9 of the RGICSF

(RGICSF: "*Regime Geral das Instituições de Crédito e Sociedades Financeiras*" - General Law on Credit Institutions and Financial Companies)

The amount of credit granted to members of the corporate bodies as at 31 December 2017 was as follows:

NOVO BANCO, S.A.
Art. 85/9 of RGICSF - Credit to members of the Corporate Bodies - Amount outstanding (excluding interest) as at 31.12.2017

Name / Denomination	Role	Amount (in €)
Members of the Corporate Bodies in functions at the date of this Report		
António Manuel Palma Ramalho	Chief Executive Officer	1,956
Vítor Manuel Lopes Fernandes	Member of the Executive Board of Directors	516
Jorge Telmo Maria Freire Cardoso	Member of the Executive Board of Directors	193
Luísa Marta Santos Soares da Silva Amaro de Matos	Member of the Executive Board of Directors	0
José Eduardo Fragoso Tavares de Bettencourt	Member of the Executive Board of Directors	740
Closely related people		68,869
Rui Miguel Dias Ribeiro Fontes	Member of the Executive Board of Directors	119
Members of the Corporate Bodies no longer in functions at the date of this Report		
Isabel Maria Ferreira Possantes Rodrigues Cascão [(a)]	Member of the Executive Board of Directors	28,614

(a) on 31 March 2018 ceased her functions as Member of the Executive Board of Directors.

Note: The amounts in the table above concern the Members of the Corporate Bodies and to closely related people and to controlled entities related with such Members.

The amounts in the table above relate to Residential Mortgage Loans and Credit Cards.

J - Remuneration of the Members of the Corporate Bodies

J 1 – Remuneration Policy

Until October 2017 the remuneration of the Corporate Bodies was set by deliberation of the Resolution Fund and following the change of shareholder it was updated by decision of the General Meeting of NOVO BANCO.

The Remuneration Policy for the Members of the Corporate Bodies was approved on 28 March 2018 at a meeting of the General and Supervisory Board, under a proposal of the Remuneration Committee and by the General Meeting which took place on the same date.

J 2 – Remunerations in 2017

Under the terms of Law 28/2009 of 19 June, credit institutions are obliged to disclose in the annual financial statements the annual amount of the remunerations of the members of their Corporate Bodies, on an individual and aggregate basis. This obligation arises also from article 17/2 of Notice no. 10/2011 of Banco de Portugal.

In 2017 the annual amount of remuneration received, on an individual and aggregate basis, by the Members of the Corporate Bodies of NOVO BANCO was the following:

(euros)

Executive Board of Directors	Role	Paid / Attributed 2017	Wages	Other Post-employment Benefits	Other Long-term Benefits
António Manuel Palma Ramalho	Chief Executive Officer	329,600.04	329,600.04	0.00	0.00
Vitor Manuel Lopes Fernandes	Member	238,866.65	238,866.65	0.00	0.00
Jorge Telmo Maria Freire Cardoso	Member	238,866.65	238,866.65	0.00	0.00
Luisa Marta Santos Soares da Silva Amaro de Matos	Member (i)	177,243.68	177,243.68	0.00	0.00
José Eduardo Fragoso Tavares de Bettencourt	Member (ii)	164,401.15	164,401.15	0.00	0.00
Rui Miguel Dias Ribeiro Fontes	Member (iii)	187,122.99	186,390.45	732.54	0.00
		1,336,101.16	**1,335,368.62**	**732.54**	**0.00**
General and Supervisory Board					
Byron James Macbean Haynes	Chairman	76,041.67	70,642.71	0.00	5,398.96
Karl - Gerhard Eick	Vice-Chairman	50,694.44	50,694.44	0.00	0.00
Benjamin Friedrich Dickgiesser	Member	0.00	0.00	0.00	0.00
Kambiz Nourbakhsh	Member	0.00	0.00	0.00	0.00
Donald John Quintin	Member	0.00	0.00	0.00	0.00
John Ryan Herbert	Member	0.00	0.00	0.00	0.00
Robert Alan Sherman	Member	0.00	0.00	0.00	0.00
Mark Andrew Coker	Member	0.00	0.00	0.00	0.00
		126,736.11	**121,337.15**	**0.00**	**5,398.96**
Corporate Bodies no longer in functions					
Rui Manuel Janes Cartaxo	Chairman of the Board of Directors	93,841.33	93,841.33	0.00	0.00
Isabel Maria Ferreira Possantes Rodrigues Cascão	Member of the Executive Board of Directors	170,649.63	169,819.02	830.61	0.00
Francisco Ravara Cary	Member of the Board of Directors	9,942.86	9,942.86	0.00	0.00
Chairman: José Manuel de Oliveira Vitorino	Chairman of the Statutory Supervisory Board	71,004.58	71,004.58	0.00	0.00
Member: José António Noivo Alves da Fonseca	Member of the Statutory Supervisory Board	50,601.01	50,601.01	0.00	0.00
Member: José Francisco Claro	Member of the Statutory Supervisory Board	50,601.01	50,601.01	0.00	0.00
		446,640.42	**445,809.81**	**830.61**	**0.00**

(i) initiated functions on 6 April 2017

(ii) initiated functions on 8 May 2017

(iii) initiated functions on 6 April 2017

Note: In 2017 the members of the corporate bodies of NOVO BANCO were not paid any amounts by other group companies.

J 3 – Remuneration paid as profit sharing and/or as payment of premiums:

Nothing to report.

J 4 – Other benefits and compensation and non-cash benefits:

Nothing to report.

J 5 – Compensation paid or due to former Members of the Board of Directors in relation to early contract termination:

Nothing to report.

J 6 - Plans for the attribution of shares or stock options:

Nothing to report.

K – Securities held by Members of the Corporate Bodies

For compliance with Article 447 of the Commercial Companies Code (Announcement of equity holdings by the members of the management and supervisory bodies), the members of the Corporate Bodies of NOVO BANCO have nothing to report concerning the situations described in this Article, namely concerning the holding of as at 31 December 2017 of, or trading during 2017 in, shares or bonds.

10. Financial Statements

10.1. Consolidated Financial Statements

NOVO BANCO, S.A.

CONSOLIDATED INCOME STATEMENT AS AT 31 DECEMBER 2016 AND AS AT 31 DECEMBER 2017

thousand of euro

	31.12.2017	31.12.2016
Interest and similar income	888 313	1 193 354
Interest expense and similar charges	493 743	678 870
Net Interest Income	**394 570**	**514 484**
Dividend Income	6 156	37 832
Fee and Commission income	387 245	378 370
Fee and Commission expense	71 792	113 003
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	(56 571)	22 905
Net gains / (losses) from available-for-sale financial assets	57 245	116 429
Net gains / (losses) from foreign exchange revaluation	26 387	(6 576)
Net gains / (losses) from the sale of other assets	(39 284)	(51 736)
Insurance earned premiums, net of reinsurance	-	49 201
Claims incurred net of reinsurance	-	167 744
Change in technical reserves, net of reinsurance	-	105 345
Other operating income and expenses	860 754	37 041
Operating Revenues	**1 564 710**	**922 548**
Staff Costs	275 740	303 463
General and Administrative Costs	215 409	231 352
Depreciation and amortisation	58 057	56 061
Provisions, net of reversals	190 931	52 319
Impairment losses on loans, net of reversals and recoveries	1 229 205	672 578
Impairment losses on other financial assets, net of reversals	134 787	365 883
Impairment losses on other assets, net of reversals	501 984	283 929
Operating Costs	**2 606 113**	**1 965 585**
Sale of subsidiaries and associates	3 931	24 325
Results from associated companies consolidated by the equity method	8 377	4 074
Income before income tax and non-controlling interests	**(1 029 095)**	**(1 014 638)**
Corporate income tax		
Current tax	14 373	16 330
Deferred tax	430 773	(243 924)
	445 146	(227 594)
Income from continuing activities	**(1 474 241)**	**(787 044)**
Income from discontinued operations	74 779	(10 427)
Net Income for the period	**(1 399 462)**	**(797 471)**
Attributable to shareholders of the Bank	**(1 395 447)**	**(788 330)**
Attributable to Non-controlling interests	(4 015)	(9 141)
	(1 399 462)	(797 471)

The Certified Accountant

The Executive Board of Directors

NOVO BANCO, S.A.

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2016 AND AS AT 31 DECEMBER 2017

thousand of euro

	31.12.2017	31.12.2016
ASSETS		
Cash and deposits with Central Banks	3 788 027	1 469 259
Deposits with other banks	380 601	370 918
Financial assets held for trading	577 520	656 722
Other financial assets at fair value through profit or loss	30 183	1 203 807
Available-for-sale financial assets	8 448 245	10 557 972
Loans and advances to banks	581 901	724 167
Loans and advances to customers	25 790 943	28 184 426
Derivatives held for risk management purposes	170 588	222 769
Non-current assets held for sale	5 448	7 764
Non-current assets held for sale - discontinued operations	5 130 956	1 217 371
Investment properties	1 144 432	1 206 355
Other tangible assets	157 497	206 459
Intangible assets	8 682	44 663
Investments in associated companies	146 251	158 650
Current tax assets	6 014	30 620
Deferred tax assets	1 964 017	2 603 979
Technical reserves of reinsurance ceded	-	6 355
Other assets	3 723 544	3 460 416
TOTAL ASSETS	**52 054 849**	**52 332 672**
LIABILITIES		
Deposits from Central Banks	6 410 123	6 410 033
Financial liabilities held for trading	559 765	632 831
Deposits from other banks	2 015 044	3 577 914
Due to customers	30 208 071	25 989 719
Debt securities issued	1 216 780	3 817 801
Derivatives held for risk management purposes	76 212	108 265
Investment contracts	-	3 396 425
Non-current liabilities held for sale	3 277	1 821
Non-current liabilities held for sale - discontinued operations	5 525 962	748 807
Provisions	416 670	364 615
Technical reserves	-	1 333 567
Current tax liabilities	13 887	16 972
Deferred tax liabilities	6 193	19 301
Other subordinated debt	-	48 100
Other liabilities	770 690	718 548
TOTAL LIABILITIES	**47 222 674**	**47 184 719**
EQUITY		
Share Capital	5 900 000	4 900 000
Reserves, retained earnings and other comprehensive income	248 410	954 946
Net Income for the period attributable to the shareholders of the Bank	(1 395 447)	(788 330)
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK	4 752 963	5 066 616
Non-controlling interests	79 212	81 337
TOTAL EQUITY	**4 832 175**	**5 147 953**
TOTAL LIABILITIES AND EQUITY	**52 054 849**	**52 332 672**

The Certified Accountant

The Executive Board of Directors

10.2. Separate Financial Statements

NOVO BANCO, S.A.

SEPARATE INCOME STATEMENT AS AT 31 DECEMBER 2016 AND AS AT 31 DECEMBER 2017

thousand of euro

	31.12.2017	31.12.2016
Interest and similar income	792 947	973 798
Interest expense and similar charges	511 788	598 964
Net Interest Income	**281 159**	**374 834**
Dividend Income	23 550	159 838
Fee and Commission income	349 293	335 932
Fee and Commission expense	63 352	91 136
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	(61 550)	101 210
Net gains / (losses) from available-for-sale financial assets	56 225	11 593
Net gains / (losses) from foreign exchange revaluation	30 449	5 004
Net gains / (losses) from the sale of other assets	53 274	(15 558)
Other operating income and expenses	933 109	(43 861)
Operating Revenues	**1 602 157**	**837 856**
Staff Costs	249 112	267 424
General and Administrative Costs	216 903	234 903
Depreciation and amortisation	56 286	53 958
Provisions, net of reversals	188 852	50 902
Impairment losses on loans, net of reversals and recoveries	1 141 563	555 873
Impairment losses on other financial assets, net of reversals	193 623	379 035
Impairment losses on other assets, net of reversals	370 288	246 522
Operating Costs	**2 416 627**	**1 788 617**
Income before tax	**(814 470)**	**(950 761)**
Corporate income tax	438 576	(206 017)
Current tax	9 154	6 888
Deferred tax	429 422	(212 905)
Net Income for the year	**(1 253 046)**	**(744 744)**

The Certified Accountant

The Executive Board of Directors

NOVO BANCO, S.A.

SEPARATE BALANCE SHEET AS AT 31 DECEMBER 2016 AND AS AT 31 DECEMBER 2017

thousand of euro

	31.12.2017	31.12.2016
ASSETS		
Cash and deposits with Central Banks	3 782 902	1 464 402
Deposits with other banks	189 725	116 774
Financial assets held for trading	582 954	665 364
Other financial assets at fair value through profit or loss	3 973	4 876
Available-for-sale financial assets	10 902 287	9 970 699
Loans and advances to banks	752 892	1 325 623
Loans and advances to customers	23 492 905	25 905 409
Derivatives held for risk management purposes	171 085	223 583
Non-current assets held for sale	245 817	84 474
Other tangible assets	151 698	199 683
Intangible assets	7 860	42 325
Investments in associated companies	693 477	1 167 445
Current tax assets	4 445	10 201
Deferred tax assets	1 947 425	2 636 686
Other assets	3 547 696	3 025 767
TOTAL ASSETS	**46 477 141**	**46 843 311**
LIABILITIES		
Deposits from Central Banks	6 410 123	6 410 033
Financial liabilities held for trading	560 646	645 359
Deposits from other banks	2 887 106	4 694 253
Due to customers	29 961 813	25 599 957
Debt securities issued	617 861	3 025 503
Financial liabilities related to transferred assets	447 548	685 588
Derivatives held for risk management purposes	76 210	108 263
Non-current liabilities held for sale	3 673	
Provisions	413 996	334 546
Current tax liabilities	10 776	12 852
Deferred tax liabilities	-	87 979
Other liabilities	627 577	564 272
TOTAL LIABILITIES	**42 017 329**	**42 168 605**
EQUITY		
Share Capital	5 900 000	4 900 000
Reserves, retained earnings and other comprehensive income	(187 142)	519 450
Net Income for the year	(1 253 046)	(744 744)
TOTAL EQUITY	**4 459 812**	**4 674 706**
TOTAL LIABILITIES AND EQUITY	**46 477 141**	**46 843 311**

The Certified Accountant

The Executive Board of Directors

11. Final Notes

11.1. Declaration of Conformity with the Financial Information Reported

In accordance with Article 245-1-c) of the Portuguese Securities Code (“*Código dos Valores Mobiliários*”), the members of the Executive Board of Directors of NOVO BANCO, S.A., named below, state that, to the best of their knowledge:

(i) the separate and consolidated financial statements of NOVO BANCO, S.A., for the year ended on 31 December 2017 were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted in the European Union;

(ii) the financial statements referred to in (i) provide a true and fair view of the assets and liabilities, equity and results of NOVO BANCO and of NOVO BANCO Group, in accordance with the referred Standards;

(iii) the management report describes accurately the evolution of the businesses, the performance and the financial position of NOVO BANCO and of NOVO BANCO Group in the year ended 31 December 2017, and includes a description of the main risks and uncertainties faced.

The management report and the separate and consolidated financial statements were subject of approval in the meeting of the Executive Board of Directors which took place on 18 April 2018.

11.2. Proposal for the Distribution of NOVO BANCO Results

The Executive Board of Directors of NOVO BANCO proposes, for approval by the General Meeting, that the net loss reported in the separate accounts for financial year 2017, in the amount of 1,253,046,320.71 euro be allocated to the "Other Reserves and Retained Earnings" caption on the balance sheet.

11.3. Note of Recognition

At the start of a new phase in the life of NOVO BANCO, which, following the sale to Lone Star of 75% of the Bank's share capital, is now a strong and well capitalised financial institution, the Executive Board of Directors would like to express its appreciation of the loyalty, trust and engagement with the Bank of its clients and employees, as well as for the cooperation of the Governmental and Supervision Authorities and the European Commission.

Lisbon, 18 April 2018

The Executive Board of Directors

António Manuel Palma Ramalho

Vitor Manuel Lopes Fernandes

Jorge Telmo Maria Freire Cardoso

Luísa M. S. Soares da Silva Amaro de Matos

José Eduardo Fragoso Tavares de Bettencourt

Rui Miguel Dias Ribeiro Fontes

Annex I - Alternative Performance Measures

The European Securities and Markets Authority (ESMA) issued on 5 October 2015 a set of guidelines on the disclosure of Alternative Performance Measures (APM) by issuers of securities (ESMA/2015/1415), of compulsory application from 3 July 2016.

The NOVO BANCO Group uses a set of indicators in the analysis of its financial performance that can be classified as Alternative Performance Measures, in accordance with the referred ESMA guidelines.

In compliance with the ESMA guidelines, we present hereunder (i) the reconciliation of the Consolidated Income Statement and (ii) the Alternative Performance Measures:

I – Reconciliation of the Consolidated Income Statement

Reconciliation between the Official Consolidated Income Statement and the Management Consolidated Income Statement used by NOVO BANCO's management as a working tool in the analysis of the Group's performance:

thousand of euro

Official Consolidated Income Statement 2017		Management Consolidated Income Statement 2017											
		Net Interest Income	Fees and Commissions	Capital Markets Results	Other Operating Income	Staff Costs	General and Administrative Costs	Depreciation	Provisions for Credit	Provisions for Securities	Provisions for Other Assets and Contingencies	Corporate Income Tax	Special Tax on Banks
		394 570	**324 793**	**214 306**	**748 966**	**275 740**	**215 409**	**58 057**	**1 229 205**	**134 787**	**692 915**	**445 146**	**30 838**
Interest and similar income	888 313	888 313											
Interest expense and similar charges	493 743	493 743											
Net Interest Income	**394 570**												
Dividend income	6 156			6 156									
Fee and Commission income	387 245		387 245										
Fee and Commission expense	71 792		71 792										
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	(56 571)			(56 571)									
Net gains / (losses) from available-for-sale financial assets	57 245			57 245									
Net gains / (losses) from foreign exchange revaluation	26 387			26 387									
Net gains/ (losses) from the sale of other assets	(39 284)				(39 284)								
Insurance earned premiums, net of reinsurance	-				-								
Claims incurred, net of reinsurance	-				-								
Change in technical reserves, net of reinsurance	-				-								
Other operating income and expenses	860 754		9 340	181 089	701 163								(30 838)
Operating Income	**1 564 710**												
Staff costs	275 740					275 740							
General and administrative expenses	215 409						215 409						
Depreciation and amortisation	58 057							58 057					
Provisions, net of reversals	190 931										190 931		
Impairment losses on loans, net of reversals and recoveries	1 229 205								1 229 205				
Impairment losses on other financial assets, net of reversals and recoveries	134 787									134 787	-		
Impairment of Other Assets,net of reversals and recoveries	501 984										501 984		
Operating Costs	**2 606 113**												
Sale of subsidiaries and associates	3 931				3 931								
Results from associated companies consolidated by the equity method	8 377				8 377								
Profit / (loss) before income tax	**(1 029 095)**												
Corporate tax	-												
Current tax	14 373											14 373	
Deferred tax	430 773											430 773	
	445 146												
Income from continuing activities	**(1 474 241)**												
Income from discontinued operations	74 779				74 779								
Net Income for the year	**(1 399 462)**												
	-												
Attributable to shareholders of the Bank	**(1 395 447)**												
Attributable to Non-controlling interests	(4 015)												
	(1 399 462)												

II – Alternative Performance Measures

Information on the Alternative Performance Measures (definition, calculation method and scope):

ITEM	DEFINITION / PURPOSE	CALCULATION BASIS	RECONCILIATION WITH THE FINANCIAL STATEMENTS (IS): Income Statement Item (BS): Balance Sheet Item
INCOME STATEMENT			
Fees and Commissions	Measure of results of financial activity directly related to services rendered to clients *Historical financial performance measure*	Fee and commission income - Fee and commission expense	(IS): Fee and commission income and Fee and commission expense
Commercial Banking Income	Measure of results of commercial activity directly related with the clients *Historical financial performance measure*	Net interest income + Fees and commissions	
Capital markets results	Measure of results from financial markets activity *Historical financial performance measure*	Results in trading and hedging operations with available-for-sale and held to maturity financial assets	(IS): Dividend income, Net gains / (losses) from financial assets and liabilities at fair value through profit or loss, Net gains / (losses) from available-for-sale financial assets, Net gains / (losses) from foreign exchange revaluation, and Net gains / (losses) on the revaluation of liabilities
Other operating income and expenses	Measure of other sundry results not directly related to client or market activity *Historical financial performance measure*	Other operating income and expenses + Disposal of subsidiaries and associated companies + Income/ (loss) of equity accounted associated companies	(IS): Other operating income and expenses, Disposal of subsidiaries and associated companies and Income/ (loss) of equity accounted associated companies
Banking income	Measure of results from financial activity *Historical financial performance measure*	Net interest income + Fees and commissions + Capital markets results + Other operating income and expenses	
Operating costs	Measure of structural costs supporting the commercial activity, the analysis of which permits to assess the evolution of costs *Historical financial performance measure*	Staff costs + General and administrative expenses + Depreciation and amortization	(IS): Staff costs + General and administrative expenses + Depreciation and amortization
Operating income	Measure of financial activity results net of costs and before impairment Measures the extent to which income generated cover / exceed operating costs *Historical financial performance measure*	Banking Income - Operating costs	
Net Provisions	Measure of the year's provision charges net of impairments *Historical financial performance measure*	Provisions, net of reversals and recoveries + Impairment losses on loans, net of reversals and recoveries + Impairment losses on other financial assets, net of reversals and recoveries + Impairment losses on other assets, net of reversals and recoveries	(IS): Provisions, net of reversals and recoveries, Impairment losses on loans, net of reversals and recoveries, impairment losses on other financial assets, net of reversals and recoveries and Impairment losses on other assets, net of reversals and recoveries
BALANCE SHEET / LIQUIDITY			
Assets eligible as collateral for rediscounting operations with the ECB	Tradable financial securities and other types of assets such as non tradable assets and cash accepted by the ECB as collateral in funding operations *Historical financial performance measure*	non applicable	non applicable
Securities portfolio	Measure of the amount of funds invested in assets for trading and sale *Historical financial performance measure*	Bonds, shares and other variable income securities net of impairments	(BS): Financial assets held for trading (shares, bonds and other), Other financial assets at fair value through profit or loss and Available-for-sale financial assets excluding derivative financial instruments
Customer deposits Banco de Portugal Instruction no. 16/2004	Measure of assets funding capacity *Historical financial performance measure*	Sums booked under the following balance sheet headings: [#400 - #34120 + #52020 + #53100]	(BS): Due to customers
Net ECB funds	Measure of the net amount obtained from the ECB to fund the activity *Historical financial performance measure*	Difference between the amount of funding obtained from the ECB and the amount of loans and advances to the ECB	(BS): Loans and advances to the ECB and ECB funding
On-balance sheet customer funds	Measure of assets funding capacity *Historical financial performance measure*	Deposits + Other customer funds + Debt securities placed with clients + Life insurance products	(BS): Customer funds, Debt securities, Investment contracts and Technical reserves
Retail customer funds	Measure of assets funding capacity *Historical financial performance measure*	On-balance sheet funds of retail clients	(BS): Due to customers
Off-Balance Sheet Funds	Measure of customer funds recognised outside the balance sheet *Historical financial performance measure*	Off-balance sheet funds managed by Group companies, including mutual funds, real estate investment funds, pension funds, bancassurance, portfolio management and discretionary management.	
Total Customer Funds	Measure of customer funds recognised in and outside the balance sheet *Historical financial performance measure*	On- and off- balance sheet customer funds.	
Commercial gap	Measure of the commercial area's funding need/surplus, in absolute value *Historical financial performance measure*	Difference between customer deposits and net loans	(BS): Net customer loans and Customer deposits
Loan to Deposit Ratio Banco de Portugal Instruction no. 16/2004	Measure of the relationship between the funding of the activity and the funds raised from clients *Historical financial performance measure*	Ratio of [gross loans -(accumulated provisions/ impairment for credit according with Instruction no. 22/2011 regarding the reporting of information on credit at risk] to customer deposits	(BS): Net customer loans and Customer deposits

ITEM	DEFINITION / PURPOSE	CALCULATION BASIS	RECONCILIATION WITH THE FINANCIAL STATEMENTS (IS): Income Statement Item (BS): Balance Sheet Item
ASSET QUALITY AND COVERAGE RATIOS			
Overdue loans ratio	Measure of asset quality, it reflects the defaulting share of the gross loan book *Historical financial performance measure*	Ratio of overdue loans to total loans	(BS): Overdue loans, i.e., credit with overdue instalments of principal and interest and Gross customer loans
Overdue loans by more than 90 days ratio	Measure of asset quality, it reflects the share of the gross loan book in default for more than 90 days *Historical financial performance measure*	Ratio of overdue loans by more than 90 day to total loans	(BS): Overdue loans > 90 days, i.e., credit with overdue instalments of principal and interest for more than 90 days and Gross customer loans
Overdue and doubtful loans ratio Banco de Portugal Instruction no. 16/2004	Measure of the loan book quality, it reflects the defaulting share of the gross loan book *Historical financial performance measure*	Ratio of overdue and doubtful loans to total loans	(BS): Loans overdue for more than 90 days and doubtful loans reclassified as credit overdue for provisioning purposes (pursuant to Notice 3/95 (no. 4-1-a)) and Gross customer loans. Notice no. 3/95 has been revoked.
Overdue and doubtful loans ratio, net Banco de Portugal Instruction no. 16/2004	Measure of asset quality, it reflects the defaulting share of the net loan book minus accumulated impairments *Historical financial performance measure*	Ratio of overdue and doubtful loans, net, to customer loans net of impairments	(BS): Overdue and doubtful loans - [(provisions for credit overdue + provisions for doubtful loans) and/or accumulated credit impairments, pursuant to the definition given in Instruction no. 22/2011 on the reporting of information on credit at risk] and customer loans net of impairments.
Credit at risk ratio Banco de Portugal Instruction no. 16/2004	Measure of the loan book quality, it reflects the share at risk of the gross loan book *Historical financial performance measure*	Ratio of credit at risk to gross customer loans	(BS): Credit with overdue instalments of principal or interest for a period of 90 days or more + restructured credit after being overdue for 90 days or more without adequate strengthening of security or full repayment of overdue interest and other charges + outstanding credit with overdue instalments of principal or interest for a period of less than 90 days, but for which there is evidence justifying its classification as credit a risk, namely bankruptcy or liquidation of the debtor and Gross customer loans
Credit at risk ratio, net Banco de Portugal Instruction no. 16/2004	Measure of asset quality, it reflects the share at risk of the loan book minus accumulated impairments *Historical financial performance measure*	Ratio of credit at risk, net, to customer loans minus accumulated impairments for credit at risk	(BS): Credit at risk - [(provisions for credit overdue + provisions for doubtful loans) and/or accumulated credit impairments, pursuant to the definition given in Instruction no. 22/2011 on the reporting of information on credit at risk] and customer loans minus accumulated impairments.
Restructured credit ratio Banco de Portugal Instruction no. 16/2013	Measure of asset quality, it reflects the share of the gross loan book that was restructured *Historical financial performance measure*	Ratio of restructured loans to total loans	(BS): Credit identified as restructured due to financial difficulties of the client and Gross customer loans
Restructured credit not included in credit at risk ratio Banco de Portugal Instruction no. 16/2013	Measure of asset quality, it reflects the share of the gross loan book that was restructured but is not included under credit at risk *Historical financial performance measure*	Ratio of restructured credit not included in credit at risk to total credit	(BS): Credit identified as restructured due to financial difficulties of the client, excluding restructured credit included under credit at risk, and Gross customer loans
Overdue loans coverage ratio	Measure of the capacity to absorb potential losses resulting from overdue loans *Historical financial performance measure*	Ratio of impairment on customer loans (on balance sheet) to overdue loans	(BS): Provisions for credit and Overdue customer loans
Overdue loans by more than 90 days coverage ratio	Measure of the capacity to absorb potential losses resulting from overdue loans >90 days *Historical financial performance measure*	Ratio between accumulated impairment on customer loans (on balance sheet) and customer loans more than 90 days overdue.	(BS): Provisions for credit and Overdue Loans > 90 days
Coverage ratio of credit at risk	Measure of the capacity to absorb potential losses resulting from default on credit at risk *Historical financial performance measure*	Ratio between impairment on customer loans (on balance sheet) and credit at risk.	(BS): Provisions for credit and Credit at risk
Coverage ratio of customer loans	Measure of the capacity to absorb potential losses in the customer loans book *Historical financial performance measure*	Ratio of impairment on customer loans (on balance sheet) to gross loans.	(BS): Provisions for credit and Gross customer loans
Cost of Risk	Measure of the cost recognised in the year to cover the risk of default in the customer loans book *Historical financial performance measure*	Ratio of credit impairment charges accounted in the period to gross customer loans	(IS): Credit provision charge in the year (BS): Gross customer loans
EFFICIENCY AND PROFITABILITY RATIOS			
Efficiency Banco de Portugal Instruction no. 16/2004	Expresses the share of income required to meet the staff costs borne by the organisation. The lower the value of the measure, the higher the efficiency level of the organisation's human resources *Historical financial performance measure*	Ratio of staff costs to banking income	(IS): Staff Costs
Efficiency Banco de Portugal Instruction no. 16/2004	Expresses the share of income required to meet the operating costs borne by the organisation. The lower the value of the measure, the higher the efficiency level of the organisation *Historical financial performance measure*	Ratio of [operating costs and amortisation and depreciation] to banking income	(IS): Operating costs include Staff costs, General and administrative expenses and Depreciation and amortisation
Cost to Income	Expresses the share of income required to meet the operating costs borne by the organisation and permits to measure the evolution of efficiency levels. The lower the value of the measure, the higher the efficiency level of the organisation *Historical financial performance measure*	Ratio of operating costs to banking income	
Profitability Banco de Portugal Instruction no. 16/2004	Expresses the banking income (in %) generated by assets in the period and provides a measure of the capacity to generate income per unit of assets used *Historical financial performance measure*	Ratio of banking income to average net assets	(BS): Assets; the calculation of average net assets includes, in addition to the start- and end-of-period values in the period under analysis, the values recorded in each of the months in the interval considered
Return on average net assets Banco de Portugal Instruction no. 16/2004	Expresses the income (in %) generated by assets in the period and provides a measure of the capacity to generate results per unit of assets used *Historical financial performance measure*	Ratio of pre-tax profit and non-controlling interests to average net assets.	(IS): Pre-tax profit and non-controlling interests (BS): Assets; the calculation of average net assets includes, in addition to the start- and end-of-period values in the period under analysis, the values recorded in each of the months in the interval considered
Return on average equity Banco de Portugal Instruction no. 16/2004	Expresses the income (in %) generated by equity in the period and provides information on efficiently equity is used to generate results *Historical financial performance measure*	Ratio of pre-tax profit and non-controlling interests to average equity.	(IS): Pre-tax profit and non-controlling interests (BS): Equity; the calculation of average equity includes, in addition to the start- and end-of-period values in the period under analysis, the values recorded in each of the months in the interval considered

Annex II – The Sustainability Accounts

• Reading Guide to the Sustainability Information

About this Sustainability Report

The scope of the sustainability information reported covers the following units of NOVO BANCO Group in Europe: NOVO BANCO, S.A., NOVO BANCO dos Açores, S.A., NOVO BANCO Branch in Spain, GNB Gestão de Ativos S.G.P.S., S.A. and Banco Best, S.A.. The environmental indicators refer only to NOVO BANCO, at 31 December 2017. For greater detail concerning the indicators see the "Sustainability Accounts" tables in the following pages.

Similarly to the 2016 Report, the report was prepared in accordance with the Global Reporting Initiative (GRI) guidelines on sustainability reporting and the principles of standard AA1000APS, as was the case in the 2016 Report. The report also followed the principles set out in the International Integrated Reporting Council (IRCC)'s framework for integrated reporting.

This is the fourth sustainability report of NOVO BANCO, which until 18 October was a transition bank created by resolution of the Banco de Portugal on 3 August 2014 and was prepared in accordance with the Global Reporting Initiative model. Throughout thisReport, non-financial information according to article 508/G of the Commercial Companies Code was included, following the entry into force of the Decree-Law n.89/2017 from 28 July 2017, for an understanding of the evolution, performance, position and impact of the activities of the Group on environmental, social and related to employees issues, equality between women and men, non-discrimination, respect for human rights, fight on corruption and bribery attempts, and diversity in the members of the Corporate Bodies.

NOVO BANCO Group aims to maintain its alignment with the best reporting practices. Therefore it was decided that the fourth sustainability report should be in accordance with version 4 of the GRI (GRI 4 "Core"). The GRI4 version helped NOVO BANCO to focus on the communication of the issues (social, environmental and economic) considered more relevant to the business and its stakeholders during 2017.

The report was subject to verification according to the principles defined by ISAE 3000 (International Standard on Assurance Engagements 3000), by an independent entity, PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, LDA.

The information on the sustainability management and performance of NOVO BANCO is reported in this 2017 Annual Report, and available in the corporate website and in the sustainability pages of this website.

Structure of the Sustainability Report

The reporting structure of NOVO BANCO Group's sustainability information was defined in accordance with the relevance of the various issues, based on a set of values announced by the Executive Board of Directors which should guide NOVO BANCO. These values are explicit in the mission and guiding principles of NOVO

BANCO Group. This report therefore addresses NOVO BANCO's treatment of all the issues considered material during this period. Information on all other themes, considered non-material, is available in the Bank's corporate website, at www.novobanco.pt.

The following table indicates the chapter and the page where NOVO BANCO's response to each material issue is reported, as well as the correspondence between the material issues and the material aspects of the GRI4.

MATERIAL ISSUES	CORRESPONDENCE WITH GRI4 MATERIAL ASPECTS	LOCATION IN THE 2017 ANNUAL REPORT	PAGE
Customer Satisfaction **Leadership,** with full focus on commercial banking, to reach a leading position in each segment where it operates**;** **Simplicity,** in processes and through an efficient customer service.	Products and Services	*Corporate Responsibility* *Clients*	49-51
Financial inclusion of people and companies **Leadership,** with full focus on commercial banking, to reach a leading position in each segment where it operates**;** **Simplicity,** in processes and through an efficient customer service.	• Indirect Economic Impacts; • Portfolio of Products	*Saving Products* *Microcredit* *Minimum Banking Services* *Environmental Products and Services*	24-28 24-28; 34
Human Capital development Mission and objectives of the Human Capital Department Non-discrimination and Equality Policy Human Rights Policy	• Employment • Training and Education • Diversity and Equal Opportunities	*Corporate Responsibility* *Employees*	36-49
Relations with Stakeholders Code of Conduct Money Laundering Policy on Conflicts of Interest	• Ethics and Integrity • Involvement with Stakeholders • Non-discrimination • Combat to corruption	*Corporate Responsibility* *Involvement with the Stakeholders* *Employees* *Suppliers*	36-53 123

You will find more details on sustainability information in the following documents, available in the corporate website (www.novobanco.pt):

- AR - 2017 Annual Report; GRI Table; Reading Guide; Sustainability accounts tables.

The Sustainability accounts:

Environmental Indicators (scope NOVO BANCO)

Environmental	2015	2016	2017	Change 2016/2017
Energy (G4-EN3, G4-EN5)				
Total electricity consumption (GJ)*	149,938	131,215	112,437	-14.3%
Total electricity consumption (kWh)*	41,649,568	36,448,556	31,232,543	-14.3%
Data centre electricity consumption (kWh)	10,397,699	9,258,905	8,283,294	-10.5%
Data centre electricity consumption (GJ)	37,432	33,332	29,820	-10.5%
Electricity consumption (kwh/employee)	7,595	7,398	6,616	-10.6%
Natural gas consumption (GJ)	466	498	501	0.6%
Natural gas consumption (N.m^3)	12,113	12,956	13,025	0.5%
Butane gas consumption (Kg)	1,980	1,890	1,620	-14.3%
Butane gas consumption (GJ)	96	92	75	-18.5%
Generator diesel consumption (Litres)	3,554	2,850	5,000	75.4%
Generator diesel consumption (GJ)	126	101	177	75.2%
Vehicle diesel consumption (Litres)	2,161,035	1,867,537	1,634,368	-12.5%
Vehicle diesel consumption (GJ)	76,640	66,231	57,963	-12.5%
Vehicle gasoline consumption (Litres)	7,263	5,672	2,590	-54.3%
Vehicle gasoline consumption (GJ)	239	187	85	-54.5%
Total energy consumption (GJ)	**227,505**	**198,324**	**171,238**	**-13.7%**
Number of vehicles	1,118	941	916	-2.7%
Number of flights	707	553	546	-1.3%
Water (G4-EN8)				
Water consumption from public supply network (m^3)	82,705	73,721	62,441	-15.3%
Water consumption per employee (m^3/employee)	15.1	14.9	13.2	-11.2%
Greenhouse gases emission (tCO_2e) (G4-EN15, G4-EN16, G4-EN17)				
Emissions from trips in company cars	5,658	4,560	4,241	-7.0%
Emissions from natural gas and butane gas kitchen equipment	32.0	33.4	32.7	-2.1%
Emissions from emergency generators	9.3	7.5	13.0	73.3%
Direct emissions (Scope 1)	**5,699.3**	**4,600.9**	**4,286.7**	**-6.8%**
Emissions from the production of electricity purchased	18,269.0	15,998.0	8,882.1	-44.5%
Indirect emissions (Scope 2)	**18,269.0**	**15,998.0**	**8,882.1**	**-44.5%**
Total (Scopes 1 and 2)	23,968.3	20,598.9	13,168.8	-36.1%
Emissions from Employees' business trips, including flights	543.9	459.0	327.0	-28.8%
Emissions from Employees' home/ work daily trips	6,854.6	6,274.0	6,039.0	-3.7%
Emissions from wastewater treatment	192.7	171.0	176.0	2.9%
Indirect emissions (Scope 3)	**7,591.2**	**6,904.0**	**6,542.0**	**-5.2%**
Total (Scopes 1,2 and 3)	**31,559.6**	**27,502.9**	**19,710.8**	**-28.3%**
Consumption of materials (G4-EN1, G4-EN2)				
White paper for internal use (tonnes)	351	266	246.3	-7.4%
White paper for internal use (ton/employee)	0.064	0.054	0.052	-3.4%
Recycled paper for internal use (tonnes)	1	0.31	0.05	-83.9%
Forms - *printing* and *finishing* (tonnes)	147.0	127.0	123.7	-2.6%
Toner and inkjet cartridges (units)	303	131	146	11.5%
Waste management (G4-EN23)				
Paper sent for recycling (tonnes)	156	76	198	160.5%
Cardboard sent for recycling (tonnes)	94	74	68	-8.1%
Consumables collected (units)	12,523	8,672	14,332	65.3%

* includes the Data Center

Social Indicators

Scope: Grupo NOVO BANCO (Europe – Portugal and Spain: NOVO BANCO Portugal; NOVO BANCO Açores; NOVO BANCO Branch in Spain, Banco BEST; GNB Gestão de Ativos)

Total Employees	2015	2016	2017
Total Employees NB Group (*)	7 311	6 096	5 488
Total Employees (Human Resources information scope)	6 239	5 513	5 287

(*) employees with permanent and fixed-term employment contracts

Employees by Gender	2015	2016	2017
Men	3 207	2 742	2 594
Women	3 032	2 771	2 693

Employees by Region	2015	2016	2017
Europe	7 226	6 036	5 484
America	64	56	0
Africa	2	2	2
Asia	19	2	2

Distribution of employees by gender and age per professional category (%) (G4-LA12)	2015	2016	2017
Management			
Men	68.9	67.5	66.9
Women	31.1	32.4	33.1
< 30 years old	0.2	0.0	0.0
30 to 50 years old	69.7	71.1	69.5
> 50 years old	30.1	28.9	30.5
Heads of Department			
Men	63.7	64.6	62.5
Women	36.3	35.4	37.5
< 30 years old	0.5	0.3	0.0
30 to 50 years old	79.6	80.9	77.9
> 50 years old	20.0	18.8	22.1
Specific			
Men	47.5	45.4	46.2
Women	52.5	54.6	53.8
< 30 years old	5.2	4.2	3.0
30 to 50 years old	79.6	82.7	83.3
> 50 years old	15.2	13.1	13.6
Administrative			
Men	47.3	44.9	42.9
Women	52.7	55.1	57.1
< 30 years old	6.4	5.7	5.7
30 to 50 years old	65.5	68.0	68.7
> 50 years old	28.0	26.3	25.6
Auxiliary			
Men	27.7	45.5	64.5
Women	72.3	54.5	35.5
< 30 years old	0.0	0.0	6.5
30 to 50 years old	21.3	27.3	41.9
> 50 years old	78.7	72.7	51.6

Employment Contract (G4-10)	NOVO BANCO Group 2015		NOVO BANCO Group 2016		NOVO BANCO Group 2017	
	Men	Women	Men	Women	Men	Women
Permanent	3,105	2,898	2,675	2,688	2 525	2 614
Fixed-term	82	113	43	72	41	49
Temporary	13	15	21	27	25	29
Internships	2	2	0	1	1	0
Other	0	0	3	3	3	0

Staff Turnover (%) - NOVO BANCO Group (G4-LA1)	NOVO BANCO Group 2015	NOVO BANCO Group 2016	NOVO BANCO Group 2076
Gender			
Women	1.19	2.68	1.27
Men	2.05	2.07	1.12
Age bracket			
< 30 years old	1.07	0.83	0.53
30 to 50 years old	2.04	2.97	1.80
> 50 years old	0.13	0.94	0.06

The staff turnover rate was calculated taking into account the number of employees who voluntarily left the company and those dismissed.

The formula used was: number of employees who voluntarily left the company added to number of employees dismissed divided by the total number of employees on 31 December of each year.

New admissions rate (%) - NOVO BANCO Group (G4-LA1)	NOVO BANCO Group 2015	NOVO BANCO Group 2016	NOVO BANCO Group 207
Gender			
Women	0.99	0.36	2.57
Men	0.74	0.56	3.22
Age bracket			
< 30 years old	1.09	0.74	1.04
30 to 50 years old	0.59	0.15	4.14
> 50 years old	0.05	0.04	0.61

Formula used to calculate new admissions: number of new employees hired divided by the total number of employees at the end of each year.

Parental Leave (G4-LA3)	2015		2016		2017	
	Men	Women	Men	Women	Men	Women
Employees entitled to parental leave	6,239		5,513		5 287	
Employees who took parental leave	105	179	115	190	100	163
Employees who returned to work after parental leave ended	102	136	115	120	97	128
Return to work rate	97%	76%	100%	63%	97%	79%

* Return rate calculated based on number of employees who returned in 2017

Health and Safety (G4-LA6)	NOVO BANCO Group 2015		NOVO BANCO Group 2016		NOVO BANCO Group 207	
	Men	Women	Men	Women	Men	Women
Work related accidents	23	29	23	30	17	34
Occupational diseases	0	0	0	0	0	0
Deaths	0	0	0	0	0	0
Accident rate	0.82	1.14	0.97	1.31	0.76	1.53
Lost days rate	0.05	0.06	0.35	0.08	0.05	0.06
Absenteeism rate (% excluding parental leave)	1.9	3.5	1.4	2.2	1.73	2.74

The Occupational hazards ratio and the Lost days ratios were calculated based on the following formulas:

Occupational hazards ratio = Number of occupational hazards / number of hours worked*200,000

Lost days ratio = Number of lost days / number of hours worked*200,000

Health (quantity)	2015	2016	2017
Medical exams	3,755	3,387	3,099
Medical acts	28,808	27,651	19,822
Nursing acts	5,066	7,623	7,109
Total	**37,629**	**38,661**	**30,030**

Training hours per employee (G4-LA9)	Total Hours 2015	Average (Hours/Employee) 2015	Total Hours 2016	Average (Hours/Employee) 2016	Total Hours 2017	Average (Hours/Employee) 2017
Gender						
Women	64,036	21.1	73,889	26.7	166,265	61.7
Men	69,332	21.6	75,466	27.5	178,596	68.8
Professional Category						
Management	5,961	10.1	5,829	11.5	26,132	53.8
Heads of Department	23,964	29.7	27,321	38.6	49,827	76.5
Specific	61,303	23.7	69,188	30.5	149,829	66.0
Administrative	42,122	19.1	46,992	23.4	119,038	64.3
Auxiliary	18	0.4	21	1	36	1.2

Performance Appraisal (G4-LA11)	2015	2016	2017
Number of employees promoted			
Change of functions	8	38	36
Merit	314	288	303
Seniority	192	110	136
Total Employees Promoted	**514**	**436**	**475**

Loans Granted to Employees (euros)	NOVO BANCO 2015	NOVO BANCO 2016	NOVO BANCO 2017
Residential mortgage loans	14,525,579	14,858,702	15,526,220
Consumer loans	1,861,668	4,051,789	4,562,098

Economic Indicators

Stakeholders - Value creation (million of euro)	2015	2016	2017
Shareholders (dividends)	_____	_____	_____
Employees (remuneration and training)	397.6	303.5	275.7
Customers (loans granted)	37,417	33,750	31,422
Suppliers (general and administrative expenses)	285.4	231.4	215.4
Community (donations)	1.05	0.92	0.76
State (taxes)	-20.1	-227.6	-445.1

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Independent Limited Assurance Report

*** (Free translation from the original in Portuguese)**

To the Executive Board of Directors

Introduction

1 We were engaged by the Board of Directors of Novo Banco, S.A. ("Novo Banco" or "Company") to perform a limited assurance engagement on the GRI indicators, version 4 (G4), which integrate the sustainability information, included in the Annual Report 2017, for the year ended in December 31, 2017, prepared by the Company for the purpose of communicating its annual sustainability performance.

Responsibilities

2 It is the responsibility of the Board of Directors to prepare the GRI indicators, included in the Annual Report 2017, in accordance with the sustainability reporting guidelines "Global Reporting Initiative" ("GRI"), GRI 4 (G4) version, and with the instructions and criteria disclosed in the Annual Report 2017, as well as for the maintenance of an appropriate internal control system that enables the adequately preparation of the mentioned information.

3 Our responsibility is to issue a limited assurance report, which is professional and independent, based on the procedures performed and specified in the paragraph below.

Scope

4 The work performed was conducted in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised) "Assurance engagements other than audits or reviews of historical financial information", issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. This standard requires that we plan and perform the assurance engagement to obtain limited assurance about whether the GRI 4 (G4) indicators, are free from material misstatement.

5 Our limited assurance engagement also consisted in carrying out procedures with the objective of obtaining a limited level of assurance as to whether the Company applied, in the sustainability information included in the Annual Report 2017, the GRI 4 (G4) guidelines, for the option "In accordance – Core".

6 For this purpose the above mentioned work included:

(i) Inquiries to management and senior officials responsible for areas under analysis, with the purpose of understanding how the information system is structured and their awareness of issues included in the report;
(ii) Identification of the existence of internal management procedures leading to the implementation of economic, environmental and social policies;
(iii) Testing, on a sampling basis, the efficiency of processes and systems in place for collection, consolidation, validation and reporting of the performance information previously mentioned, through calculations and validation of reported data;
(iv) Confirmation that operational units follow the instructions on collection, consolidation, validation and reporting of performance information;

(v) Execution of substantive procedures, on a sampling basis, in order to collect evidence of the reported information;
(vi) Comparison of financial and economic data included in the sustainability information with the audited by PwC SROC, in the scope of the legal review of Company's financial statements for the year ended in December 31, 2017
(vii) Verification that the sustainability information included in the Report complies with the requirements of GRI 4 (G4) guidelines, for the option "In accordance – Core".

7 The procedures performed were more limited than those used in an engagement to obtain reasonable assurance and, therefore, less assurance was obtained than in a reasonable assurance engagement.

8 We believe that the procedures performed provide an acceptable basis for our conclusion.

Quality control and independence

9 We apply the International Standard on Quality Control 1 (ISQC1) and, accordingly, maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

10 We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants and of the ethics code of the Institute of Statutory Auditors.

Conclusion

11 Based on the work performed, nothing has come to our attention that causes us to believe that the GRI 4 (G4) indicators, which integrate the sustainability information, included in the Annual Report 2017, for the year ended in December 31, 2017, were not prepared, in all material respects, in accordance with GRI 4 (G4) guidelines and with the instructions and criteria disclosed on in and that Novo Banco has not applied, in the sustainability information included in the Annual Report 2017, the GRI 4 (G4) guidelines.

Restriction on use

12 This report is issued solely for information and use of the Board of Directors of the Company for the purpose of communicating the sustainability information in the Annual Report 2017, and should not be used for any other purpose. We will not assume any responsibility to third parties other than Novo Banco by our work and the conclusions expressed in this report, which will be attached to the Company's Annual Report 2017.

April 19, 2018

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

António Brochado Correia, R.O.C.

*** (This is a translation, not to be signed)**

CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

NOVO BANCO GROUP

CONSOLIDATED INCOME STATEMENT
FOR THE YEARS ENDED ON 31 DECEMBER 2017 AND 2016

(in thousands of Euros)

	Notes	31.12.2017	31.12.2016 restated*	31.12.2016
Interest and similar income	5	888 313	1 110 136	1 193 354
Interest expense and similar charges	5	(493 743)	(581 015)	(678 870)
Net interest income		394 570	529 121	514 484
Dividend income	8	6 156	20 036	37 832
Fee and commission income	6	387 245	381 530	378 370
Fee and commission expenses	6	(71 792)	(108 592)	(113 003)
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	7	(56 571)	97 155	22 905
Net gains / (losses) from available-for-sale financial assets	8	57 245	57 978	116 429
Net gains / (losses) from foreign exchange differences	9	26 387	5 396	(6 576)
Net gains/ (losses) from the sale of other assets	10	(39 284)	(51 010)	(51 736)
Insurance earned premiums, net of reinsurance	11	-	-	49 201
Claims incurred, net of reinsurance	12	-	-	(167 744)
Change in technical reserves, net of reinsurance	13	-	-	105 345
Other operating income and expenses	14	860 754	56 277	37 041
Operating income		1 564 710	987 891	922 548
Staff costs	15	(275 740)	(300 848)	(303 463)
General and administrative expenses	17	(215 409)	(228 118)	(231 352)
Depreciation and amortization	29 & 30	(58 057)	(55 694)	(56 061)
Provisions, net of reversals	39	(190 931)	(49 201)	(52 319)
Impairment losses on loans and advances, net of reversals and recoveries	25	(1 229 205)	(672 578)	(672 578)
Impairment losses on other financial assets, net of reversals and recoveries	23 & 24	(134 787)	(340 333)	(365 883)
Impairment losses on other assets, net of reversals and recoveries	27, 29, 30, 31, 33 & 53	(501 984)	(283 929)	(283 929)
Operating expenses		(2 606 113)	(1 930 701)	(1 965 585)
Disposal of subsidiaries and associated companies	1	3 931	24 325	24 325
Results from associated companies under the equity method	31	8 377	4 074	4 074
Profit / (loss) before income tax and non-controlling interests		**(1 029 095)**	**(914 411)**	**(1 014 638)**
Income tax				
Current tax	40	(14 373)	(14 662)	(16 330)
Deferred tax	40	(430 773)	208 051	243 924
		(445 146)	**193 389**	**227 594**
Profit / (loss) from continuing activities		**(1 474 241)**	**(721 022)**	**(787 044)**
Profit / (loss) from discontinued operations	27 & 53	74 779	(76 449)	(10 427)
Net profit / (loss) for the period		**(1 399 462)**	**(797 471)**	**(797 471)**
Attributable to shareholders of the Bank		**(1 395 447)**	**(788 330)**	**(788 330)**
Attributable to non-controlling interests	44	**(4 015)**	**(9 141)**	**(9 141)**
		(1 399 462)	**(797 471)**	**(797 471)**
Basic earnings per share (in Euros)	18	(0,24)	(0,16)	(0,16)
Diluted earnings per share (in Euros)	18	(0,24)	(0,16)	(0,16)
Basic earnings per share of continuing activities (in Euros)	18	(0,25)	(0,15)	(0,16)
Diluted earnings per share of continuing activities (in Euros)	18	(0,25)	(0,15)	(0,16)

*Considering GNB Vida as a discontinued operation

The accompanying explanatory notes are an integral part of these consolidated financial statements

NOVO BANCO GROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED ON 31 DECEMBER 2017 AND 2016

(in thousands of Euros)

	Notes	31.12.2017	31.12.2016
Net profit / (loss) for the period			
Attributable to equity holders of the Bank		(1 395 447)	(788 330)
Attributable to non-controlling interests	44	(4 015)	(9 141)
		(1 399 462)	**(797 471)**
Other comprehensive income/(loss) for the period			
Items that will not be reclassified to results			
Remeasurement of defined benefit plans	16	(24 646)	(82 415)
Taxes on remeasurement of defined benefit plans	a)	(38)	2 852
		(24 684)	(79 563)
Items that may be reclassified to results			
Foreign exchange differences	a)	(2 030)	8 421
Taxes on foreign exchange differences	a)	(15 572)	(773)
Other comprehensive income appropriated from associated companies	a)	(212)	991
		(17 814)	8 639
Available-for-sale financial assets			
Potential gains and losses in the period	44	248 196	150 054
Gains and losses included in profit and loss for the period	44	(77 533)	(95 522)
Deferred taxes	44	(32 736)	(11 396)
		137 927	43 136
Total other comprehensive income/(loss) for the period		**95 429**	**(27 788)**
Total comprehensive income/(loss) for the period		**(1 304 033)**	**(825 259)**
Attributable to shareholders of the Bank		**(1 300 018)**	**(816 118)**
Attributable to non-controlling interests		**(4 015)**	**(9 141)**
		(1 304 033)	**(825 259)**

a) See Statement of Changes in Consolidated Equity

The accompanying explanatory notes are an integral part of these consolidated financial statements

NOVO BANCO GROUP

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2017 AND 2016

(in thousands of Euros)

	Notes	31.12.2017	31.12.2016
Assets			
Cash and deposits with Central Banks	19	3 788 027	1 469 259
Deposits with banks	20	380 601	370 918
Financial assets held for trading	21	577 520	656 722
Other financial assets at fair value through profit or loss	22	30 183	1 203 807
Available-for-sale financial assets	23	8 448 245	10 557 972
Loans and advances to banks	24	581 901	724 167
(of which: Operations with reverse repurchase agreements)		*21 463*	*12 793*
Loans and advances to customers	25	25 790 943	28 184 426
Derivatives held for risk management purposes	26	170 588	222 769
Non-current assets held for sale	27	5 448	7 764
Non-current assets held for sale - discontinued operations	53	5 130 956	1 217 371
Investment properties	28	1 144 432	1 206 355
Other tangible assets	29	157 497	206 459
Intangible assets	30	8 682	44 663
Investments in associated companies	31	146 251	158 650
Current tax assets	40	6 014	30 620
Deferred tax assets	40	1 964 017	2 603 979
Technical reserves of reinsurance ceded	32	-	6 355
Other assets	33	3 723 544	3 460 416
Debtors for direct and indirect insurance		-	1 086
Other assets		3 723 544	3 459 330
Total Assets		**52 054 849**	**52 332 672**
Liabilities			
Deposits from Central Banks	34	6 410 123	6 410 033
Financial liabilities held for trading	21	559 765	632 831
Deposits from banks	35	2 015 044	3 577 914
(of which: Operations with reverse repurchase agreements)		*79 737*	*1 625 020*
Due to customers	36	30 208 071	25 989 719
(of which: Operations with reverse repurchase agreements)		*227 964*	*216 625*
Debt securities issued	37	1 216 780	3 817 801
Derivatives held for risk management purposes	26	76 212	108 265
Investment contracts	38	-	3 396 425
Non-current liabilities held for sale	27	3 277	1 821
Non-current liabilities held for sale - discontinued operations	53	5 525 962	748 807
Provisions	39	416 670	364 615
Technical reserves	32	-	1 333 567
Current tax liabilities	40	13 887	16 972
Deferred tax liabilities	40	6 193	19 301
Subordinated debt	41	-	48 100
Other liabilities	42	770 690	718 548
Creditors for direct and indirect insurance		-	10 945
Other liabilities		770 690	707 603
Total Liabilities		**47 222 674**	**47 184 719**
Equity			
Share capital	43	5 900 000	4 900 000
Reserves, Retained earnings and Other comprehensive income	44	248 410	954 946
Net profit / (loss) for the period attributable to shareholders of the Bank		(1 395 447)	(788 330)
Total Equity attributable to shareholders of the Bank		**4 752 963**	**5 066 616**
Non-controlling interests	44	79 212	81 337
Total Equity		**4 832 175**	**5 147 953**
Total Liabilities and Equity		**52 054 849**	**52 332 672**

The accompanying explanatory notes are an integral part of these consolidated financial statements

NOVO BANCO GROUP

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY
FOR THE YEARS ENDED ON 31 DECEMBER 2017 AND 2016

(in thousands of Euros)

	Notes	Share capital	Reserves, Retained earnings and Other comprehensive income			Net profit/ (loss) for the period attributable to shareholders of the Bank	Equity attributable to shareholders of the Bank	Non-controlling interests	Total Equity
			Fair value reserves	Other reserves, Retained earnings and Other comprehensive income	Total				
Balance as at 1 January 2016		**4 900 000**	**64 066**	**1 844 266**	**1 908 332**	**(929 539)**	**5 878 793**	**56 581**	**5 935 374**
Other comprehensive income									
Changes in fair value, net of tax	44	-	43 136	-	43 136	-	43 136	-	43 136
Remeasurement of defined benefit plans, net of tax	44	-	-	(79 563)	(79 563)	-	(79 563)	-	(79 563)
Other comprehensive income appropriated from associated companies		-	-	991	991	-	991	-	991
Foreign exchange differences, net of tax		-	-	7 648	7 648	-	7 648	-	7 648
Net profit / (loss) for the period		-	-	-	-	(788 330)	(788 330)	(9 141)	(797 471)
Total comprehensive income for the period		**-**	**43 136**	**(70 924)**	**(27 788)**	**(788 330)**	**(816 118)**	**(9 141)**	**(825 259)**
Adjustments to the originating reserve		-	-	-	-	-	-	-	-
Changes in perimeter		-	-	-	-	-	-	41 864	41 864
Appropriation to retained earnings of net profit / (loss) of the previous period		-	-	(929 539)	(929 539)	929 539	-	-	-
Transactions with non-controlling interests		-	-	(7 410)	(7 410)	-	(7 410)	(15 286)	(22 696)
Other movements		-	-	11 351	11 351	-	11 351	-	11 351
Other changes in non-controlling interests	44	-	-	-	-	-	-	7 319	7 319
Balance as at 31 December 2016		**4 900 000**	**107 202**	**847 744**	**954 946**	**(788 330)**	**5 066 616**	**81 337**	**5 147 953**
Other comprehensive income									
Changes in fair value, net of tax	44	-	137 927	-	137 927	-	137 927	-	137 927
Remeasurement of defined benefit plans, net of tax	44	-	-	(24 684)	(24 684)	-	(24 684)	-	(24 684)
Other comprehensive income appropriated from associated companies		-	-	(212)	(212)	-	(212)	-	(212)
Foreign exchange differences, net of tax		-	-	(17 602)	(17 602)	-	(17 602)	-	(17 602)
Net profit / (loss) for the period		-	-	-	-	(1 395 447)	(1 395 447)	(4 015)	(1 399 462)
Total comprehensive income for the period		**-**	**137 927**	**(42 498)**	**95 429**	**(1 395 447)**	**(1 300 018)**	**(4 015)**	**(1 304 033)**
Share capital increase	43	1 000 000	-	-	-	-	1 000 000	-	1 000 000
Changes in perimeter		-	-	-	-	-	-	5 500	5 500
Appropriation to retained earnings of net profit / (loss) of the previous period		-	-	(788 330)	(788 330)	788 330	-	-	-
Transactions with non-controlling interests		-	-	-	-	-	-	45	45
Other movements		-	-	(13 635)	(13 635)	-	(13 635)	-	(13 635)
Other changes in non-controlling interests	44	-	-	-	-	-	-	(3 655)	(3 655)
Balance as at 31 December 2017		**5 900 000**	**245 129**	**3 281**	**248 410**	**(1 395 447)**	**4 752 963**	**79 212**	**4 832 175**

The accompanying explanatory notes are an integral part of these consolidated financial statements

NOVO BANCO GROUP

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEARS ENDED ON 31 DECEMBER 2017 AND 2016

(in thousands of Euros)

	Notes	31.12.2017	31.12.2016
Cash flows from operating activities			
Interest and similar income received		863 679	1 239 421
Interest expense and similar charges paid		(606 293)	(839 416)
Fees and commissions received		388 278	378 621
Fees and commissions paid		(75 528)	(117 259)
Insurance earned premiums, net of reinsurance		1 086	57 489
Claims incurred, net of reinsurance		(10 674)	(174 971)
Recoveries on loans previously written off		35 453	32 270
Contributions to the pension fund		(65 416)	(120 018)
Cash payments to employees and suppliers		(426 948)	(592 678)
		103 637	**(136 541)**
Changes in operating assets and liabilities:			
Deposits with / from Central Banks		(1 477)	(1 040 065)
Financial assets at fair value through profit or loss		(45 910)	259 372
Acquisition of available-for-sale financial assets		(19 069 753)	(21 096 305)
Sale of available-for-sale financial assets		17 821 991	22 170 396
Issue of investment contracts		(2 450)	(470 694)
Loans and advances to banks		471 361	532 267
Deposits from banks		(1 703 829)	186 229
Loans and advances to customers		1 096 002	1 219 831
Due to customers and other loans		2 725 704	(1 078 524)
Derivatives held for risk management purposes		48 884	(4 482)
Other operating assets and liabilities		234 814	450 421
Net cash from operating activities before corporate income tax		**1 678 974**	**991 905**
Corporate income taxes paid		(47 398)	(35 546)
Net cash from operating activities		**1 631 576**	**956 359**
Cash flows from investing activities			
Acquisitions of investments in subsidiaries and associated companies	1	(1 400)	-
Sale of investments in subsidiaries and associated companies	1 & 53	61 957	28 179
Dividends received		11 681	53 597
Acquisition of tangible fixed assets		(5 535)	(9 239)
Sale of tangible fixed assets		(1 330)	11 675
Acquisition of intangible assets		(8 790)	(6 419)
Sale of intangible assets		449	-
Acquisition of investment properties		-	(111)
Sale of investment properties		21 472	69 940
Net cash from investing activities		**78 504**	**147 622**
Cash flows from financing activities			
Share capital increase		1 000 000	-
Issue of bonds and other debt securities		50 000	835 600
Reimbursement of bonds and other debt securities		(433 196)	(1 181 446)
Net cash from financing activities		**616 804**	**(345 846)**
Net changes in cash and cash equivalents		**2 326 884**	**758 135**
Cash and cash equivalents at the beginning of the period		**1 579 209**	**822 521**
Effect of exchange rate changes in cash and cash equivalents		-	(1 447)
Net changes in cash and cash equivalents		2 326 884	758 135
Cash and cash equivalents at the end of the period		**3 906 093**	**1 579 209**
Cash and cash equivalents include:			
Cash	19	168 221	180 431
Deposits with Central Banks	19	3 619 806	1 288 828
(of which, Restricted balances)		(262 535)	(260 968)
Deposits with banks	20	380 601	370 918
Total		**3 906 093**	**1 579 209**

The accompanying explanatory notes are an integral part of these consolidated financial statements

NOVO BANCO Group

Notes to the Consolidated Financial Statements as at 31 December 2017

(Amounts expressed in thousands of Euros, except when otherwise indicated)

NOTE 1 – ACTIVITY AND GROUP STRUCTURE

NOVO BANCO, S.A. is the main entity of the financial Group NOVO BANCO focused on the banking activity, having been incorporated on 3 August 2014 per deliberation of the Board of Directors of Banco de Portugal ("Banco de Portugal") dated 3 August 2014 (8 p.m.), under no. 5 of article 145-G of the General Law on Credit Institutions and Financial Companies ("Regime Geral das Instituições de Crédito e Sociedades Financeiras" (RGICSF))[1], approved by Decree-Law no. 298/92, of 31 December, following the resolution measure applied by Banco de Portugal to Banco Espírito Santo, S.A. (BES), under the terms of paragraphs 1 and 3-c) of article 145-C of the RGICSF, from which resulted the deliberation of 3 August 2014 on the assets, liabilities and off-balance sheet elements transfer as well as assets under management of BES from BES to NOVO BANCO, SA.

As a result of the resolution measure applied, Fundo de Resolução became the sole owner of the share capital of NOVO BANCO, in the amount of Euros 4 900 million, which acquired the status of a Transition Bank, with a limited duration, due to the commitment assumed by the Portuguese State with the European Commission to sell its shares within two years from the date of its incorporation, extendable for one year.

On 31 March 2017, Fundo de Resolução signed the sale agreement of NOVO BANCO. On 18 October the sales process was concluded, following the acquisition of the majority (75%) of its share capital by Nani Holdings, SGPS, SA, a company owned by the North-American Group Lone Star, through two share capital increases in the amount of Euros 750 million and Euros 250 million, in October and December, respectively. Thus, as at 31 December 2017, the share capital of NOVO BANCO amounts to Euros 5900 million, represented by 9 799 999 997 nominative shares, with no nominal value. This sale was preceded by the completion of a Liability Management Exercise (LME) over bonds with a book value of approximately Euros 3 billion.

A Contingent Capital Agreement was created with the sale process, which in case its capital ratios decrease below a predefined threshold, and cumulatively, losses are recorded in a delimited portfolio of assets, the Resolution Fund makes a payment corresponding to the lower of the losses recorded and the amount needed to restore the capital ratios at the relevant level, up to a maximum of Euros 3 890 million.

[1] References made to RGICSF refer to the version in force at the date of the resolution measure. The current version of the RGICSF has suffered changes, namely in article 145, following the publication of Law 23-A 2015, of 26 March, that came into force on the day following its publication.

With the conclusion of the sale process, NOVO BANCO ceased to be considered a transition bank and began to operate normally, although still being subject to certain measures restricting its activity, imposed by the European Competition Authority.
Since 18 October 2017 the financial statements of NOVO BANCO are consolidated by Nani Holdings SGPS, S.A., with registered office at Avenida D. João II, no. 46, 4A, Lisbon.

NOVO BANCO, S.A. has its registered office in Lisbon, at Avenida da Liberdade, no. 195.

NOVO BANCO Group (hereinafter also designated as Group or NB Group) has a retail network comprising 473 branches in Portugal (31 December 2016: 537 branches) and abroad, including branches in London, Spain, Cayman Islands, Venezuela[2] and Luxembourg, an offshore branch in the Madeira Free Trade Zone and 5 representative offices overseas (31 December 2016: 6 representative offices).

Deliberation of 3 August 2014 of the Board of Directors of Banco de Portugal regarding the transfer of assets, liabilities, off-balance sheet elements and assets under management of BES from BES to NOVO BANCO, SA:

As determined by Point Two of the resolution of the Board of Directors of Banco de Portugal of 3 August 2014 (8 p.m.), considering the resolution by the same Board of Directors of 11 August (5 p.m.) (hereinafter “Deliberation of 3 August 2014”), under and for the purposes of that provided in paragraph 1 of article 145-H of the RGICSF, the assets, liabilities, off-balance sheet elements and assets under management of BES were transferred to NOVO BANCO, S.A., in accordance with the criteria defined in Annex 2 to the Deliberation of 3 August 2014.

In the ordinary meeting of the Board of Directors of Banco de Portugal on 29 December 2015, a deliberation was adopted (hereinafter “Deliberation of 29 December 2015”) relating to the agenda point "Transfers, retransmissions and changes and clarifications of Annex 2 of the deliberation of 3 August 2014 (8 p.m.)", which resulted in the following revised and consolidated version of Annex 2 of the Deliberation of 3 August 2014:

[2] In a selling process

Assets, liabilities, off-balance sheet elements and assets under management of Banco Espírito Santo, SA, subject to transfer to NOVO BANCO, SA

1. *Assets, liabilities, off-balance sheet elements and assets under management of Banco Espírito Santo, SA (BES), recorded in the accounting records, which are subject to transfer to NOVO BANCO, SA, in accordance with the following criteria:*

(a) *All the assets, licenses and rights, including property rights of BES are transferred in their entirety to NOVO BANCO, SA, with the exception of the following:*

(i) Shares representative of the share capital of Banco Espírito Santo Angola, S.A.;

(ii) Shares representative of the share capital of Espírito Santo Bank (Miami);

(iii) Shares representative of the share capital of Aman Bank (Libya);

(iv) Treasury stock (also designated as 'own shares') of Banco Espírito Santo, S.A.;

(v) Credit claims over Espírito Santo International and its shareholders, the shareholders of Espírito Santo Control, the entities under a control or group relationship, as provided under article 21 of the Portuguese Securities Code ("Código dos Valores Mobiliários"), with Espírito Santo International and credit claims on entities under a control or group relationship, as provided under article 21 of the Portuguese Securities Code, with Espírito Santo Financial Group [hereinafter referred to as "Espírito Santo Group"], with the exception of (A) credit claims on Espírito Santo Financial Group, secured by financial pledge on all the shares of Companhia de Seguros Tranquilidade, SA, (B) credit claims on entities included in BES's perimeter of consolidated supervision [hereinafter referred to as "BES Group"], and (C) credit claims on insurance companies supervised by the Instituto de Seguros de Portugal (Insurance and Pension Funds Supervisory Authority), namely: Companhia de Seguros Tranquilidade, T-Vida-Companhia de Seguros, Europ Assistance and Seguros Logo;

(vi) Cash and cash equivalents in the amount of Euros 10 million, to enable the Board of Directors of BES to undertake the necessary steps to recover the value of its assets and meet its tax or administrative obligations;

(vii) Effective as from 29 December 2015, shares representative of the entire share capital of BES Finance, Limited.

(b) *BES's responsibilities to third parties, that are liabilities or off-balance sheet items of BES, are fully transferred to NOVO BANCO, SA, except for those indicated below ("Excluded Liabilities"):*

(i) Liabilities to (a) the respective shareholders, whose participation is equal to or higher than 2% of the share capital or to persons or entities which in the two years preceding the transfer held a participation equal to or higher than 2% of the share capital of BES, members of the management and supervisory bodies, statutory auditors or statutory audit firms, or persons with similar status in other companies that are in a control or group

relationship with the institution, (b) persons or entities that have been shareholders, performed the functions or provided the services referred to in the foregoing subparagraph in the four years prior the setting-up of NOVO BANCO, SA, and whose action or omissions was at the origin of the financial difficulties experienced by the credit institution or which contributed to aggravate that situation; (c) the spouses, first degree natural or in-law relatives or third parties acting on behalf of the persons or entities referred to in the foregoing subparagraphs, (d) those responsible for facts related to the credit institution, or that have profited from these facts, directly or through a third party, and which were at the origin of the financial difficulties or contributed to aggravate that situation, due to action or failure to act in the performance of their functions, according to Banco de Portugal's understanding;

(ii) Obligations contracted with entities included within the Espírito Santo Group that constitute subordinated claims under the terms of articles 48 and 49 of the Insolvency and Corporate Recovery Code ("Código da Insolvência e da Recuperação de Empresas"), except for the entities of BES Group whose responsibilities to BES were transferred to NOVO BANCO, without prejudice, with regard to this last entity, to the exclusion foreseen in subparagraph (v);

(iii) Any obligations towards, or guarantees provided to third parties regarding any type of liabilities held by entities integrating the Espírito Santo Group, with the exception of the entities integrated in BES Group whose holdings were transferred to NOVO BANCO, SA;

(iv) All the liabilities resulting from the issuance of instruments that are or were at any time, eligible for the calculation of BES's own funds and which conditions were approved by Banco de Portugal;

(v) Any liabilities or contingencies, namely those resulting from fraud or the breach of regulatory, criminal or administrative provisions or regulations, with the exception of the active tax contingencies;

(vi) Any liabilities or contingencies of BES relating to shares, instruments or contracts from which results subordinated credits over Banco Espírito Santo, S.A.;

(vii) Any obligations, guarantees, liabilities or contingencies assumed in the trading, financial intermediation and distribution process of debt instruments issued by any entities, without prejudice to any unsubordinated loans, with debtor position is not excluded by any of the foregoing subparagraphs, namely subparagraphs (iii) and (v), and (a) were payable at the date of the resolution measure by virtue of their term having expired or, in the case of conditional credits, by virtue of the condition (and provided their respective maturity depended solely on said condition) having already been met, and cumulatively (b) resulted from contractual dispositions (bilateral legal transactions), existing prior to 30 June 2014, that had met the rules for the expression of the will and the contractual link of BES and which existence can be proven with documents existing in BES's archives, in terms that permit the control and inspection of the decisions made.

(viii) Effective as from 29 December 2015, all the rights and responsibilities of NOVO BANCO, arising from the non-subordinated debt instruments listed in Annex 2B (excluding those held by NOVO BANCO), together with all the liabilities, contingencies and off-balance sheet elements, to the extent they are related to said debt instruments (including (i) the issuing, trading and sale of same and (ii) arising from any contractual documents or other instruments celebrated or issued by the bank, and connected with those instruments, including program or subscription documents, or any other acts practiced by the bank in respect of said instruments, on a date before, simultaneous with or after the respective date of issue of the bonds);

(ix) The Liability Oak Finance.

***(c)** BES liabilities that are not transferred will be maintained within the legal framework of BES;*

***(d)** All the remaining off-balance sheet items of BES are transferred in full to NOVO BANCO, SA, except those related to Banco Espírito Santo Angola, S.A., Espírito Santo Bank (Miami) and Aman Bank (Libya) and those relating to the entities whose liabilities with BES were not transferred under subparagraph (v) of paragraph (a) of no. 1 and, with effect from 29 December 2015, to BES Finance, Limited;*

***(e)** The assets under management of BES will be assets under management of NOVO BANCO, SA;*

***(f)** All the employees and service providers of BES are transferred to NOVO BANCO, SA;*

***(g)** Any guarantee related to any obligation transferred to NOVO BANCO, SA is also transferred to NOVO BANCO, SA. Any guarantee related to any obligation not transferred to NOVO BANCO, SA will, likewise, not be transferred to NOVO BANCO, SA.*

***2.** After the transfer referred to in the foregoing sub-paragraphs, the Banco de Portugal may at any time transfer or re-transmit assets, liabilities, off-balance-sheet items and assets under management between BES and NOVO BANCO, SA, in accordance with no. 5 of article 145-H (5) of the Legal Framework.*

***3.** BES will sign an agreement with NOVO BANCO, SA, confirming the transfer of the assets and liabilities governed by foreign law and/or located abroad, under the terms defined by the Banco de Portugal. This will include BES obligation to ensure that it will comply with all the formalities and procedures necessary for that purpose.*

***4.** Considering that all the rating procedures within the scope of the permission under the IRB approach granted to BES on a consolidated basis, as from 31 March 2009, are fully transferred to NOVO BANCO, SA, the Banco de Portugal, satisfied that the requirements provided for in Part II, Title II, Chapter 3 of Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013 (CRR) are met, and that the systems for the management and rating of credit risk exposures are sound and implemented with integrity, decides, under article 143 (1) of the same Regulation to consent NOVO BANCO, S.A. to calculate its risk-weighted exposure amounts using the IRB methodology , with immediate effect and under the terms of the permission granted to BES.*

5. *The assets, liabilities and off-balance-sheet items are transferred at their book value, and the assets are adjusted in compliance with the values listed in Annex 2A, in order to ensure a conservative valuation, to be confirmed in the audit referred to in Point 3.*

6. *Based on this valuation, the capital requirements for NOVO BANCO, SA, are calculated to be Euros 4 900 million.*

7. *The operational and precautionary measures implementing the present deliberation remain in force for the persons that were members of the Board of Directors and Supervisory Board of BES during the mandates that started in or following 2012 and up to the conclusion of the inquiries, which prevent the transfer to NOVO BANCO S.A. of any liabilities to such persons.*

8. *Demonstration of evidence that the persons referred to in sub-paragraph (b) (i) (c) of this Annex do not act on behalf of the persons or the entities referred to in the foregoing points and that, therefore, the right to the funds deposited belongs to the formal holder of the accounts shall comply with the following rules: a) demonstration of evidence is NOVO BANCO, S.A.'s responsibility; b) demonstration of evidence shall take into account, amongst other relevant circumstances the professional activities of the persons in question, their degree of dependence on the persons referred to in the foregoing points, their income level and the deposited amount; c) demonstration of evidence shall be supported by documents and archived so that the decisions taken can be controlled and verified. Until such decisions are taken, the operational measures implementing the present deliberation remain in force.*

9. *The transfer ordered (and, as applicable, confirmed by the conclusion of the contract confirming the transfer determined by Banco de Portugal) is not intended to confer on any counterparties and third parties any new rights nor to enable the exercise of any rights that in the absence of such transfer would not exist or could not be exercised on or in relation to the assets, liabilities, off-balance sheet items and assets under the management of BES, S.A., thus transferred, including any rights of termination, resolution or rights to order early redemptions, close-out netting or netting / set-off, nor to result in (i) any default, (ii) change in conditions, rights or obligations, or (iii) subjecting to approval, or (iv) right to enforce guarantees, (v) right to make retentions or netting / set-off between any payments or claims under such assets, liabilities, off-balance sheet items and assets under management transferred.*

10. *Any credits already constituted or to be constituted related to tax facts occurring prior to 3 August 2014, whether or not recorded in the accounts of BES are transferred to NOVO BANCO.*

11. *The provision in subparagraphs (v) to (vii) of paragraph (b) of no. 1 of the present Annex shall be interpreted in light of the clarifications contained in Annex 2C.*

According to the announcement of Banco de Portugal of 29 December 2015, “this set of decisions comprises the final and definitive change of the perimeter of assets, liabilities, off-balance sheet elements and assets under management transferred to NOVO BANCO, which transfer is now definitively fixed”.

Group companies in which the Bank has a direct or indirect holding higher or equal to 20%, over which the Bank exercises control or significant influence, and that were included in the consolidation perimeter, are presented as follows:

Subsidiaries directly consolidated in NOVO BANCO:

	Year incorporated	Year acquired	Registered office	Activity	Share-holding %	Consolidation method
NOVO BANCO, SA	2014	-	Portugal	Commercial banking		
Novo Banco Servicios Corporativos, SL	1996	1997	Spain	Insurance distrib. & real estate management	100.00%	Full consolidation
Novo Vanguarda, SL	2011	2011	Spain	Services	100.00%	Full consolidation
Novo Banco dos Açores, SA (NBA)	2002	2002	Portugal	Commercial banking	57.53%	Full consolidation
BEST - Banco Electrónico de Serviço Total, SA (BEST)	2001	2001	Portugal	Electronic Banking	100.00%	Full consolidation
NB África, SGPS, SA	2009	2009	Portugal	Holding	100.00%	Full consolidation
BES Beteiligungs, GmbH (BES GMBH)	2006	2006	Germany	Holding	100.00%	Full consolidation
Espírito Santo, plc. (ESPLC)	1999	1999	Ireland	Non-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	82.58%	Full consolidation
GNB - Serviços de Suporte Operacional, ACE (GNB ACE)	2006	2006	Portugal	Services	88.36%	Full consolidation
Espírito Santo Representações, Ltda. (ESREP)	1996	1996	Brazil	Representation services	99.99%	Full consolidation
Fundo de Capital de Risco - 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	95.28%	Full consolidation
ImoInvestimento – Fundo Especial de Investimento Imobiliário Fechado	2012	2012	Portugal	Real estate fund management	100.00%	Full consolidation
Prediloc Capital – Fundo Especial de Investimento Imobiliário Fechado	2006	2012	Portugal	Real estate fund management	100.00%	Full consolidation
Imogestão – Fundo de Investimento Imobiliário Fechado	2006	2013	Portugal	Real estate fund management	100.00%	Full consolidation
Arrábida - Fundo Especial de Investimento Imobiliário Fechado	2006	2013	Portugal	Real estate fund management	100.00%	Full consolidation
Invesfundo VII – Fundo de Investimento Imobiliário Fechado	2008	2013	Portugal	Real estate fund management	95.86%	Full consolidation
NB Logística - Fundo Especial de Investimento Imobiliário Aberto	2007	2012	Portugal	Real estate fund management	85.84%	Full consolidation
NB Património - Fundo de Investimento Imobiliário Aberto	1992	2014	Portugal	Real estate fund management	54.88%	Full consolidation
Fundes - Fundo Especial Investimento Imobiliário Fechado	2008	2015	Portugal	Real estate fund management	100.00%	Full consolidation
NB Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	2009	2012	Portugal	Real estate fund management	100.00%	Full consolidation
Orey Reabilitação Urbana - Fundo de Investimento Imobiliário Fechado	2006	2012	Portugal	Real estate fund management	100.00%	Full consolidation
Fimes Oriente - Fundo de Investimento Imobiliário Fechado	2004	2012	Portugal	Real estate fund management	100.00%	Full consolidation
Fundo de Investimento Imobiliário Fechado Amoreiras	2006	2015	Portugal	Real estate fund management	94.16%	Full consolidation
Fundo de Investimento Imobiliário Fechado Solid	2004	2015	Portugal	Real estate fund management	100.00%	Full consolidation
FLITPTREL VIII, SA	2011	2011	Portugal	Tourism real estate exploration	10.00% a)	Full consolidation
ASAS Invest - Fundo Especial de Investimento Imobiliário Fechado	2010	2013	Portugal	Real estate fund management	100.00%	Full consolidation
Febagri-Actividades Agropecuárias e Imobiliárias SA	2006	2012	Portugal	Real estate development	100.00%	Full consolidation
Autodril - Sociedade Imobiliária, SA	1998	2012	Portugal	Real estate development	100.00%	Full consolidation
JCN - IP - Investimentos Imobiliários e Participações, SA	1995	2012	Portugal	Real estate development	95.28%	Full consolidation
Portucale - Sociedade De Desenvolvimento Agro - Turistico, SA	1990	2012	Portugal	Agricultural holdings	94.80%	Full consolidation
Greenwoods Ecoresorts empreendimentos imobiliários, SA	2012	2012	Portugal	Real estate development	100.00%	Full consolidation
Sociedade Imobiliária Quinta D. Manuel I, SA	2012	2012	Portugal	Real estate development	100.00%	Full consolidation
Quinta da Areia - Sociedade Imobiliária, SA	2012	2012	Portugal	Real estate development	100.00%	Full consolidation
Sociedade Agrícola Turística e Imobiliária da Várzea da Lagoa, SA	2012	2012	Portugal	Real estate development	100.00%	Full consolidation
Imalgarve - Sociedade de Investimentos Imobiliários, SA	1986	2014	Portugal	Real estate development	100.00%	Full consolidation
Promotur - Empreendimentos Turístico, SA	1983	2014	Portugal	Real estate development	99.875%	Full consolidation
Herdade da Boina - Sociedade Imobiliária	1999	2012	Portugal	Real estate development	100.00%	Full consolidation
Ribagolfe - Empreendimentos de Golfe, SA	1995	2012	Portugal	Golf course operations	100.00%	Full consolidation
Benagil - Promoção Imobiliária, SA	1970	2012	Portugal	Real estate development	100.00%	Full consolidation
Imoascay - Promoção Imobiliária, SA	2011	2012	Portugal	Real estate development	100.00%	Full consolidation
Palexpo Imobiliária, SA	2002	2014	Portugal	Real estate development	100.00%	Full consolidation
Herdade do Pinheirinho Resort, SA	2007	2017	Portugal	Real estate development	100.00%	Full consolidation
Herdade do Pinheirinho II - Investimento Imobiliário, SA	2008	2017	Portugal	Real estate development	100.00%	Full consolidation
Fundo de Investimento Imobiliário Fechado Quinta da Ribeira	2006	2017	Portugal	Real estate fund management	100.00%	Full consolidation
R Invest - Fundo Especial de Investimento Imobiliário Fechado	2009	2017	Portugal	Real estate fund management	100.00%	Full consolidation
Fundo de Investimento Alternativo Especial Capital Criativo Promoção e Turismo	2017	2017	Portugal	Special Investment Fund	96.06%	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% c)	Equity method
Ascendi Pinhal Interior - Estradas do Pinhal Interior, SA	2010	2010	Portugal	Motorway concessionaire	18.57% b)	Equity method
UNICRE - Instituição Financeira de Crédito, SA	1974	2010	Portugal	Non-bank financing	17.50% b)	Equity method
Ijar Leasing Algérie	2011	2011	Algeria	Leasing	35.00%	Equity method
Edenred Portugal, SA	1984	2013	Portugal	Services	50.00% c)	Equity method
Multipessoal Recursos Humanos - SGPS, S.A	1993	1993	Portugal	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
c) Entities consolidated under the equity method as the breakdown of the voting rights grant control to the other shareholders

Subgroups:

	Year incorporated	Year acquired	Registered office	Activity	Share-holding %	Consolidation method
BES Beteiligungs, GmbH (BES GMBH)	**2006**	**2006**	**Germany**	**Holding**	**100,00%**	**Full consolidation**
Bank Espírito Santo International, Ltd. (BESIL)	1983	2002	Cayman Islands	Commercial banking	100,00%	Full consolidation
GNB - Gestão de Ativos, SGPS, SA (GNB GA)	**1992**	**1992**	**Portugal**	**Holding**	**100,00%**	**Full consolidation**
GNB - Sociedade Gestora de Fundos de Investimento Mobiliário, SA	1987	1987	Portugal	Investment fund management	100,00%	Full consolidation
GNB - International Management, SA	1995	1995	Luxembourg	Investment fund management	100,00%	Full consolidation
GNB - Sociedade Gestora de Fundos de Investimento Imobiliário, SA	1992	1992	Portugal	Investment fund management	100,00%	Full consolidation
GNB - Sociedade Gestora de Fundos de Pensões, SA	1989	1989	Portugal	Investment fund management	100,00%	Full consolidation
Espírito Santo International Asset Management, Ltd.	1998	1998	British Virgin Islands	Investment fund management	50,00% c)	Equity method
GNB - Sociedade Gestora de Patrimónios, SA	1987	1987	Portugal	Wealth management	100,00%	Full consolidation
Novo Activos Financieros, SA	1988	2000	Spain	Asset management	100,00%	Full consolidation
Novo Banco Gestión, SGIIC, S.A	2001	2001	Spain	Asset management	100,00%	Full consolidation
Novo Banco Pensiones, SGFP, SA	2001	2001	Spain	Pension fund management	100,00%	Full consolidation
ES Tech Ventures, S.G.P.S., SA (ESTV)	**2000**	**2000**	**Portugal**	**Holding**	**100,00%**	**Full consolidation**
Yunit Serviços, SA	2000	2000	Portugal	Internet portal management	33,33%	Equity method
Fundo Bem Comum, FCR	2011	2011	Portugal	Venture capital fund	20,00%	Equity method
Fundo de Capital de Risco - BES PME Capital Growth	**2009**	**2009**	**Portugal**	**Venture capital fund**	**100,00%**	**Full consolidation**
Righthour, SA	2013	2013	Portugal	Services	100,00%	Full consolidation
Imbassaí Participações, SA	2009	2013	Brazil	Holding	100,00%	Full consolidation
Lírios Investimentos Imobiliários, Ltda	2007	2013	Brazil	Real estate 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 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% b)	Equity method
Logic C - Logística Integrada, SA	2005	2016	Portugal	Logistics	20,74%	Equity method
Epedal, SGPS, SA	2007	2015	Portugal	Management of shareholdings	12,22% b)	Equity method
Attentionfocus, Lda	2014	2015	Portugal	Exploitation of energy areas	18,92% b)	Equity method
Nexxpro - Fábrica de Capacetes, S.A.	2001	2015	Portugal	Helmet manufacturing	33,83%	Equity method
Cristalmax – Indústria de Vidros, S.A.	1994	2017	Portugal	Glass manufacturing	18,96% b)	Equity method
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
Lineas – Concessões de Transportes, SGPS, SA	2010	2010	Portugal	Holding	28,66%	Equity method
Portucale - Sociedade De Desenvolvimento Agro - Turistico, SA	**1990**	**2012**	**Portugal**	**Agricultural holdings**	**94,80%**	**Full consolidation**
Herdade da Vargem Fresca VI - Comércio e Restauração SA	1997	2012	Portugal	Catering	94,80%	Full consolidation
Herdade da Vargem Fresca V - Clube de Campo SA	1990	2012	Portugal	Equestrianism	94,80%	Full consolidation
Herdade da Vargem Fresca VII - Sociedade de Hotelaria SA	2000	2012	Portugal	Hotel business	94,80%	Full consolidation
Herdade da Vargem Fresca III - Comércio e Serviços SA	2000	2012	Portugal	Miscellaneous services	94,80%	Full consolidation
Fundo de Investimento Alternativo Especial Capital Criativo Promoção e Tu	**2017**	**2017**	**Portugal**	**Special Investment Fund**	**96,06%**	**Full consolidation**
Moscatinvest Portugal, SA	2006	2006	Portugal	Real estate investment management	96,06%	Full consolidation

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.
c) Entities consolidated by the equity method due to the respective breakdown of the voting rights giving control to the other shareholders

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

	Year incorporated	Year acquired	Registered office	Shareholding %	Consolidation method
Lusitano 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
Lusitano SME No. 3 (*)	2016	2016	Portugal	100%	Full consolidation

(*) - Structured entities set up in the scope of securitization operations, recorded in the consolidated financial statements in accordance with the continued involvement of the Group in these operations, determined based on the percentage of the equity pieces held of the respective vehicles (see Note 48)

The consolidation of these entities has the following impact on the Group's accounts:

(in thousands of Euros)

	31.12.2017	31.12.2016
Cash and deposits with banks	158 185	218 065
Loans and advances to customers (net of impairment losses)	2 306 974	2 797 949
Debt securities issued (a)	352 455	684 268

[(a)] see Note 37

During the financial year ended on 31 December 2017, the main changes in NOVO BANCO Group's structure were as follows:

- Subsidiaries

- In April 2017, the Real Estate companies Herdade do Pinheirinho and Herdade do Pinheirinho II became part of the consolidation perimeter of the NOVO BANCO Group as a result of the settlement of the total shares of these two companies;
- In April 2017, Fundo ASAS Invest realised a capital increase of Euros 500 thousand, totally subscribed and fulfilled by NOVO BANCO;
- In June 2017, Fundo Bes PME Growth realised a capital increase of Euros 100 thousand, totally subscribed and fulfilled by NOVO BANCO;
- In August 2017, Fimes Oriente realised a capital increase in the amount of Euros 2 499 thousand, totally subscribed and fulfilled by NOVO BANCO;
- In September 2017, NOVO BANCO sold 100% of its shareholding in Praça do Marques, for Euros 25 727 thousand, having recorded a capital gain of Euros 3 167 thousand;
- In December 2017, Fundo Promoção e Turismo was incorporated within a loan restructuring process, having NOVO BANCO realised participation units in the amount of Euros 133 927 thousand, corresponding to 96,06% of the total share capital of the Fund subscribed on that date.

- Associated companies

- In February 2017, the Ascendi Group changed its corporate name to Lineas – Concessões de Transportes, SGPS, SA;
- In May 2017 it was finalised the sale of 41,06% of shares and of supplementary capital of Nanium for the fixed amount of Euros 18 585 thousand and a variable amount depending on certain conditions, which may result in additional earnings in future periods;
- In June 2017, a share capital increase was realised in Moza Banco, but not subscribed by NB África that came to hold 10.13% of the share capital of Moza Banco, ceasing to have a significant influence on its management. For this, Moza Banco ceased to be consolidated by the equity method in the NOVO BANCO Group from that date on. This change in consolidation method had no impact whatsoever on the Group's accounts;

- In July 2017, Fundo FCR PME NB acquired 33.4% of the share capital of Cristalmax for Euros 1 400 thousand.

The main changes in the NOVO BANCO Group structure during financial year 2016, were as follows:

- Subsidiaries

- In April 2016, Fundo Solid realised a capital increase of Euros 855 thousand, totally subscribed and paid-up by NOVO BANCO;
- In May 2016, Fundo Amoreiras realised a capital increase of Euros 7 000 thousand, totally subscribed and paid-up by NOVO BANCO, with the Group's shareholding percentage having increased from 93.49% to 93.72%;
- In May 2016, NOVO BANCO acquired from Tranquilidade 235 100 shares of GNB GA, representative of 10% of the capital of this subsidiary for Euros 26 330 thousand, with the Group coming to hold the entire capital;
- In June 2016, NOVO BANCO sold to GNB GA the 50% shareholding it held in the capital of NOVO AF, with this subsidiary coming to be directly consolidated in the subgroup GNB GA;
- In July 2016, GNB Participações Internacionais, SGPS, SA (subsidiary of GNB GA) was liquidated;
- In July 2016, Fundo BES Growth increased its capital in the amount of Euros 140 thousand, fully subscribed and realised by NOVO BANCO;
- In July 2016, Fundo Orey Reabilitação Urbana reduced its capital following the redemption of the participation units held by all the participants, except NOVO BANCO. As such, NB Group now holds 100% of the Fund's capital;
- In November 2016, GNB Concessões sold ES Concessions Spain and its investee Auvisa;
- In November 2016, the holdings in Fundo Capital de Risco ESV II and Fundo Capital de Risco ESV III and the investees ES Tech Ventures; ES Ventures SCR and ESV Inovação e Internacionalização were sold;
- In December 2016, BIBL was merged through incorporation in NOVO BANCO.

- Associated companies

- In May 2016, Fundo FCR Ventures II sold 2.92% of the shareholding held in Outsystems, SA, having recorded a gain of Euros 3 648 thousand;
- In October 2016, ESTV sold its entire 41.67% shareholding in ES Contact Center, including shareholder loans, for Euros 632 thousand, having recorded, at the individual company level, a capital loss of Euros 319 thousand;
- In November 2016, Otherlog was merged in Logic, with Fundo FCR PME NB coming to hold 36.53% of the latter entity;

- In December 2016, Palexpo- Espaços à sua Imagem, held by Fundo FCR PME NB, was liquidated;
- In December 2016, the entire 22.21% shareholding held by GNB Concessões in Empark – Aparcamientos y Servicios, SA was sold, and a gain of Euros 19 845 thousand (Euros 14 221 thousand, net of non-controlling interests) was recorded.

During 2017 and 2016, the movements relating to acquisitions, disposals and other investments and reimbursements in subsidiaries and associated companies are detailed as follows:

(in thousands of Euros)

	31.12.2017						
	Acquisitions			Disposals			
	Acquisition cost	Other investments (a)	Total	Disposal amount	Other reimburse-ments (a)	Total	Profit / (loss) on disposals / liquidations
Subsidiaries							
Praça do Marquês	-	-	-	25 757	-	25 757	3 167
FIAE Capital Criativo Promoção e Turismo	-	133 927	133 927	-	-	-	-
Portucale	-	340	340	-	-	-	-
Várzea da Lagoa	-	40	40	-	-	-	-
Quinta D. Manuel I	-	30	30	-	-	-	-
Imalgarve	-	70	70	-	-	-	-
JCN	-	246	246	-	-	-	-
Greenwoods	-	250	250	-	-	-	-
Autodril		120	120	-	-	-	-
Fimes Oriente		2 499	2 499	-	-	-	-
BES PME Capital Growth	-	100	100	-	-	-	-
ASAS Invest	-	500	500	-	-	-	-
	-	138 122	138 122	25 757	-	25 757	3 167
Associated companies							
Nanium	-	-	-	18 585	-	18 585	764
Cristalmax	1 400	-	1 400	-	-	-	-
	1 400	-	1 400	18 585	-	18 585	764
	1 400	**138 122**	**139 522**	**44 342**	**-**	**44 342**	**3 931**

(a) Share capital increases / decreases, supplementary capital contributions, shareholder loans, financial instrument exchange operations and incorporation of companies

(in thousands of Euros)

	31.12.2016						
	Acquisitions			Disposals			
	Acquisition cost	Other investments (a)	Total	Disposal amount	Other reimburse-ments (a)	Total	Profit / (loss) on disposals / liquidations
Subsidiaries							
Solid	-	855	855	-	-	-	-
Amoreiras	-	7 000	7 000	-	-	-	-
GNB GA (b)	26 330	-	26 330	-	-	-	-
GNB - Participações Internacionais (c)	-	-	-	-	-	-	832
BES Growth	-	140	140	-	-	-	-
	26 330	7 995	34 325	-	-	-	832
Associated companies							
Ascendi Group	-	-	-	-	41 374	41 374	-
Outsystems	-	-	-	4 328	-	4 328	3 648
ES Contact Center	-	-	-	424	-	424	-
Auvisa	-	-	-	51 564	-	51 564	-
Empark	-	-	-	69 000	-	69 000	19 845
	-	-	-	125 316	41 374	166 690	23 493
	26 330	**7 995**	**34 325**	**125 316**	**41 374**	**166 690**	**24 325**

(a) Share capital increases / decreases, supplementary capital contributions, shareholder loans, financial instrument exchange operations and incorporation of companies
(b) The acquisition implied a decrease in non-controlling interests in the amount of Euros 16 805 (see Note 44)
(c) Company liquidated in July 2016

The impact of the acquisition amounts relating to increases in shareholding percentages in subsidiaries that were already controlled by the Group, in terms of Non-controlling interests, are included in Note 44, in the respective table of the movements, under "Changes in the consolidation perimeter and control percentages".

The subsidiaries classified, under IFRS 5, as non-current assets held for sale and discontinued operations, are detailed in Note 53.

NOTE 2 – MAIN ACCOUNTING POLICIES

2.1. Bases of presentation

In accordance with Regulation (EC) no. 1606/2002, of 19 July 2002, of the European Council and Parliament and Notice no. 1/2005 of Banco de Portugal, the consolidated financial statements of NOVO BANCO, S.A. (Bank or NOVO BANCO) are prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), effective as at 31 December 2017.

The IFRS comprise accounting standards issued by the International Accounting Standards Board (IASB) as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), and by their predecessor bodies.

These consolidated financial statements of NOVO BANCO are presented as at 31 December 2017. The accounting policies used by the Group in their preparation are consistent with those used in the preparation of the financial statements as at 31 December 2016.

As it is a reportable operating segment (Life Insurance), the income statement for the financial year ended 31 December 2016 was restated to reflect the classification of GNB Vida as a discontinued operation. This restatement is intended to ensure the comparability and consistency of the information presented in the 2017 and 2016 financial years. Throughout the notes to the accounts an indication is given whenever the amounts are restated.

As described in Note 54, in the preparation of its consolidated financial statements as at 31 December 2017, the Group adopted the accounting standards issued by the IASB and the IFRIC interpretations with mandatory effect as from 1 January 2017. The accounting policies used by the Group in preparing the consolidated financial statements, described in this note, were adopted accordingly.

The accounting standards and interpretations recently issued, but not yet effective and which the Group has not yet applied in the preparation of its financial statements, can also be analysed in Note 54.

The consolidated financial statements are expressed in thousands of Euros, rounded to the nearest thousand. They have been prepared under the historical cost convention, except for the assets and liabilities accounted for at fair value, namely derivative financial instruments, financial assets and liabilities at fair value through profit or loss, available-for-sale financial assets, investment properties and hedged assets and liabilities, in respect of their hedged component.

The preparation of financial statements in accordance with IFRS requires the Group to make judgements and estimates and use assumptions that affect the application of the accounting policies and the reported amounts of income, expenses, assets and liabilities. Changes in such assumptions or differences when compared to the reality may impact the current estimates and judgements. The areas involving a higher level of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are analysed in Note 3.

The consolidated financial statements and the Management Report as at 31 December 2017 were approved at the Executive Board of Directors' meeting held on 18 April 2018, and shall be submitted for approval at the Annual General Meeting that has the power to change them. However, it is the Executive Board of Directors´ conviction that these will be approved without significant changes.

2.2. Consolidation principles

These consolidated financial statements comprise the assets, liabilities, income, expenses, other comprehensive income and cash flows of NOVO BANCO and of its subsidiaries (Group or NOVO BANCO Group) and the results attributable to the Group relating to shareholdings in associated companies.

These accounting policies have been consistently applied by all the Group companies during the financial years covered by these consolidated financial statements.

Subsidiaries

Subsidiaries are entities (including investment funds and securitization vehicles) over which the Group exercises control. The Group controls an entity when it is exposed, or has rights, to the variability of the return deriving from its involvement with that entity, and may take possession of same by way of the power it has over the entity (*de facto* control) and has the ability to affect these variable returns through the power it wields over the relevant activities of the entity. As established in IFRS 10, the Group analyses the objective and the structuring of how an entity's operations are developed when assessing its control over such entity. Subsidiaries are fully consolidated from the date on which control over their activities is transferred to the Group and until the date that control ceases. The participation of third parties in these companies is presented in the caption Non-controlling interests, except for open investment funds in which this value is presented in the caption Other liabilities due to the high probability of their redemption.

The accumulated losses of a subsidiary are attributed proportionally to non-controlling interests even if this results in the recognition of non-controlling interests of a negative value.

When control is obtained in a business combination achieved in stages (step acquisition) the Group remeasures its previously held non-controlling interest in the entity at its fair value and recognizes the resulting gain or loss in the income statement upon determining the respective goodwill. At the moment of a partial sale, resulting in the loss of control of a subsidiary, any remaining non-controlling interest retained is remeasured to its fair value at the date the control is lost and the resulting gain or loss is recognised in the income statement.

The entity identified as acquirer or incorporator, integrates the results of the entity / business acquired as from the date of its acquisition, that is, from the date of the takeover of control.

The accounting treatment of mergers by incorporation, between entities under common control, follows the same principles - the integration of the assets and liabilities of the entity to be incorporated is carried out at the amounts presented in the consolidated financial statements of the entity that has control over the two entities, at the highest level of the Group's financial holdings chain (the "predecessor"). The difference between the carrying book value of the incorporated assets and liabilities and the amount of the financial investment is recognised as a merger reserve.

Associated companies

Associated companies are those entities over which the Group has significant influence over the company's financial and operating policies, but not its control. Generally, when the Group owns more than 20% of the voting rights but less than 50%, it is presumed to have a significant influence. Even if the Group owns less than 20% of the voting rights, it can still have a significant influence through its participation in the management of the associated company or its representation in its executive Management bodies.

Investments in associated companies are recorded in the consolidated financial statements of the Bank using the equity method of accounting from the date on which significant influence is attained by the Group and until the date that significant influence ceases. The carrying value of the investments in associated companies includes the value of the respective goodwill determined at the acquisition date and is presented net of impairment losses. NOVO BANCO carries out impairment tests on its investments in associated companies, whenever there are any indications of impairment. Impairment losses recognised in prior years may be reversed, up to the limit of the accumulated losses.

In a step acquisition operation that results in the Group obtaining significant influence over an entity, any previously held stake in that entity is remeasured to its fair value through the income statement when the equity method is first applied.

When the Group's share of losses of an associated company equals or exceeds its interest in the associated company, including any medium- and long-term interest, the Group discontinues the application of the equity method, except when it has a legal or constructive obligation to cover those losses or has made payments on behalf of the associated company.

Gains or losses on disposals of shares in associated companies are recognised in the income statement even if those disposals do not result in the loss of significant influence. Dividends attributed by associated companies reduce the balance sheet value recognised by the Group.

Structured Entities (SE)

The Group consolidates, using the full consolidation method, certain special purpose entities, created specifically to accomplish a narrow and well-defined objective, when the substance of the relationship with those entities indicates that they are controlled by the Group, irrespective of the percentage of the equity held.

The evaluation of the existence of control is made based on the criteria established by IFRS 10 – Consolidated Financial Statements, according to which a SE is controlled if (i) the Group is exposed, or has rights to its results; and (ii) the Group has the power to affect the SE's results through the control it exercises over them.

Investment funds managed by the Group

As part of its asset management activity, the Group manages investment funds on behalf of the holders of the participation units. The financial statements of these funds are not consolidated by the Group except in the cases where control is exercised over their activity, according to the criteria established by IFRS 10.

Goodwill

Goodwill represents the difference between the acquisition cost and the fair value of the Group's share of identifiable net assets, liabilities and contingent liabilities acquired.
Business combinations occurring after 31 December 2009 were accounted for using the purchase method. The acquisition cost includes the fair values: i) of the assets transferred, ii) of the liabilities

assumed by the acquirer before the previous shareholders of the acquired, and iii) of the equity instruments issued.

In accordance with IFRS 3 – Business Combinations, the Group measures goodwill as the difference between the fair value of the consideration transferred including the fair value of any non-controlling interest previously held, and the fair value attributable to the assets acquired and the liabilities assumed and any equity instruments issued. The fair values are determined at the acquisition date. The costs directly attributable to the acquisition are recognised at the moment of the acquisition in costs for the period.

As at the acquisition date, the non-controlling interests are measured at their proportional interest in the fair value of the net identifiable assets acquired and liabilities assumed, without their respective portion of goodwill. As a result, the goodwill recognised in these consolidated financial statements corresponds solely to the portion attributable to the shareholders of the Bank.

In accordance with IFRS 3 – Business Combinations, positive goodwill is recognised as an asset at its cost and is not amortised. Goodwill relating to the acquisition of associated companies is included in the carrying book value of the investments in those associated companies, determined using the equity method. Negative goodwill is recognised directly in the income statement in the period the business combination occurs. Impairment losses of goodwill may not be reversed in the future.

The recoverable amount of the goodwill recognised as an asset is reviewed annually, regardless of whether there is, or not, any indication of impairment. Impairment losses are recognised directly in the income statement. The recoverable amount corresponds to the higher of market value less costs to sell and the respective value in use. In determining value in use, estimated future cash flows are discounted using a rate that reflects market conditions, the time value of money and business risks.

Transactions with non-controlling interests

Acquisitions of non-controlling interests that do not result in a change in control over a subsidiary are accounted for as transactions with shareholders and, therefore, no additional goodwill is recognised as a result of such transactions. Any difference between the acquisition cost and the carrying book value of the non-controlling interest acquired is recognised directly in reserves. Similarly, gains or losses arising from sale of non-controlling interests that do not result in a loss of control over a subsidiary, are always recorded against reserves.

Gains or losses arising on the dilution or on the sale of portion of an interest in a subsidiary, resulting in a loss of control, are recognised, by the Group, in the income statement.

Foreign currency translation

The financial statements of each of the Group's subsidiaries and associated companies are prepared using their functional currency, which is defined as the currency of the primary economic environment in which that entity operates. The Group's consolidated financial statements are prepared in Euros, which is NOVO BANCO's functional currency.

The financial statements of each of the Group entities that have a functional currency different from the Euro are translated into Euros in accordance with the following criteria:

- Assets and liabilities are translated using the exchange rate prevailing at the reporting date;
- Income and expenses are translated at exchange rates approximating the real rates ruling at the dates of the transactions;
- The exchange differences arising between the translation amount of the equity at the beginning of the period and the amount determined at the balance sheet date of the consolidated accounts, using the exchange rates applicable at that date, are recorded against reserves (other comprehensive income). Similarly, regarding the subsidiaries and associated companies' results, the exchange differences arising from the translation of income and expenses at the rates ruling at the dates of the transactions and that determined at the balance sheet date are recorded in reserves. When the entity is sold, such exchange differences are recognised in results as an integral part of the gain or loss on the disposal.

Balances and transactions eliminated on consolidation

Intercompany balances and transactions, including any unrealised gains and losses on transactions between Group companies, are eliminated in preparing the consolidated financial statements, unless the unrealised losses provide evidence of an impairment loss that should be recognised in the consolidated financial statements.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transactions reveal evidence of impairment.

The accounting policies of subsidiaries and associated companies are changed, whenever necessary, so as to guarantee that same are applied consistently throughout the Group.

2.3. Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into Euros at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on this translation are recognised in the income statement.

Non-monetary assets and liabilities recorded at historical cost, denominated in foreign currency, are translated using the exchange rate prevailing at the transaction date. Non-monetary assets and liabilities, denominated in foreign currency, that are stated at fair value are translated into Euros at the foreign exchange rates ruling at the dates the fair value was determined. The resulting exchange differences are accounted for in the income statement, except if related to equity instruments classified as available-for-sale, which are recorded in reserves.

Foreign exchange differences relating to cash flow hedges and the hedging of the net investment in foreign operational units, when they exist, are recognised in other comprehensive income.

2.4. Derivative financial instruments and hedge accounting

Classification

The Group classifies as derivatives held for risk management purposes the (i) hedging derivatives and (ii) derivatives used to manage the risk of certain financial assets and liabilities designated at fair value through profit or loss that were not classified as hedging derivatives.

All other derivatives are classified as trading derivatives.

Recognition and measurement

Derivative financial instruments are initially recognised at their fair value on the date the derivative contract is entered into (trade date). Subsequent to initial recognition, the fair value of derivative financial instruments is remeasured on a regular basis and the resulting gains or losses on remeasurement are recognised directly in the income statement, except for derivatives designated as hedging instruments. The recognition of the resulting gains or losses arising on the derivatives designated as hedging instruments depends on the nature of the risk being hedged and the hedge model used.

Derivatives traded on organised markets, namely futures and some options contracts, are recorded as trading derivatives and their fair value changes are recorded against the income statement. Since fair value changes in these derivatives are settled daily through margin accounts held by the Group, these derivatives present a nil fair value on the balance sheet. The margin accounts are included under Other assets (see Note 33) and comprise the minimum collateral mandatory for open positions.

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

Hedge accounting

- Classification criteria

Derivative financial instruments used for hedging purposes may be classified in the accounts as hedging instruments provided the following criteria are cumulatively met:

(i) At the inception of the hedge, the hedge relationship is identified and documented, including identification of the hedged item and hedging instrument and evaluation of the effectiveness of the hedge;

(ii) The hedge is expected to be highly effective, both at the inception of the hedge and on an ongoing basis;

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

(iv) For cash flows hedges, the cash flows have a high probability of occurring.

- Fair value hedge

In a fair value hedging operation, the carrying value of the hedged asset or liability, determined in accordance with the respective accounting policy, is adjusted to reflect the changes in its fair value attributable to the risk being hedged. Changes in the fair value of the derivatives that are designated as hedging instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the risk hedged.

If the hedge no longer meets the criteria for hedge accounting, the derivative financial instrument is transferred to the trading portfolio and hedge accounting is discontinued prospectively. The cumulative adjustment to the carrying book value of a hedged asset or liability corresponding to a fixed income instrument, is amortised via the income statement over the period to its maturity, using the effective interest rate method.

- Cash flow hedge

When a derivative financial instrument is designated as a hedge against the variability of highly probable future cash flows, the effective portion of the changes in the fair value of the hedging derivative is recognised in reserves, being recycled to the income statement in the periods in which the hedged item affects the income statement. The ineffective portion is recognised in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in reserves at that time is recognised in the income statement when the hedged transaction also affects the income statement. When a hedged transaction is no longer expected to occur, the cumulative gain or loss reported in equity is recognised immediately in the income statement and the hedging instrument is reclassified to the trading portfolio.

As at 31 December 2017 and 2016, the Group had no hedging operations classified as cash flow hedges.

Embedded derivatives

Derivatives that are embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not related to those of the host instrument and the aggregate instrument (embedded derivative and host instrument) is not carried at fair value through profit or loss.

These embedded derivatives are measured at fair value with the changes in fair value being recognised in the income statement.

2.5. Loans and advances to customers

Loans and advances to customers include loans and advances originated by the Group, which are not intended to be sold in the short-term, being recognised on the date the cash is advanced to customers.

Loans and advances to customers are derecognised from the balance sheet when (i) the Group's contractual rights to receive the cash flows have expired, (ii) the Group has transferred substantially all the risks and rewards of ownership or (iii) although retaining some but not substantially all of the risks and rewards of ownership, the Group has transferred the control over the assets.

Loans and advances to customers are initially recorded at fair value plus transaction costs and are subsequently measured at amortised cost, using the effective interest rate method, net of impairment losses.

In accordance with its documented strategy for risk management, the Group contracts derivative financial instruments to hedge certain risks pertaining to a specific part of the loan portfolio, without, however, resorting to hedge accounting as described in Note 2.4. In these situations, the initial recognition of the loan is made through its measurement at fair value through profit or loss. In this manner, measurement consistency is achieved between the loans and the derivatives for risk management purposes (accounting mismatch). This procedure is in accordance with the accounting policy for classification, recognition and measurement of financial assets at fair value through profit or loss, as described in Note 2.6.

Impairment

The Group regularly assesses whether there is objective evidence of impairment in its loan portfolio. Impairment losses identified are recognised in the income statement and are subsequently reversed through the income statement if, in a subsequent period, the amount of the impairment losses decreases.

A loan or a loan portfolio, defined as a group of loans with similar credit risk characteristics, is impaired when: (i) there is objective evidence of impairment as a result of one or more events occurring subsequent to its initial recognition and (ii) that event (or events) has an impact on the recoverable amount of the estimated future cash flows of that loan or of the loan portfolio, that can be reliably estimated.

For the exposures selected for individual analysis the existence of specific impairment is assessed. For this assessment and in identifying the impaired loans on an individual basis, the Group uses the information that feeds the credit risk models implemented and takes into consideration, amongst others, the following factors:

- the aggregate exposure to the customer and the existence of non-performing loans;
- the economic and financial viability of the customer's business model and its ability to generate sufficient cash flows to service its debt obligations in the future;
- the existence of privileged creditors;
- the existence, nature and estimated value of the collateral;
- the exposure of the customer to the financial sector;
- the amount and timing of expected recoveries.

If for a particular loan there is no objective evidence of impairment at an individual level, the loan is grouped together with other loans that have similar credit risk characteristics (loan portfolio), and assessed collectively (collective assessment for impairment).

Loans that are assessed individually and found to be impaired are not included in the collective assessment for impairment.

If an impairment loss is identified on an individual basis, the amount of the impairment loss to be recognised is calculated as the difference between the carrying book value of the loan and the present value of the expected future cash flows (considering the recovery period), discounted at the original effective interest rate of the contract. The carrying value of loans and advances is presented in the balance sheet net of impairment losses. If a loan has a variable interest rate, the discount rate for measuring the impairment loss is the current effective interest rate determined under the rules of each contract.

The changes in the amount of the recognised impairment losses, attributable to the discounting effect, are recognised as interest and similar income.

The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from the foreclosure / taking possession (hereafter also “recovery”) and sale of the collateral, less the costs inherent to its recovery and sale.

For purposes of the collective assessment of impairment, loans are grouped on the basis of similar credit risk characteristics, taking in consideration the Group’s credit risk management process. Future cash flows in a group of loans that are collectively assessed for impairment are estimated on the basis of the contractual cash flows and the historical loss experience. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group in order to monitor the differences between the loss estimates and the actual losses experienced.

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

The methodology described implies the forming of judgements by the Group as to the assumptions and estimates, and the use of other assumptions could result in different levels of impairment losses.

The loan write-off policy followed by the Group is governed by the principles defined by Banco de Portugal. Accordingly, the loan write-off only occurs after (i) the full amount of the loan has been deemed past due and has been demanded; (ii) it is considered that appropriate collection efforts have been undertaken; and (iii) the loan’s recovery expectations are very low, leading to an extreme scenario of full impairment.

Having met this criteria, rules have been implemented for the selection of the loans that may be written off, which are presented as follows:

- Loans cannot have an associated collateral;
- Loans must be deemed past due in their entirety (recorded, in their entirety, in past due loans, with no portion being recorded in maturing debt);

- Loans cannot be marked as renegotiated past due, or integrate an active settlement agreement;
- The impairment loss provision has to cover at least 95% of the amount, except in respect of mortgage loans when the recovery is performed through the foreclosure of the property, and for which the remaining amount of the loans and advances not so recovered are also written off against the asset.

2.6. Other financial assets

Classification

The Group classifies its other financial assets at initial recognition taking into consideration the intention inherent to them, under the following categories:

- Financial assets at fair value through profit or loss

This category includes: (i) financial assets held for trading, which are those acquired for the purpose of selling in the short-term or which are owned as part of a portfolio of financial assets, normally securities, for which there is evidence of recent activities leading to short-term profit taking and (ii) financial assets that are designated at fair value through profit or loss at inception, with changes being recognised in the income statement.

The Group classifies, at inception, certain financial assets at fair value through profit or loss when:

- such financial assets are managed, measured and analysed internally on a fair value basis;
- such financial assets are being hedged (from an economic perspective), in order to eliminate an accounting mismatch between the valuation of the assets and the derivatives; or
- such financial assets contain embedded derivatives.

The structured products acquired by the Group that correspond to financial instruments containing one or more embedded derivatives are classified under the fair value through profit or loss category because they always meet one of the three above mentioned conditions.

- Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity and which are not classified, at inception, at fair value through profit or loss or as available-for-sale.

Any reclassification or sale of financial assets recognised in this category that is not realised close to their maturity or that is not foreseen in the exceptions listed in the accounting standard, will force the Group to reclassify the entire portfolio as Available-for-sale financial assets and prevent it, during 2 years, from classifying any financial asset in this category.

- Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets (i) intended to be held for an indefinite period of time by the Group, (ii) designated as available-for-sale at initial recognition or (iii) that are not classified in the categories previously referred to.

Initial recognition and measurement and de-recognition

Purchases and sales of: (i) financial assets at fair value through profit or loss, (ii) held-to-maturity investments and (iii) available-for-sale financial assets are recognised on their trade date – the date on which the Group commits to purchase or sell the asset.

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

Financial assets are derecognised when (i) the Group’s contractual rights to receive their cash flows have expired, (ii) the Group has transferred substantially all the risks and rewards of ownership or (iii) although retaining some but not substantially all of the risks and rewards of ownership, the Group has transferred the control over the assets.

Subsequent measurement

After its initial recognition, financial assets at fair value through profit or loss are subsequently carried at fair value, and gains and losses arising from changes in their fair value are recognised in the income statement in the caption “Profit / (loss) from financial assets and liabilities at fair value through profit or loss”.

Available-for-sale financial assets are also carried at fair value. Gains and losses arising from changes in their fair value are, however, recognised directly in reserves (other comprehensive income), until the financial assets are derecognised or an impairment loss is identified, at which time the cumulative gain or loss previously recognised in reserves is recognised in the income statement in the caption “Net gains / (losses) from available-for-sale financial assets”. Foreign exchange differences associated with shares and other equity instruments are also recognised in reserves, whilst foreign exchange differences arising from debt instruments are recognised in the income statement. Interest, calculated using the effective interest rate method, and dividends are recognised in the income statement.

Held-to-maturity investments are carried at amortised cost using the effective interest rate method, net of any impairment losses recognised.
The fair values of investments listed on active markets are based on bid prices, the bid price of the last transaction or on the last bid known. For unlisted securities, the Group establishes fair value using (i) valuation techniques, including the use of recent similar arm's length transactions, discounted cash flow analyses and option pricing models customised to reflect the specificities and circumstances of the instrument, and (ii) valuation assumptions based on market information.

Reclassifications between categories

The Group only reclassifies non-derivative financial assets with fixed or determinable payments and fixed maturities, from the available-for-sale financial assets category to the held-to-maturity investments category, provided it has the intention and ability to hold those financial assets to maturity.

Reclassifications between these categories are made at the fair value of the assets reclassified, determined at the date of the reclassification. The difference between this fair value and the respective nominal value is recognised in the income statement up to the asset's maturity, based on the effective interest rate method. The fair value reserve at the date of the reclassification is also recognised in the income statement, based on the effective interest rate method.

A financial asset that is no longer held for sale or repurchase in the short-term (even if acquired for said purpose) can, in rare circumstances, be reclassified from the portfolio of financial assets at fair value through profit or loss. The fair value of the asset on the reclassification date will be its new cost or amortised cost, as applicable.

After initial recognition, financial assets cannot be reclassified to the category of financial assets at fair value through profit or loss.

Transfers of available-for-sale financial assets to loans and advances to customers – securitised loans - are permitted if there is an intention and ability to maintain same for the foreseeable future or until maturity.

In 2017 no reclassification of financial assets between the above mentioned categories took place.

Impairment

The Group periodically assesses whether there is objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or group of financial assets is impaired whenever there is objective evidence of impairment as a result of one or more events occurring after their initial recognition, such as: (i) for equity securities, a significant or prolonged decline in the market value of the securities below their acquisition cost, and (ii) for debt securities, when that event (or events) has an impact on the estimated future cash flows of the financial asset, or group of financial assets, that can be reliably estimated.

For held-to-maturity investments, the amount of the impairment loss is measured as the difference between the asset's book value and the present value of the estimated future cash flows (considering the recovery period) discounted at the financial asset's original effective interest rate and is recognised in the income statement. These assets are presented in the balance sheet net of impairment losses. If the held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, determined based on the rules of each contract. For held-to-maturity investments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through the income statement.

If there is objective evidence that an impairment loss of available-for-sale financial assets has occurred, the unrealised cumulative loss recognised in reserves, measured as the difference between the acquisition cost and the current fair value, net of any impairment loss on that financial asset previously recognised in the income statement, is taken to the income statement. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is reversed through the income statement up to the acquisition cost if the increase is objectively related to an event occurring after the impairment loss was recognised, except in relation to equity securities, for which impairment losses may not be reversed and gains are recognised in reserves.

2.7. Assets sold with repurchase agreements, securities loaned and short sales

Securities sold subject to repurchase agreements (repos) at a fixed price or at a price that corresponds to the sales price plus a lender's return are not derecognised from the balance sheet. The corresponding liability is included under amounts due to banks or to customers, as appropriate. The difference between the sale and repurchase price is treated as interest and deferred over the life of the agreement, using the effective interest rate method.

Securities purchased under agreements to resell (reverse repos) at a fixed price or at a price that corresponds to the purchase price plus a lender's return are not recognised in the balance sheet, the purchase price paid being recorded as loans and advances to banks or customers, as appropriate. The difference between the purchase and resale price is treated as interest and deferred over the life of the agreement, using the effective interest rate method.

Securities ceded under loan agreements are not derecognised in the balance sheet, being classified and measured in accordance with the accounting policy described in Note 2.6. Securities received under borrowing agreements are not recognised in the balance sheet.

Short sales correspond to securities sold that are not included in the Group's assets. They are recorded as financial liabilities held for trade, at the fair value of the assets to be returned in the scope of the repurchase agreement. Gains and losses resulting from the change in their respective fair value are recognised directly in the income statement.

2.8. Financial liabilities

An instrument is classified as a financial liability when it contains a contractual obligation to transfer cash or another financial asset, regardless of its legal form. Financial liabilities are derecognised when the underlying obligation is liquidated, expires or is cancelled.

Non-derivatives financial liabilities include deposits from banks and customers, loans, debt securities, subordinated debt and short sales. Preference shares issued are considered to be financial liabilities when the Group assumes the obligation of reimbursement and/or the payment of dividends.
These financial liabilities are recognised (i) initially, at fair value less transaction costs and (ii) subsequently, at amortised cost, using the effective interest rate method, except for short sales and financial liabilities designated at fair value through profit or loss, which are measured at fair value.

The Group designates, at inception, certain financial liabilities at fair value through profit or loss when:

- such financial liabilities are being hedged (from an economic perspective) in order to eliminate accounting mismatches between the valuation of the assets and the derivatives; or
- such financial liabilities contain embedded derivatives.

The structured products issued by the Group – with the exception of the structured products for which the embedded derivatives were separated, recorded separately and revalued at fair value - are classified under the fair value through profit or loss category because they always meet one of the above mentioned conditions.

The fair value of listed financial liabilities is their current market bid prices. In the absence of a quoted price, the Group establishes the fair value by using valuation techniques based on market information, including the Group issuer's own credit risk.

If the Group repurchases debt securities issued, these are derecognised from the balance sheet and the difference between the carrying book value of the liability and its acquisition cost is recognised in the income statement.

2.9. Financial and performance guarantees

Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss due to non-compliance with the contractual terms of a debt instrument, namely the payment of principal and/or interest.

Financial guarantees are initially recognised in the financial statements at fair value. Financial guarantees are subsequently measured at the higher of (i) the fair value recognised on initial recognition and (ii) the amount of any financial obligation arising as a result of guarantee contracts, measured at the balance sheet date. Any change in the amount of the liability relating to guarantees is taken to the income statement.

Financial guarantee contracts issued by the Group normally have a stated maturity date and a periodic fee, usually paid in advance, which varies in function of the counterpart risk, the amount and the time period of the contract. Consequently, the fair value of the financial guarantee contracts issued by the Group, at the inception date, is approximately equal to the initial fee received, considering that the conditions agreed to are market conditions. Hence, the amount recognised at the contract date is equal to the amount of the commission initially received, which is recognised in the income statement over the period to which it relates. Subsequent periodic fees are recognised in the income statement in the period to which they relate.

Performance guarantees

Performance guarantees are contracts that result in the compensation of a party if the other does not comply with its contractual obligation. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of the commissions received during the contract period. When there is a breach of contract, the Group has the right to reverse the guarantee, recognizing the amounts in Loans and advances to customers after transferring the compensation for the losses to the collateral taker.

2.10. Equity instruments

An instrument is classified as an equity instrument when it does not contain a contractual obligation to deliver cash or another financial asset, regardless of its legal form, but evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Transaction costs directly attributable to the issuance of equity instruments are recorded against equity as a deduction from the amount issued. Amounts paid or received relating to acquisitions or sales of equity instruments are recognised in equity, net of transaction costs.

Distributions to holders of an equity instrument are deducted directly from equity as dividends, when declared.

Preference shares issued are considered equity instruments if the Group has no contractual obligation to redeem these and if dividends, non-cumulative, are paid only if, and when, declared by the Group.

2.11. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The legally enforceable right may not be contingent on future events, and must be enforceable in the course of the normal activity of the NOVO BANCO Group, as well as in the event of default, bankruptcy or insolvency of the Group or the counterpart.

2.12. Foreclosed properties and non-current assets held for sale

Non-current assets or disposal groups (groups of assets to be disposed of together and the related liabilities that include at least one non-current asset) are classified as held for sale when their carrying values will be recovered mainly through a sale transaction (including those acquired exclusively with a view to their subsequent disposal), the assets or disposal groups are available for immediate sale and the sale is highly probable (within the period of one year).

Immediately before the initial classification as held for sale, the measurement of the non-current assets (or of all the assets and liabilities in a disposal group) is brought up to date in accordance with the applicable IFRS. Subsequently, these assets or disposal groups are remeasured at the lower of their carrying value and fair value less costs to sell. When the carrying book value of non-current assets corresponds to fair value less costs to sell, the fair value level of the IFRS 13 hierarchy corresponds mostly to level 3.

In the scope of its loan granting activity, the Group incurs in the risk of the borrower failing to repay all the amounts due. In case of loans and advances with mortgage collateral, the Group executes these and receives real estate properties resulting from foreclosure. Due to the provisions of the "Regime Geral das Instituições de Crédito e Sociedades Financeiras" (RGICSF), banks are prevented, unless authorised by Banco de Portugal, from acquiring real estate property that is not essential to their installation and daily operations and the pursuit of their object (no. 1 of article 112 of RGICSF), being able to acquire, however, real estate property in exchange for loans granted by same. This real estate property must be sold within 2 years, period which may, based on reasonable grounds, be extended by Banco de Portugal, on the conditions to be determined by this Authority (article 114 of RGICSF).

Although the Group's objective is to immediately dispose of all real estate property acquired as payment in kind for loans, during financial year 2016 the Group altered the classification of this real estate properties from Non-current assets held for sale to Other assets (and to Investment properties, in the case of assets owned by investment funds or real estate properties leased out), due to the permanence of same in the portfolio exceeding 12 months. However, the accounting method has not changed, these being initially recognised at the lower of their fair value less costs to sell and the carrying value of the subjacent loans. Subsequently, this real estate property is measured at the lower of its initial carrying value and the corresponding fair value less costs to sell and is not depreciated. For real estate properties recorded in the balance sheet of NOVO BANCO and of the remaining credit institutions integrating the consolidation perimeter of the Group, the amount recoverable from their immediate sale is considered to be their respective fair value; for real estate properties held by investment funds, fair value is determined as the average between two valuations, obtained from independent entities, taking into consideration normal market conditions. Unrealised losses on these assets, so determined, are recorded in the income statement. When the carrying book value corresponds to fair value less costs to sell, the fair value level of the IFRS 13 hierarchy corresponds to level 3.

The valuation of this real estate property is performed in accordance with one of the following methodologies, applied in accordance with the specific situation of the asset:

(i) *Market Method*

The Market Comparison Criteria takes as a reference transaction values of similar and comparable real estate properties to the real estate property under valuation, obtained through market prospection carried out in the area.

(ii) *Income Method*

Under this method, the real estate property is valued based on the capitalization of its net income, discounted to the present using the discounted cash-flow method.

(iii) *Cost Method*

This method aims to reflect the current amount that would be required to substitute the asset in its present condition, separating the value of the real estate property into its fundamental components: Urban Ground Value and Urbanity Value; Construction Value; and Indirect Costs Value.

Valuations carried out are performed by independent entities specialised in these services. The valuation reports are analysed internally, namely comparing the sales value with the revalued amounts of the assets so as to assess the parameters and process adequacy with the market evolution.

Assets / liabilities of subsidiaries acquired for resale purposes reflect, essentially, assets and liabilities of subsidiaries acquired by the Group in the scope of loan restructuring operations, for which the Group's objective is their subsequent disposal within one year. Since these acquisitions arise from loan restructuring operations, these acquisitions are recognised at their fair value, and any differences between their fair values and those of the extinguished loans following the acquisitions, are recognised as impairment losses on loans and advances. On the acquisition of an entity meeting the subsidiary criteria and for which the Group's objective is its resale, it is consolidated in accordance with the applicable procedures adopted by the Group and its assets and liabilities are measured at fair value at the acquisition date. However, in these particular cases, the assets are classified as non-current assets held for sale and the liabilities are classified as non-current liabilities held for sale. Consequently, and at the first consolidation date, the net value of the assets and liabilities of the subsidiary reflects their fair value determined at the acquisition date (which results from the loan restructuring operation).

These subsidiaries are consolidated until their effective sale. At each balance sheet date, the net carrying book value of their assets and liabilities is compared with their fair value, less costs to sell, and impairment losses are recognised when necessary. Assets and liabilities relating to discontinued operations are recorded in accordance with the valuation policies applicable to each category of assets and liabilities, as set down in IFRS 5, in function of the IAS/IFRS applicable to the respective assets and liabilities.

For purposes of calculating the fair value of subsidiaries held for resale, the Group adopts the following methodologies:

- for subsidiaries which assets comprise fundamentally real estate, their fair value is determined with reference to the value of those assets, which is based on valuations performed by independent specialised entities;
- for the remaining entities, their fair value is determined based on the discounted cash flow methodology, using assumptions consistent with the business risks of each of the subsidiaries under valuation. If these subsidiaries cease to comply with the conditions necessary to be recorded as non-current assets held for sale in accordance with IFRS 5, their assets and liabilities are fully consolidated in the respective asset and liability captions, in accordance with that provided for in Note 27.

2.13. Other tangible assets

The Group's other tangible assets are measured at cost less accumulated depreciation and impairment losses. The cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs with other tangible assets are only recognised when it is probable that future economic benefits associated with them will flow to the Group. All repair and maintenance costs are charged to the income statement during the period in which they are incurred, on the accrual basis.

Land is not depreciated. The depreciation of other tangible assets is calculated using the straight-line method, at the following depreciation rates that reflect their estimated useful lives:

	Number of years
Property for own use	35 to 50
Improvements in leasehold property	10
Computer equipment	4 to 5
Furniture	4 to 10
Fixtures	5 to 10
Security equipment	4 to 10
Office equipment	4 to 10
Transport equipment	4
Other	5

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

When there is an indication that an asset may be impaired, IAS 36 requires that its recoverable amount be estimated and an impairment loss be recognised when the book value of the asset exceeds its recoverable amount. Impairment losses are recognised in the income statement, being reversed in subsequent periods, when the reasons that led to their initial recognition cease to exist. For this purpose, the new depreciated amount shall not exceed that which would be recorded had the impairment losses not been imputed to the asset, but considering the normal depreciation the asset would have been subject to.

The recoverable amount is determined as the higher of its net selling price and its value in use, which is based on the net present value of the estimated future cash flows arising from the continued use and ultimate disposal of the asset at the end of its useful life.

On the date of the de-recognition of a tangible fixed asset, the gain or loss determined as the difference between the net selling price and the carrying book value is recognised under the caption Other operating income and expenses.

2.14. Intangible assets

The costs incurred with the acquisition, production and development of software are capitalised, as are additional costs incurred by the Group to implement said software. These costs are amortised on a straight-line basis over their expected useful lives, which usually range between 3 and 6 years.

Costs that are directly associated with the development of specific software applications, that will probably generate economic benefits beyond one financial year, are recognised and recorded as intangible assets. These include employee costs borne by the Group companies specialised in information technology directly associated with the development of said software.

All remaining costs associated with information technology services are recognised as an expense as incurred.

2.15. Leases

The Group classifies its lease agreements as finance leases or operating leases taking into consideration the substance of the transaction rather than its legal form, in accordance with IAS 17 – Leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases are classified as operating leases.

Operating leases

Payments made by the Group under operating leases are charged to the income statement in the period to which they relate.

Finance leases

- As lessee

Finance lease contracts are recorded at the inception date, both under assets and liabilities, at the cost of the asset leased, which is equal to the present value of the outstanding lease instalments. Instalments comprise (i) an interest charge, which is recognised in the income statement and (ii) the repayment of principal, which is deducted from liabilities. Financial charges are recognised as costs over the lease period, in order to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

- As lessor

Assets leased out are recorded in the balance sheet as loans granted, at an amount equal to the net investment made in the leased assets, together with any estimated unguaranteed residual value.

Interest included in instalments charged to customers is recorded as interest income, whilst repayments of principal, also included in the instalments, are deducted from the amount of the loans granted. The recognition of the interest reflects a constant periodic rate of return on the lessor's net outstanding investment.

2.16. Employee benefits

Pensions

Pursuant to the signature of the Collective Labor Agreement (“Acordo Colectivo de Trabalho” (ACT)) for the banking sector and its subsequent amendments resulting from the 3 tripartite agreements described in Note 16, pension funds and other mechanisms were set up to cover liabilities assumed with pensions on retirement, disability, survival and health-care benefits.

The liabilities’ coverage is assured, for most of the Group companies, by pension funds managed by GNB - Sociedade Gestora de Fundos de Pensões, SA, subsidiary of the Group.

The pension plans of the Group are defined benefit plans, as they establish the criteria to determine the pension benefit to be received by employees during retirement, usually dependent on one or more factors such as age, years of service and salary level.

The Group’s retirement pension liabilities were calculated as at 31 December 2017 and 2016, for each plan individually, using the Projected Unit Credit Method, being annually reviewed by qualified independent actuaries. The discount rate used in this calculation is determined with reference to market rates associated with high-quality corporate bonds, denominated in the currency in which the benefits will be paid out and with a maturity similar to the expiry date of the plan's liabilities.

The Group determines the net interest income / expense for the period incurred with the pension plan by multiplying the plan's net assets / liabilities (liabilities net of the fair value of the fund's assets) by the discount rate used to measure the retirement pension liabilities referred to above. On that basis, the net interest income / expense was determined based on the interest cost on the retirement pension liabilities net of the expected return on the funds' assets, both calculated using the discount rate applied in the determination of the retirement pension liabilities.

Re-measurement gains and losses, namely (i) actuarial gains and losses arising due to differences between actuarial assumptions used and real values verified (experience adjustments) and changes in actuarial assumptions and (ii) gains and losses arising due to the difference between the expected return on the fund's assets and the actual investment returns, are recognised in equity under the caption other comprehensive income.

The Group recognizes as a cost in the income statement a net total amount that includes (i) current service costs, (ii) net interest income / expense with the pension fund, (iii) the effect of early retirement, (iv) past service costs, and (v) the effect of settlements or curtailments occurring during the period. The net interest income / expense with the pension plan is recognised as interest and similar income or interest expense and similar charges, depending on its nature. Early retirement costs correspond to increases in liabilities due to employees retiring before turning 65 (normal retirement age foreseen in the ACT and which forms the basis of the actuarial calculation of pension fund liabilities). Whenever the possibility of the early retirement provided for in the pension fund regulation is invoked, the responsibilities of same must be incremented by the value of the actuarial calculation of the liabilities corresponding to the period between the early retirement and the employee turning 65.

The Group makes payments to the funds in order to assure their solvency, the minimum levels set by Banco de Portugal being: (i) the liability with pensioners must be totally funded at the end of each period, and (ii) the liability relating to past service costs for active employees must be funded at a minimum level of 95%.

The Group assesses the recoverability of any excess in a fund in function of the retirement pension liabilities, based on the expectation of reductions in future contributions.

Health-care benefits

The Group provides to its banking employees health-care benefits through a specific Social-Medical Assistance Service. This Social-Medical Assistance Service (SAMS) is an autonomous entity which is managed by the respective Union.

SAMS provides its beneficiaries services and/or contributions with medical assistance expenses, diagnostics, medication, hospitalization and surgeries, in accordance with its funding availability and internal regulations.

Until 1 February 2017, the Group’s annual mandatory contribution to SAMS amounted to 6.50% of the total annual remuneration of active employees, including, amongst others, the holiday subsidy and Christmas subsidy.

Arising from the signature of the new Collective Labor Agreement (ACT) on 5 July 2016, published in Labor Bulletin (Boletim do Trabalho) no. 29, of 8 August 2016, the Group’s contributions to SAMS as from 1 February 2017, correspond to a fixed amount (as per Annex VI of the new ACT) for each employee, 14 times a year.

The calculation and recognition of the Group’s liability with post-retirement health-care benefits is similar to the calculation and recognition of the pension liability described above. These benefits are covered by the Pension Fund, which presently covers all liabilities with pensions and health-care benefits.

Long-term service bonus and Career bonus

In accordance with the previous ACT ("Acordo Colectivo de Trabalho") for the Banking Sector, in force until July 2016, the NB Group had the commitment to pay active employees who completed 15, 25 and 30 years of service in the Group, long-term service bonuses corresponding to one, two and three times, respectively, their monthly salary paid at the date the bonuses were paid.

At the date of early retirement due to disability or presumed disability, employees had the right to a long-term service bonus proportional to that which they would receive if they were to remain in service until meeting the next bonus level.

These long-term service bonuses were accounted for by the Group in accordance with IAS 19, as other long-term employee benefits. The Group’s liability with these long-term service bonuses were periodically estimated by the Group using the Projected Unit Credit Method. The actuarial assumptions used were based on expectations as to future salary increases and mortality tables. The discount rate used in this calculation was determined using the methodology described for retirement pensions.

In each period, the increase in the liability for long-term service bonuses, including actuarial gains and losses and past service costs, was charged to the income statement.

Upon the signature of the new ACT on 5 July 2016, the long-term service bonus was extinguished and the Group paid its employees the proportional share of the bonuses due on entry into force of the new ACT.

Under the new ACT, the long-term service bonus was replaced by a career bonus, payable immediately prior to the employee´s retirement date, if the employee retires at the service of the Group, corresponding to 1.5 of his/her salary at the time of its payment.

The career bonus is accounted for by the Group in accordance with IAS 19, as a long-term employee benefit. The remeasurement effects and past service costs of this benefit are recognised in the income statement for the year, as occurred with the accounting model for long-term service bonuses.

The amount of the Group's liabilities with this career bonus is likewise periodically estimated based on the Projected Unit Credit Method. The actuarial assumptions used are based on expectations of future salary increases and mortality tables. The discount rate used in this calculation is determined applying the same methodology described above for retirement pensions.

Employees' variable remuneration

The Group recognises under costs the short-term benefits paid to employees who were at its services in the respective accounting period.

- Profit-sharing and bonus plans

The Group recognizes the cost expected with profit-sharing pay-outs and bonuses when it has a present, legal or constructive, obligation to make such payments as a result of past events, and can make a reliable estimate of the obligation.

- Obligations with holidays, holiday subsidy and Christmas subsidy

In accordance with the legislation in force in Portugal, employees are annually entitled to one month of holidays and one month of holiday subsidy, this being a right acquired in the year prior to their payment. In addition, employees are annually entitled to one month of Christmas subsidy, which right is acquired throughout the year and settled during the month of December of each calendar year. Hence, these liabilities are recorded in the period in which the employees acquire the right to same, regardless of the date of their respective payment.

2.17. Corporate Income tax

Corporate income tax comprises current tax and deferred tax. Corporate income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised under deferred tax reserves (other comprehensive income). Corporate income tax recognised directly in equity relating to fair value remeasurement of available-for-sale financial assets and cash flow hedges is subsequently recognised in the income statement when the gains or losses giving rise to said income tax are also recognised in the income statement.

Current tax is the tax expected to be paid on the taxable profit for the year, calculated using tax rules and tax rates enacted or substantively enacted in each jurisdiction. The tax is recognised in each financial reporting period based on management estimates as regards the average effective tax rate foreseen for the entire fiscal year.

Deferred tax is calculated on timing differences arising between the carrying book values of assets and liabilities for financial reporting purposes and their respective tax base, and is calculated using the tax rates enacted or substantively enacted at the balance sheet date in each jurisdiction and that are expected to apply when the timing differences are reversed.

Deferred tax liabilities are recognised for all taxable timing differences except for goodwill, non-deductible for tax purposes, differences arising on the initial recognition of assets and liabilities that neither affect the accounting nor taxable profit, and that do not result on a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future and the Group does not control the timing of the reversal of the timing differences. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible timing differences can be offset. Deferred tax liabilities are always accounted for, regardless of the performance of NOVO BANCO.

Taxable income or tax loss reported by the Bank may be corrected by the Portuguese Tax Authorities within a period of four years, except when any deduction was made or a tax credit was used, in which case this period corresponds to the period during which this right may be exercised (5 or 12 years in the case of tax losses, depending on the financial year). The Executive Commission considers that any corrections, resulting mainly from differences in interpretation of tax legislation, will not have a material effect on the financial statements.

The Group offsets deferred tax assets and liabilities for each subsidiary whenever (i) the corporate income tax of each subsidiary paid to the Tax Authorities is determined on a net basis, that is, offsetting current tax assets against current tax liabilities, and (ii) they relate to corporate income taxes levied by the same Taxation Authority, on the same tax entity. This offset is, therefore, performed at the level of each subsidiary, with the deferred tax asset presented in the consolidated balance sheet corresponding to the sum of the subsidiaries' amounts which present net deferred tax assets and the deferred tax liability presented in the consolidated balance sheet corresponding to the sum of the subsidiaries' amounts which present net deferred tax liabilities.

2.18. Provisions and Contingent liabilities

Provisions are recognised when: (i) the Group has a current legal or constructive obligation, (ii) it is probable that its settlement will be required in the future and (iii) a reliable estimate of the obligation can be made.

Provisions related to legal cases opposing the Group to third parties, are constituted according to internal risk assessments made by Management, with the support and advice of its legal advisors.

When the effect of the passage of time (discounting) is material, the provision corresponds to the net present value of the expected future payments, discounted at an appropriate rate considering the risk associated with the obligation. In these cases, the increase in the provision due to the passage of time is recognised in financial expenses.

Restructuring provisions are recognised when the Group has approved a formal, detailed restructuring plan and such restructuring has either commenced or has been publicly announced.

A provision for onerous contracts is recognised when the benefits expected to be derived by the Group from a contract are lower than the unavoidable costs of meeting its obligation under the contract. This provision is measured at the present value of the lower of the estimated cost of terminating the contract and the estimated net costs of continuing the contract.

If a future outflow of funds is not probable, this situation reflects a contingent liability. Contingent liabilities are always disclosed, except when the likelihood of their occurrence is remote.

In the preparation of the Bank's separate and consolidated financial statements as at 31 December 2017 and 2016, the Executive Board of Directors reflected the Resolution deliberation and related decisions taken by Banco de Portugal, in particular the decisions of 29 December 2015, in the clarification of contingent liabilities. In this context, these financial statements, in particular with respect to provisions for contingencies arising from lawsuits, reflect the exact perimeter of assets, liabilities, off-balance sheet assets and assets under management of BES transferred to NOVO BANCO, as determined by the Banco de Portugal and having as reference the current legal bases and the information available to date.

2.19. Recognition of interest income and expense

Interest income and expense is recognised in the income statement under interest and similar income and interest expense and similar charges for all financial instruments measured at amortised cost and for all available-for-sale financial assets, using the effective interest rate method. Interest arising on financial assets and liabilities at fair value through profit or loss is also included under interest and similar income or interest expense and similar charges, as appropriate.

The effective interest rate is the rate that discounts the estimated future cash payments or receipts throughout the expected life of the financial instrument or, when appropriate, a shorter period to the net book value of the financial asset or liability. The effective interest rate is calculated at inception and is not subsequently revised, except in respect of financial assets and liabilities with a variable interest rate. In this case, the effective interest rate is periodically revised, taking into consideration the impact of the change in the interest rate of reference on the estimated future cash flows.

When calculating the effective interest rate, the Group estimates the cash flows considering all the contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all the commissions that are an integral part of the effective interest rate, transaction costs and all other related premiums or discounts.

Interest on loans and advances to customers includes the interest for which the impairment losses have been recognised.

For derivative financial instruments, excluding derivatives held for risk management purposes (see Note 2.4), the interest component of the changes in their fair value is not separated and is classified under net gains / (losses) from financial assets and liabilities at fair value through profit or loss. The interest component of the changes in the fair value of derivatives held for risk management purposes is recognised under interest and similar income or interest expense and similar charges.

2.20. Recognition of fee and commission income

Fees and commissions are recognised as follows:

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

2.21. Recognition of dividend income

Dividend income is recognised when the right to receive the dividend payment is established.

2.22. Earnings per share

Basic earnings per share are calculated by dividing the net income attributable to the shareholders of the parent company by the weighted average number of ordinary shares outstanding during the period, excluding the average number of ordinary shares held as treasury stock by the Group.

For the calculation of diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted to reflect the impact of all potential dilutive ordinary shares, such as those resulting from convertible debt and share options granted to employees. The dilution effect translates into a decrease in earnings per share, based on the assumption that the convertible instruments will be converted or the options granted exercised.

2.23. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with a maturity of less than three month from the date of acquisition / contracting and whose risk of change in value is immaterial, including cash, deposits with Central Banks and deposits with other credit institutions. Cash and cash equivalents exclude restricted balances with Central Banks.

2.24. Investment properties

The Group classifies as investment properties the real estate assets held to earn rentals or for capital appreciation or both. Investment properties are initially recognised at acquisition cost, including directly attributable transaction costs, and subsequently at their fair value. Changes in fair value determined at each balance sheet date are recognised in the income statement, in the caption Other operating income and expenses, based on periodic valuations realised by independent entities specialised in this type of service. Investment properties are not depreciated.

Reclassifications to and from the caption Investment properties may occur whenever a change in respect of the use of a real estate property is verified. On the reclassification of investment properties to real estate properties held for own use, the estimated cost, for accounting purposes, is the fair value, at the date of the change in usage. If a real estate property held for own use is reclassified to investment properties, the Group records that asset in accordance with the policy applicable to real estate properties held for own use, up to the date of its reclassification to investment properties and at fair value subsequently, with the difference arising in its measurement at the date of the reclassification being recognised in revaluation reserves. If a real estate property is transferred from non-current assets held for sale or from other assets to investment properties, any difference between the fair value of the asset at that date and the previous carrying book value is recognised in the income statement.

Subsequent expenditure is capitalised only when it is probable that the Group will obtain future economic benefits in excess of those originally estimated based on the performance of the asset.

Gains and losses on the disposal of investment properties resulting from the difference between the realised value and the carrying book value are recognised in the income statement for the year in the caption Other operating income and expenses. Gains and losses on the disposal of investment properties resulting from the difference between the realised value and the carrying book value are recognised in the income statement for the year in the caption Other operating income and expenses.

Investment properties recorded relate solely to insurance and other non-banking activities (Investment Funds and Real Estate Companies).

2.25. Insurance contracts

The Group issues contracts that contain insurance risk, financial risk or a combination of both insurance and financial risk. A contract under which the Group accepts significant insurance risk from another party, by agreeing to compensate that party on the occurrence of a specified uncertain future event that may adversely affect said party, is classified as an insurance contract.

A contract issued by the Group that is without significant insurance risk, but which financial risk is transferred with discretionary participating features is classified as an investment contract, being recognised and measured in accordance with the accounting standard applicable to insurance contracts (IFRS 4). A contract issued by the Group that transfers only financial risk, without discretionary participating features, is classified as a financial instrument and measured in accordance with IAS 39.

The financial assets held by the Group to cover for the liabilities arising under insurance and investment contracts are classified and accounted for in the same manner as the other Group financial assets.

Insurance contracts and investment contracts with participating features are recognised and measured as follows:

Premiums

Gross written premiums are recognised as income in the period to which they relate, in accordance with the accrual accounting principle. Reinsurance premiums ceded are accounted for as an expense in the period to which they relate the same way as gross written premiums.

Acquisition costs

Acquisition costs that are directly or indirectly related to the selling of insurance contracts are capitalised and deferred over the life of the contracts. Deferred acquisition costs are subject to recoverability tests when the insurance policy is issued and remain subject to impairment tests at each balance sheet date.

Reserves for outstanding claims

Reserves for outstanding claims reflect the estimated total outstanding liability for unpaid reported claims and for incurred unreported claims (IBNR). Incurred unreported claims are estimated based on past experience using statistical methods. Outstanding claims reserves are not discounted. For reinsurance contracts ceded, the reserves for outstanding claims are recorded as income in the period to which they relate in the same way as the direct reserves for outstanding claims.

Mathematical reserves

The mathematical reserves are intended to record the present value of the Group's future liabilities for insurance and investment contracts with discretionary participating features issued and are calculated in accordance with recognised actuarial methods under the applicable legislation in force.

Reserve for participating features (bonuses and rebates) attributed

The reserve for participating features corresponds to the amounts attributed to policyholders or beneficiaries of insurance contracts, in the form of profit sharing, which have not yet been distributed, by inclusion in the mathematical reserve for contracts.

Reserve for participating features attributable (Shadow accounting)

In accordance with IFRS 4, the unrealised gains and losses on the available-for-sale financial assets covering liabilities arising from insurance and investment contracts with discretionary participating features, are attributed to policyholders, based on the expectation that policyholders will participate in those unrealised gains and losses when they are realised in accordance with the terms of the contracts and applicable legislation, by recognizing a reserve.

Reserve for rate commitments (Liability adequacy test)

At the balance sheet date, the Group performs a liability adequacy test of the insurance and investment contracts with discretionary participating features. Any deficiency determined is recognised directly in the income statement through the caption Reserve for rate commitments.

Unearned premium reserves

The unearned premium reserves reflect that part of the gross premiums written imputable to one or more of the subsequent periods, net of deferred acquisition costs.

Technical reserves for reinsurance ceded

The reserves for reinsurance ceded are determined applying the criteria described above for direct insurance in accordance with that foreseen in the legislation in force, taking into consideration the clauses existing in the ruling reinsurance treaties.

Reinsurance

In the course of the normal insurance activity, the Group cedes business. The amounts payable regarding reinsurance activity include balances payable from insurance companies for reinsurance regarding responsibilities ceded. The amounts receivable or payable to the reinsurers are calculated in accordance with the contractual provisions established in the reinsurance contracts.

The accounting principles applicable to the assets regarding the Reinsurance Ceded, under reinsurance contracts, which require the existence of a significant insurance risk are identical to those applicable to direct insurance contracts.

NOTE 3 – MAIN ACCOUNTING ESTIMATES AND JUDGEMENTS USED IN PREPARING THE FINANCIAL STATEMENTS

Considering that the current accounting framework requires applying judgements and calculating estimates involving some degree of subjectivity, the use of different parameters or judgements based on different evidence may result in different estimates.

3.1. Impairment of available-for-sale financial assets

The Group determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decline in their fair value or when it foresees an impact on the assets' future cash flows. This determination requires a judgement based on all available relevant information, including the normal volatility of the financial instruments' prices. For this purpose and considering the high volatility of the markets, the Group considers the following parameters as impairment triggers:
(i) Equity securities: continued or significant decline in its market value against the acquisition cost;
(ii) Debt securities: objective evidence of events that have an impact on the recoverability of the estimated future cash flows of these assets.

In addition, valuations are generally obtained through market quotations (mark to market) or valuation models (mark to model) that require the use of certain assumptions or judgement in defining fair value estimates.

The use of alternative methodologies and different assumptions and estimates can result in a different level of impairment losses being recognised. The amount of the impairment of available-for-sale financial assets determined based on the above criteria is indicated in Note 23.

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

Fair values are based on listed market prices when available; otherwise fair value is determined with reference to similar recent arm's length transaction prices or using valuation methodologies, based on the net present value of estimated future cash flows taking into consideration market conditions for the underlying instruments, the time value, the yield curve and volatility factors, in accordance with IFRS 13 - Fair Value. These methodologies may require the use of assumptions or judgements in estimating fair value.

Consequently, the use of a different methodology or different assumptions or judgements in applying a particular model could have produced different financial results, summarised in Notes 49 and 50.

3.3. Impairment losses of loans and advances to customers

The Group reviews its loan portfolio on a regular basis to assess impairment, as described in Note 2.5.

The assessment process applied to the loan portfolio to determine whether an impairment loss should be recorded in the income statement is subject to numerous estimates and judgements. The default frequency, risk ratings, loss recovery rates and the estimation of both the amount and timing of future cash flows, amongst other factors, are considered in making this assessment.

The use of alternative methodologies and different assumptions and estimates could result in a different level of impairment losses being recognised. The amount of the impairment of loans and advances to customers determined based on the above criteria is indicated in Note 25.

3.4. Impairment of goodwill

The recoverable amount of the goodwill recognised as an asset of the Group is revised periodically regardless of the existence, or not, of impairment triggers.

For this purpose, the book value of the cash generating units of the Group in respect of which goodwill has been recognised is compared with their respective recoverable amount. A goodwill impairment loss is recognised when the book value of a cash generating unit exceeds the respective recoverable amount.

In the absence of an available market value, the recoverable amount is determined using cash flows techniques and applying a discount rate that includes a risk premium that is appropriate to the business unit being tested. The determination of the future cash flows to be discounted and the discount rate involve judgement.

Changes in the expected cash flows and in the discount rate may lead to conclusions that differ from those used in the preparation of these financial statements and are evidenced in the amount of goodwill indicated in Note 30.

3.5. Corporate income taxes

The Group is subject to corporate income tax in numerous jurisdictions. Certain interpretations and estimates are required in determining the overall corporate income tax amount. Different interpretations and estimates could result in a different level of income tax, current and deferred, being recognised in the period and evidenced in Note 40.

This aspect assumes additional relevance for effects of the analysis of the recoverability of deferred taxes, while the Bank considers forecasts of futures taxable profits based on a group of assumptions, including the estimate of income before taxes, adjustments to the taxable income and its interpretation of fiscal legislation. This way, the recoverability of deferred taxes depends on the concretization of the strategy of the Executive Board of Directors, namely in the capacity to generate the estimated taxable results and its interpretation of fiscal legislation.

The Tax Authorities are entitled to review the determination of the taxable income of the Bank and of its subsidiaries located in Portugal during a period of four years or twelve years, when there are tax loss carry forwards. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of tax law. However, it is the conviction of the Executive Board of Directors of the Bank and of its subsidiaries, that there will be no significant corrections to the corporate income taxes recorded in the financial statements.

3.6. Pensions and other employee benefits

The determination of the retirement pension liabilities presented in Note 16 requires the use of assumptions and estimates, including the use of actuarial tables, assumptions regarding the growth of pensions, salaries and discounts rates. These assumptions are based on the expectations of the NOVO BANCO Group for the period during which the liabilities will be settled as well as other factors that may impact the costs and liabilities of the pension plan. The sensitivity analysis of the above assumptions is presented in Note 16.

Changes in these assumptions could materially affect the amounts determined.

3.7. Technical reserves and liabilities regarding insurance and investment contracts

Future liabilities relating to insurance contracts and investment contracts with discretionary participating features are recorded as Technical reserves. The technical reserves relating to traditional life insurance products have been calculated based on various assumptions namely mortality, longevity and interest rate, applicable to each of the coverages. The assumptions were based on the historical past of the Group and of the market. These assumptions may be reviewed if it is determined that future experience will differ substantially from that previously assumed. The technical reserves arising from insurance contracts and investment contracts with discretionary participating features (capitalization products) include: (i) the mathematical reserve, (ii) the reserve for participating features, (iii) the provision for outstanding claims, (iv) the rate commitment reserve and (v) the unearned premiums reserve. The mathematical reserve includes the understatement resulting from the liability adequacy test.

When claims are made by or against policyholders, any amounts that the Group pays or expects to pay are recorded as losses in the income statement. The Group establishes reserves for the payment of claims arising from its insurance and investment contracts.

To determine the technical reserves arising from insurance contracts and investment contracts with participating features, the Group performs periodic reviews of its liabilities, using actuarial methodologies and taking into consideration the respective reinsurance coverage. The reserves are reviewed periodically by qualified actuaries.

The liability adequacy test is performed considering the projected future cash flows of each contract. These cash flows consider premiums, mortalities, maturities, surrenders, reversals, expenses and commissions payable. Whenever the contracts include options and guarantees, the present value of the liabilities is determined stochastically based on Market Consistent scenarios. This test is conducted on a product by product basis or on an aggregate basis when the risks are similar or managed on a portfolio basis.

3.8. Provisions

The Group recognises provisions intended to cover for losses arising from commercial offers approved by the Board of Directors of the Bank, when these are not opposed by Banco de Portugal. The amount of the provisions reflect NOVO BANCO's best estimate as each reporting date. The subjectivity inherent to the determination of the probability and amount of the internal resources required for the payment of the obligations may lead to significant adjustments (a) due to variations in the assumptions used (b) for the future recognition of provisions previously disclosed as contingent liabilities; and/or (c) for the future write-off of provisions, when they start to classify as contingent liabilities only. The provisions are detailed in Note 39.

3.9. Investment properties, Assets received from credit recovery and Non-current assets held for sale

Investment properties are initially recognised at cost, including directly related transaction costs and subsequently at fair value. Non-current assets held for sale are measured at the lower of the net book value and the fair value less costs to sell.

The fair value of these assets is determined based on valuations conducted by independent entities specialized in this type of service, using market methods, income or cost, as defined in Notes 2.12 and 2.24. The valuation reports are analysed internally, namely comparing the sales values with the revalued values of the properties, in order to keep the valuation parameters and processes updated to the market evolution.

The use of alternative methodologies and different assumptions may result in a different level of fair value with respective impact on the recognized balance sheet value.

3.10. Entities included in the consolidation perimeter

For the determination of the entities to be included in the consolidation perimeter, the Group evaluates the extent to which (i) it is exposed, or has rights, to the variability of the return from its involvement with this entity, and (ii) it can seize that return through of his power. In this analysis, the Bank also considers shareholder agreements that may exist and that result in the power to take decisions that impact the management of the entity's activity. The decision that an entity has to be consolidated by the Group requires the use of judgments to determine to what extent the Group is exposed to the variability of an entity's return and has the power to seize that return. In using this judgment, the Group analyzes assumptions and estimates. Thus, other assumptions and estimates could lead to a different consolidation perimeter, with a direct impact on the balance sheet.

NOTE 4 – SEGMENT REPORTING

NOVO BANCO Group activities are centred on the financial sector targeting corporate, institutional and private customers. Its decision centre is in Portugal, making the domestic territory its privileged market.

The products and services rendered include deposit taking, granting of loans to corporate and private customers, investment fund management, broker and custodian services, investment banking services and the commercialization of life and non-life insurance products. Additionally, the Group makes short-, medium- and long-term investments in the financial and currency exchange markets with the objective of taking advantage of price changes or to get returns on its available financial resources.

For this purpose, the Group has NOVO BANCO as its main operating unit - with 430 branches in Portugal (31 December 2016: 485 branches) and branches in London, Spain (21 branches), Cayman Islands, Venezuela, Luxembourg, a financial branch in the Madeira Free Zone and 5 representation offices – with NB Açores (13 branches), Banco BEST (6 branches), GNB GA, GNB Seguros (non-life insurance segment) and GNB Vida – (life insurance segment), amongst other companies.

When evaluating performance by business area, the Group considers the following Operating Segments: (1) Domestic Commercial Banking, including Retail, Corporate and Private Banking; (2) International Commercial Banking; (3) Asset Management; (4) Life Insurance; (5) Markets; and (6) Corporate Center. Each segment integrates the NOVO BANCO structures that directly relate to it, as well as the units of the Group whose businesses are mainly related to the segments. The individual and independent monitoring of each operating unit of the Group is complemented, at the Board of Directors of NOVO BANCO level, by the definition of specific strategies and commercial programs for each unit.

4.1. Description of the operating segments

Each of the operating segments includes the following activities, products, customers and Group structures, aggregated by criteria of risk, market / geography and nature of the products and services:

Domestic Commercial Banking

This Operating Segment includes all the banking activity developed on national territory involving corporate and private customers and using the branch network, corporate centers and other channels, and includes the following sub segments:

a) **Retail:** corresponds to all the activity developed in Portugal with private customers and small businesses. The financial information of the segment relates, amongst other products and services, to mortgage loans, consumer credit, small business financing, deposits, retirement plans and other insurance products sold to private customers, account management and electronic payments and placement of investment funds, brokerage and custodian services;

b) **Corporate and Institutional:** includes the activities developed in Portugal with medium- and large-sised companies, developed through a commercial structure dedicated to this segment, which includes 20 Corporate Centers. This segment also includes activities with institutional and municipal customers. The Group maintains an important presence in this segment, the result of the support it has lent to the development of the national business community, focused on companies with good risk, an innovative nature and an exporter activity;

c) **Private Banking:** comprises the Private banking activity integrating all the asset-side products and the fundraising activities, namely, deposits, discretionary management services, custodian services, brokerage services and insurance products.

International Commercial Banking

This Operating Segment integrates the units located abroad, which banking activities focus both on corporate and private customers, excluding the asset management business, which is integrated in the corresponding segment.

Amongst the units comprising this segment are NOVO BANCO's branches in Spain, London, Luxembourg and Venezuela. The aggregation of this units in the same segment is related with the geographic criteria and with the nature of the clients, the products and the services provided.

Asset Management

This segment, which depends on the specific nature of the products and services provided, includes the asset management activities developed both in Portugal and abroad through specialised companies incorporated for the purpose. The product range includes all types of funds - investment funds, real estate funds and pension funds - as well as discretionary management and portfolio management.

Life Insurance

Segment that depends on the specific nature of the products and services provided, including the activities of Companhia de Seguros GNB Vida that sells traditional and investment insurance contracts and retirement plans.

Markets

This segment includes the overall financial management of the Group, including the taking and ceding of funds on the financial markets, as well as the investment and risk management of credit, interest rate, currency and securities instruments, whether of a strategic nature or related to the current activity of the Markets' area. It also covers the activity involving non-resident institutional investments and the effects of strategic decisions with a transversal impact on the Group.

Corporate Centre

This area does not correspond to an operating segment in its true sense, but rather to an aggregation of transversal corporate structures acting throughout the entire Group, executing its overall basic management functions, such as the areas relating to the Management and Supervisory bodies, Compliance, Planning, Accounting, Risk Management and Control, Investor Relations, Internal Audit, Organization and Quality, amongst others. This segment includes the earnings from the Contingent Capital Agreement celebrated among NOVO BANCO's shareholders (see Note 14).

4.2. Criteria for the allocation of activities and results to the operating segments

The financial information presented for each segment was prepared in accordance with the criteria followed in the preparation of the internal information that is analysed by the Executive Board of Directors of the Group, as required by IFRS.

The accounting policies applied in the preparation of the financial information related to the operating segments are consistent with those used in the preparation of these consolidated financial statements, which are described in Note 2, with the adoption of the following additional principles:

Measurement of the profit or loss of the segments

The Group uses net income / (loss) before taxes as the measure of the profit or loss for purposes of evaluating the performance of each operating segment.

Autonomous operating units

As mentioned above, each autonomous operating unit (foreign branches, subsidiaries and associated companies) is evaluated separately, as each of these units is considered an investment center. Additionally, based on the characteristics of the primary business developed by these units, they are fully integrated into one of the Operating Segments, i.e. their assets, liabilities, income and expenses.

NOVO BANCO structures dedicated to the Segment

NOVO BANCO's activity, given its characteristics, can be allocated to most of its operating segments and is, therefore, accordingly disaggregated.

For purposes of allocating the financial information, the following principles are used: (i) the origin of the operation, i.e. the operation is allocated to the same segment that the commercial structure that originated it integrates, even if, in a subsequent phase, the Group, strategically, decides to securitize some of the assets; (ii) the allocation of a commercial margin to mass-products, defined at top management level when the products are launched; (iii) for non-mass products, the allocation of a margin directly negotiated by the commercial structures with customers; (iv) the allocation of the direct costs of commercial and central structures dedicated to the segment; (v) the allocation of indirect costs (central support and IT services) determined based on specific drivers; (vi) the allocation of credit risk determined in accordance with the impairment model; and (vii) the allocation of NOVO BANCO's total equity to the Markets segment.

The transactions between the legally autonomous units of the Group are made at market prices; the price for services rendered between the structures of each unit, namely the price established for internal funding between units, is determined using the margins process referred to above (which varies in accordance with the strategic relevance of the product and the equilibrium of the structures' funding and lending functions); the remaining internal transactions are allocated to the segments, without any margin for the supplier; the strategic decisions and/or of an exceptional nature are analysed on a case-by-case basis, with the income and/or costs being generally allocated to the Markets segment.

The interest rate risk, currency risk, liquidity risk and others, excluding credit risk, are included in the Financial Department, which mission it is to undertake the Bank's financial management, and which activity and results are included in the Markets segment.

Interest and similar income / expense

Since the Group's activities are exclusively carried out in the financial sector, the income reflects, fundamentally, the difference between interest received on assets and interest paid on liabilities. This situation and the fact that the segment evaluation is based on margins previously negotiated or determined for each product, leads to the presentation of the results from the intermediation activity, as permitted by IFRS 8, paragraph 23, at the net value of interest, under the designation "Net interest income / expense".

Investments presented using the equity method

Investments in associated companies presented under the equity method are included in the Markets segment, in the case of NOVO BANCO's associated companies. For other associated companies of the Group, these entities are included in the segment to which they relate.

Non-current assets

Non-current assets, according to IFRS 8, include Other tangible assets, Intangible assets and Non-current assets held for sale. NOVO BANCO includes these assets in the Markets segment, with the non-current assets held by the remaining subsidiaries being allocated to the segment in which these subsidiaries primarily develop their business.

Corporate income taxes

Corporate income tax is part of the Group's net income that, for purposes of monitoring the performance of the Operating Segments, by the Executive Board of Directors, does not affect the evaluation of most of the Operating Segments. In the tables presented below the deferred tax recognized in net income for the year are included in the Corporate Centre. Deferred tax assets and liabilities are included in the Markets segment.

Domestic and International Areas

In the disclosure of financial information by geographical area, the operating units integrating the International Area are NB Ásia (in May 2017, NOVO BANCO sold 75% of its share capital), Banco Internacional de Cabo Verde, BES Vénétie and Banco Delle Tre Venezie as discontinued operations, and Novo Banco Servicios, Novo AF, Moza Banco (excluded from the consolidation perimeter during the first half of 2017), Ijar Leasing Algérie, the NOVO BANCO branches in London, Spain, Venezuela and Luxembourg, as well as the GNB GA units located abroad.

The financial and economic elements related to the international area are those consistent with the financial statements of such units, with the respective consolidation adjustments and removals.

The segment reporting is presented as follows:

(in thousands of Euros)

	31.12.2017								
	Retail	Corporate and Institutional	Private banking	International commercial banking	Asset management	Life insurance	Markets	Corporate center	**Total**
Net interest	47 705	103 424	(405)	37 724	79	-	206 043	-	394 570
Net fees and commissions	160 149	115 693	7 783	26 913	29 406	-	(24 491)	-	315 453
Other operating income	12 019	9 342	1 907	(39 652)	(594)	-	79 970	791 695	854 687
Total operating income	219 873	228 459	9 285	24 985	28 891	-	261 522	791 695	1 564 710
Operating expenses	324 602	1 089 725	11 359	199 742	16 911	-	881 566	82 208	2 606 113
Includes:									
Provisions / Impairment losses	*24 703*	*1 038 789*	*(670)*	*131 501*	*5 171*	*-*	*857 413*	*-*	*2 056 907*
Depreciation and amortization	*29 213*	*4 388*	*1 144*	*13 181*	*200*	*-*	*4 979*	*4 952*	*58 057*
Net gains / (losses) on disposal of subsidiaries and associated companies	-	-	-	-	-	-	3 931	-	3 931
Net share of profits / (losses) of associated companies	-	-	-	-	-	-	8 377	-	8 377
Profit / (loss) before tax and non-controlling interests	**(104 729)**	**(861 266)**	**(2 074)**	**(174 757)**	**11 980**	**-**	**(607 736)**	**709 487**	**(1 029 095)**
Taxes	**-**	**-**	**-**	**2 370**	**3 959**	**-**	**4 020**	**434 797**	**445 146**
Profit / (loss) of discontinued operations	**-**	**-**	**-**	**67 556**	**-**	**3 672**	**3 551**	**-**	**74 779**
Net Profit / (loss) assignable to non-controlling interest	*920*	*-*	*-*	*291*	*-*	*-*	*(5 226)*	*-*	*(4 015)*
Net Profit / (loss) assignable to the bank´s shareholders	*(105 649)*	*(861 266)*	*(2 074)*	*(109 862)*	*8 021*	*3 672*	*(602 979)*	*274 690*	*(1 395 447)*
Intersegment operating income (1)	*5 330*	*4 606*	*-*	*222 594*	*4 565*	*-*	*(215 729)*	*-*	*21 366*
Total Net Assets	**17 076 161**	**13 350 401**	**2 079 770**	**7 364 931**	**64 090**	**5 033 723**	**7 085 773**	**-**	**52 054 849**
Total Liabilities	**17 074 184**	**13 926 328**	**2 082 118**	**6 867 607**	**10 178**	**4 546 285**	**2 715 974**	**-**	**47 222 674**
Investments in associated companies	**-**	**-**	**-**	**9 633**	**-**	**-**	**136 618**	**-**	**146 251**
Investments in tangible fixed assets	**72**	**-**	**-**	**154**	**-**	**-**	**5 309**	**-**	**5 535**
Investments in intangible assets	**-**	**-**	**-**	**2 263**	**24**	**-**	**10 239**	**-**	**12 526**
Investments in non-current assets	**-**	**-**	**-**	**1 469**	**-**	**-**	**-**	**-**	**1 469**
Investments in investment properties	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Investments in other assets - real estate properties	**2 666**	**-**	**-**	**10 806**	**-**	**-**	**170 731**	**-**	**184 203**

(1) Intersegment operating income relates essentially to interest (net interest income)

(in thousands of Euros)

	31.12.2016								
	Retail	Corporate and Institutional	Private banking	International commercial banking	Asset management	Life insurance	Markets	Corporate center	Total
Net interest*	62 280	103 139	8 969	51 380	378	-	302 975	-	529 121
Net fees and commissions*	135 450	120 193	8 707	33 308	29 188	-	(53 908)	-	272 938
Other operating income*	17 086	(24 530)	1 558	516	(1 536)	-	192 738	-	185 832
Total operating income*	214 816	198 802	19 234	85 204	28 030	-	441 805	-	987 891
Operating expenses*	345 744	517 104	30 369	220 117	18 812	-	700 393	98 162	1 930 701
Includes:									
*Provisions / Impairment losses**	*34 781*	*466 109*	*16 820*	*148 366*	*5 323*	-	*674 642*	-	*1 346 041*
*Depreciation and amortization**	*28 879*	*3 616*	*1 214*	*9 503*	*247*	-	*5 105*	*7 400*	*55 964*
Net gains / (losses) on disposal of subsidiaries and associated companies*	-	-	-	-	832	-	23 493	-	24 325
Net share of profits / (losses) of associated companies*	-	-	-	185	927	-	2 962	-	4 074
Profit / (loss) before tax and non-controlling interests*	**(130 928)**	**(318 302)**	**(11 135)**	**(134 728)**	**10 977**	**-**	**(232 133)**	**(98 162)**	**(914 411)**
Taxes*	-	-	-	3 828	3 841	-	5 569	(206 627)	(193 389)
Profit / (loss) of discontinued operations*	-	-	-	1 272	-	(66 022)	(11 699)	-	(76 449)
Net Profit / (loss) assignable to non-controlling interest*	*1 258*	-	-	*148*	-	-	*(10 547)*	-	*(9 141)*
Net Profit / (loss) assignable to the bank´s shareholders*	*(132 186)*	*(318 302)*	*(11 135)*	*(137 432)*	*7 136*	*(66 022)*	*(238 854)*	*108 465*	*(788 330)*
Intersegment operating income [(1) *]	*2 556*	*6 162*	-	*236 242*	*5 322*	-	*(221 711)*	-	*28 571*
Total Net Assets	**15 419 781**	**13 741 698**	**2 356 202**	**12 136 732**	**71 794**	**5 324 739**	**3 281 726**	**-**	**52 332 672**
Total Liabilities	**15 448 110**	**14 060 000**	**2 367 375**	**11 079 445**	**14 553**	**4 909 469**	**(694 233)**	**-**	**47 184 719**
Investments in associated companies	-	-	-	**10 368**	**3 361**	-	**144 921**	-	**158 650**
Investments in tangible fixed assets	**35**	-	-	**54**	**952**	**54**	**8 144**	-	**9 239**
Investments in intangible assets	**619**	-	-	**1 552**	**33**	**82**	**8 389**	-	**10 675**
Investments in non-current assets	**666**	-	-	**8 615**	-	-	**206 018**	**8**	**215 307**
Investments in investment properties	-	-	-	-	-	-	**111**	-	**111**
Investments in other assets - real estate properties	**2 080**	-	-	**5 041**	-	-	**96 768**	-	**103 889**

(1) Intersegment operating income relates essentially to interest (net interest income)
*Restated values

The information of the geographical distribution of the different Group business units is presented as follows:

(in thousands of Euros)

	31.12.2017									
	Portugal	Spain	France / Luxembourg	United Kingdom	Brazil	Angola	Cape Verde	Macao	Other	Total
Net profit / (loss) for the period	(1 222 647)	(140 398)	(20 532)	(2 307)	-	-	(229)	(378)	(8 956)	(1 395 447)
(of which: rel. to discontinued units	*73 644*	-	*2 179*	-	-	-	*(33)*	*(378)*	*(633)*	74 779
Total income	5 239 461	119 585	209 177	209 207	-	-	11	-	-	5 777 441
Intersegment operating income	*(209 373)*	*9 194*	*66 743*	*154 802*	-	-	-	-	-	*21 366*
Net assets	45 120 990	2 514 981	2 956 722	1 336 713	15 897	3 060	89 619	-	16 867	52 054 849
(of which: rel. to discontinued units	*4 110 141*	-	*973 724*	-	-	*3 060*	*28 440*	*4 785*	*10 806*	5 130 956
Investments in associated companies	141 835	-	-	-	-	-	-	-	4 416	146 251
Investments in tangible fixed assets	5 381	154	-	-	-	-	-	-	-	5 535
Investments in intangible assets	10 263	2 263	-	-	-	-	-	-	-	12 526
Investments in non-current assets	-	1 469	-	-	-	-	-	-	-	1 469
Investments in investment properties	-	-	-	-	-	-	-	-	-	-
Investments in other assets - real estate properties	173 397	10 806	-	-	-	-	-	-	-	184 203
Profit / (loss) before income tax and non-controlling interests [(a)]	(930 388)	(67 531)	(19 946)	(1 667)	-	-	(229)	(378)	(8 956)	(1 029 095)
Turnover [(a) (b)]	2 047 461	83 753	148 351	203 586	-	-	11	-	-	2 483 162
Number of employees [(a)]	5 156	291	16	14	-	-	-	-	11	5 488
Government grants received [(a)]	-	-	-	-	-	-	-	-	-	-

(a) Financial information presented according to art. 2 of DL no. 157/2014
(b) Turnover corresponds to the sum of the following items of the consolidated income statement: interest and similar income, dividend income, fee and commission income, net gains / (losses) from financial assets and liabilities at fair value through profit or loss, net gains / (losses) from available-for-sale financial assets, net gains / (losses) from foreign exchange differences, net gains / (losses) from the sale of other assets, other operating income and share of profits / (losses) of associated companies consolidated by the equity method

(in thousands of Euros)

	31.12.2016									
	Portugal	Spain	France / Luxembourg	United Kingdom	Brazil	Angola	Cape Verde	Macao	Other	Total
Net profit / (loss) for the period*	(723 456)	(30 148)	(36 383)	19 563	(261)	927	(1 027)	104	(17 649)	(788 330)
*(of which: rel. to discontinued units**	*(77 721)*	-	*1 168*	-	-	-	-	*104*	-	(76 449)
Total income	6 285 816	172 137	205 795	310 742	763	927	58	104	(13 693)	6 962 649
Intersegment operating income	*259 049*	*4 173*	*(36 825)*	*(197 828)*	-	-	-	-	*2*	*28 571*
Net assets	40 888 268	3 207 303	4 187 570	3 788 232	15 664	3 364	97 615	111 429	33 227	52 332 672
(of which: rel. to discontinued units	*3 292*	-	*1 130 161*	-	-	-	*32 553*	*51 365*	-	1 217 371
Investments in associated companies	134 420	-	-	-	-	3 362	-	-	20 868	158 650
Investments in tangible fixed assets	9 185	48	-	-	-	-	-	-	6	9 239
Investments in intangible assets	9 123	1 579	(27)	-	-	-	-	-	-	10 675
Investments in non-current assets	206 684	8 623	-	-	-	-	-	-	-	215 307
Investments in investment properties	111	-	-	-	-	-	-	-	-	111
Investments in other assets - real estate properties	98 848	5 041	-	-	-	-	-	-	-	103 889
Profit / (loss) before income tax and non-controlling interests [(a)*]	(830 679)	(45 052)	(41 873)	21 099	(261)	927	(1 027)	104	(17 649)	(914 411)
Turnover [(a) (b)]	1 400 812	93 620	163 362	285 029	322	927	58	-	2 269	1 946 399
Number of employees [(a)]	5 687	303	18	16	-	-	-	-	72	6 096
Government grants received [(a)]	-	-	-	-	-	-	-	-	-	-

(a) Financial information presented according to art. 2 of DL no. 157/2014
(b) Turnover corresponds to the sum of the following items of the consolidated income statement: interest and similar income, dividend income, fee and commission income, net gains / (losses) from financial assets and liabilities at fair value through profit or loss, net gains / (losses) from available-for-sale financial assets, net gains / (losses) from foreign exchange differences, net gains / (losses) from the sale of other assets, other operating income and share of profits / (losses) of associated companies consolidated by the equity method
* Restated

NOTE 5 – NET INTEREST INCOME

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2017			31-12-2016*		
	From assets / liabilities at amortized cost and available-for-sale assets	From assets / liabilities at fair value through profit or loss	Total	From assets / liabilities at amortized cost and available-for-sale assets	From assets / liabilities at fair value through profit or loss	Total
Interest and similar income						
Interest from loans and advances	729 615	24 242	753 857	916 269	16 656	932 925
Interest from financial assets at fair value through profit or loss	-	-	-	-	18 121	18 121
Interest from deposits with and loans and advances to banks	34 151	-	34 151	58 906	-	58 906
Interest from available-for-sale financial assets	76 638	-	76 638	58 570	-	58 570
Interest from derivatives held for risk management purposes	-	19 311	19 311	-	34 188	34 188
Other interest and similar income	4 356	-	4 356	7 426	-	7 426
	844 760	**43 553**	**888 313**	**1 041 171**	**68 965**	**1 110 136**
Interest expense and similar charges						
Interest on debt securities	192 933	11 325	204 258	263 099	16 652	279 751
Interest on amounts due to customers	221 259	1 895	223 154	220 158	2 200	222 358
Interest on deposits from Central Banks and other banks	26 487	-	26 487	41 030	-	41 030
Interest on derivatives held for risk management purposes	-	25 404	25 404	-	24 184	24 184
Other interest and similar charges	14 440	-	14 440	13 692	-	13 692
	455 119	**38 624**	**493 743**	**537 979**	**43 036**	**581 015**
	389 641	**4 929**	**394 570**	**503 192**	**25 929**	**529 121**

*Restated

The interest from (i) deposits with and loans and advances to banks, (ii) on amounts due to customers and (iii) on deposits from Central Banks and other banks include, as at 31 December 2017, respectively, the amounts of Euros 523 thousand, Euros 3 555 thousand and Euros 5 842 thousand in operations with repurchase agreements (31 December 2016: Euros 533 thousand of interest from loans and advances to banks, Euros 6 thousand of interest on amounts due to customers and Euros 18 415 thousand of interest on deposits from Central Banks and other banks).

The Interest income and Interest expenses captions relating to interest from derivatives held for risk management purposes include, in accordance with the accounting policy described in Notes 2.4 and 2.19, interest from hedging derivatives and from derivatives used to manage the economic risk of certain financial assets and liabilities designated at fair value through profit or loss, as per the accounting policies described in Notes 2.5, 2.6 and 2.8.

NOTE 6 – NET FEE AND COMMISSION INCOME

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2017	31-12-2016*
Fee and commission income		
From banking services	263 869	245 001
From guarantees provided	64 058	75 340
From transactions of securities	6 650	7 693
From commitments to third parties	10 253	12 362
Other fee and commission income	42 415	41 134
	387 245	**381 530**
Fee and commission expense		
With banking services rendered by third parties	50 652	54 935
With guarantees received	2 915	33 375
With transactions of securities	5 512	5 995
Other fee and commission expenses	12 713	14 287
	71 792	**108 592**
	315 453	**272 938**

*Restated

The caption Fee and commission expense with guarantees received includes, as at 31 December 2017 and 2016, an amount of Euros 2.0 million and Euros 32.9 million, respectively, relating to fees with the guarantee received from the Portuguese Republic for the debt securities issued (see Note 37).

NOTE 7 – NET GAINS / (LOSSES) FROM FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2017			31-12-2016*		
	Gains	Losses	Total	Gains	Losses	Total
Securities held for trading						
Bonds and other fixed income securities						
Issued by government and public entities	8	7	1	-	2	(2)
Issued by other entities	673	163	510	806	226	580
Shares	161	3	158	212	175	37
Other variable income securities	-	-	-	27	-	27
	842	**173**	**669**	**1 045**	**403**	**642**
Derivative financial instruments						
Foreign exchange rate contracts	39 027	43 173	(4 146)	56 857	51 886	4 971
Interest rate contracts	803 297	803 332	(35)	1 376 665	1 480 832	(104 167)
Equity / Index contracts	61 519	20 128	41 391	52 661	19 738	32 923
Credit default contracts	71 017	90 437	(19 420)	107 091	121 001	(13 910)
Other	8 387	4 114	4 273	1 549	11 739	(10 190)
	983 247	**961 184**	**22 063**	**1 594 823**	**1 685 196**	**(90 373)**
Financial assets at fair value through profit or loss						
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	-	-	-	9 764	-	9 764
Issued by other entities	484	7 364	(6 880)	28 450	517	27 933
Shares	514	3	511	-	3 119	(3 119)
Other variable income securities	427	-	427	597	2 277	(1 680)
	1 425	**7 367**	**(5 942)**	**38 811**	**5 913**	**32 898**
Other financial assets (1)						
Loans and advances to customers	**8 875**	**42 071**	**(33 196)**	**36 226**	**6 051**	**30 175**
Financial liabilities (1)						
Deposit from banks	2 339	-	2 339	78 506	-	78 506
Due to customers	2 067	-	2 067	21 381	37	21 344
Debt securities issued	174	44 745	(44 571)	23 963	-	23 963
	4 580	**44 745**	**(40 165)**	**123 850**	**37**	**123 813**
	14 880	**94 183**	**(79 303)**	**198 887**	**12 001**	**186 886**
	998 969	**1 055 540**	**(56 571)**	**1 794 755**	**1 697 600**	**97 155**

(1) Includes the fair value change of hedged assets / liabilities or at fair value option, as presented in Note 26
*Restated

As at 31 December 2017, this caption includes a negative effect of Euros 63.7 million relating to the change in fair value of financial liabilities designated at fair value through profit or loss, attributable to the Group´s own credit risk (31 December 2016: positive effect of Euros 24.2 million).

In accordance with the accounting policies followed by the Group, financial instruments are initially recognised at fair value. It is deemed that the best evidence of the fair value of the instrument at inception is the transaction price. However, in certain circumstances, the fair value of a financial instrument at inception, determined based on valuation techniques, may differ from the transaction price, namely due to the existence of a intermediation fee, originating a day one profit.

The Group recognizes in its income statement the gains arising from the intermediation fee (day one profit), which is generated, primarily, through currency and derivative financial product intermediation, given that the fair value of these instruments, both at inception and subsequently, is determined based solely on observable market data and reflects the Group's access to the wholesale market.

As at 31 December 2017, the gains recognised in the income statement arising from intermediation fees amounted to approximately Euros 6 137 thousand (31 December 2016: Euros 6 597 thousand) and are essentially related to foreign currency transactions.

NOTE 8 – NET GAINS / (LOSSES) FROM AVAILABLE-FOR-SALE FINANCIAL ASSETS AND EQUITY INSTRUMENTS

The net gains / (losses) from available-for-sale financial assets are as follows:

(in thousands of Euros)

	31.12.2017			31-12-2016*		
	Gains	**Losses**	**Total**	**Gains**	**Losses**	**Total**
Bonds and other fixed income securities						
Issued by government and public entities	46 944	6 459	40 485	26 598	20 367	6 231
Issued by other entities	904	28	876	278	665	(387)
Shares	8 306	165	8 141	49 223	2 054	47 169
Other variable income securities	8 172	429	7 743	4 965	-	4 965
	64 326	**7 081**	**57 245**	**81 064**	**23 086**	**57 978**

*Restated

During 2016, in the scope of the Visa Europe acquisition by Visa International, the group recognised a gain of Euros 30 086 thousand.

In addition, during the 2017 financial year, revenue from equity instruments in the amount of Euros 6 156 thousand, which includes dividends received from SIBS in the amount of Euros 1 483 thousand and from Euronext in the amount of Euros 1 243 thousand (31 December 2016: Euros 20 036[3] thousand, including dividends received from ES Health Care in the amount of Euros 13 465 thousand and from SIBS in the amount of Euros 2 233 thousand).

[3] restated

NOTE 9 – NET GAINS / (LOSSES) FROM FOREIGN EXCHANGE DIFFERENCES

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2017			31-12-2016*		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange revaluation	1 125 281	1 098 894	26 387	1 020 920	1 015 524	5 396
	1 125 281	**1 098 894**	**26 387**	**1 020 920**	**1 015 524**	**5 396**

*Restated

This caption includes the results of the foreign exchange revaluation of monetary assets and liabilities denominated in foreign currency in accordance with the accounting policy described in Note 2.3.

NOTE 10 – NET GAINS / (LOSSES) FROM THE SALE OF OTHER ASSETS

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2017	31-12-2016*
Loans and advances to customers	(35 166)	(696)
Real estate properties	(3 316)	(31 867)
Equipment	(376)	(16 441)
Other	(426)	(2 006)
	(39 284)	**(51 010)**

*Restated

NOTE 11 – INSURANCE EARNED PREMIUMS, NET OF REINSURANCE

Insurance earned premiums, net of reinsurance may be analysed as follows:

(in thousands of Euros)

	31.12.2017	31-12-2016*	31.12.2016
Gross written premiums	-	-	93 629
Reinsurance premiums ceded	-	-	(44 428)
Net premiums	**-**	**-**	**49 201**

*Restated

Gross written premiums, by nature, are analysed as follows:

(in thousands of Euros)

	31.12.2017	31-12-2016*	31.12.2016
Traditional annuities	-	-	57 282
Capitalization products with profit sharing	-	-	36 347
	-	**-**	**93 629**

*Restated

In accordance with the classification criteria applied to the contracts established by insurance companies defined in IFRS 4, insurance contracts issued by the Group for which there is only a transfer of financial risk, with no profit sharing, are classified as investment contracts and accounted for as liabilities. Contracts in which the investment risk is borne by the insurance taker and contracts with a fixed rate without profit sharing are not accounted for as premiums.

The reinsurance premiums ceded relate to the risk of death and longevity coverage of contracts celebrated in the traditional segments.

NOTE 12 – CLAIMS INCURRED, NET OF REINSURANCE

Claims incurred, net of reinsurance, may be analysed as follows:

(in thousands of Euros)

	31.12.2017	31-12-2016*	31.12.2016
Direct insurance			
Amounts paid	-	-	179 723
Change in the outstanding claims reserve	-	-	(600)
	-	**-**	**179 123**
Reinsurance ceded			
Amounts paid	-	-	(11 650)
Change in the outstanding claims reserve	-	-	271
	-	**-**	**(11 379)**
	-	**-**	**167 744**

*Restated

NOTE 13 – CHANGE IN TECHNICAL RESERVES, NET OF REINSURANCE

The change in technical reserves, net of reinsurance, may be analysed as follows:

(in thousands of Euros)

	31.12.2017	31-12-2016*	31.12.2016
Mathematical reserve	-	-	105 468
Reserve for profit sharing	-	-	(624)
Other technical reserves	-	-	1 602
Reserve for reinsurance	-	-	(1 071)
Commissions and profit sharing in reinsurance ceded	-	-	(30)
	-	**-**	**105 345**

*Restated

Due to the celebration of a reinsurance treaty in June 2013, through which GNB Vida reinsured its entire individual risk life insurance portfolio, covering all the policies in force with reference to 30 June 2013, GNB Vida received an upfront fee, having transferred all the risks and rewards associated with these contracts. On this basis, the risks of (i) life, (ii) disability, and (iii) contract annulments were transferred, as a result of which the upfront fee was recognised in full at that date, net of the respective value in force of the portfolio, recognised as an asset on the date of the acquisition of GNB Vida. Subsequent to that date, GNB Vida began ceding to the reinsurer all the premiums and claims associated with the policies included in the scope of this treaty. The company performs the servicing of these contracts, as well as the trading of the respective products.

NOTE 14 – OTHER OPERATING INCOME AND EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2017	31-12-2016*
Other operating income		
IT services	597	251
Gains / (losses) on recoveries of loans	35 453	32 270
Non-recurring advisory services	436	1 605
Change in consolidation perimeter	-	65 199
Renegotiation of ACT (Collective Labor Agreement)	-	28 463
Income of Funds and real estate companies	30 226	34 468
Activation of the Contingent Capital Agreement	791 695	-
Gains on repurchase of group debt securities (See note 37)	187 114	-
Gains on investment properties revaluation (See note 28)	27 704	18 959
Other income	56 499	81 975
	1 129 724	**263 190**
Other operating expenses		
Losses on repurchase of Group debt securities (see Notes 37 and 41)	-	(16 794)
Direct and indirect taxes	(18 064)	(16 355)
Contributions to the Deposits Guarantee Fund	(19)	(78)
Contributions to the Resolution Fund	(7 821)	(6 705)
Contributions to the Single Resolution Fund	(19 683)	(25 063)
Banking levy	(30 838)	(36 966)
Membership subscriptions and donations	(1 952)	(2 134)
Expenses of Funds and real estate companies	(18 701)	(29 382)
Charges with Supervisory entities	(1 670)	(1 615)
Contractual indemnities (SPE)	(3 307)	(11 838)
Losses on investment properties revaluation (See note 28)	(95 394)	(13 772)
Other expenses	(71 521)	(46 211)
	(268 970)	**(206 913)**
Other operating income / (expenses)	**860 754**	**56 277**

*Restated

Following the agreed conditions in NOVO BANCO´s sale process, a Contingent Capital Agreement was created. Under this agreement, in case its capital ratios decrease below a predefined threshold, and cumulatively, losses are recorded in a delimited portfolio of assets, the Resolution Fund makes a payment corresponding to the lower of the losses recorded and the amount needed to restore the capital ratios at the relevant level, up to a maximum of Euros 3 890 million. The capital relates to a pre-defined asset perimeter with an initial net book value (June 2016) of about Euros 7.9 billion. On 31 December 2017 the net value of those assets was 5.4 billion euro (essentially as a result of both the recording of losses and the occurrence of receipts and recoveries). Considering the losses registered by NOVO BANCO on 31 December 2017, conditions were established determining that, in 2018, the Resolution Fund will have a payment obligation of Euros 791 695 thousand.

As a result of the acquisitions realised during the 2017 financial year and the completion of the Liability Management Exercise (LME), the Group recognised a gain of Euros 187.1 million, of which Euros 209.7 million relating to the LME (31 December 2016: loss of Euros 16.9 million) (see Notes 37 and 41).

NOTE 15 – STAFF COSTS

The breakdown of the Staff costs is as follows:

(in thousands of Euros)

	31.12.2017	31-12-2016*
Wages and salaries	206 636	222 820
Remuneration	205 168	222 820
Long-term service / Career bonuses (see Note 16)	1 468	-
Mandatory social charges	62 461	69 931
Costs with post-employment benefits (see Note 16)	1 767	1 458
Other costs	4 876	6 639
	275 740	**300 848**

*Restated

The provisions and costs related to the ongoing restructuring process are presented in Note 39.

The costs associated with remuneration and other benefits attributed to the management personnel of NOVO BANCO Group are presented in Note 47.

As at 31 December 2017 and 2016, the number of employees of the NOVO BANCO Group has the following breakdown:

	31.12.2017	31.12.2016
Novo Banco employees	4 970	5 258
Employees of the Group's subsidiaries	518	838
Total employees of the Group	**5 488**	**6 096**

By professional category, the number of employees of the NOVO BANCO Group is analysed as follows:

	31.12.2017	31.12.2016
Senior management functions	497	555
Middle management functions	641	730
Specific functions	2 389	2 551
Administrative and other functions	1 961	2 260
	5 488	**6 096**

NOTE 16 – EMPLOYEE BENEFITS

Pension and health-care benefits

In compliance with the Collective Labor Agreement (ACT) for the banking sector established with the unions, the Bank undertook the commitment to grant its employees, or their families, pensions on retirement, disability and survival. These payments consist of a percentage that increases in function of years of service, applied to each year's negotiated salary table for the active work force.

Banking employees also receive health-care benefits through a specific Social-Medical Assistance Service (SAMS), managed by the respective Union, where until February 2017 the Bank makes annual contribution to SAMS amounting to 6.50% of the total annual remuneration of the active employees, including, amongst others, the holiday subsidy and Christmas subsidy. The measurement and recognition of the Group's liability with post-retirement health-care benefits is similar to the measurement and recognition of the pension liability. These benefits are covered by the Pension Fund, which currently covers all liabilities with pensions and health-care benefits.

Arising from the signature of the new Collective Labor Agreement (ACT) on 5 July 2016, published in Labour Bulletin (Boletim do Trabalho) no. 29, of 8 August 2016, the Group's contributions to SAMS as from 1 February 2017, correspond to a fixed amount (as per Annex VI of the new ACT) for each employee, 14 times a year.

For employees hired before 31 December 2008, the retirement pension and the disability, survival and death pensions consecrated under the ACT, as well as the liabilities for health-care benefits (SAMS), are covered by a closed pension fund, managed by GNB – Sociedade Gestora de Fundos de Pensões, S.A..

Protection of employees in the event of maternity, paternity and adoption, as well as old age, is covered by the General Social Security Regime, given that with the publication of Decree-Law no. 1-A/2011, of 3 January, all banking employees that were beneficiaries of "CAFEB – Caixa de Abono de Família dos Empregados Bancários" were integrated in the General Social Security Regime as from 1 January 2011.

Employees hired after 31 December 2008 are covered by the Portuguese General Social Security Regime.

Retirement pensions of banking employees integrated in the General Social Security Regime within the scope of the second tripartite agreement continue to be calculated in accordance with the provisions of the ACT and other conventions; however, banking employees are entitled to receive a pension under the General Regime, that takes into account the number of years of contributions under that regime. The banks are responsible for the difference between the pension determined in accordance with the provisions of the ACT and that which the banking employees are entitled to receive from the General Social Security Regime.

The contribution rate is 26.6%, 23.6% paid by the employer and 3% paid by the employees to the General Social Security Regime in substitution of the Caixa de Abono de Família dos Empregados Bancários (CAFEB), abolished by said Decree-law. In consequence of this change, pension entitlements of active employees are to be covered on the terms defined under the General Social Security Regime, for the length of their employment between 1 January 2011 and their retirement date. The differential required to make up the pension guaranteed under the ACT is paid by the Banks.

At the end of financial year 2011 and pursuant to the 3rd tripartite agreement, it was decided to transfer, definitively and irreversibly, to the General Social Security Regime all the banks' liabilities with pensions in payment to retirees and pensioners that were in that condition as at 31 December 2011 at constant values (0% discount rate) for the component foreseen in the "Instrumento de Regulação Colectiva de Trabalho" (IRCT) applicable to banking employees, including the eventualities of death, disability and survival. The liabilities relating to the updating of pension amounts, pension benefits other than those to be borne by Social Security, health-care contributions to SAMS, death allowances and deferred survivor's pensions will remain under the banks' responsibility, with the corresponding funding being met through the respective pension funds.

The agreement further established that the financial institutions' pension fund assets relating to the part allocated to the satisfaction responsibilities for those pensions, be transferred to the State.

According to the deliberation of the Board of Directors of Banco de Portugal of 3 August 2014 (8 p.m.), considering the resolution by the same Board of Directors of 11 August 2014 (5 p.m.), and the additional clarifications contained in the deliberation of the Board of Directors of Banco de Portugal, of 11 February 2015, it was clarified that the BES responsibilities not transferred to NOVO BANCO relate to the retirement and survival pensions and complementary retirement and survival pensions of the Directors of BES who had been members of its Executive Committee, as defined in BES's Articles of Association and BES's General Assembly Regulations to which the Articles of Association refer, not having, therefore, been transferred to NOVO BANCO, without prejudice to the transfer of the responsibilities relating exclusively to the employment contracts with BES.

Given the aforementioned, the liabilities arising exclusively from the employment contracts with BES were transferred to NOVO BANCO. In light of the foregoing, only the pension fund liabilities arising from the Complementary Executive Committee Plan were split, with a part (described above) remaining in BES, with the other part being transferred to NOVO BANCO, together with the Pension Fund's liabilities relating to the Base Plan and the Complementary Plan.

To quantify the amounts relating to the split of the Pension Fund assets allocated to the liabilities that remained in BES, following the decision of Banco de Portugal of 11 February 2015, from those that were transferred to NOVO BANCO, the assets existing on 3 August 2014 were split in proportion to the liabilities calculated on the same date, allocated to each of the groups of former participants and beneficiaries allocated to each of the entities. The split performed on these terms will result, on 3 August 2014, in a level of funding of the Complementary Plan of the Executive Commission that is equal for each of the associates of the Fund (NOVO BANCO and BES).

The splitting method applied to the liabilities and assets of the Pension Fund between NOVO BANCO and BES, described in the preceding paragraph, is based on the recommendation of the ASF transmitted to Sociedade Gestora do Fundo de Pensões (Managing Company of the Pension Fund). However, up to the present date, the formalization of the effective splitting of the liabilities / assets of BES and NB has not yet occurred, with both formally continuing to be members of the same Pension Fund, currently designated Fundo de Pensões NB.

On 1 June 2016, an amendment was made to Fundo de Pensões NB´s constitutive contract, where the complementary plan became the defined contribution instead of defined benefit. In light of this, and in accordance with IAS 19, this plan´s responsibilities and assets are net of the amounts presented for the defined benefit plans.

The key actuarial assumptions used to calculate retirement pension and health-care liabilities are identical and are as follows:

	31.12.2017		31.12.2016		
	Assumptions	Actual	Assumptions		Actual
Actuarial Assumptions					
Projected rate of return on plan assets	2.10%	9.04%	2.10%		-0.93%
Discount rate	2.10%	-	2.10%		-
Pension increase rate	0.50%	-3.04%	0.25%	(1)	0.50%
Salary increase rate	0.75%	1.63%	0.50%	(2)	1.87%
Mortality table men	TV 88/90		TV 73/77-2 years		
Mortality table women	TV 88/90-2 years		TV 88/90-2 years		

(1) 0.75% in 2017, in 2018 and 2019 a growth rate of 0.00% was considered and from 2020 a growth rate of 0.25% was considered

(2) 0.75% in 2017; from 2018 a growth rate of 0.50% was considered

Disability decreases are not considered in the calculation of the liabilities. The determination of the discount rate as at 31 December 2016 and 2015 was based on: (i) the evolution of the main indices for high quality corporate bonds and (ii) the duration of the liabilities.

The pension plan participants have the following breakdown:

	31.12.2017	31.12.2016
Employees	4 084	4 705
Pensioners and survivors	6 590	6 381
TOTAL	**10 674**	**11 086**

The application of IAS 19 in terms of liabilities and coverage levels as at 31 December 2017 and 2016 is presented as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Assets / (liabilities) recognized in the balance sheet		
Total liabilities	**(1 663 489)**	**(1 577 750)**
Pensioners	(1 053 871)	(901 440)
Employees	(609 618)	(676 310)
Coverage		
Fair value of plan assets	**1 648 405**	**1 557 979**
Net assets / (liabilities) in the balance sheet (See Notes 33 and 42)	**(15 084)**	**(19 771)**
Accumulated actuarial deviations recognized in other comprehensive income	**421 246**	**396 576**

According to the policy defined in Note 2.16 - Employee Benefits, the Group calculates liabilities for pensions and actuarial gains and losses half-yearly and evaluates at each balance sheet date and for each plan separately, the recoverability of the excess cover in light of the respective pension liabilities.

As at 31 December 2017 and 2016, the sensitivity analysis to a 0.25% increase in the rate of the assumptions and to a one-year increase in the mortality table results in the following changes in the present value of the liabilities determined for past services:

(in thousands of Euros)

Assumptions	**Change in the amount of liabilities due to the change:**			
	31.12.2017		**31.12.2016**	
	of +0.25% in the rate used	of -0.25% in the rate used	of +0.25% in the rate used	of -0.25% in the rate used
Discount rate	(62 082)	60 977	(59 380)	59 526
Salary increase rate	21 201	(25 050)	16 719	(15 231)
Pension increase rate	44 766	(44 630)	21 533	(21 553)
	of +1 year	of -1 year	of +1 year	of -1 year
Mortality table	(53 674)	49 781	(48 816)	47 272

The evolution of liabilities for pensions and health-care benefits can be analysed as follows:

	31.12.2017	31.12.2016
Retirement pension liabilities at beginning of period	**1 577 750**	**1 545 996**
Current service cost	421	1 248
Interest cost	33 099	37 663
Plan participants' contribution	2 764	2 852
Contributions from other entities	237	287
Actuarial (gains) / losses in the period:		
- Changes in financial assumptions	102 268	26 758
- Experience adjustments (gains) / losses	15 263	12 318
Pensions paid by the fund / transfers and once-off bonuses	(66 569)	(68 910)
Amount of the responsibilities transferred to defined contribution plans	(26 066)	-
Early retirement	30 240	39 622
Foreign exchange differences and other	(5 918)	(20 084)
Retirement pension liabilities at end of period	**1 663 489**	**1 577 750**

(in thousands of Euros)

The evolution of the value of the pension funds in the financial years ended on 31 December 2017 and 2016 can be as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Fair value of fund assets at beginning of period	**1 557 979**	**1 514 326**
Net return from the fund	124 512	(6 209)
- Share of the net interest on the assets	32 612	37 507
- Return on assets excluding net interest	91 900	(43 716)
Group contributions	65 416	120 018
Plan participants' contributions	2 764	2 852
Pensions paid by the fund / transfers and once-off bonuses	(66 569)	(68 910)
Amount of the assets transferred to defined contribution plans	(26 066)	-
Foreign exchange differences and other	(9 631)	(4 098)
Fair value of fund assets at end of period	**1 648 405**	**1 557 979**

The assets of the pension funds may be as follows:

(in thousands of Euros)

	31.12.2017			31.12.2016		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equity instruments	139 119	89 444	228 563	63 185	58 532	121 717
Debt instruments	856 242	282	856 524	608 841	303	609 144
Investment funds	209 244	54 238	263 482	458 249	65 733	523 982
Structured debt	10 701	484	11 185	492	6 646	7 138
Derivative instruments	-	-	-	(6)	-	(6)
Real estate properties	-	114 537	114 537	-	129 806	129 806
Cash and cash equivalents	-	174 114	174 114	-	166 198	166 198
Total	**1 215 306**	**433 099**	**1 648 405**	**1 130 761**	**427 218**	**1 557 979**

The assets of the pension funds used by the Group or representative of securities issued by Group entities are detailed as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Real estate properties	70 752	85 067
Total	**70 752**	**85 067**

As at 31 December 2017 and 2016, the fund had no securities representative of capital or issued by subsidiaries of the NOVO BANCO Group.

The evolution of the actuarial gains and losses in the balance sheet can be analysed as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Accumulated actuarial losses recognized in other comprehensive income at beginning of period	**396 576**	**314 161**
Actuarial (gains) / losses in the period:		
- Changes in assumptions	102 268	26 758
- Experience adjustments (gains) / losses	(76 637)	56 034
Other	(961)	(377)
Accumulated actuarial losses recognized in other comprehensive income at end of period	**421 246**	**396 576**

The cost for the period with retirement pensions and health-care benefits may be analysed as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Current service cost	421	1 248
Interest expense / (income)	2 748	2 322
Other	1 346	210
Cost with post-employment benefits	**4 515**	**3 780**

In financial year 2017, the amount of the early retirements totalled Euros 30.0 million, which fall under the Group's restructuring process and, as such, were recognised against the use of the restructuring provision (see Note 39). In financial year 2016, the amount of the early retirements totalled Euros 39.6 million, of which Euros 37.6 million were recognised in return for the restructuring provision (see Note 39).

The evolution of the net assets / (liabilities) on the balance sheet may be analysed, in the financial years ended on 31 December 2017 and 2016, as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
At beginning of period	**(19 771)**	**(31 670)**
Cost for period	(4 515)	(3 780)
Actuarial gains / (losses) recognized in other comprehensive income	(25 631)	(82 415)
Contributions made in the period	65 416	120 018
Other	(30 583)	(21 924)
At end of period	**(15 084)**	**(19 771)**

The summary of the liabilities and balance of the funds, as well as the experience profit and loss is analysed as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016	31.12.2015	31.12.2014
Retirement pension liabilities	(1 663 489)	(1 577 750)	(1 545 996)	(1 501 735)
Fair value of plan assets	1 648 405	1 557 979	1 514 326	1 442 119
(Under) / overfunding of liabilities	**(15 084)**	**(19 771)**	**(31 670)**	**(59 616)**
(Gains) / losses on experience adjustments in retirement pension liabilities	15 263	12 318	(2 330)	14 251
(Gains) / losses on experience adjustments in plan assets	(91 900)	43 716	17 545	119 040

The average duration of the liabilities of the defined benefit plans is approximately 16 years (31 December 2016: approximately 17 years). The table below presents the temporal breakdown of the estimated benefits payable:

(in thousands of Euros)

	Up to 1 year	From 1 to 2 years	From 2 to 5 years	More than 5 years
Estimated amount of benefits payable	56 410	57 769	177 634	1 913 487

As at 31 December 2017, the on-balance sheet liabilities are fully funded for the base and complementary plan (see Note 33). No contribution was made to the EC complementary plan, with the same being conditioned by the formalisation of the split of the liabilities and assets between NB and BES following the Banco de Portugal deliberation of 11 February 2015. The amount not funded totals Euros 15 084 thousand. No additional contributions to the defined benefit plans for the following financial year are anticipated, since the fund's income is expected to be sufficient to cover the changes in liabilities.

Career bonus

As at 31 December 2017, the liabilities assumed by the Group amounted to Euros 6 371 thousand, corresponding to the liabilities for past services subjacent to the career bonuses, as described in Note 2.16 – Employee benefits – Long-term service bonuses and Career bonuses (31 December 2016: Euros 5 149 thousand) (see Note 42).

In the year 2017, the costs recognised with career bonuses were Euros 1 468 thousand (see Note 15). In the year 2016, there were no costs with long-term service bonuses / career bonuses, due to the fact that, consequence of the change in the ACT, the liabilities determined for the career bonuses, increased by the proportional amounts payable for the long-term service bonuses are lower than the liabilities related to the long-term service bonuses determined and recorded on 31 December 2015.

NOTE 17 – GENERAL AND ADMINISTRATIVE EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2017	31-12-2016*
Rentals	27 397	31 699
Advertising	9 737	11 826
Communication	15 121	17 605
Maintenance and repairs expenses	8 860	9 884
Travelling and representation	3 023	3 668
Transportation of valuables	4 184	4 123
Insurance	5 562	3 830
IT services	52 550	48 355
Independent work	8 343	5 329
Temporary work	1 859	1 610
Electronic payment systems	10 541	10 119
Legal costs	15 989	22 810
Consultancy and audit fees	19 358	18 363
Water, energy and fuel	5 990	8 278
Consumables	2 146	2 281
Other costs	24 749	28 338
	215 409	**228 118**

*Restated

The caption Rentals includes Euros 5 675 thousand (31 December 2016: Euros 6 825 thousand) related to costs with operating leases of vehicles, with the Group being allowed, at any moment, to cancel same and, therefore, the future payments.

The caption Other costs includes, amongst others, specialised service costs incurred with security and vigilance, information services, training costs and sundry external supplies.

The fees invoiced during financial year 2017 by the Statutory Audit Firm, according to that laid down in article 508-F of the Portuguese Companies Code, have the following breakdown:

(in thousands of Euros)

	31.12.2017	31.12.2016
Annual statutory audit	1 955	3 997
Audit related fees	1 158	1 461
Tax consultancy services	-	24
Other services	90	662
Amount of total services billed	**3 203**	**6 144**

On 31 December 2016, the fees related to the statutory audit and limited review services include prior year fees that were only invoiced in 2016.

NOTE 18 – EARNINGS PER SHARE

Basic earnings per share

The basic earnings per share are calculated dividing the net profit attributable to the shareholders of the Bank by the weighted average number of ordinary shares in circulation during the financial year / period.

(in thousands of Euros)

	31.12.2017	31-12-2016*
Net consolidated profit / (loss) attributable to shareholders of the Bank	**(1 395 447)**	**(788 330)**
Weighted average number of ordinary shares outstanding (thousands)	5 906 849	4 900 000
Basic earnings per share attributable to shareholders of NOVO BANCO (in Euros)	**(0.24)**	**(0.16)**
Basic earnings per share from continuing activities attributable to shareholders of NOVO BANCO (in Euros)	**(0.25)**	**(0.15)**

*Restated

Diluted earnings per share

The diluted earnings per share are calculated considering the net profit attributable to the shareholders of the Bank and the weighted average number of ordinary shares in circulation, adjusted for the effects of all potential dilutive ordinary shares.

The diluted earnings per share do not differ from the basic earnings per share.

NOTE 19 – CASH AND DEPOSITS WITH CENTRAL BANKS

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

(in thousands of Euros)

	31.12.2017	31.12.2016
Cash	168 221	180 431
Demand deposits with Central Banks		
Banco de Portugal	3 584 409	1 234 082
Other Central Banks	35 397	54 746
	3 619 806	1 288 828
	3 788 027	**1 469 259**

The caption Demand Deposits with Banco de Portugal includes mandatory deposits to comply with the minimum legal cash reserve requirements in an amount of Euros 224.1 million (31 December 2016: Euros 206.2 million). According to European Central Bank Regulation (EU) no. 1358/2011, of 14 December 2011, minimum cash requirements of demand deposits with Banco de Portugal are interest-bearing and correspond to 1% of the deposits and debt certificates maturing in less than 2 years, after excluding from these the deposits of institutions subject to the European Central Bank Systems' minimum reserve requirements. As at 31 December 2016, the average interest rate on these deposits was 0.00% (31 December 2015: 0.01%).

Compliance with minimum cash requirements, for a given observation period, is monitored taking into account the average amount of the deposits with Banco de Portugal over said period. The balance of the Bank's account with Banco de Portugal as at 31 December 2017 was included in the observation period running from 20 December 2017 to 30 January 2018.

NOTE 20 – DEPOSITS WITH OTHER BANKS

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

(in thousands of Euros)

	31.12.2017	31.12.2016
Deposits with banks in Portugal		
Repayable on demand	16 909	22 646
Uncollected checks	68 057	60 924
	84 966	**83 570**
Deposits with banks abroad		
Repayable on demand	271 366	262 289
Other	24 269	25 059
	295 635	**287 348**
	380 601	**370 918**

The Uncollected checks in Portugal and abroad were sent for collection during the first business days subsequent to the balance sheet dates.

NOTE 21 – FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

As at 31 December 2017 and 2016, the caption Financial assets and liabilities held for trading has the following breakdown:

(in thousands of Euros)

	31.12.2017	31.12.2016
Financial assets held for trading		
Securities		
Bonds and other fixed income securities		
Issued by other entities	2	1
Shares	79	215
Other variable income securities	286	383
	367	**599**
Derivatives		
Derivative financial instruments with a positive fair value	577 153	656 123
	577 520	**656 722**
Financial liabilities held for trading		
Derivative financial instruments with a negative fair value	559 765	632 831
	559 765	**632 831**

As at 31 December 2017 and 2016, the analysis of the securities held for trading, by maturity period, is as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Up to 3 months	2	1
Undetermined	365	598
	367	**599**

In accordance with the accounting policy described in Note 2.6, securities held for trading are those acquired to be traded in the short-term regardless of their maturity.

A breakdown of the securities held for trading, by fair value hierarchy, is presented in Note 49.

As at 31 December 2017 and 2016, derivative financial instruments are analysed as follows:

(in thousands of Euros)

	31.12.2017			31.12.2016		
	Notional	Fair value		Notional	Fair value	
		Assets	Liabilities		Assets	Liabilities
Trading derivatives						
Exchange rate contracts						
Forwards						
- buy	410 673	3 719	3 829	350 058	6 040	7 238
- sell	410 176			351 326		
Currency Swaps						
- buy	1 393 771	1 539	579	1 014 827	783	423
- sell	1 400 834			1 007 657		
Currency Interest Rate Swaps						
- buy	24 507	21 657	21 886	25 935	23 017	23 273
- sell	24 508			25 913		
Currency Options						
- buy	394 388	6 783	7 041	320 846	8 289	7 713
- sell	399 717			270 183		
		33 698	**33 335**		**38 129**	**38 647**
Interest rate contracts						
Interest Rate Swaps						
- buy	7 206 977	496 747	507 324	7 712 009	594 632	578 811
- sell	7 241 798			7 741 086		
Interest Rate Caps & Floors						
- buy	43 734	501	539	45 616	1 078	1 035
- sell	47 623			60 100		
Interest Rate Futures [a)]						
- buy	-	-	-	-	-	-
- sell	185 000			-		
Interest Rate Options						
- buy	1 650 963	-	-	-	-	-
- sell	-			-		
		497 248	**507 863**		**595 710**	**579 846**
Equity / Index contracts						
Equity / Index Swaps						
- buy	26 625	561	557	16 702	740	251
- sell	26 625			16 702		
Equity / Index Options						
- buy	957 486	45 631	17 897	364 367	2 617	13 842
- sell	1 083 041			454 127		
Equity / Index Futures [a)]						
- buy	12 968	-	-	64 432	-	-
- sell	-			59 218		
Future Options [a)]						
- buy	6	-	-	550 232	-	-
- sell	-			-		
		46 192	**18 454**		**3 357**	**14 093**
Credit default contracts						
Credit Default Swaps						
- buy	7 814	15	113	115 823	18 927	245
- sell	7 814			115 823		
		15	**113**		**18 927**	**245**
Total		**577 153**	**559 765**		**656 123**	**632 831**

a) Derivatives traded on organized markets, which market value is settled daily through the margin account (see Note 33)

The Group calculates the Credit Value Adjustment (CVA) for derivative instruments in accordance with the following methodology: (i) Portfolio basis – the calculation of the CVA corresponds to the application, to the aggregate exposure of each counterpart, of an expected loss and a rate of recovery, considering the average duration period estimated for each exposure; (ii) Individual basis – the calculation of the CVA on an individual basis is based on the determination of the exposure using stochastic methods (Expected Positive Exposure) which translates into the calculation of the expected fair value exposure that each derivative is likely to assume over its remaining life. Subsequently, an expected loss and a recovery rate are applied to the exposure so determined.

During 2017, the Group recognised a gain of Euros 6.7 million related with the CVA of the derivative instruments (31 December 2016: loss of Euros 10.0 million).

As at 31 December 2017 and 2016, the analysis of derivative financial instruments held for trading, by maturity period, is as follows:

(in thousands of Euros)

	31.12.2017			31.12.2016		
	Notional		Fair value (net)	Notional		Fair value (net)
	Buy	Sell		Buy	Sell	
Up to 3 months	2 455 482	2 634 097	(15 051)	2 056 470	1 974 247	(25 744)
3 months to 1 year	2 589 198	957 743	7 853	1 370 455	867 272	1 924
1 to 5 years	2 329 637	2 413 337	(12 766)	1 887 723	1 940 307	(14 909)
More than 5 years	4 755 595	4 821 959	37 352	5 266 199	5 320 309	62 021
	12 129 912	**10 827 136**	**17 388**	**10 580 847**	**10 102 135**	**23 292**

NOTE 22 – OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The breakdown of this balance is as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Bonds and other fixed income securities		
Issued by government and public entities	-	78 039
Issued by other entities	620	498 142
Shares and other variable income securities	29 563	627 626
	30 183	**1 203 807**

The Group's option, considering IAS 39 and in accordance with the accounting policy described in Note 2.6, to define these financial assets at fair value through profit or loss, is in accordance with its documented management strategy, given that these financial assets (i) are managed and their performance evaluated on a fair value basis and / or (ii) have embedded derivative instruments.

As at 31 December 2017 and 2016, the analysis of the financial assets at fair value through profit or loss, by maturity period, is as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Up to 3 months	620	8 237
3 months to 1 year	-	32 715
1 to 5 years	-	241 150
More than 5 years	-	294 157
Undetermined	29 563	627 548
	30 183	**1 203 807**

The detailed information of financial assets at fair value through profit or loss by fair value hierarchy is presented on Note 49.

NOTE 23 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

(in thousands of Euros)

	Cost [1]	Fair value reserves		Accumulated impairment losses	Book value
		Positive	Negative		
Bonds and other fixed income securities					
Issued by government and public entities	**5 848 735**	**120 553**	**(1 291)**	**-**	**5 967 997**
Resident	3 743 434	112 241	(298)	-	3 855 377
Non-resident	2 105 301	8 312	(993)	-	2 112 620
Issued by other entities	**1 122 559**	**52 067**	**(996)**	**(212 518)**	**961 112**
Resident	1 025 368	51 831	(170)	(193 124)	883 905
Non-resident	97 191	236	(826)	(19 394)	77 207
Shares	**1 426 285**	**60 887**	**(19 688)**	**(764 656)**	**702 828**
Resident	700 156	20 124	(541)	(559 537)	160 202
Non-resident	726 129	40 763	(19 147)	(205 119)	542 626
Other variable income securities	**988 280**	**30 699**	**(795)**	**(201 876)**	**816 308**
Resident	916 859	25 464	(670)	(162 911)	778 742
Non-resident	71 421	5 235	(125)	(38 965)	37 566
Balance at 31 December 2017	**9 385 859**	**264 206**	**(22 770)**	**(1 179 050)**	**8 448 245**
Bonds and other fixed income securities					
Issued by government and public entities	**6 412 875**	**56 048**	**(37 283)**	**-**	**6 431 640**
Resident	3 464 698	46 012	(17 693)	-	3 493 017
Non-resident	2 948 177	10 036	(19 590)	-	2 938 623
Issued by other entities	**2 435 198**	**84 914**	**(13 054)**	**(230 672)**	**2 276 386**
Resident	1 106 990	48 188	(3 776)	(172 867)	978 535
Non-resident	1 328 208	36 726	(9 278)	(57 805)	1 297 851
Shares	**1 611 749**	**75 327**	**(26 113)**	**(676 937)**	**984 026**
Resident	743 292	13 751	(2 994)	(509 938)	244 111
Non-resident	868 457	61 576	(23 119)	(166 999)	739 915
Other variable income securities	**1 037 263**	**13 609**	**(2 070)**	**(182 882)**	**865 920**
Resident	952 607	10 399	(1 895)	(145 762)	815 349
Non-resident	84 656	3 210	(175)	(37 120)	50 571
Balance at 31 December 2016	**11 497 085**	**229 898**	**(78 520)**	**(1 090 491)**	**10 557 972**

[1] Acquisition cost for shares and other variable income securities and amortized cost for debt securities

As at 31 December 2017, this caption includes assets amounting to Euros 50 807 thousand measured at acquisition cost net of impairment (31 December 2016: Euros 55 735 thousand).

In accordance with the accounting policy presented in Note 2.6, the Group performs periodic assessments in order to confirm if there is objective evidence of impairment in its portfolio of the Available-for-sale financial assets, applying the judgment criteria described in Note 3.1.

As at 31 December 2017, the exposure, under this caption, to sovereign debt of the Eurozone “peripheral” countries is presented in Note 50 – Risk management.

The changes occurring in the impairment losses of Available-for-sale financial assets are presented as follows:

(in thousands of Euros)

	31.12.2017				
	Bonds				
	Gov. & public entities	Other entities	Shares	Other var. income securities	Total
Balance at the beginning of the period	-	230 672	676 937	182 882	1 090 491
Allocation for the period	-	33 441	88 878	25 081	147 400
Utilisation during the period	-	(15 914)	(18 930)	(5 316)	(40 160)
Reversals	-	(12 454)	(159)	-	(12 613)
Transfers [1]	-	-	47 321	-	47 321
Foreign exchange differences and other	-	(23 227)	(29 391)	(771)	(53 389)
Balance at the end of the period	**-**	**212 518**	**764 656**	**201 876**	**1 179 050**

[1] Refers to Moza Banco no longer being consolidated as it is now a financial asset available for sale

(in thousands of Euros)

	31.12.2016				
	Bonds				
	Gov. & public entities	Other entities	Shares	Other var. income securities	Total
Balance at the beginning of the period	-	175 612	594 904	146 498	917 014
Allocation for the period [*]	-	82 567	218 053	11 552	312 172
Utilisation during the period	-	(11 430)	(119 092)	(1 437)	(131 959)
Reversals	-	(17 304)	(4 534)	-	(21 838)
Foreign exchange differences and other [*]	-	1 227	(12 394)	26 269	15 102
Balance at the end of the period	**-**	**230 672**	**676 937**	**182 882**	**1 090 491**

[*] Amounts restated

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

(in thousands of Euros)

	31.12.2017	31.12.2016
Up to 3 months	831 514	1 148 299
3 months to 1 year	1 094 637	1 873 026
1 to 5 years	3 469 524	3 024 841
More than 5 years	1 533 434	2 661 860
Undetermined	1 519 136	1 849 946
	8 448 245	**10 557 972**

A breakdown of the available-for-sale securities, by fair value, is presented in Note 49.

Portfolio securities pledged by the Group are analysed in Note 45.

NOTE 24 – LOANS AND ADVANCES TO BANKS

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

(in thousands of Euros)

	31.12.2017	31.12.2016
Loans and advances to banks in Portugal		
Deposits with banks	8 865	7 604
Loans	9 552	37 658
Operations with reverse repurchase agreements	11 713	12 772
Other loans and advances	3	6
	30 133	**58 040**
Loans and advances to banks abroad		
Deposits with banks	72 584	85 001
Very short-term deposits	169	41 725
Loans	540 332	619 701
Operations with reverse repurchase agreements	9 750	21
Other loans and advances	91	587
	622 926	**747 035**
Overdue loans and advances	-	391 506
	653 059	**1 196 581**
Impairment losses	(71 158)	(472 414)
	581 901	**724 167**

As at 31 December 2016, impairment losses include, essentially, an exposure in the amount of Euros 341.5 million totally provided to which the write-off was made during the 2017 financial year.

Operations with reverse repurchase agreements, as at 31 December 2017 relate, entirely, to operations with a maturity of up to one year and, as at 31 December 2016, to operations with a maturity of one to five years in the amount of Euros 12 772 thousand, and up to 3 months for the remaining amount.

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

(in thousands of Euros)

	31.12.2017	31.12.2016
Up to 3 months	29 181	92 080
3 months to 1 year	256 000	22 006
1 to 5 years	4 471	275 555
More than 5 years	363 407	415 434
Undetermined (overdue loans)	-	391 506
	653 059	**1 196 581**

The changes occurring during the financial year in the impairment losses of loans and advances to banks are presented as follows:

(in thousands of Euros)

	31.12.2017		
	Loans and advances	**Overdue loans and advances**	**Total**
Balance at beginning of the period	80 909	391 505	472 414
Utilization during the period	-	(341 497)	(341 497)
Transfers [1]	-	(50 000)	(50 000)
Foreign exchange differences and other	(9 751)	(8)	(9 759)
Balance at end of the period	**71 158**	**-**	**71 158**

[1] Refers to a transfer for loans and advances to costumers, as the counterpart is no longer a financial institution

(in thousands of Euros)

	31.12.2016		
	Loans and advances	**Overdue loans and advances**	**Total**
Balance at beginning of the period	79 112	341 105	420 217
Allocation for the period	-	50 000	50 000
Reversals	-	(1)	(1)
Foreign exchange differences and other	1 797	401	2 198
Balance at end of the period	**80 909**	**391 505**	**472 414**

NOTE 25 – LOANS AND ADVANCES TO CUSTOMERS

As at 31 December 2017 and 2016, this balance is analysed as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Domestic loans and advances		
Corporate		
Loans	8 983 849	9 549 290
Current account loans	1 533 033	1 700 526
Finance leases	1 499 863	1 561 954
Discounted bills	83 206	97 485
Factoring	859 311	813 428
Overdrafts	5 343	13 980
Other loans and advances	35 709	55 147
Individuals		
Residential Mortgage loans	8 778 632	8 829 015
Consumer credit and other loans	1 012 595	907 825
	22 791 541	**23 528 650**
Foreign loans and advances		
Corporate		
Loans	1 569 439	2 289 602
Current account loans	338 899	391 658
Finance leases	51 965	48 118
Discounted bills	82 339	288 462
Factoring	105 199	90 045
Overdrafts	72 382	65 415
Other loans and advances	4 805	5 275
Individuals		
Residential Mortgage loans	848 266	760 352
Consumer credit and other loans	342 436	346 744
	3 415 730	**4 285 671**
Overdue loans and advances and interest		
Up to 3 months	88 087	207 723
3 months to 1 year	347 498	939 134
1 to 3 years	2 306 650	2 861 926
More than 3 years	2 472 935	1 927 363
	5 215 170	**5 936 146**
	31 422 441	**33 750 467**
Impairment losses	(5 631 498)	(5 566 041)
	25 790 943	**28 184 426**

As at 31 December 2017, the balance for loans and advances to customers (net of impairment) includes an amount of Euros 2 307.0 million (31 December 2016: Euros 2 797.9 million) related to securitization operations in respect of which, in accordance with the accounting policy described in Note 2.2, the structured entities are consolidated by the Group (see Notes 1 and 48). The liabilities related to these securitization operations were booked as Liabilities represented by debt securities (see Notes 37 and 48).

As at 31 December 2017, the caption Loans and advances includes Euros 4 684.8 million in mortgage loans that collateralise the issue of covered bonds (31 December 2016: Euros 4 621.9 million) (see Note 37).

This caption includes, as at 31 December 2017, Euros 1 200 541 thousand recorded in the balance sheet at fair value through profit or loss (31 December 2016: Euros 661 838 thousand) (see Note 49).

As at 31 December 2017, the amount of interest income and commission fees recorded in the balance sheet relating to credit operations totals Euros 57 561 thousand (31 December 2016: Euros 35 950 thousand).

The caption "Loans and advances to customers" includes a negative fair value of Euros 73 213 thousand related to the fair value adjustment of covered items (31 December 2016: Euros 106 513 thousand) (see Note 26).

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

(in thousands of Euros)

	31.12.2017	31.12.2016
Up to 3 months	2 542 410	3 490 812
3 months to 1 year	2 095 336	2 122 055
1 to 5 years	4 296 082	5 235 600
More than 5 years	17 273 443	16 965 854
Undetermined (overdue loans)	5 215 170	5 936 146
	31 422 441	**33 750 467**

The changes occurring during the period in impairment losses of loans and advances to customers are presented as follows:

(in thousands of Euros)

	31.12.2017			
	Corporate loans	Individuals - Mortgage loans	Individuals - Other loans	**Total**
Balance at the beginning of the period	5 137 554	185 067	243 420	5 566 041
Allocation / reversals	1 129 709	23 058	76 438	1 229 205
Utilization	(1 049 374)	(57 819)	(66 066)	(1 173 259)
Transfers	50 000	-	-	50 000
Discounting effect	(76 200)	(5 468)	(6 611)	(88 279)
Foreign exchange differences and other	71 452	13 837	(37 499)	47 790
Balance at the end of the period	**5 263 141**	**158 675**	**209 682**	**5 631 498**

(in thousands of Euros)

	31.12.2016			
	Corporate loans	Individuals - Mortgage loans	Individuals - Other loans	**Total**
Balance at the beginning of the period	5 361 794	195 966	274 887	5 832 647
Allocation / reversals	575 803	13 300	83 475	672 578
Utilization	(572 520)	(27 619)	(44 572)	(644 711)
Transfers	(146 543)	-	-	(146 543)
Discounting effect	(119 165)	(152)	(9 505)	(128 822)
Foreign exchange differences and other	38 185	3 572	(60 865)	(19 108)
Balance at the end of the period	**5 137 554**	**185 067**	**243 420**	**5 566 041**

The increase of impairments for loans of 1229.2 million of euros recorded in 2017 (31 December 2016: 672.6 million of euros) was mainly related to a series of events occurred during 2017 in some of the main economic groups to which the Bank was exposed and which led, through the normal application of the credit impairment policy described in Note 2.5., to an increase in impairment losses in the current year as a result of the individual impairment analysis. To this increase has also contributed the main exposures to certain sectors or to certain economic groups that have a high concentration of their activity in geographies that continue to present macroeconomic difficulties.

Loans and advances to customers by interest rate type are as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Fixed interest rate	3 152 135	3 377 120
Variable interest rate	28 270 306	30 373 347
	31 422 441	**33 750 467**

An analysis of finance lease loans, by maturity period, is presented as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Gross investment in finance leases receivable		
Up to 1 year	271 967	262 839
1 to 5 years	784 883	792 953
More than 5 years	738 420	806 072
	1 795 270	1 861 864
Unrealized finance income in finance leases		
Up to 1 year	39 237	42 329
1 to 5 years	104 945	112 432
More than 5 years	57 577	59 029
	201 759	213 790
Present value of minimum lease payments receivable		
Up to 1 year	232 730	220 511
1 to 5 years	679 938	680 521
More than 5 years	680 843	747 043
	1 593 511	1 648 075
Impairment	(259 388)	(265 578)
	1 334 123	**1 382 497**

NOTE 26 – DERIVATIVES HELD FOR RISK MANAGEMENT PURPOSES

As at 31 December 2017 and 2016, the fair value of the derivatives held for risk management purposes is analysed as follows:

(in thousands of Euros)

	31.12.2017			31.12.2016		
	Hedging	Risk management	Total	Hedging	Risk management	Total
Derivatives held for risk management purposes						
Derivatives held for risk management purposes - assets	49	170 539	170 588	6 292	216 477	222 769
Derivatives held for risk management purposes - liabilities	(76 212)	-	(76 212)	(106 479)	(1 786)	(108 265)
	(76 163)	**170 539**	**94 376**	**(100 187)**	**214 691**	**114 504**
Fair value component of assets and liabilities hedged or recorded at fair value through profit or loss						
Financial assets						
Loans and advances to customers	73 213	-	73 213	106 513	-	106 513
	73 213	**-**	**73 213**	**106 513**	**-**	**106 513**
Financial liabilities						
Deposits from banks	-	-	-	(2 394)	-	(2 394)
Due to customers	-	-	-	-	(2 067)	(2 067)
Debt securities issued	-	-	-	(82)	2 894	2 812
	-	**-**	**-**	**(2 476)**	**827**	**(1 649)**
	73 213	**-**	**73 213**	**104 037**	**827**	**104 864**

As mentioned in the accounting policy described in Note 2.4, the caption Derivatives held for risk management purposes include hedging derivatives and derivatives contracted to manage the economic risk of certain Financial assets and liabilities designated at fair value through profit or loss.

Hedging derivatives – fair value

As at 31 December 2017 and 2016, fair value hedging operations may be analysed as follows:

(in thousands of Euros)

31.12.2017							
Derivative	Hedged item	Hedged risk	Notional	Fair value of derivative [2]	Change in fair value of derivative in period	Fair value component of item hedged [1]	Change in fair value component of item hedged in period [1]
Interest Rate Swap/ CIRS	Loans and advances to customers	Interest and exchange rates	1 403 697	(76 163)	29 409	73 213	(33 722)
Interest Rate Swap	Deposit from banks	Interest rate	-	-	(2 379)	-	2 339
Equity / Interest Rate Swap	Debt securities issued	Interest rate / Quotation	-	-	(95)	-	82
			1 403 697	**(76 163)**	**26 935**	**73 213**	**(31 301)**

[1] Attributable to hedged risk
[2] Includes accrued interest

(in thousands of Euros)

31.12.2016							
Derivative	Hedged item	Hedged risk	Notional	Fair value of derivative [2]	Change in fair value of derivative in period	Fair value component of item hedged [1]	Change in fair value component of item hedged in period [1]
Interest Rate Swap/ CIRS	Loans and advances to customers	Interest and exchange rates	1 145 697	(105 818)	(31 277)	106 513	30 143
Interest Rate Swap	Deposit from banks	Interest rate	196 000	3 950	(81 169)	(2 394)	78 506
Equity / Interest Rate Swap	Debt securities issued	Interest rate / Quotation	80 000	1 681	(726)	(82)	685
			1 421 697	**(100 187)**	**(113 172)**	**104 037**	**109 334**

[1] Attributable to hedged risk
[2] Includes accrued interest

Changes in the fair value of the hedged assets and liabilities mentioned above and of the respective hedging derivatives are recognised in the income statement in the caption Net gains / (losses) from financial assets and liabilities at fair value through profit or loss (See Note 7).

As at 31 December 2017, the ineffective portion of the fair value hedging operations resulted in a cost of Euros 4.4 million that was recognised in the income statement (31 December 2016: cost of Euros 3.8 million). The Group periodically evaluates the effectiveness of the hedges.

Other derivatives held for risk management purposes

Other derivatives held for risk management purposes include derivatives used to hedge financial assets and liabilities at fair value through profit or loss, in accordance with the accounting policies described in Notes 2.5, 2.6 and 2.8 and that the Group did not designate for hedge accounting.

The book value of financial assets and liabilities at fair value through profit or loss may be analysed as follows:

(in thousands of Euros)

31.12.2017									
		Derivative			Associated financial asset / liability				
Derivative	Associated financial asset / liability	Notional	Fair value	Change in fair value during period	Fair value	Change in fair value during period	Carrying book value	Redemption amount at maturity [(1)]	
	Assets								
Credit Default Swap	Loans and advances to customers	317 527	103 779	-	-	-	-	135 523	
	Liabilities								
Interest Rate Swap	Due to customers	-	-	(1 628)	-	2 067	-	-	
Interest Rate Swap/ FX Forward	Debt securities issued	342 744	66 760	(46 105)	-	-	152 219	168 976	
		660 271	**170 539**	**(47 733)**	**-**	**2 067**	**152 219**	**304 499**	

[(1)] Corresponds to the contractually guaranteed amount to be redeemed at maturity

(in thousands of Euros)

31.12.2016								
		Derivative			Associated financial asset / liability			
Derivative	Associated financial asset / liability	Notional	Fair value	Change in fair value during period	Fair value	Change in fair value during period	Carrying book value	Redemption amount at maturity [(1)]
	Assets							
Credit Default Swap	Loans and advances to customers	333 079	105 570	-	-	-	-	199 185
	Liabilities							
Interest Rate Swap	Due to customers	730 000	4 666	(16 761)	(2 067)	21 344	264 723	262 656
Interest Rate Swap/ FX Forward	Debt securities issued	476 655	104 455	(14 260)	2 894	-	143 428	234 168
		1 539 734	**214 691**	**(31 021)**	**827**	**21 344**	**408 151**	**696 009**

[(1)] Corresponds to the contractually guaranteed amount to be redeemed at maturity

The credit default swaps associated with loans and advances to customers are part of synthetic securitization operations, as mentioned in Note 48.

As at 31 December 2017, the fair value of the financial liabilities at fair value through profit or loss includes a positive cumulative effect of Euros 77.5 million (31 December 2016: positive cumulative effect of Euros 185.2 million) attributable to the Group's own credit risk. The Group recognised in the 2017 income statement a negative effect of Euros 63.7 million relating to the change in the value of financial liabilities designated at fair value through profit or loss attributable to the entity's own credit risk (31 December 2016: positive effect of Euros 24.2 million) – see Note 7.

As at 31 December 2017 and 2016, the analysis of derivatives held for risk management and hedging purposes, by maturity period, may be analysed as follows:

(in thousands of Euros)

	31.12.2017			31.12.2016		
	Notional		Fair value (net)	Notional		Fair value (net)
	Buy	Sell		Buy	Sell	
Up to 3 months	-	-	-	165 000	165 000	2 628
3 months to 1 year	45 000	45 000	(967)	307 080	307 080	8 796
1 to 5 years	229 688	229 688	(12 790)	205 000	205 000	(16 344)
More than 5 years	757 296	757 296	108 133	803 636	803 635	119 424
	1 031 984	**1 031 984**	**94 376**	**1 480 716**	**1 480 715**	**114 504**

NOTE 27 – NON-CURRENT ASSETS AND LIABILITIES HELD FOR SALE

This caption, as at 31 December 2017 and 2016, is analysed as follows:

(in thousands of Euros)

	31.12.2017		31.12.2016	
	Assets	Liabilities	Assets	Liabilities
Assets / liabilities of subsidiaries acquired for resale	**13 851**	**3 277**	**14 288**	**1 821**
Impairment losses	(8 820)	-	(6 941)	-
Net amount	5 031	3 277	7 347	1 821
Other assets	**4 162**	**-**	**4 162**	**-**
Impairment losses	(3 745)	-	(3 745)	-
Net amount	417	-	417	-
	5 448	**3 277**	**7 764**	**1 821**

Non-current assets and liabilities held for sale include, namely, the assets / liabilities of subsidiaries acquired for resale relating to companies controlled by the Group but acquired exclusively for the purpose of resale in the short-term.

The Group implemented a plan aimed at the immediate sale of all non-current assets held for sale, continuing its efforts to meet the sales program established.

The movement of the non-current assets held for sale in the financial years ended on 31 December 2017 and 2016, is as follow:

(in thousands of Euros)

	31.12.2017			31.12.2016		
	Other assets	Assets of subsidiaries acquired for resale	Total	Real estate properties and other assets	Assets of subsidiaries acquired for resale	Total
Balance at the beginning of the period	4 162	14 288	18 450	3 597 018	778 880	4 375 898
Transfers [a)]	-	-	-	(3 305 494)	-	(3 305 494)
Changes in consolidation perimeter [b)]	-	-	-	(1 890)	(764 208)	(766 098)
Additions	-	1 469	1 469	215 307	-	215 307
Sales	-	(2 920)	(2 920)	(504 363)	(384)	(504 747)
Other	-	1 014	1 014	3 584	-	3 584
Balance at the end of the period	**4 162**	**13 851**	**18 013**	**4 162**	**14 288**	**18 450**

a) At 31 December 2016, the amounts presented include Euros 2 148 871 thousand of transfers to Other assets and Euros 1 156 622 thousand of transfers to Investment properties (see Notes 28 and 33)

b) At 31 December 2016, includes the passage of the subsidiaries to full consolidation.

In 2016, given the market conditions that did not allow, in some situations, to achieve sales within the expected timeline, the properties registered in Non-current assets held for sale received from credit recovery were transferred for other assets, complying with the accounting policy in Note 2.12 (see Note 33), and those held by non-banking entities and by the group´s insurance company were transferred to investment properties (see Note 28). Additionally, the subsidiaries previously held for sale that no longer comply with IFRS 5, became part of the Group´s integral consolidation perimeter, in this exercise.

As at 31 December 2017 and 2016, the assets and liabilities of subsidiaries acquired for resale have the following breakdown:

(in thousands of Euros)

	Share-holding %	31.12.2017 Amounts incorporated by NB Group Assets	Impairment	Carrying book value	Liabilities	Net profit / (loss) for the period
Greendraive – Gest. e Expl. Campos Golf e Complexos Turíst.	83.33%	2 816	(1 885)	931	3 277	-
Landscape Osuna, SL	12.50%	6 842	(6 842)	-	-	-
Afirma International	0.40%	40	(40)	-	-	-
Spot Inversiones SICAV	96.95%	2 585	(53)	2 532	-	-
Nueva Pescanova	1.30%	1 469	-	1 469	-	-
Other	-	99	-	99	-	-
		13 851	**(8 820)**	**5 031**	**3 277**	**-**

(in thousands of Euros)

	Share-holding %	31.12.2016 Amounts incorporated by NB Group Assets	Impairment	Carrying book value	Liabilities	Net profit / (loss) for the period
Greendraive – Gest. e Expl. Campos Golf e Complexos Turíst.	83.33%	1 801	-	1 801	1 821	-
Landscape Osuna, SL	12.50%	6 842	(6 842)	-	-	-
Afirma International	0.40%	40	(40)	-	-	-
Ampurda Valores SICAV	100.00%	2 920	(35)	2 885	-	-
Spot Inversiones SICAV	96.95%	2 586	(24)	2 562	-	-
Other	-	99	-	99	-	-
		14 288	**(6 941)**	**7 347**	**1 821**	**-**

The movements occurring in impairment losses of non-current assets held for sale are presented as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Balance at the beginning of the period	10 686	1 193 419
Changes in consolidation perimeter [a)]	-	(255 420)
Allocation / reversals	1 969	138 251
Utilisation	(91)	(164 179)
Transfers [b)]	-	(885 221)
Foreign exchange differences and other	1	(16 164)
Balance at the end of the period	**12 565**	**10 686**

a) Impairment of companies held for sale that in 2016 w ere integrated in the full consolidation perimeter

b) Includes Euros 680 060 thousand related to transfers to Other assets (see Note 33) and Euros 200 906 thousand related to transfers to Investment properties (see Note 28)

NOTE 28 – INVESTMENT PROPERTIES

The movement in the caption Investment properties is presented as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Balance at the beginning of the period	**1 206 355**	**54 625**
Changes in consolidation perimeter [a)]	68 616	193 041
Acquisitions	-	111
Disposals	(21 472)	(69 940)
Betterments	11 894	4 268
Changes in fair value	(67 657)	5 120
Transfers [b)]	-	1 018 757
Other c)	(53 304)	373
Balance at the end of the period	**1 144 432**	**1 206 355**

a) During financial year 2017, refers to assets received in settlement. During financial year 2016, the Group came to integrate in the full consolidation perimeter real estate companies that w ere previously consolidated as non-current assets held for sale (see Note 27) w ith the respective real estate properties being recorded as investment properties

b) At 31 December 2016, includes the amount of Euros 62 723 thousand related to the reclassification of real estate properties from tangible fixed assets to investment properties and the partial reclassification of the real estate properties and equipment portfolio from non-current assets held for sale to investment properties, in the amount of Euros 956 033 thousand (see Note 27)

c) Includes Euros 52 404 thousand regarding the classification of GNB Vida as a discountinued operation

The book value of investment property is the fair value of the properties, as determined by a registered and independent appraiser with a recognised professional qualification and experience in the geographical location and category of the property being valued. Fair value is determined according to the accounting policy indicated in Note 2.24.

Investment properties comprise some assets held by the subsidiary GNB Vida (only as at 31 December 2016, given the classification of this subsidiary as a discontinued unit during 2017) and by investment funds, as well as commercial properties that are leased for either revenue or capital valorization. Most of the lease contracts have no specific deadline, enabling the lessee to cancel at any time. However, a small portion of these commercial properties has a non-cancelling clause of 10 years. Subsequent leases are negotiated with the lessee.

As at 31 December 2017, the decrease in the fair value of investment properties of Euros 67.7 million and the rental income from investment properties of Euros 137 thousand, are recognised in Other operating income and expenses (see Note 14) (31 December 2016: increase of Euros 5.1 million in the fair value and rental income of Euros 3.9 million).

Generally accepted criteria and methodologies are used, including analyses using the cost method and the market method, corresponding to level 3 of the fair value hierarchy (see Note 49).

NOTE 29 – OTHER TANGIBLE ASSETS

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

(in thousands of Euros)

	31.12.2017	31.12.2016
Real estate properties		
For own use	224 165	252 544
Improvements in leasehold properties	151 535	171 296
Other	-	17
	375 700	**423 857**
Equipment		
Computer equipment	109 527	222 410
Fixtures	70 320	124 179
Furniture	76 471	109 833
Security equipment	27 754	34 416
Office equipment	8 585	28 653
Transport equipment	816	929
Other	1 431	2 320
	294 904	**522 740**
Other	2	2
	670 606	**946 599**
Work in progress		
Improvements in leasehold properties	117	16
Real estate properties	405	7
Equipment	38	398
Other	-	427
	560	**848**
	671 166	**947 447**
Accumulated impairment	(11 122)	-
Accumulated depreciation	(502 547)	(740 988)
	157 497	**206 459**

The movement in this caption is as follows:

(in thousands of Euros)

	Real estate properties	Equipment	Other	Work in progress	Total
Acquisition cost					
Balance at 31 December 2015	**555 120**	**541 755**	**546**	**816**	**1 098 237**
Acquisitions	124	7 150	-	1 965	9 239
Disposals / write-offs	(36 885)	(17 841)	-	-	(54 726)
Reclassifications **(a)**	(7 193)	191	-	(1 555)	(8 557)
Foreign exchange differences and other **(b)**	(87 309)	(8 515)	(544)	(378)	(96 746)
Balance at 31 December 2016	**423 857**	**522 740**	**2**	**848**	**947 447**
Acquisitions	424	3 769	-	1 342	5 535
Disposals / write-offs	(23 006)	(221 834)	-	-	(244 840)
Reclassifications **(c)**	(20 517)	(877)	-	(1 628)	(23 022)
Foreign exchange differences and other	(5 058)	(8 894)	-	(2)	(13 954)
Balance at 31 December 2017	**375 700**	**294 904**	**2**	**560**	**671 166**
Accumulated depreciation					
Balance at 31 December 2015	**293 106**	**486 445**	**1 701**	**-**	**781 252**
Depreciation*	9 965	15 456	-	-	25 421
Disposals / write-offs	(30 306)	(13 772)	-	-	(44 078)
Reclassifications	(809)	(232)	-	-	(1 041)
Foreign exchange differences and other*	(14 150)	(4 836)	(1 580)	-	(20 566)
Balance at 31 December 2016	**257 806**	**483 061**	**121**	**-**	**740 988**
Depreciation	8 201	13 322	-	-	21 523
Disposals / write-offs	(22 810)	(220 707)	(2)	-	(243 519)
Reclassifications **(c)**	(7 900)	(1 563)	-	-	(9 463)
Foreign exchange differences and other	666	(7 661)	13	-	(6 982)
Balance at 31 December 2017	**235 963**	**266 452**	**132**	**-**	**502 547**
Impairment					
Balance at 31 December 2015	**4 548**	**-**	**-**	**-**	**4 548**
Foreign exchange differences and other **(b)**	(4 548)	-	-	-	(4 548)
Balance at 31 December 2016	**-**	**-**	**-**	**-**	**-**
Impairment losses	11 122	-	-	-	11 122
Balance at 31 December 2017	**11 122**	**-**	**-**	**-**	**11 122**
Carrying book value at 31 December 2017	**128 615**	**28 452**	**(130)**	**560**	**157 497**
Carrying book value at 31 December 2016	**166 051**	**39 679**	**(119)**	**848**	**206 459**

*Restated

(a) Includes Euros 13 132 thousand of tangible fixed assets (real estate properties and equipment) and Euros 5 643 thousand in accumulated depreciation relating to branches discontinued that were reclassified at their carrying book value to the appropriate captions of the balance sheet

(b) Includes a real estate property reclassified to investment properties at the carrying book value of Euros 59 922 thousand (see Note 28)

(c) Includes Euros 20 448 thousand of tangible fixed assets (real estate properties and equipment) and Euros 6 696 thousand in accumulated depreciation relating to branches discontinued that were reclassified at their carrying book value to the appropriate captions of the balance sheet

NOTE 30 – INTANGIBLE ASSETS

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

(in thousands of Euros)

	31.12.2017	31.12.2016
Goodwill	**251 007**	**251 007**
Internally developed		
Software - Automatic data processing system	82 815	86 837
Other	1	1
Acquired from third parties		
Software - Automatic data processing system	396 210	672 587
Other	4	168
	479 030	**759 593**
Work in progress	**1 921**	**7 456**
	731 958	**1 018 056**
Accumulated amortization	(472 715)	(722 832)
Impairment losses	(250 561)	(250 561)
	8 682	**44 663**

The movement in this caption is as follows:

(in thousands of Euros)

	Goodwill and Value in force	Software	Work in progress	Total
Acquisition cost				
Balance at 31 December 2015	**259 622**	**759 882**	**12 650**	**1 032 154**
Acquisitions:				
Internally developed	-	(1)	4 257	4 256
Acquired from third parties	-	2 472	3 947	6 419
Disposals / write-offs	-	(172)	-	(172)
Transfers **(a)**	-	6 310	(13 371)	(7 061)
Foreign exchange differences and other	(8 615)	(8 898)	(27)	(17 540)
Balance at 31 December 2016	**251 007**	**759 593**	**7 456**	**1 018 056**
Acquisitions:				
Internally developed	-	-	3 736	3 736
Acquired from third parties	-	3 527	5 263	8 790
Disposals / write-offs **(b)***	-	(393 910)	(397)	(394 307)
Transfers	-	2 842	(14 137)	(11 295)
Foreign exchange differences and other	-	106 978	-	106 978
Balance at 31 December 2017	**251 007**	**479 030**	**1 921**	**731 958**
Accumulated amortization				
Balance at 31 December 2015	**-**	**697 433**	**-**	**697 433**
Amortization for the period*	-	30 273	-	30 273
Disposals / write-offs	-	(172)	-	(172)
Foreign exchange differences and other*	-	(4 702)	-	(4 702)
Balance at 31 December 2016	**-**	**722 832**	**-**	**722 832**
Amortization for the period	-	36 534	-	36 534
Disposals / write-offs	-	(393 858)	-	(393 858)
Foreign exchange differences and other	-	107 207	-	107 207
Balance at 31 December 2017	**-**	**472 715**	**-**	**472 715**
Impairment				
Balance at 31 December 2015	**113 553**	**-**	**-**	**113 553**
Impairment losses	137 007	-	-	137 007
Foreign exchange differences and other movements	1	-	-	1
Balance at 31 December 2016	**250 561**	**-**	**-**	**250 561**
Balance at 31 December 2017	**250 561**	**-**	**-**	**250 561**
Carrying book value at 31 December 2017	**446**	**6 315**	**1 921**	**8 682**
Carrying book value at 31 December 2016	**446**	**36 761**	**7 456**	**44 663**

*Restated

(a) Includes Euros 477 thousand in discontinued investment projects that were imputed to costs

(b) Includes Euros 393 858 thousand of fixed assets fully amortized and discounted

Goodwill, recognised in accordance with the accounting policy described in Note 2.2, is analysed as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Subsidiaries		
GNB Vida	234 575	234 575
ES Gestion	2 460	2 460
Imbassaí	13 526	13 526
Other	446	446
	251 007	**251 007**
Impairment losses		
GNB Vida	(234 575)	(234 575)
Imbassaí	(13 526)	(13 526)
ES Gestion	(2 460)	(2 460)
	(250 561)	**(250 561)**
	446	**446**

GNB Vida

As at 31 December 2016, the Bank performed the annual impairment test on the goodwill of GNB Vida based on an independent appraisal, in accordance with the accounting policy defined in Note 2.2. The independent appraisal used for purposes of the impairment test was based on information available at the time, namely macroeconomic conditions, market environment and sector where the Company operates, amongst others. The valuation of GNB Vida was determined taking into consideration the Traditional Embedded Value and the Goodwill value. The Embedded value consists in the sum of (i) the equity of the Company (adjusted for items such as unrealised capital gains / losses, net of taxes) and (ii) the estimated present value of the flow of future distributable profits arising from the insurance policies in force at the date of the valuation (adjusted by the solvency margin cost). The Goodwill value is the value attributable to the new business to be developed by the Company in the future.

The Traditional Embedded Value calculation was reviewed by an independent entity, with the main assumptions used being presented as follows:

1. Required capital determined under the Solvency II SCR rules;
2. Discount rate based on the Portuguese Government Bonds' yield curve added up of 5%;
3. Reinvestment of the bonds is made at the Portuguese Government Bonds' yield curve;
4. Inflation rate flat at 1.5%;
5. Mortality table used was GKM80.

Considering (i) the decrease in the Traditional Embedded Value at the end of 2017 in about Euros 60 million when compared to the estimated value for the equivalent period and (ii) the existing uncertainty in the adherence of some key assumptions used to determine the Goodwill Value, namely regarding projection of the APE – Annual Premium Equivalents until 2021, at the end of 2016, the Bank decided to reinforce the impairment of the Goodwill generated with the acquisition of GNB Vida, being at the end of 2017, the value of Euros 234 575 thousand, fully impaired.

In 2017, the Bank began an organised sales process of up to 100% of GNB Vida share capital and at 31 December 2017 all the assets and liabilities of the company started to be presented as a discontinued operation, in a specific asset and liability line (see Note 53), being valued at its lowest accounting value or the fair value deducted to the sales cost. Thus, contrary to what happened on December 31, 2016, where the Bank used for the purposes of the Goodwill annual impairment test the above-mentioned independent valuation. In order to determine the fair value as at 31 December 2017, the Bank used the indicative values of the non-binding proposals received at the end of 2017 to purchase this company.

NOTE 31 – INVESTMENTS IN ASSOCIATED COMPANIES

The investments in associated companies are presented as follows:

(in thousands of Euros)

	Shareholding cost		Shareholding %		Carrying book value		Share of profit / (loss) of associated companies attributable to Group	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
LOCARENT	2 967	2 967	50,00%	50,00%	18 971	16 368	2 604	3 351
GNB SEGUROS	3 749	3 749	25,00%	25,00%	8 309	8 987	1 625	2 365
ESEGUR	9 634	9 634	44,00%	44,00%	14 347	13 992	360	885
LINEAS - CONCESSÕES DE TRANSPORTES	146 769	146 769	28,66%	28,66%	65 944	64 373	(470)	(470)
EMPARK **a)**	-	-	-	-	-	-	-	(804)
UNICRE **b)**	11 497	11 497	17,50%	17,50%	25 048	21 681	4 254	10 596
MOZA BANCO **c)**	-	47 321	-	49,00%	-	21 065	-	(16 132)
Other	28 885	44 696			21 883	39 171	4	4 283
	203 501	**266 633**			**154 502**	**185 637**	**8 377**	**4 074**
Impairment					**(8 251)**	**(26 987)**		
					146 251	**158 650**		

a) Company sold in December 2016

b) Although the Group's shareholding is less than 20%, these entities w ere consolidated under the equity method as the Group exercises significant influence over their activities

c) Moza Banco ceased to be consolidated by the equity method in June 2017 as a result of the loss of significant influence over the entity (see Note 1).

The financial information relating to the more relevant associated companies is presented in the

(in thousands of Euros)

	Assets		Liabilities		Equity		Income		Profit / (loss) for the period	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
LOCARENT	271 519	246 952	234 197	214 837	37 322	32 115	69 981	73 166	5 207	6 701
GNB SEGUROS	122 287	114 704	89 053	78 756	33 234	35 948	79 430	63 493	6 504	9 461
ESEGUR	39 173	37 091	22 120	20 845	17 053	16 246	43 965	46 081	819	2 011
LINEAS - CONCESSÕES DE TRANSPORTES **d)**	935 475	3 403 277	521 817	3 020 941	413 658	382 336	29 068	146 246	5 869	(87 410)
EMPARK **a)**	-	-	-	-	-	-	-	-	-	-
UNICRE **b)**	347 928	339 019	204 799	215 128	143 129	123 891	156 227	134 636	24 309	60 548
MOZA BANCO **c)**	-	346 570	-	365 926	-	(19 356)	-	46 499	-	(52 277)

Note: Data adjusted for consolidation purposes

a) Company sold in December 2016

b) Although the Group's shareholding is less than 20%, these entities w ere consolidated under the equity method as the Group exercises significant influence over their activities

c) Moza Banco ceased to be consolidated by the equity method in June 2017 as a result of the loss of significant influence over the entity (see Note 1).

d) Cost reduction due to the reimbursment in 2017, of some of the investment made

following table:

The movement occurring in this caption:

(in thousands of Euros)

	31.12.2017	31.12.2016
Balance at the beginning of the period	158 650	405 486
Disposals and other reimbursements (see Note 1)	-	(85 091)
Acquisitions and additional investments (see Note 1)	1 400	-
Share of profits / (losses) of associated companies	8 377	4 074
Impairment in associated companies	(5 808)	(25 495)
Fair value reserves of investments in associated companies	236	991
Dividends received	(5 525)	(15 765)
Changes in consolidation perimeter **(a)**	(13 732)	(32 799)
Foreign exchange differences and other **(b)**	2 653	(92 751)
Balance at the end of the period	**146 251**	**158 650**

(a) At 31 December 2017 refers to the reclassification of Banco Delle Tre Venezie, of Económico FI and of Económico FP as discontinued units. At 31 December 2016 refers to the sale of Ventures II, Ventures III and Fundo Ventures I+II, w hich w ere classified as discontinued units

(b) Includes, at 31 December 2016, the decrease in the amount of the Ascendi Group in Euros 68 747 thousand due to the sale of associated companies of GNB Concessões to that entity

(in thousands of Euros)

	31.12.2017	31.12.2016
Balance at the beginning of the period	**26 987**	**7 535**
Allocation for the period	5 808	25 495
Utilisation during the period	(3 477)	(1 596)
Transfers [(1)]	(47 321)	-
Foreign exchange differences and other	26 254	(4 447)
Balance at the end of the period	**8 251**	**26 987**

(1) Refers to Moza Banco no longer being consolidated as it is now a financial asset available for sale (see Note 23)

NOTE 32 – TECHNICAL RESERVES

The technical reserves for direct insurance and reinsurance ceded are analysed as follows:

(in thousands of Euros)

	31.12.2017			31.12.2016		
	Direct insurance and accepted reinsurance	Reinsurance ceded	Total	Direct insurance and accepted reinsurance	Reinsurance ceded	Total
Unearned premiums reserve	-	-	-	3 196	(15)	3 181
Mathematical reserve	-	-	-	1 288 949	(2 227)	1 286 722
Outstanding claims reserve	-	-	-	31 869	(4 108)	27 761
Reserve for profit sharing	-	-	-	7 523	(5)	7 518
Reserve for rate commitments	-	-	-	2 030	-	2 030
	-	**-**	**-**	**1 333 567**	**(6 355)**	**1 327 212**

In accordance with IFRS 4, the contracts issued by the Group in which there is only a transfer of financial risk, with no discretionary participating features, are classified as investment contracts (See Note 38).

The mathematical reserve is presented as follows:

(in thousands of Euros)

	31.12.2017			31.12.2016		
	Direct insurance and accepted reinsurance	Reinsurance ceded	Total	Direct insurance and accepted reinsurance	Reinsurance ceded	Total
Traditional annuities	-	-	-	20 724	(2 227)	18 497
Savings contracts with profit sharing	-	-	-	1 268 225	-	1 268 225
	-	**-**	**-**	**1 288 949**	**(2 227)**	**1 286 722**

The movement in the mathematical reserve in financial years 2017 and 2016, is as follows:

(in thousands of Euros)

	31.12.2017		31.12.2016	
	Capitalization with profit sharing	Traditional	Capitalization with profit sharing	Traditional
Balance at the beginning of the period	**1 268 225**	**20 724**	**1 271 263**	**24 711**
Premiums	-	-	31 536	-
Claims	-	-	(162 433)	-
Interest	-	-	25 409	-
Reclassification of products	-	-	98 789	-
Other	-	-	3 661	(3 987)
Reclassification to discontinued units	(1 268 225)	(20 724)	-	-
Balance at the end of the period	**-**	**-**	**1 268 225**	**20 724**

The outstanding claims reserve is presented as follows:

(in thousands of Euros)

	31.12.2017			31.12.2016		
	Direct insurance and accepted reinsurance	Reinsurance ceded	Total	Direct insurance and accepted reinsurance	Reinsurance ceded	Total
Traditional annuities	-	-	-	11 054	(4 108)	6 946
Savings contracts with profit sharing	-	-	-	20 815	-	20 815
	-	**-**	**-**	**31 869**	**(4 108)**	**27 761**

The movement in the outstanding claims reserve in financial years 2017 and 2016, is as follows:

(in thousands of Euros)

	31.12.2017			31.12.2016		
	Direct insurance and accepted reinsurance	Reinsurance ceded	Total	Direct insurance and accepted reinsurance	Reinsurance ceded	Total
Balance at the beginning of the period	**31 869**	**(4 108)**	**27 761**	**31 205**	**(4 379)**	**26 826**
Incurred claims						
Current period	-	-	-	171 472	(9 339)	162 133
Prior periods	-	-	-	7 536	(2 040)	5 496
Paid claims						
Current period	-	-	-	(160 161)	7 179	(152 982)
Prior periods	-	-	-	(18 183)	4 471	(13 712)
Reclassification to discontinued units	(31 869)	4 108	(27 761)	-	-	-
Balance at the end of the period	**-**	**-**	**-**	**31 869**	**(4 108)**	**27 761**

The reserve for profit sharing corresponds to the amounts attributed to policyholders or beneficiaries of insurance and investment contracts, in the form of profit sharing, which have not yet been allocated or included in the mathematical reserve.

The movement in the reserve for profit sharing is as follows:

(in thousands of Euros)

	31.12.2017			31.12.2016		
	Direct insurance and accepted reinsurance	Reinsurance ceded	Total	Direct insurance and accepted reinsurance	Reinsurance ceded	Total
Balance at the beginning of the period	**7 523**	**(5)**	**7 518**	**10 232**	**(5)**	**10 227**
Amounts paid	-	-	-	(3 334)	59	(3 275)
Change in shadow accounting	-	-	-	-	-	-
Estimated attributable amounts	-	-	-	625	(59)	566
Reclassification to discontinued units	(7 523)	5	(7 518)	-	-	-
Balance at the end of the period	**-**	**-**	**-**	**7 523**	**(5)**	**7 518**

As at 31 December 2017 and 2016, the reserve for rate commitments relates to the liability adequacy test, which was carried out based on the best estimates at the balance sheet date (see Note 2.25):

(in thousands of Euros)

	31.12.2017			31.12.2016		
	Direct insurance and accepted reinsurance	Reinsurance ceded	Total	Direct insurance and accepted reinsurance	Reinsurance ceded	Total
Traditional annuities	-	-	-	2 030	-	2 030
	-	**-**	**-**	**2 030**	**-**	**2 030**

NOTE 33 – OTHER ASSETS

As at 31 December 2017 and 2016, the balance Other assets is analysed as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Collateral deposits placed	800 636	872 351
Derivative products	*531 965*	*606 406*
Collateral CLEARNET, VISA and EBA	*49 711*	*27 187*
Collateral deposits relating to reinsurance operations	*218 960*	*238 758*
Recoverable government subsidies on mortgage loans	2 617	3 092
Public sector	299 539	351 403
Contingent Capital Agreement (See Note 14)	791 695	-
Debtors of the insurance business	-	1 086
Other debtors	383 894	625 246
Income receivable	27 051	19 917
Deferred costs	70 266	77 077
Retirement pensions and health-care benefits (see Note 16)	3 333	4 103
Precious metals, numismatics, medal collection and other liquid assets	9 373	9 271
Real estate properties [a)]	1 989 477	2 163 991
Equipment [a)]	22 277	23 204
Stock exchange transactions pending settlement	50 268	1 304
Other transactions pending settlement	2 930	5 037
Other assets	132 515	211 187
	4 585 871	**4 368 269**
Impairment losses		
Real estate properties [a)]	*(643 294)*	*(680 055)*
Equipment [a)]	*(13 470)*	*(11 694)*
Other debtors - Shareholder loans, supplementary capital contributions	*(202 234)*	*(138 032)*
Other	*(3 329)*	*(78 072)*
	(862 327)	**(907 853)**
	3 723 544	**3 460 416**

a) Real estate properties and equipments of debt recoveries or discountinued operations

The caption Collateral deposits placed includes, amongst others, deposits made by the Group as collateral in order to celebrate certain derivative contracts on organised markets (margin accounts) and on over the counter markets (Credit Support Annex – CSA).

The Other debtors amount includes, amongst others:

- Euros 50 million relating to shareholder loans granted to Locarent – Companhia Portuguesa de Aluguer de Viaturas, S.A. (31 December 2016: Euros 100 million);
- Euros 22 million in shareholder loans and supplementary capital contributions granted to entities within the scope of the Group's venture capital business are totally provided against (31 December 2016: Euros 33.8 million, totally provided against); and
- Euros 112.9 million of shareholder loans and supplementary capital contributions resulting from the assignment of loans and advances are totally provided against (31 December 2016: Euros 112.3 million, totally provided against).

- on December 31, 2016 includes Euros 183.8 million related to the sale of the equity stake in Empark, a group of assets held by the associated Ascendi Group (current Lineas) and real estate, whose financial settlement occurred in early 2017.

As at 31 December 2017, the caption Deferred costs includes an amount of Euros 47 927 thousand (31 December 2016: Euros 54 721 thousand) relating to the difference between the nominal amount of the loans and advances granted to Group employees under the Collective Labor Agreement (ACT) for the banking sector and their respective fair value at their grant date, calculated in accordance with IAS 39. This amount is charged to the income statement under staff costs over the lower of the remaining period to the maturity of the loan granted and the estimated remaining service life of the employee.

The captions of Real estate properties and Equipment relate to foreclosed assets in respect of the recovery of loans and advances and to discontinued facilities, transferred during the 2016 financial year from non-current assets held for sale due to their period of permanence in the portfolio, even though the Group maintains the objective of the immediate sale of same.

The Group implemented a plan aimed at the immediate sale of all real estate property recorded in non-current assets held for sale, continuing its efforts to meet the sales program established, of which we highlight the following (i) a web site specifically aimed at the sale of real estate property; (ii) the development and participation in real estate events in Portugal and abroad; (iii) the celebration of protocols with several real estate agents; (iv) the regular sponsorship of auctions; and (v) sales campaigns in the major emigration centers. Despite its intention to sell these assets, the Group requests regularly the Banco de Portugal's authorization, under article 114 of RGICSF, to extend the time period the Group has to hold foreclosed assets.

Stock exchange transactions pending settlement refer to transactions with securities, recorded at the trade date pending settlement, in accordance with the accounting policy described in Note 2.6.

The movements in impairment losses are presented as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Balance at the beginning of the period	907 853	222 453
Changes in the consolidation perimeter a)	-	54 699
Allocation for the period	95 079	36 573
Utilisation during the period	(114 900)	(51 675)
Write-back for the period	(8 140)	(53 397)
Reclassifications b)	-	703 681
Foreign exchange differences and other	(17 565)	(4 481)
Balance at the end of the period	**862 327**	**907 853**

a) Impairment of companies held for sale that in 2016 integrated the full consolidation perimeter
b) Includes Euros 680 060 thousand relating to assets transferred from Non-current assets held for sale in 2016 (see Note 27)

The movements in the real estate properties were as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Balance at the beginning of the period	2 163 991	-
Changes in the consolidation perimeter a)	-	105 454
Reclassifications from Non-current assets held for sale b)	-	2 126 601
Additions	184 203	103 889
Sales	(356 434)	(169 985)
Other movements	(2 283)	(1 968)
Balance at the end of the period	**1 989 477**	**2 163 991**

a) During the year 2016, the Group came to integrate in the full consolidation perimeter real estate companies that were previously consolidated as Non-current assets held for sale (see Note 27), with the respective real estate properties being recorded as Other assets

b) Real estate properties transferred from Non-current assets held for sale - see Note 27

As at 31 December 2017, the detail of the real estate properties included in Other assets, by type, is as follows:

(in thousands of Euros)

	31.12.2017				
	Number of properties	Gross value	Impairment	Net book value	Fair value of assets (b)
Land					
Urban	2 511	464 587	146 069	318 518	331 738
Rural	611	322 588	96 761	225 827	232 928
	3 122	787 175	242 830	544 345	564 666
Buildings under construction					
Commercial	11	825	147	678	1 305
Residential	35	4 220	1 007	3 213	3 274
Other	24	22 826	11 958	10 868	12 124
	70	27 871	13 112	14 759	16 703
Buildings constructed					
Commercial	1 648	417 114	183 925	233 189	249 799
Residential	3 700	398 483	64 453	334 030	352 362
Other	1 128	339 045	94 299	244 746	267 532
	6 476	1 154 642	342 677	811 965	869 693
Other (a)	**8**	**19 789**	**44 675**	**(24 886)**	**(23 853)**
	9 676	**1 989 477**	**643 294**	**1 346 183**	**1 427 209**

(a) The net book value of this caption is negative due to the imputation of costs incurred with the sale of real estate properties
(b) Determined in accordance with accounting policy mentioned in Note 2.12

(in thousands of Euros)

	31.12.2016				
	Number of properties	Gross value	Impairment	Net book value	Fair value of assets (b)
Land					
Urban	2 763	533 910	154 198	379 712	393 285
Rural	628	273 134	85 774	187 360	194 931
	3 391	807 044	239 972	567 072	588 216
Buildings under construction					
Commercial	15	10 137	5 247	4 890	7 697
Residential	42	16 424	7 594	8 830	10 770
Other	28	23 994	12 746	11 248	12 359
	85	50 555	25 587	24 968	30 826
Buildings constructed					
Commercial	1 741	429 510	188 214	241 296	258 379
Residential	4 654	503 314	87 874	415 440	432 978
Other	1 199	355 344	92 143	263 201	288 374
	7 594	1 288 168	368 231	919 937	979 731
Other [(a)]	**1**	**18 224**	**46 265**	**(28 041)**	**(27 775)**
	11 071	**2 163 991**	**680 055**	**1 483 936**	**1 570 998**

(a) The net book value of this caption is negative due to the imputation of costs incurred with the sale of real estate properties
(b) Determined in accordance with accounting policy mentioned in Note 2.12

The detail of the real estate properties included in Other assets, by ageing, is as follows:

(in thousands of Euros)

	31.12.2017				
	Up to 1 year	1 to 2.5 years	2.5 to 5 years	More than 5 years	Total net book value
Land					
Urban	5 712	74 464	112 934	125 408	318 518
Rural	62 562	22 575	92 360	48 330	225 827
	68 274	97 039	205 294	173 738	544 345
Buildings under construction					
Commercial	-	161	451	66	678
Residential	238	-	2 518	457	3 213
Other	-	1 299	-	9 569	10 868
	238	1 460	2 969	10 092	14 759
Buildings constructed					
Commercial	16 751	41 537	75 143	99 758	233 189
Residential	49 789	86 808	97 171	100 262	334 030
Other	13 703	55 913	91 457	83 673	244 746
	80 243	184 258	263 771	283 693	811 965
Other [(a)]	**(25 193)**	**2**	**-**	**305**	**(24 886)**
	123 562	**282 759**	**472 034**	**467 828**	**1 346 183**

(a) The net book value of this caption is negative due to the imputation of costs incurred with the sale of real estate properties

(in thousands of Euros)

	31.12.2016				
	Up to 1 year	1 to 2.5 years	2.5 to 5 years	More than 5 years	Total net book value
Land					
Urban	86 309	44 013	171 503	77 887	379 712
Rural	18 866	54 935	78 403	35 156	187 360
	105 175	98 948	249 906	113 043	567 072
Buildings under construction					
Commercial	-	373	452	4 065	4 890
Residential	577	-	2 962	5 291	8 830
Other	-	1 447	228	9 573	11 248
	577	1 820	3 642	18 929	24 968
Buildings constructed					
Commercial	43 329	29 996	83 652	84 319	241 296
Residential	91 720	96 966	138 159	88 595	415 440
Other	47 782	33 080	111 622	70 717	263 201
	182 831	160 042	333 433	243 631	919 937
Other [(a)]	**(28 256)**	**-**	**215**	**-**	**(28 041)**
	260 327	**260 810**	**587 196**	**375 603**	**1 483 936**

(a) The net book value of this caption is negative due to the imputation of costs incurred with the sale of real estate properties

As at 31 December 2017, the amount related to discontinued facilities included in the caption Real estate properties is Euros 20 448 thousand (31 December 2016: Euros 13 132 thousand), with the Group having recorded impairment losses for these assets in the total amount of Euros 6 696 thousand (31 December 2016: Euros 5 643 thousand).

NOTE 34 – DEPOSITS FROM CENTRAL BANKS

The balance Deposits from Central Banks is presented as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
From the European System of Central Banks		
Deposits	5	5
Other funds	6 410 000	6 410 000
	6 410 005	**6 410 005**
From other Central Banks		
Deposits	118	28
	118	**28**
	6 410 123	**6 410 033**

As at 31 December 2017, the caption Other funds from the European System of Central Banks includes Euros 6 410 million, covered by Group financial assets pledged as collateral (31 December 2016: Euros 6 410 million) (see Note 45).

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

(in thousands of Euros)

	31.12.2017	31.12.2016
Up to 3 months	123	33
1 to 5 years	6 410 000	6 410 000
	6 410 123	**6 410 033**

NOTE 35 – DEPOSITS FROM BANKS

The balance Deposits from banks is presented as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Domestic		
Deposits	174 091	158 654
Other funds	52 836	23 170
	226 927	**181 824**
International		
Deposits	815 030	841 224
Loans	771 791	860 584
Repurchase agreements	79 737	1 625 020
Other funds	121 559	69 262
	1 788 117	**3 396 090**
	2 015 044	**3 577 914**

The balance of the caption Repurchase agreements corresponds to sales of securities with repurchase agreements (repos), recorded in accordance with the accounting policy described in Note 2.7.

As at 31 December 2016, the caption Deposits from banks includes deposits in the amount of Euros 100 394 thousand recorded in the balance sheet at fair value through profit or loss (see Note 49).

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

(in thousands of Euros)

	31.12.2017	31.12.2016
Up to 3 months	1 005 223	1 901 761
3 months to 1 year	306 904	803 818
1 to 5 years	294 896	480 225
More than 5 years	408 021	392 110
	2 015 044	**3 577 914**

The maturities of the sales operations with repurchase agreements (repos) are as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
International		
Up to 3 months	-	937 236
3 months to 1 year	79 737	600 739
1 to 5 years	-	87 044
	79 737	1 625 020
	79 737	**1 625 020**

NOTE 36 – DUE TO CUSTOMERS

The caption Due to customers has the following breakdown:

(in thousands of Euros)

	31.12.2017	31.12.2016
Repayable on demand		
Demand deposits	8 785 094	8 126 689
Time deposits		
Time deposits	17 336 023	14 272 979
Other	323	373
	17 336 346	**14 273 352**
Savings accounts		
Pensioners	245 981	304 662
Other	3 323 740	2 880 618
	3 569 721	**3 185 280**
Other funds		
Repurchase agreements	227 964	216 625
Other	288 946	187 773
	516 910	**404 398**
	30 208 071	**25 989 719**

The balance of the Sales operations with repurchase agreements corresponds to sales of securities with repurchase agreements (repos), recorded in accordance with the accounting policy described in Note 2.7.

As at 31 December 2017, sales of securities with repurchase agreements have a maturity period of up to 3 months (31 December 2016: Euros 29.1 million that matured in the period of under 3 months and the remainder in the period of 3 months to 1 year).

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

	31.12.2017	31.12.2016
Repayable on demand	8 785 094	8 126 689
Term deposits		
Up to 3 months	8 468 152	7 689 951
3 months to 1 year	7 625 069	7 148 280
1 to 5 years	4 919 485	2 679 267
More than 5 years	410 271	345 532
	21 422 977	**17 863 030**
	30 208 071	**25 989 719**

(in thousands of Euros)

NOTE 37 – DEBT SECURITIES ISSUED

The balance Debt securities issued has the following breakdown:

(in thousands of Euros)

	31.12.2017	31.12.2016
Euro Medium Term Notes (EMTN)	864 325	2 998 440
Bonds	352 455	777 351
Covered bonds	-	42 010
	1 216 780	**3 817 801**

As at 31 December 2016, the Group had debt securities issued with the guarantee of the Portuguese Republic, in a nominal amount of Euros 1 800 million, of which Euros 1 517 million had been acquired by the Group. In the first half of 2017, the Group reimbursed those bonds in their entirety.

Under the Covered Bonds Program (*Programa de Emissão de Obrigações Hipotecárias*), which has a maximum amount of Euros 10 000 million, the Group issued covered bonds which amount, as at 31 December 2017, ascends to Euros 4 200 million (31 December 2016: Euros 4 190 million). The main characteristics of the outstanding issues as at 31 December 2017 and 2016 are as follows:

31.12.2017									
Description	Nominal value (in thousands of Euros)	Carrying book value (in thousands of Euros)	Issue date	Maturity date	Interest payment	Interest rate	Rating		
							Moody's	Fitch	DBRS
NB 2015 SR.1	1 000 000	-	07/10/2015	07/10/2018	Quarterly	Euribor 3 Months + 0.25%	Baa2	-	A
NB 2015 SR.2	1 000 000	-	07/10/2015	07/10/2019	Quarterly	Euribor 3 Months + 0.25%	Baa2	-	A
NB 2015 SR.3	1 000 000	-	07/10/2015	07/10/2020	Quarterly	Euribor 3 Months + 0.25%	Baa2	-	A
NB 2015 SR.4	700 000	-	07/10/2015	07/10/2022	Quarterly	Euribor 3 Months + 0.25%	Baa2	-	A
NB 2015 SR.5	500 000	-	22/12/2016	22/12/2023	Quarterly	Euribor 3 Months + 0.25%	Baa2	-	A
	4 200 000	**-**							

Description	Nominal value (in thousands of Euros)	Carrying book value (in thousands of Euros)	Issue date	Maturity date	Interest payment	Interest rate	Rating Moody's	Rating Fitch	Rating DBRS
31.12.2016									
BES Covered bonds DUE 4.6%	40 000	42 010	15/12/2010	26/01/2017	Annually	Fixed rate 4.6%	Ba1	-	BBB
NB 2015 SR.1	1 000 000	-	07/10/2015	07/10/2018	Quarterly	Euribor 3 Months + 0.25%	Baa1	-	A
NB 2015 SR.2	1 000 000	-	07/10/2015	07/10/2019	Quarterly	Euribor 3 Months + 0.25%	Baa1	-	A
NB 2015 SR.3	1 000 000	-	07/10/2015	07/10/2020	Quarterly	Euribor 3 Months + 0.25%	Baa1	-	A
NB 2015 SR.4	700 000	-	07/10/2015	07/10/2022	Quarterly	Euribor 3 Months + 0.25%	Baa1	-	A
NB 2015 SR.5	450 000	-	22/12/2016	22/12/2023	Quarterly	Euribor 3 Months + 0.25%	Baa1	-	A
	4 190 000	**42 010**							

These covered bonds are guaranteed by a cover asset pool, comprising mortgage and other assets, segregated in NOVO BANCO Group's accounts as autonomous patrimony and over which the holders of the relevant covered debt securities have a special creditor privilege. The conditions of the covered debt securities issues are framed in Decree-Law no. 59/2006, and in Notices nos. 5, 6, 7 and 8 and Instruction 13, of Banco de Portugal.

As at 31 December 2017, the assets that collateralize these covered debt securities amount to Euros 4 684.8 million (31 December 2016: Euros 4 621.9 million) (see Note 25).

The movement occurring in debt securities issued, during financial years 2017 and 2016, is as follows:

(in thousands of Euros)

	Balance at 31.12.2016	Issues	Redemptions	LME	Net purchases	Other movements a)	Balance at 31.12.2017
Euro Medium Term Notes (EMTN)	2 998 440	-	(25 000)	(2 157 623)	(1 467)	49 975	864 325
Bonds	777 351	-	(357 498)	-	(59 554)	(7 844)	352 455
Covered bonds	42 010	50 000	(40 000)	-	(50 025)	(1 985)	-
	3 817 801	**50 000**	**(422 498)**	**(2 157 623)**	**(111 046)**	**40 146**	**1 216 780**

a) Other movements include accrued interest, corrections for hedging operations, fair value adjustments and foreign exchange differences

(in thousands of Euros)

	Balance at 31.12.2015	Issues	Redemptions	Net purchases	Other movements a)	Balance at 31.12.2016
Euro Medium Term Notes (EMTN)	3 601 463	-	(239 702)	(399 419)	36 098	2 998 440
Certificates of deposit	4 615	-	(4 615)	-	-	-
Bonds	499 544	385 600	-	4 175	(111 968)	777 351
Covered bonds	119 036	450 000	(75 000)	(449 975)	(2 051)	42 010
	4 224 658	**835 600**	**(319 317)**	**(845 219)**	**(77 921)**	**3 817 801**

a) Other movements include accrued interest, corrections for hedging operations, fair value adjustments and foreign exchange differences

In accordance with the accounting policy described in Note 2.8, debt securities issued repurchased by the Group are derecognised from the balance sheet and the difference between the carrying book value of the liability and its acquisition cost is recognised in the income statement. As a result of repurchases made during the 2017 financial year and the realization of the Liability Management Exercise (LME), the Group recognised a gain of Euros 187.1 million (31 December 2016: a loss of Euros 16.9 million) (see Notes 14 and 41).

Under the purchase and sale agreement announced on 31 March 2017, the LME, finalised on 4 October 2017, was one of the precedent conditions for the sale of NOVO BANCO to Lone Star. The LME was an acquisition offer operation over several senior debt issued by NOVO BANCO, with the goal of reinforcing the Bank´s equity, which took place between 25 July and 2 October 2017, with financial settlement on 4 October. The operation involved 36 bond series with maturities between 2019 and 2052, in an overall nominal value of Euros 8.3 billion, meaning Euros 3 billion in accounting liabilities.

This operation meant acquiring and reimbursing bonds, which represented 73% of their accounting value, with an immediate result of Euros 209.7 million. For the Bank´s clients who opted for the sale or were reimbursed, term deposits with specific conditions became available, therefore this operation had limited impact on cash flows.

As at 31 December 2017 and 2016, the analysis of Debt securities issued, by maturity period, is as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Up to 3 months	-	135 093
3 months to 1 year	-	20 942
1 to 5 years	7 012	1 552 848
More than 5 years	1 209 768	2 108 918
	1 216 780	**3 817 801**

The main characteristics of the debts securities, as at 31 December 2017 and 2016, are as follows:

(in thousands of Euros)

Entity	Description		31.12.2017 Currency	Issue date	Carrying book value	Maturity	Interest rate	Market
Bonds								
Lusitano Mortgage No. 6	Lusitano Mortgage No. 6- Class A		EUR	2007	221 647	2060	Euribor 3m + 0.40%	Ireland
Lusitano Mortgage No. 6	Lusitano Mortgage No. 6- Class B		EUR	2007	1 500	2060	Euribor 3m + 0.60%	Ireland
Lusitano SME No. 3	Lusitano SME No. 3- Class A		EUR	2016	129 308	2037	Euribor 3m + 1.15%	Portugal
Euro Medium Term Notes								
NB (Luxembourg Branch)	BES Luxembourg 3.5% 02/01/43		EUR	2013	55 581	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3.5% 23/01/43		EUR	2013	108 157	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3.5% 19/02/2043		EUR	2013	83 073	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3.5% 18/03/2043		EUR	2013	59 087	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC		EUR	2013	43 241	2048	Zero Coupon	XLUX
NB (Luxembourg Branch)	Banco Esp San Lux ZC 12/02/49		EUR	2014	51 424	2049	Zero Coupon	XLUX
NB (Luxembourg Branch)	Banco Esp San Lux ZC 19/02/49		EUR	2014	49 813	2049	Zero Coupon	XLUX
NB (Luxembourg Branch)	Banco Esp San Lux ZC 27/02/51		EUR	2014	32 327	2051	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 06/03/2051		EUR	2014	16 052	2051	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 03/04/48		EUR	2014	48 083	2048	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 09/04/52		EUR	2014	42 308	2052	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 16/04/46		EUR	2014	28 641	2046	Zero Coupon	XLUX
NB Finance	EMTN 40	a)	EUR	2005	158 080	2035	Indexed to swap rate 12m	XLUX
NB Finance	EMTN 56		EUR	2009	14 055	2043	Zero Coupon	XLUX
NB Finance	EMTN 57		EUR	2009	16 017	2044	Zero Coupon	XLUX
NB Finance	EMTN 58		EUR	2009	6 014	2045	Zero Coupon	XLUX
NB Finance	EMTN 59		EUR	2009	12 986	2042	Zero Coupon	XLUX
NB Finance	EMTN 60		EUR	2009	13 702	2040	Zero Coupon	XLUX
NB Finance	EMTN 61		EUR	2009	18 672	2041	Zero Coupon	XLUX
NB Finance	EMTN 114		EUR	2011	7 012	2021	Fixed rate 6%	XLUX
					1 216 780			

a) Liabilities at fair value through profit or loss or with embedded derivatives

(in thousands of Euros)

Entity	Description		31.12.2016 Currency	Issue date	Carrying book value	Maturity	Interest rate	Market
Bonds								
Lusitano SME No. 1	Lusitano SME No. 1- Class B		EUR	2006	2 917	2028	Euribor + 0.05%	Ireland
Lusitano SME No. 1	Lusitano SME No. 1- Class C		EUR	2006	16 270	2028	Euribor + 2.20%	Ireland
Lusitano Mortgage No. 6	Lusitano Mortgage No. 6- Class A		EUR	2007	328 477	2060	Euribor + 0.40%	Ireland
Lusitano Mortgage No. 6	Lusitano Mortgage No. 6- Class B		EUR	2007	1 500	2060	Euribor + 0.60%	Ireland
Novo Banco	BES GUAR FEB 17		EUR	2012	93 083	2017	Euribor 3m + 0.9%	XLIS
Lusitano SME No. 3	Lusitano SME No. 3- Class A		EUR	2016	335 104	2037	Euribor 3m + 1.15%	Portugal
Euro Medium Term Notes								
NB (London Branch)	EMTN Series 3		EUR	2012	111 800	2022	Fixed rate 5%	XLUX
NB (London Branch)	EMTN Series 6		EUR	2012	78 572	2022	Fixed rate 5%	XLUX
NB (London Branch)	EMTN Series 7		EUR	2012	164 238	2019	Fixed rate 5%	XLUX
NB (London Branch)	EMTN Series 10		EUR	2012	548 201	2019	Fixed rate 5%	XLUX
NB (London Branch)	EMTN Series 12		EUR	2012	351 540	2019	Fixed rate 5%	XLUX
NB (London Branch)	EMTN Series 13		EUR	2012	236 937	2019	Fixed rate 5%	XLUX
NB (London Branch)	EMTN Series 14		EUR	2012	224 365	2019	Fixed rate 5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 5.75% 28/06/17		EUR	2012	20 942	2017	Fixed rate 5.75%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3% 21/06/22		USD	2012	59 573	2022	Fixed rate 3%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3.5% 02/01/43		EUR	2013	55 034	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3.5% 23/01/43		EUR	2013	107 377	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3.5% 19/02/2043		EUR	2013	82 783	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3.5% 18/03/2043		EUR	2013	58 645	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC		EUR	2013	41 499	2048	Zero Coupon	XLUX
NB (Luxembourg Branch)	Banco Esp San Lux ZC 12/02/49		EUR	2014	49 310	2049	Zero Coupon	XLUX
NB (Luxembourg Branch)	Banco Esp San Lux ZC 19/02/49		EUR	2014	48 655	2049	Zero Coupon	XLUX
NB (Luxembourg Branch)	Banco Esp San Lux ZC 27/02/51		EUR	2014	39 893	2051	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 06/03/2051		EUR	2014	41 456	2051	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 13/03/48		EUR	2014	35 630	2048	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 03/04/48		EUR	2014	45 113	2048	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 09/04/52		EUR	2014	41 276	2052	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 16/04/46		EUR	2014	50 042	2046	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 27/03/47		EUR	2014	50 320	2047	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 29/01/2049		EUR	2014	44 621	2049	Zero Coupon	XLUX
NB (Luxembourg Branch)	Banco Esp San Lux ZC 05/02/49		EUR	2014	38 292	2049	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 25/03/50		EUR	2014	41 304	2050	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 22/01/2049		EUR	2014	32 496	2049	Zero Coupon	XLUX
NB Finance	EMTN 37		EUR	2004	37 677	2029	Fixed rate 5.3%	XLUX
NB Finance	EMTN 40	a)	EUR	2005	148 786	2035	6.00% indexed to the swap rate	XLUX
NB Finance	EMTN 56		EUR	2009	13 168	2043	Zero Coupon	XLUX
NB Finance	EMTN 57		EUR	2009	15 071	2044	Zero Coupon	XLUX
NB Finance	EMTN 58		EUR	2009	13 287	2045	Zero Coupon	XLUX
NB Finance	EMTN 59		EUR	2009	12 207	2042	Zero Coupon	XLUX
NB Finance	EMTN 60		EUR	2009	12 822	2040	Zero Coupon	XLUX
NB Finance	EMTN 61		EUR	2009	17 941	2041	Zero Coupon	XLUX
NB Finance	EMTN 113		EUR	2011	13 648	2021	Fixed rate 6%	XLUX
NB Finance	EMTN 114		EUR	2011	13 919	2021	Fixed rate 6%	XLUX
Covered bonds								
Novo Banco	BES DUE 4.6%	a)	EUR	2010	42 010	2017	Fixed rate 4.6%	XLIS
					3 817 801			

a) Liabilities at fair value through profit or loss or with embedded derivatives

As at 31 December 2017, this caption includes Euros 158 080 thousand in liabilities represented by debt securities recorded in the balance sheet at fair value through profit or loss (31 December 2016: Euros 190 796 thousand) (see Note 49).

NOTE 38 – INVESTMENT CONTRACTS

The details of the liabilities arising from investment contracts are presented as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Fixed rate investment contracts	-	2 177 242
Investment contracts in which the financial investment risk is borne by the policyholder	-	1 219 183
	-	**3 396 425**

In accordance with IFRS 4, insurance contracts issued by the Group in respect of which there is only a transfer of financial risk, with no discretionary participating features, are classified as investment contracts.

The movement in the investment contracts with fixed rate in the financial years ended on 31 December 2017 and 2016, is as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Balance at the beginning of the period	2 177 242	2 687 451
New contracts / reinforcements	-	11 381
Benefits paid	-	(499 741)
Change in deferred acquisition costs	-	3 702
Reclassification of products	-	(98 789)
Technical interest for the period	-	73 238
Reclassification to discontinued units	(2 177 242)	-
Balance at the end of the period	**-**	**2 177 242**

The movement in the investment contracts in which the financial risk is borne by the policyholder in the financial years ended on 31 December 2017 and 2016, is as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Balance at the beginning of the period	1 219 183	1 356 037
New contracts / reinforcements	-	48 767
Benefits paid	-	(192 385)
Technical interest for the period	-	6 764
Reclassification to discontinued units	(1 219 183)	-
Balance at the end of the period	**-**	**1 219 183**

As at 31 December 2017 and 2016, the investment contracts, by maturity period, are as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Up to 3 months	-	42 744
3 months to 1 year	-	135 388
1 to 5 years	-	2 400 648
More than 5 years	-	817 645
	-	**3 396 425**

NOTE 39 – PROVISIONS

During the financial years ended on 31 December 2017 and 2016, the caption Provisions presents the following movements:

(in thousands of Euros)

	Restructuring provisions	Provision for guarantees and commitments	Commercial offers	Other provisions	Total
Balance at 31 December 2015	**-**	**400**	**295 780**	**168 934**	**465 114**
Allocation / (write-backs) for the period	96 881	5 427	2 500	(55 607)	49 201
Utilization during the period	(88 631)	-	(145 025)	(14 102)	(247 758)
Transfers	-	107 177	-	(3 745)	103 432
Foreign exchange differences and other	1 258	(661)	-	(5 971)	(5 374)
Balance at 31 December 2016	**9 508**	**112 343**	**153 255**	**89 509**	**364 615**
Allocation / (write-backs) for the period	134 259	39 825	300	16 547	190 931
Utilization during the period	(51 704)	-	(48 715)	(9 305)	(109 724)
Foreign exchange differences and other	(71)	(5 694)	260	(23 647)	(29 152)
Balance at 31 December 2017	**91 992**	**146 474**	**105 100**	**73 104**	**416 670**

At the end of 2015, the Board of Directors of NOVO BANCO presented to the European Commission a Restructuring Plan that was prepared in strict collaboration with Banco de Portugal and involved a set of measures, highlighting the concentration of the retail and corporate banking activities in Portugal and Spain, the disinvestment in non-strategic assets and the reduction, in 2016, of Euros 150 million in recurring operating costs (excluding restructuring costs) associated with a decrease of 1 000 employees and a re-sizing of the distribution network to 550 branches. In the scope of IAS 37, during 2016 a provision for this restructuring was created in the amount of Euros 98.2 million, to cover the facilities' closure costs and the employee downsizing. Up until 31 December 2016, Euros 88.6 million were used, and during 2017 Euros 5.3 million were used from the aforementioned provision, so at 31 December 2017 provisions registered at the balance sheet was up to Euros 3.6 million. The restructuring plan was executed during 2016, the jobs reduction goal was met, the distribution network was reduced as well as the operational costs recorded a surpassing decrease.

The goals agreed with the European Commission for 30 June 2017, included a Euros 230 million reduction on recurring operational costs (excluding restructuring costs) when compared to 2015. This cost reduction is due to a re-sizing to 5 908 employees at the Group level and the distribution network to 475 branches. In IAS 37 scope, in 2017 a provision for this restructure was created, in the amount of Euros 52.6 million, making up for the costs of shutting down facilities and reducing employees. This new phase of the restructuring plan was executed, so at 30 June 2017, the goal of downsizing employees and the distribution network was met and the operational costs recorded a decrease bigger than the established goal. Until 31 December 2017 Euros 46.4 million of the provision created were used; the remaining Euros 6.1 million balance is meant to make up for any costs that may incur due to this restructure.

In NOVO BANCO´s sale scope, finalised in October 2017, additional commitments with the European Commission were made. As such, a new provision for restructure was made in the amount of Euros 82.3 million to face new goals. This provision contemplates restructuring measures that include the banking activity to be focused in Portugal and Spain on retail and enterprises markets, disinvestment on non-strategic assets, reducing employees and resizing the distribution network.

Provisions for commercial offers, in the amount of Euros 105.1 million (31 December 2016: Euros 153.2 million), are intended to cover costs resulting from commercial offers approved by the Board of Directors of NOVO BANCO, directed at retail customers holding NOVO BANCO unsubordinated bonds. The Board of Directors considers the amount of this provision adequate based on the experience gained in the negotiations already completed and sales price expectations concerning the bonds and financial instruments subscribed by the customers.

Other provisions amounting to Euros 73.1 million (31 December 2016: Euros 89.5 million) are intended to cover certain duly identified contingencies related to the Group's activities, the most relevant of which being:

- Contingencies associated with ongoing tax processes. To cover for these contingencies, the Group maintains provisions of Euros 15.3 million (31 December 2016: Euros 40.9 million, of which 26.7 were from GNB Vida).
- The remaining balance, of Euros 57.8 million (31 December 2016: Euros 48.6 million), is maintained to cover for unrealised losses in connection with the normal activities of the Group, such as, amongst others, fraud, theft and robbery and ongoing judicial cases.

NOTE 40 – INCOME TAXES

NOVO BANCO and its subsidiaries and associated companies located in Portugal are subject, individually, to taxation in accordance with the Corporate Income Tax Code (IRC). So, deferred taxes are recorded depending on the time differences between accounting and tax results relevant for IRC, anytime such time differences seem to reverse in the future.

NOVO BANCO is also subject to the Special Regime applicable to Deferred Tax Assets approved by Law no. 61/2014, of 26 August, to which it adhered, and to taxes, contribution and other levies foreseen in standalone legislation.

For the financial year ended on 31 December 2017, NOVO BANCO was subject to corporate income tax (IRC) at the general rate of 21%, which remained unchanged from the previous year.

Corporate income taxes (current or deferred) are recognised in the income statement except in cases where the underlying transactions or items with which they are related have been reflected under equity captions (ex. revaluation of available-for-sale financial assets). In these situations, the corresponding tax is also charged to equity, not affecting the net profit / (loss) for the year.

For purposes of the deferred tax asset calculation as at 31 December 2017, and as occurred in the periods following 3 August 2014, the following aspects were taken into consideration:

- The transfer of assets, liabilities, off-balance sheet elements and assets under management of BES, following the resolution of Banco de Portugal of 3 August 2014, constitutes an asset contribution operation, under article 73 et sec of the IRC Code, as a result of which the tax neutrality regime foreseen in article 73 of this Code is applied. This legal-tax framework has received the written approval of the Portuguese Tax Administration and is foreseen in article 145-AU of the RGICSF;
- Considering the above-mentioned, the deferred tax assets and liabilities relating to timing differences arising on the assets and liabilities included in the transfer made under said deliberation were also transferred to NOVO BANCO;
- According to no. 2 of article 145-AU of the RGICSF and the deliberations of Banco de Portugal of 3 August 2014 and 27 April 2015, the right to deduct tax losses declared by BES in respect of IRC were transferred to NOVO BANCO. An application was submitted to the Ministry of Finance, under no. 4 of article 145-AU of the RGICSF, requesting the confirmation that the tax losses generated by BES and subject to carry forward could be transmitted to NOVO BANCO, which was deferred. As explained below, based on the assessment of the recoverability of deferred assets associated with tax losses and notwithstanding the deferral of the request for the transfer of tax losses generalised by BES and subject to reporting, the corresponding deferred tax assets were not yet recognised.
- Decree-Law no. 127/2011, of 31 December, which regulates the transfer of the retirement pension and survival benefit liabilities of the retirees and pensioners to the General Social Security Regime and that, in conjunction with article 183 of Law no. 64-B/2011, of 30 December (2012 State Budget Law), established a special tax deductibility regime for expenses and other equity changes arising on such transfer:
    - The negative equity change arising on the accounting policy change regarding the recognition of actuarial gains and losses, which were previously deferred, will be fully deductible in equal parts over 10 years (counting from the financial year started on 1 January 2012);
    - The settlement effect (determined as the difference between the liability measured in accordance with IAS 19 criteria and with the criteria established in the agreement) will also be fully deductible for purposes of determining taxable income, in equal parts, over

16 years (counting from the financial year started on 1 January 2012), according to the average life expectancy of the pensioners whose liabilities were transferred.

- The Special Regime applicable to Deferred Tax Assets approved by Law no. 61/2014, of 26 August, to which NOVO BANCO adhered, foresees that said special regime of tax deductibility of costs and other equity changes related with retirement pension and survival benefit liabilities vis-à-vis retirees and pensioners not be applicable to a specific financial year in the event in said period a tax loss is determined.
- In accordance with the previous paragraphs:
  - As at 31 December 2015, the deferred tax assets arising on the transfer of liabilities and on the accounting policy change regarding the recognition of actuarial gains and losses, in the amount of Euros 25 022 thousand and Euros 159 188 thousand, respectively, are therefore recoverable over the minimum periods of 12 and 6 years, and are also eligible for purposes of the conversion into tax credits foreseen in the Special Regime applicable to Deferred Tax Assets approved by Law no. 61/2014, of 26 August.
  - Following the determination of a negative net result for financial year 2015, the approval of the annual accounts by the corporate bodies and the application of said Special Regime for Deferred Tax Assets, part of the deferred tax assets arising on the transfer of the liabilities to the Social Security and on the accounting policy change regarding the recognition of actuarial gains and losses, were converted into tax credits, having the final amount been approved during the second half of 2017, Euros 153 555 thousand.
  - Also, following the determination of a negative net result for financial year 2016 and the approval of the annual accounts by the corporate bodies, Special Regime´s application implies once again, in 2017, a conversion of the deferred tax assets into a tax credit in a related proportion of this net result in the amount of the equity, estimated in Euros 121.5 million. This estimated amount may suffer changes related to the audit certification and of *Autoridade Tributária e Aduaneira* (Taxes and Customs Authority) itself that will take place in 2018.
- In 2017, Regulatory Decree no. 11/2017, of 28 December, was applied to reproduce the tax regime that was in force on 31 December 2016, extending, to 2017, the tax regime of impairment losses for credit risk applicable in 2016 and in previous years. This way, the framework resulting from Notice no. 3/95 of the Banco de Portugal was extended for fiscal purposes.

Deferred taxes are calculated based on the tax rates anticipated to be in force at the timing differences' reversal date, which correspond to the rates enacted or substantively enacted at the balance sheet date.

Thus, as at 31 December 2017, the deferred tax related to timing differences was determined based on an aggregate rate of 31%, resulting from the sum of the general IRC rate (21%), the Municipal Surcharge of 1.5% and an average rate of State Surcharge of 8.5%.

Pursuant to Law no. 55-A/2010, of 31 December, a Bank Levy (*Contribuição sobre o Sector Bancário*) was created, which is levied on the average annual liabilities recorded on the balance sheet net of own funds and of deposits covered by the guarantee of the *Fundo de Garantia de Depósitos* and on the notional amount of derivative financial instruments. The Bank Levy is not eligible as a tax cost, and the respective regime was extended by Law no. 64-B/2011, of 30 December, by Law no. 66-B/2012, of 31 December, by Law no. 83-C/2013, of 31 December, by Law no. 82-B/2014, of 31 December, by Law no.159-C/2015, of 30 December and by Law no. 42/2016, of 28 December. As at 31 December 2017, the NOVO BANCO Group recognised Banking Levy charges as a cost in the amount of Euros 30 838 thousand (31 December 2016: Euros 36 966 thousand). The cost recognised as at 31 December 2017 has been calculated and paid based on the maximum rate of 0.110% levied on the average annual liabilities recorded on the balance sheet, net of own funds and deposits covered by the guarantee of Fundo de Garantia de Depósitos, approved by Law no. 7-A/2016, of 30 March and by Ordinance no. 165-A/2016, of 14 June.

The deferred tax assets and liabilities recognised in the balance sheet as at 31 December 2017 and 2016 may be analysed as follows:

(in thousands of Euros)

	Assets		Liabilities		Net	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Financial instruments	239 633	311 386	(106 634)	(70 517)	132 999	240 869
Impairment losses on loans and advances to customers	1 345 946	1 260 789	-	-	1 345 946	1 260 789
Other tangible assets	-	17 340	(8 735)	(16 283)	(8 735)	1 057
Investments in subsidiaries and associated companies	-	-	(1 058)	(989)	(1 058)	(989)
Provisions	70 713	88 694	-	-	70 713	88 694
Pensions	20 159	66 621	-	-	20 159	66 621
Long-term service bonuses	22	5 130	-	-	22	5 130
Debt securities issued	8 749	881	-	-	8 749	881
Other	5 474	5 853	(6 498)	(12 859)	(1 024)	(7 006)
Tax losses carried forward	390 053	928 632	-	-	390 053	928 632
Deferred tax asset / (liability)	**2 080 749**	**2 685 326**	**(122 925)**	**(100 648)**	**1 957 824**	**2 584 678**
Asset / liability set-off for deferred tax purposes	(116 732)	(81 347)	116 732	81 347	-	-
Net Deferred tax asset / (liability)	**1 964 017**	**2 603 979**	**(6 193)**	**(19 301)**	**1 957 824**	**2 584 678**

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available allowing for the utilization of the deductible timing differences. The Group has evaluated the recoverability of the deferred tax assets considering its expectations of future taxable profits up till 2028. The recoverable deferred tax assets covered by the Special Regime applicable to Deferred Tax Assets is not dependent on the generation of future taxable income.

At 31 December 2017 and 2016, deferred tax assets related to tax liabilities were of Euros 390 053 thousand and Euros 928 632 thousand, respectively.

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 Group's expectation regarding their recoverability. The assessment of the recoverability of the deferred tax assets was made based on the business plan for the period 2018-2022 ("PMP 2018-2022"), approved by the Board of Directors of NOVO BANCO on 29 March 2018.

On the last trimester of 2017 the Bank proceeded to annul deferred tax assets generated from tax liabilities recognised in previous periods in the amount of Euros 520 million, where at 31 December 2017 they raised up to Euros 380 million (31 December 2016: Euros 909 million).

The Bank´s reduced capacity to recover the deferred tax assets generated from tax liabilities which was the reason for the annulment mentioned above, when compared to the estimated amount by the Board of Directors at the end of 2016, is due to the binding commitments between the Portuguese government and Directorate-General for Competition of the European Commission ("DGCOMP"). They were reviewed upon the partial sale of NOVO BANCO´s agreement, finalised by the end of October 2017 and formally announced to the Bank in December 2017, and also due to a higher level of conservatism on the Portuguese Macroeconomic projections on the medium and long term, having in mind the challenges and difficulties NOVO BANCO has seen on its fourth consecutive year of activity.

The commitments pledged with DGCOMP have imposed new and strict restrictions on the growth of the projected activity in the new business plan for the period 2018 through 2022, with a direct negative impact on the upbringing of taxable results in the future, mainly when compared with the previous medium-term business plan ("PMP 2017-2021") and which had been a stepping point for the deferred tax assets generated by tax liabilities recovery exercise at 31 December 2016. Additionally, the stronger aggressiveness reflected in the non-productive asset reduction plan, mirroring the requirements and commitments of NOVO BANCO considering the European Union regulatory framework, came to contribute for this less favorable evolution when compared with the PMP 2017-2021.

Under these circumstances, the variations in relation to the PMP 2017-2021 in the main assumptions used in the evaluation of the expectation of future taxable income to be used in the analysis of the recovery of deferred tax assets generated by tax losses are analyzed as follows:

- Annual Composite Growth Rate (CAGR) between 2017 and 2021 in customer loans (gross) of 0%, which represents a reduction compared to the projected in the previous PMP for 2021 of approximately 7.9 billion euros;
- CAGR between 2017 and 2021 in customer funds of 0.5%, which represents a reduction compared to the projected in the previous PMP for 2021 of approximately 4.3 billion euros;
- Downward revision of the projections of results in financial operations through the new restrictions imposed during the restructuring period at the level of the proprietary portfolio, not allowing the Bank any activity beyond what is expected for a commercial bank.

In the evaluation of the expectation of future taxable income generation in Portugal for the purposes of the above recovery exercise, the following assumptions were also taken into account:

- Growth of pre-tax income at a rate of 3.02% from 2022;
- Significantly unfavorable evolution of net interest income in relation to the projections presented in the previous MTP, since the positive impact of the expected decrease in the cost of term deposits and the reduction in the Bank's cost of funding, namely through the LME operation carried out in 2017, are not sufficient to compensate for the significant reduction of the loan portfolio in the period from 2018 to 2022, compared to the growth shown in the previous MTP;
- Increase, in the long term, of interest rate benchmarks;
- Reduction of operating costs, reflecting the favorable effect of decreases in the number of employees and branches and, generally, simplification and increase of process efficiency; and
- Appropriations for credit impairment in line with the evolution of the Bank's activity and supported by the macroeconomic projections, especially bearing in mind the significant effort made in the last 3 years in the provisioning of the loan portfolio.

The movements in the deferred tax captions were recognised as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Balance at the beginning of the period	2 584 678	2 510 818
Recognised in Results for the period (*)	(430 773)	208 051
Recognised in Fair value reserves	(45 678)	(14 671)
Recognised in Other reserves	(7 977)	17 289
Change in method of consolidation (1)	(28 750)	(5 752)
Conversion of Deferred taxes into Tax credits	(114 198)	(160 866)
Foreign exchange differences and other (*)	522	29 809
Balance at the end of the period (Assets / (Liabilities))	**1 957 824**	**2 584 678**

*Restated

(1) In 2016 BES Vénétie was transferred to discontinued units (see Note 1)

Current tax assets and liabilities recognised in the balance sheet as at 31 December 2017 and 2016 may be analysed as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Assets		
Corporate tax recoverable	945	20 112
Other	5 069	10 508
	6 014	**30 620**
Liabilities		
Corporate tax payable	7 968	11 108
Other	5 919	5 864
	13 887	**16 972**

The current and deferred taxes recognised in the income statement and in reserves, in financial years 2017 and 2016, had the following origins:

(in thousands of Euros)

	31.12.2017		31.12.2016	
	Recognised in the income statement	Recognised in reserves	Recognised in the income statement *	Recognised in reserves
Financial Instruments	49 797	45 678	(93 177)	14 671
Impairment losses on loans and advances to customers	(142 536)	-	(120 305)	(19 127)
Other tangible assets	(5 780)	15 572	(297)	773
Investments in subsidiaries and associated companies	68	-	5 535	(5 225)
Provisions	15 774	1 589	25 981	2 849
Pensions	(6 050)	66	(19 572)	(2 852)
Long-term service bonuses	(2)	-	3 287	-
Debt securities issued	(366)	(7 502)	(4 870)	-
Other	324	(1 748)	4 272	-
Tax losses carried forward	519 544	-	(8 905)	6 293
Deferred taxes	430 773	53 655	(208 051)	(2 618)
Current taxes	14 373	923	14 662	(1 136)
Total tax recognised (income) / cost	**445 146**	**54 578**	**(193 389)**	**(3 754)**

*Restated

The reconciliation of the corporate income tax rate, for the portion recognised in the income statement, may be analysed as follows:

(in thousands of Euros)

	31.12.2017		31-12-2016*	
	%	Amount	%	Amount
Loss before tax [(a)]		**(954 316)**		**(990 860)**
Tax rate of NOVO BANCO	21.0		21.0	
Income tax calculated based on the tax rate of NOVO BANCO		**(200 406)**		**(208 081)**
Tax-exempt dividends	0.3	(2 908)	-	-
Extraordinary contribution to the Bank Levy	(3.2)	30 838	(3.7)	36 966
Impairment on investments in subsidiaries or associated companies not subject to participation exemption	(6.5)	62 274	6.5	(64 280)
Impairment on investments in subsidiaries or associated companies subject to participation exemption	(6.1)	58 056	(3.0)	29 514
Non-deductible costs	(7.5)	71 730	(7.0)	69 426
Rate differential on the generation / reversal of timing differences	3.7	(35 062)	5.7	(56 627)
Profits / losses in units with a more favorable tax regime	(2.0)	19 263	(0.3)	2 982
Taxes of Bank Branches and tax withheld abroad	(0.8)	7 709	(1.0)	10 121
Change in the rate of IRC	11.0	(104 531)	-	-
Annulment of tax losses carried forward	(54.5)	520 000	-	-
Share of profits / (losses) of associated companies	(0.3)	2 429	-	-
Other	(1.7)	15 754	1.4	(13 410)
Total tax recognized	**(46.6)**	**445 146**	**19.5**	**(193 389)**

*Restated

[(a)] Includes the profit / (loss) of discontinued units

NOTE 41 – SUBORDINATED DEBT

The caption Subordinated debt is analysed as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Bonds	-	31 797
Perpetual Bonds	-	16 303
	-	**48 100**

The main features of the subordinated debt, as at 31 December 2016, are presented as follows:

(in thousands of Euros)

		31.12.2016						
Issuer	Designation	Currency	Issue date	Issue amount	Carrying book value	Interest rate	Maturity	
GNB Vida	Subordinated bonds	EUR	2002	45 000	31 797	Euribor 3M + 2.20%	2022	
GNB Vida	Subordinated perpetual bonds	EUR	2002	45 000	16 303	Euribor 3M + 2.50%	2017	a)
				90 000	**48 100**			

a) Next call option date

The movement occurring in subordinated debt in financial years 2017 and 2016, is as follows:

(in thousands of Euros)

	Balance at 31.12.2016	Issues	Redemptions	Net purchases	Other movements [a]	Balance at 31.12.2017
Bonds	31 797	-	-	-	(31 797)	-
Loans	-	-	-	-	-	-
Perpetual Bonds	16 303	-	-	-	(16 303)	-
	48 100	**-**	**-**	**-**	**(48 100)**	**-**

[a] Other movements include accrued interest and hedging, fair value and foreign exchange adjustments

(in thousands of Euros)

	Balance at 31.12.2015	Issues	Redemptions	Net purchases	Other movements [a]	Balance at 31.12.2016
Bonds	30 148	-	-	-	1 649	31 797
Loans [b]	9 920	-	-	-	(9 920)	-
Perpetual Bonds	16 192	-	-	(47)	158	16 303
	56 260	**-**	**-**	**(47)**	**(8 113)**	**48 100**

[a] Other movements include accrued interest and hedging, fair value and foreign exchange adjustments

[b] Other movements in Loans relate to the classification of BES Vénétie as a discontinued unit

In accordance with the accounting policy described in Note 2.8, debt securities issued repurchased by the Group are derecognised from the consolidated liabilities and the difference between the carrying book value of the liability and its acquisition cost is recognised in the income statement. As a result of repurchases made during financial year 2017, the Group recognised a loss of Euros 14 thousand (31 December 2016: a gain of Euros 0.1 million) (see Notes 14 and 37).

Under subparagraph (iv) of paragraph (b) of point 1 of Appendix 2 of the Resolution of the Board of Directors of Banco de Portugal of 3 August 2014, as amended by the Resolution of 11 August 2014 ("Resolution Deliberation"), no liabilities arising from the issue of financial instruments that were, or at some point had been eligible for the calculation of own funds of BES, which includes subordinated debt and other equity instruments issued by the BES branch in the Cayman Islands.

These instruments were fully held by BES Finance that had acquired same on their respective issue by BES, which occurred simultaneously with the issue of financial instruments by BES Finance itself, on the same terms and conditions and for an amount equal to the issuance made by BES. The instruments so issued by BES Finance were guaranteed by BES.
In this context, and also under the Resolution Deliberation, the legal regime of the resolution and EU rules on State aid, there are no liabilities in NOVO BANCO relating to the aforementioned financial instruments, as these responsibilities remained in BES. For this reason, the Board of Directors of NOVO BANCO did not reflect such liabilities in the consolidated balance sheet since the date of its constitution.

Since the application of the resolution measure, the Cayman Islands Branch has not made any payments under the subordinated debt and Banco de Portugal has waived BES from complying with obligations previously contracted and, consequently, no payment has been made to the holders of BES Finance’s subordinated debt. Additionally, BES Finance did not proceed with the dividend payment due on the preference shares.

In May 2015, the senior debt of BES Finance was transferred to a new entity, NB Finance, after obtaining the necessary authorization from the holders of the debt securities, with the subordinated debt and preference shares issued remaining behind in BES Finance. NB Finance is 100% held by NOVO BANCO, and, consequently, integrates its consolidation perimeter.

NOTE 42 – OTHER LIABILITIES

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

(in thousands of Euros)

	31.12.2017	31.12.2016
Public sector	35 534	44 934
Security deposit accounts	101 096	132 494
Creditors for transactions with securities	10 011	7 374
Suppliers	31 734	21 086
Creditors for factoring operations	6 011	3 953
Creditors for insurance operations	-	10 945
Other creditors	210 635	204 904
Non-controlling interests of Open Investment Funds	106 074	107 713
Career bonuses (see Note 16)	6 371	5 149
Retirement pensions and health-care benefits (see Note 16)	18 417	23 874
Other accrued expenses	101 012	136 888
Deferred income	4 389	8 535
Stock exchange transactions pending settlement	25 999	3
Foreign exchange transactions pending settlement	7 579	264
Other transactions pending settlement	105 828	10 432
	770 690	**718 548**

Stock exchange transactions pending settlement refer to transactions with securities pending settlement, recorded on the trade date, in accordance with the accounting policy described in Note 2.6.

NOTE 43 – SHARE CAPITAL

Ordinary shares

As at 31 December 2016, the Bank's share capital, in the amount of Euros 4 900 000 000, was represented by 4 900 000 000 registered shares, with a nominal value of Euro 1 per share, fully subscribed and realised by Fundo de Resolução.

In 2017, and following the acquisition of 75% of NOVO BANCO by Lone Star, two capital increases in the amounts of Euros 750 million and Euros 250 million, in October and December, respectively, were realised. Thus, as at 31 December 2017, the share capital of the Bank amounts to Euros 5 900 000 000, represented by 9 799 999 997 registered shares, with no nominal value, being fully subscribed and realised by the following shareholders.

	Share Capital %	
	31.12.2017	31.12.2016
Nani Holdings, SGPS, SA	75.00%	-
Fundo de Resolução[1]	25.00%	100.00%
	100.00%	**100.00%**

[1] In view of the commitments assumed by the Portuguese Republic before the European Commisson, the Resolution Fund is inhibited from exercising its voting rights.

NOVO BANCO adhered to the Special Regime applicable to Deferred Tax Assets (DTA) approved by Law no. 61/2014, of 26 August. Said regime applies to deferred tax assets related to the non-deduction, for corporate income tax purposes, of costs and negative equity changes recorded up to 31 December 2015 for impairment losses on loans and advances to customers and with employee post-employment or long-term benefits. Said regime foresees that those assets can be converted into tax credits when the taxable entity reports an annual net loss.

Law no. 23/2016, of 19 August, changed the temporal scope of this Special Regime, establishing that it was not applicable to expenses and eligible negative changes in shareholders' equity accounted for in taxable periods that were to begin on or after 1 January 2016.

Hence, following the net loss reported for the 2015 financial year and the approval of the annual accounts by the corporate bodies, the application of said Special Regime about deferred tax assets, part of the eligible deferred tax assets resulting from liabilities transfer to Social Security and the changes in the accounting policies on recognition of actuarial deviations, was converted to tax credit, where the final amount approved during the second semester of 2017 was of Euros 153 555 thousand, and received in December 2017. The application of the aforementioned Special Regime implied the simultaneous special reserve of Euros 168 911 thousand.

The conversion of the eligible deferred tax assets into tax credits was made in function of the proportion of the amount of said net loss to total equity at the individual company level.

A special reserve was constituted with an amount identical to the tax credit approved, increased by 10%. This special reserve was constituted using the originating reserve and is to be incorporated in the share capital.

The rights of conversion into shares representing the share capital attributable to the State in connection to the net loss reported in 2015 are expected to be created soon, during the second half of 2017.

The conversion rights are securities that grant to the State the right to demand of NOVO BANCO the respective share capital increase, through the incorporation of the amount of the special reserve and the consequent issue and delivery of ordinary shares at no cost. The shareholders of NOVO BANCO have the unilateral right to acquire the conversion rights from the State.

As a result of a net loss having been reported in 2016, and after approval of the annual accounts for that year by the Corporate Bodies, the application of the aforementioned Special Regime will imply again in 2017 the conversion of the eligible deferred tax assets into a tax credit, proportionately to the ratio of that loss to total equity, estimated in Euros 121.5 millions, the simultaneous creation of a special reserve, estimated in Euros 133.7 millions, and the constitution of rights of conversion into shares representing the share capital attributable to the State. These estimated amounts may suffer changes due to the audit, and tax and customs authority certifications happening in 2018.

It is estimated that the conversion rights to be issued and allocated to the State following the net loss of financial years 2015 and 2016 will confer on same a shareholding of up to about 5.8% of the share capital of NOVO BANCO.

NOTE 44 – OTHER RESERVES, RETAINED EARNINGS AND NON-CONTROLLING INTERESTS

The Group's reserves and retained earnings had the following breakdown as at 31 December 2017 and 2016:

(in thousands of Euros)

	31.12.2017	31.12.2016
Originating reserve	2 402 165	2 527 761
Special reserve [(a)]	302 569	176 952
Fair value reserves	245 129	107 202
	2 949 863	**2 811 915**
Other reserves and Retained earnings	(2 701 453)	(1 856 969)
	248 410	**954 946**

(a) The amount at 31 December 2016 is an estimate that was corrected for Euros 168 911 thousand

Originating reserve

The originating reserve results from the difference between the assets and liabilities transferred from BES to NOVO BANCO, on the terms defined in the resolution measure applied by Banco de Portugal to BES. The amount of the reserve includes the effects of Banco de Portugal's Resolution Measure ("Medida de Resolução") and those of the conclusions reached through the audit conducted by the independent auditor nominated by Banco de Portugal.

Special reserve

As mentioned in Note 43, the special reserve was created as a result of the adhesion of NOVO BANCO to the Special Regime applicable to Deferred Tax Assets approved by Law no. 61/2014, of 26 August, which implied the conversion of eligible deferred tax assets into tax credits and the simultaneous creation of a special reserve, following the determination of a net loss in financial years 2015 and 2016 and the approval of the respective annual accounts by the corporate bodies. The special reserve was set up for the same amount of the tax credit calculated, increased by 10%, using the original reserve and it will be incorporated in the share capital. The amounts of the originating reserve transferred to the special reserve are presented as follows:

	(in thousands of Euros)
	31.12.2017
2016 (net loss of 2015)	168 911
2017 (net loss of 2016)	133 658
	302 569

Fair value reserves

The fair value reserves represent the amount of the unrealised gains and losses arising from the securities portfolio classified as available-for-sale, net of impairment losses. The amount of this reserve is shown net of deferred taxes and non-controlling interests.

The movements in these captions may be presented as follows:

(in thousands of Euros)

	Fair value reserves			Other comprehensive income, Other reserves and Retained earnings				
	Available-for-sale financial assets	Deferred tax reserves	Total Fair value reserves	Actuarial deviations (net of taxes)	Exchange differences (net of taxes)	Other reserves and Retained earnings	Total Other reserves and Retained earnings	Total
Balance at 31 December 2015	**92 572**	**(28 506)**	**64 066**	**(313 813)**	**(136 592)**	**2 294 671**	**1 844 266**	**1 908 332**
Actuarial deviations	-	-	-	(79 563)	-	-	(79 563)	(79 563)
Changes in fair value	56 672	(13 536)	43 136	-	-	-	-	43 136
Foreign exchange differences	-	-	-	-	7 648	-	7 648	7 648
Appropriation of the Net profit / (loss) of the previous year to Retained earnings	-	-	-	-	-	(929 539)	(929 539)	(929 539)
Transactions with non-controlling interests	-	-	-	-	-	(7 410)	(7 410)	(7 410)
Other comprehensive income of associated companies	-	-	-	-	-	991	991	991
Other	-	-	-	-	-	11 351	11 351	11 351
Balance at 31 December 2016	**149 244**	**(42 042)**	**107 202**	**(393 376)**	**(128 944)**	**1 370 064**	**847 744**	**954 946**
Actuarial deviations	-	-	-	(24 684)	-	-	(24 684)	(24 684)
Changes in fair value	184 259	(46 332)	137 927	-	-	-	-	137 927
Foreign exchange differences	-	-	-	-	(17 602)	-	(17 602)	(17 602)
Appropriation of the Net profit / (loss) of the previous year to Retained earnings	-	-	-	-	-	(788 330)	(788 330)	(788 330)
Other comprehensive income of associated companies	-	-	-	-	-	(212)	(212)	(212)
Other	-	-	-	-	-	(13 635)	(13 635)	(13 635)
Balance at 31 December 2017	**333 503**	**(88 374)**	**245 129**	**(418 060)**	**(146 546)**	**567 887**	**3 281**	**248 410**

Fair value reserves are analysed as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Amortised cost of available-for-sale financial assets	9 385 859	11 497 085
Accumulated impairment recognised	(1 179 050)	(1 090 491)
Amortised cost of available-for-sale financial assets, net of impairment	8 206 809	10 406 594
Market value of available-for-sale financial assets	8 448 245	10 557 972
Unrealised gains / (losses) recognised in fair value reserves	241 436	151 378
Unrealised gains / (losses) of associated companies recognised in fair value reserves	(755)	(4 722)
Total fair value reserves	240 681	146 656
Fair value reserves of discontinued activities	99 496	(936)
Non-controlling interests	(6 674)	3 524
Deferred taxes	(88 374)	(42 042)
Fair value reserves attributable to shareholders of the Bank	**245 129**	**107 202**

The movement in fair value reserves, net of deferred taxes, impairment losses and non-controlling interests may be analysed as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Balance at the beginning of the period	**107 202**	**64 066**
Changes in fair value	321 021	(90 013)
Disposals during period	(104 691)	(7 432)
Impairment recognised during the period	(32 071)	154 117
Deferred taxes recognised in reserves during the period	(46 332)	(13 536)
Balance at the end of the period	**245 129**	**107 202**

Non-controlling interests

Non-controlling interests, by subsidiary, are detailed as follows:

(in thousands of Euros)

	31.12.2017			31.12.2016		
	Balance sheet	Income statement	% Non-controlling interests	Balance sheet	Income statement	% Non-controlling interests
GNB Concessões	27 812	(526)	28.34%	28 343	5 015	28.34%
FCR Ventures II [a)]	-	-	-	-	729	-
NB Património [b)]	-	3 471	45.24%	-	(9 605)	40.43%
NB Açores	16 403	920	42.47%	15 139	1 258	42.47%
BES Vénétie	21 637	291	12.50%	21 345	148	12.50%
Amoreiras	9 326	(3 054)	5.84%	12 379	320	5.84%
Promoção e Turismo	5 471	(29)	3.94%	-	-	-
Other	(1 437)	(5 088)		4 131	(7 006)	
	79 212	**(4 015)**		**81 337**	**(9 141)**	

[a)] Sold in November 2016

[b)] Non-controlling interests relating to Open real estate investment funds are recorded as Other liabilities (see Note 42)

The movement in non-controlling interests may be analysed as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Non-controlling interests at the beginning of the period	**81 337**	**56 581**
Changes in consolidation perimeter and control percentages [(a)]	5 545	26 578
Increases / (decreases) in share capital of subsidiaries	(23)	(1 266)
Dividends distributed	-	(2)
Changes in fair value reserves	767	(776)
Foreign exchange differences and other	(4 399)	9 363
Net profit / (loss) for the period	(4 015)	(9 141)
Non-controlling interests at the end of the period	**79 212**	**81 337**

[a)] At 31 December 2016, it includes a decrease of Euros 16 805 thousand due to the acquisition of 10% of GNB GA (see Note 1)

NOTE 45 – CONTINGENT LIABILITIES AND COMMITMENTS

As at 31 December 2017 and 2016, off-balance sheet elements are as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Contingent liabilities		
Guarantees and standby letters	3 782 974	4 058 353
Financial assets pledged as collateral	12 058 821	13 587 609
Open documentary credits	760 797	1 040 679
Other	2 747	2 985
	16 605 339	**18 689 626**
Commitments		
Revocable commitments	5 211 866	5 858 850
Irrevocable commitments	769 546	1 410 671
	5 981 412	**7 269 521**

Guarantees and standby letters provided are banking operations that do not imply any mobilization of funds for the Group.

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

- The market value of financial assets pledged as collateral to the European Central Bank in the scope of a liquidity facility, in the amount of Euros 11.6 billion (31 December 2016: Euros 12.8 billion);
- Securities pledged as collateral to the Portuguese Securities and Exchange Commission ("Comissão do Mercado de Valores Mobiliários" (CMVM)) in the scope of the Investors Indemnity System ("Sistema de Indemnização aos Investidores"), in the amount of Euros 9.9 million (31 December 2016: Euros 14.1 million);
- Securities pledged as collateral to the Deposits' Guarantee Fund ("Fundo de Garantia de Depósitos"), in the amount of Euros 71.4 million (31 December 2016: Euros 76.2 million);
- Securities pledged as collateral to the European Investment Bank, in the amount of Euros 263.1 million (31 December 2016: Euros 446.7 million).

The above mentioned financial assets pledged as collateral are recorded in the various asset categories of the Group's balance sheet and may be executed in the event the Group does not fulfil its obligations under the terms and conditions of the contracts celebrated.

Information on encumbered and unencumbered assets is presented in Note 50.

Documentary credits are irrevocable commitments made by the Group, on behalf of its customers, to pay or order to pay a certain amount to a supplier of goods or services, within a determined period, against the presentation of documentation of the expedition of the goods or rendering of the services. The condition of "irrevocable" derives from the fact that neither it nor the terms initially agreed to can be changed or cancelled without the agreement of all parties.

Revocable and irrevocable commitments represent contractual agreements to extend credit to Group customers (e.g. undrawn credit lines), which are, generally, contracted for fixed periods of time or with other expiration conditions and, usually, require the payment of a fee. Almost all credit commitments in force require that customers continue meeting certain conditions that were verified at the time the credit was contracted.

Despite the characteristics of these contingent liabilities and commitments, these operations require a previous rigorous risk assessment of the solvency of the customer and of its business, just like any other commercial operation. When necessary, the Group requires the collateralisation of these transactions. As it is expected that the majority of these operations will mature without any funds having been drawn, these amounts do not necessarily represent future cash out-flows.

Additionally, liabilities recorded in off-balance sheet items related to banking services provided are as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Deposit and custodianship of securities and other items for customers	31 973 583	28 719 616
Assets received for subsequent collection on behalf of clients	234 249	205 655
Securitized loans under management (servicing)	1 719 439	1 913 587
Other responsibilities related with banking services	2 286 198	2 533 207
	36 213 469	**33 372 065**

Under the resolution measure applied to BES per deliberation of Banco de Portugal of 3 August 2014, (point 1., paragraph b), subparagraph (vii) of Appendix 2), as altered by deliberation of Banco de Portugal of 11 August 2014, the "*Excluded Liabilities*" from the transfer to NOVO BANCO include "*any obligations, guarantees, liabilities or contingencies assumed in the trading, financial intermediation and distribution of debt instruments issued by entities integrating Espírito Santo Group (…)*".

Under the terms of the point and paragraph referred to above and sub point (v), the excluded liabilities also include *"any liabilities or contingencies, namely those resulting from fraud or the violation of regulatory, penal or administrative offense provisions or regulations".*

On 29 December 2015, Banco de Portugal adopted a new deliberation for the "*Clarification and retransmission of liabilities and contingencies defined as excluded liabilities in subparagraphs (v) through (vii) of paragraph (b) of no. 1 of Appendix 2 of the Deliberation of Banco de Portugal of 3 August 2014 (8 p.m.), with the wording given it by the Deliberation of Banco de Portugal of 11 August 2014 (5 p.m.)*". Through this deliberation, Banco de Portugal:

(i) Clarified the treatment as excluded liabilities of the contingent and unknown liabilities of BES (including litigation liabilities related to pending litigation and liabilities or contingencies arising from fraud or violation of rules or regulatory, criminal or administrative offence decisions), regardless of their nature (tax, labor, civil or other) and whether or not these are recorded in the accounts of BES, in accordance with subparagraph (v) of paragraph (b) of no. 1 of Appendix 2 of the Deliberation of 3 August; and

(ii) Clarified that the following liabilities had not been transferred from BES to NOVO BANCO:

a. All the liabilities relating to Preference Shares issued by vehicle companies established by BES and sold by BES;

b. All liabilities, damages and expenses related to real estate assets that were transferred to NOVO BANCO;

c. All indemnities related to breach of contracts (purchase and sale of real estate assets and others) signed and celebrated before 20h00 on 3 August 2014;

d. All indemnities related to life insurance contracts, in which the insurer was BES - Companhia de Seguros de Vida, S.A.;

e. All liabilities and indemnities related to the alleged annulment of certain clauses in loan agreements in which BES was the lender;

f. All the indemnities and liabilities arising from the cancellation of operations carried out by BES whilst financial and investment service provider; and

g. Any liability that is the object of any of the processes described in Appendix I of said deliberation.

(iii) To the extent that, despite the clarifications made above, it is found that there has been an effective transfer of any liabilities from BES to NOVO BANCO which, in terms of any of those paragraphs and the Deliberation of 3 August, should have remained in BES's legal sphere, said liabilities will be retransmitted from NOVO BANCO to BES, with effect as at 20hours of 3 August 2014.

In the preparation of its consolidated financial statements in respect of 2015, NOVO BANCO incorporated the decisions resulting from the referred resolution measure regarding the transfer of the assets, liabilities, off-balance sheet elements and assets under management of BES, as well as from the deliberation of 29 December 2015 of Banco de Portugal, in particular, as regards the clarification of the non-transmission to NOVO BANCO of contingent and unknown liabilities as well as the clarifications relating to the liabilities listed in paragraph b) above, herein also including the lawsuits listed in said deliberation.

In addition, also by deliberation of Banco de Portugal of 29 December 2015, it was decided that it is the responsibility of Fundo de Resolução to neutralize, at the NOVO BANCO level, the effects of decisions that are legally binding, beyond the control of NOVO BANCO and to which it did not contribute and that, simultaneously, translate into the materialization of liabilities and contingencies which, according to the transfer perimeter to NOVO BANCO as defined by Banco de Portugal, should remain in BES's scope or give rise to the setting of indemnities in the scope of the implementation of court sentences annulling decisions adopted by Banco de Portugal.

Considering that the establishment of the Bank results from the application of a resolution measure to BES, which had a significant impact on the net worth of third parties, and notwithstanding the deliberations of Banco de Portugal of 29 December 2015, there are still relevant litigation risks, albeit mitigated, namely in respect of the various disputes relating to the loan made by Oak Finance to BES and in respect of the senior bond issues retransmitted to BES, as well as the risk of the non-recognition and/or non-implementation of the various decisions of Banco de Portugal by Portuguese or foreign courts (as it is the case of the Courts in Spain) in disputes related to the perimeter of the assets, liabilities, off-balance sheet elements and assets under management transferred to NOVO BANCO.

In the preparation of the separate and consolidated financial statements of the Bank as at 31 December 2017 and 2016, the Executive Board of Directors reflected the Resolution Deliberation and related decisions made by Banco de Portugal, in particular the decisions of 29 December 2015, especially as regards the clarification of the contingent liabilities. In this context, the present financial statements, namely as regards the provisions for contingencies arising from lawsuits, reflect the exact perimeter of the assets, liabilities, off-balance sheet elements and assets under management transferred from BES to NOVO BANCO, as determined by Banco de Portugal and taking as reference the current legal bases and the information available at the present date.

As part of the sale of NOVO BANCO, SA, completed on 18 October 2017, the respective contractual documents include specific provisions that produce effects equivalent to the aforementioned resolution of the Board of Directors of the Banco de Portugal, dated 29 December 2015, although it is now contractual in nature, thus maintaining the contingent liabilities of the Resolution Fund.

Significant lawsuits

For the purpose of determining the contingent liabilities, and without prejudice to the information contained in these notes to the accounts, namely with regard to the conformity of the policy for the constitution of provisions with the resolution measure and subsequent decisions of Banco de Portugal (and criteria for the allocation of responsibilities and contingencies arising therefrom), it is also necessary to identify the following disputes which effects or impacts on the financial statements of NOVO BANCO are, on this date, not susceptible of determination or quantification:

(i) Lawsuit brought by Partran, SGPS, S.A., Massa Insolvente da Espírito Santo Financial Group, S.A. and Massa Insolvente da Espírito Santo Financial (Portugal), S.A. against NOVO BANCO and Calm Eagle Holdings, S.A.R.L. through which it is intended that the pledge of the shares of Companhia de Seguros Tranquilidade, S.A. be declared invalid and, secondarily, that said pledge be annulled or declared ineffective.

(ii) Lawsuit brought by NOVO BANCO, S.A. challenging the resolution decided in favor of the insolvent estate in respect of the acts of the constitution and subsequent execution of the pledge on the shares of the company Companhia de Seguros Tranquilidade, S.A., declared by the insolvency administrator of Partran, SGPS, S.A., due to considering that there are no grounds for the resolution of these acts, as well as demanding the reimbursement of the amount received by way of price (Euros 25 000 000, susceptible of a positive adjustment) on the sale of the shares of Companhia de Seguros Tranquilidade, S.A.. NOVO BANCO challenged judicially the resolution act, with this process running its course appended to the insolvency proceedings of Partran, SGPS, S.A.

At the end of January 2016, NOVO BANCO became aware of two lawsuits lodged with the Venezuelan Supreme Court of Justice, by Banco de Desarrollo Económico y Social de Venezuela and by Fondo de Desarrollo Nacional brought against BES and NOVO BANCO relating to the sale of debt instruments issued by entities held by the Espírito Santo Group in the amounts of USD 37 million and USD 335 million, respectively, and in which they seek the reimbursement of the amount invested plus interest, compensation for the inflation and court costs. Under the resolution measure, these responsibilities have not been transferred to NOVO BANCO, with the main lawsuits and precautionary measures still pending in the Venezuelan Supreme Court of Justice.

In addition, following the conclusion of the agreement on the sale of NOVO BANCO's share capital, signed between the Resolution Fund and Lone Star on 31 March 2017, certain legal suits have been lodged, including of a precautionary nature, related to the conditions of the sale.

Fundo de Resolução

Fundo de Resolução is a public legal entity with administrative and financial autonomy, created by Decree-Law no. 31-A/2012, of 10 February, which is governed by the General Law on Credit Institutions and Financial Companies (“RGICSF”) and by its internal regulation, having as its mission to provide financial support for the resolution measures implemented by Banco de Portugal, whilst national resolution authority, and to carry out all the other functions conferred by law in the scope of the execution of such measures.

The Bank, as with the generality of the financial institutions operating in Portugal, is one of the institutions participating in Fundo de Resolução, making contributions that result from the application of a rate defined annually by Banco de Portugal, based, essentially, on the amount of its liabilities. In 2017, the periodic contribution made by the Group amounted to Euros 7 821 thousand (31 December 2016: Euros 6 705 thousand).

As part of its responsibility as the supervisory and resolution authority, Banco de Portugal decided to apply, on 3 August 2014, a resolution measure to BES, under no. 5 of article 145-G of the General Law on Credit Institutions and Financial Companies (RGICSF), which consisted of the transfer of most of its activity to a transition bank, called NOVO BANCO, S.A., created specifically for this purpose. According to Community legislation, the capitalization of NOVO BANCO was assured by Fundo de Resolução, created by Decree-Law no. 31-A/2012, of 10 February.

To realise the share capital of NOVO BANCO, Fundo de Resolução made available Euros 4 900 million, of which Euros 365 million corresponded to own funds. A loan was also granted by a banking syndicate to Fundo de Resolução, amounting to Euros 635 million, with the participation of each credit institution being weighted by various factors, including their respective size. The remaining amount (Euros 3 900 million) had as its origin a reimbursable loan granted by the Portuguese Republic.

In December 2015, the national authorities decided to sell most of the assets and liabilities associated with the activity of Banif - Banco Internacional do Funchal, SA (Banif) to Banco Santander Totta, S.A. (Santander Totta), for Euros 150 million, also in the scope of the application of a resolution measure. This operation involved an estimated Euros 2 255 million of public funding, aimed at covering future contingencies, financed in Euros 489 million by Fundo de Resolução and Euros 1 766 million directly by the Portuguese Republic. In the context of this resolution measure, the assets of Banif identified as problematic were transferred to an asset management vehicle, created for the purpose – Oitante, S.A., with Fundo de Resolução being its sole shareholder, through the issue of debt securities of that vehicle, in the amount of Euros 746 million, guaranteed by Fundo de Resolução and counter-guaranteed by the Portuguese Republic.

The serious financial imbalance of BES in 2014 and Banif in 2015 , that justified the application of resolution measures, created uncertainties related to the risk of litigation involving Fundo de Resolução, which is significant, as well as to the risk of an insufficiency of funds to ensure its compliance with its responsibilities, namely the short-term repayment of the loans contracted.

It was in this context, in the second half of 2016, the Portuguese Government reached an agreement with the European Commission to change the terms of the financing granted by the Portuguese Republic and by the banks participating in Fundo de Resolução in order to preserve its financial stability, through the promotion of conditions that endow predictability and stability of the contributory efforts to Fundo de Resolução. To this end, an addendum to the financing agreements with Fundo de Resolução was formalised, which introduced a number of changes to the repayment schedule, remuneration rates and other terms and conditions associated with said loans such that these are adjusted to Fundo de Resolução's ability to fully meet its obligations based on its regular revenues, that is, without the need to charge the banks participating in Fundo de Resolução for special contributions or any other extraordinary contribution.

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

Also on 31 March 2017, Banco de Portugal announced that it had selected Lone Star Funds for the acquisition of NOVO BANCO, which was completed on 18 October 2017, through the injection, by the new shareholder, of Euros 750 million, followed by another capital injection of Euros 250 million, made on 21 December 2017. Lone Star Funds came to hold 75% of the share capital of NOVO BANCO and Fundo de Resolução the remaining 25%. In addition, the approved conditions included:

- A Contingent Capital Agreement, under which the Resolution Fund, whilst shareholder, may be called upon to make payments in the event of certain cumulative conditions related to: i) the performance of a restricted set of assets of NOVO BANCO and ii) the evolution of the Bank's capitalization levels. The possible payments needed, in the agreed terms of this Contingent Capital Agreement are of an absolute maximum of Euros 3 890 millions.
- A Compensation Mechanism to NOVO BANCO, in case, some conditions are verified, and its convicted to make payments of any responsibilities, due to a not recognised transit judicial decision or opposed to the resolution measure applied by Banco de Portugal, or to NOVO BANCO's perimeter of assets and liabilities determined by the resolution measure and subsequent decisions of Banco de Portugal (as part of the sale of NOVO BANCO, SA, completed on 18 October 2017, the respective contractual documents include specific provisions that produce effects equivalent to the aforementioned resolution of the Board of Directors of the Banco de Portugal, dated 29 December

2015, although it is now contractual in nature, thus maintaining the contingent liabilities of the Resolution Fund).

Notwithstanding the provided possibility in the applicable legislation for the collection of special contributions, in light of the renegotiation of the conditions of the loans granted to Fundo de Resolução by the Portuguese State and by a syndicate of banks, and of the public announcements made by the Resolution Fund and the Office of the Finance Minister stating that this possibility is not to be used, the present financial statements reflect the expectation of the Board of Directors that the Bank will not be required to make special contributions or any other type of extraordinary contributions to finance the resolution measures applied to BES and Banif, as well as the Contingent Capital Agreement and the Compensation Mechanism referred to in the previous paragraphs. Any changes in this regard and to the application of the mechanisms may have relevant implications on the Bank's financial statements.

NOTE 46 – ASSETS UNDER MANAGEMENT (DISINTERMEDIATION)

In accordance with legislation in force, the managing companies and the depositary Bank are jointly liable to the participants of the funds for the non-fulfilment of obligations assumed under the terms of the law and the regulations of the funds managed.

As at 31 December 2017 and 2016, the amounts of the investment funds managed by the Group companies are analysed as follows:

(in thousands of Euros)

	31.12.2017	**31.12.2016**
Investment funds	1 211 358	1 512 929
Real estate investment funds	154 767	145 628
Pension funds	2 087 399	2 027 942
Bancassurance	387 771	384 957
Discretionary management	988 048	997 530
	4 829 343	**5 068 985**

The amounts included in these captions are measured at fair value, determined at the balance sheet date.

NOTE 47 – RELATED PARTY TRANSACTIONS

The group of entities considered to be related parties by NOVO BANCO in accordance with the IAS 24 definitions, are (i) key management personnel; (ii) people or entities with a family, legal or business relationship with key management personnel members; (iii) shareholders holding direct or indirect stakes equal to or exceeding 2% of the share capital or of the voting rights of NOVO BANCO; (iv) subsidiaries consolidated for accounting purposes under the full consolidation method; (v) associated companies, that is, companies over which the NOVO BANCO Group holds the power to significantly influence their financial and operational polices, despite not having control over same; and (vi) entities under joint control of NOVO BANCO (joint ventures).

The amounts of the transactions between the Group and its related parties as at 31 December 2017 and 2016, as well as the respective costs and revenue recognised, are summarised as follows:

(in thousands of Euros)

	31.12.2017					31.12.2016				
	Assets	Liabilities	Guarantees	Income	Expenses	Assets	Liabilities	Guarantees	Income	Expenses
Shareholder										
NANI HOLDINGS	-	-	-	-	-	-	-	-	-	-
FUNDO DE RESOLUÇÃO	791 695	-	-	791 695	7 821	-	-	-	-	6 705
Associated companies										
LINEAS	208 013	44 660	3 844	11 593	3	272 326	899	3 844	13 694	10
LOCARENT	56 624	837	-	1 777	5 991	100 898	707	-	2 960	6 366
NANIUM b)	-	-	-	107	-	26 244	1 411	150	338	-
EMPARK a)	-	-	-	-	-	-	-	-	163	-
ASCENDI PINHAL INTERIOR	102 259	48 311	7 639	12 529	18 012	150 884	35 661	7 639	15 142	17 545
GNB SEGUROS	367	14 214	-	25	5	379	16 050	-	268	5
ESEGUR	5 959	1 185	909	-	61	5 985	1 363	928	1	86
UNICRE	-	13	-	-	-	-	80	-	-	1
MULTIPESSOAL	5 512	49	251	95	-	8 023	13	258	187	69
BANCO DELLE TRE VENEZIE	-	62	-	-	-	-	38	-	-	-
DOMÁTICA a)	-	-	-	-	-	-	-	-	5	-
EDENRED	1	42 364	26	-	158	3	39 583	26	-	303
ENKROTT	933	10	23	18	-	1 074	-	26	30	-
ESIAM	-	-	-	-	-	259	-	-	-	-
MOZA BANCO c)	-	-	-	976	34	5 820	7 127	1 490	2 004	74
NUTRIGREEN a)	-	-	-	-	-	-	-	-	19	-
OUTSYSTEMS a)	-	-	-	-	-	-	-	-	-	47
YDREAMS a)	-	-	-	-	-	-	-	-	26	-
YUNIT	-	-	21	-	-	4 028	-	67	84	-
SEALION	-	-		-	-	161 062	7 772	-	2 858	84
	1 171 363	**151 705**	**12 713**	**818 815**	**32 085**	**736 985**	**110 704**	**14 428**	**37 779**	**31 295**
Other (*)	**-**	**-**	**-**	**-**	**-**	**3**	**1 695**	**-**	**-**	**-**

(*) Companies controlled directly or indirectly by members of the corporate bodies

a) Associated companies sold in 2016

b) Associated company sold in May 2017

c) Ceased to be consolidated in June 2017

The asset balances relating to associated companies included in the above table relate mainly to loans and advances and shareholder loans granted or debt securities acquired in the scope of the Group's activity. The liabilities relate mainly to bank deposits taken.

The transactions referred to above were carried out at arm's length, under similar terms and conditions, when compared with others in unrelated parties.

All the loans granted to related parties are included in the impairment model, being subject to the determination of impairment in like manner to that of the loans and advances granted by the Group in the scope of its activity. All assets placed with related parties earn interest at between 0% and 8.6% (the rates correspond to the rates applied according to the original currency of the asset).

At 31 December 2017, loans granted to members of the Key Management Personnel of NOVO BANCO were as follows: (i) members of the Board of Directors and their immediate family members, was of Euros 101 thousand; and (i) members of the General Council and Supervisory Board and their immediate family members, had no loans granted to them.

The costs with remuneration and other benefits attributed to Key Management Personnel of NOVO BANCO, in 2017, are presented as follows:

(in thousands of Euros)

	Executive Board of Directors	General and Supervisory Board	Total
31 December 2017			
Short-term employment benefits	2 207	340	2 547
Post-employment benefits	2	-	2
Other long-term benefits	-	5	5
Employment termination benefits	-	-	-
Share-based payments	-	-	-
	2 209	**345**	**2 554**

As at 31 December 2016, loans granted to members of the Key Management Personnel of NOVO BANCO were as follows: (i) members of the Board of Directors and their immediate families, the amount of Euros 96 thousand; (ii) the members of the Supervisory Board and their immediate families, had no loans granted to them; and (iii) and the amount of loans granted to Other Key Management Personnel (General Managers and Advisors to the Board of Directors) amounted to Euros 858 thousand.

The costs with remuneration and other benefits attributed to Key Management Personnel of NOVO BANCO, in 2016, are presented as follows:

(in thousands of Euros)

	Board of Directors	Statutory Supervisory Board	Other key management personnel	Total
31 December 2016				
Short-term employment benefits	1 696	255	1 741	3 692
Post-employment benefits	2	-	15	17
Other long-term benefits	-	-	-	-
Employment termination benefits	-	-	-	-
Share-based payments	-	-	-	-
	1 698	**255**	**1 756**	**3 709**

NOTE 48 – SECURITISATION OF ASSETS

As at 31 December 2017 and 2016, the outstanding securitisation transactions realised by the Group were as follows:

(in thousands of Euros)

Issue	Start date	Original amount	Current amount		Asset securitized
			31.12.2017	31.12.2016	
Lusitano Mortgages No.1 plc	December 2002	1 000 000	210 905	240 096	Mortgage loans (subsidized regime)
Lusitano Mortgages No.2 plc	November 2003	1 000 000	213 871	242 285	Mortgage loans (general and subsidized regime)
Lusitano Mortgages No.3 plc	November 2004	1 200 000	328 966	370 284	Mortgage loans (general regime)
Lusitano Mortgages No.4 plc	September 2005	1 200 000	396 244	437 689	Mortgage loans (general regime)
Lusitano Mortgages No.5 plc	September 2006	1 400 000	569 453	623 232	Mortgage loans (general regime)
Lusitano SME No.1 plc	October 2006	862 607	-	95 276	Loans to small- and medium-sized companies
Lusitano Mortgages No.6 plc	July 2007	1 100 000	554 890	612 683	Mortgage loans (general regime)
Lusitano Project Finance No.1, FTC	December 2007	1 079 100	9 300	56 266	Project Finance
Lusitano Mortgages No.7 plc	September 2008	1 900 000	1 352 403	1 482 197	Mortgage loans (general regime)
Lusitano Finance No. 3	November 2011	657 981	50 049	82 661	Consumer loans
Lusitano SME No.3	November 2016	630 385	353 038	558 478	Loans to small- and medium-sized companies

Additionally, as at 31 December 2017 and 2016, the following synthetic securitization operations were in progress:

(in thousands of Euros)

Issue	Start date	Initial amount of CDS	Current amount of CDS		Asset securitized
			31.12.2017	31.12.2016	
Lusitano Synthetic Limited	December 2012	1 000 000	509 323	719 219	Medium/Long-term financing of SME's
Lusitano Synthetic II Ltd.	December 2013	2 000 000	1 453 640	1 592 605	Current accounts

At the end of financial year 2017, the securitization operation Lusitano SME No.1 plc was redeemed. In financial year 2016, a securitization operation involving loans and advances to small and medium enterprises was realised with NOVO BANCO´s credits (Lusitano SME No. 3).

The loans and advances to customers covered by the securitization operations Lusitano Finance No.3 and Lusitano SME No. 3 were not derecognised from the balance sheet since the Group substantially retained all the risks and rewards of ownership associated with the securitised assets. The remaining securitisation operations were derecognised as the Group substantially transferred all the risks and rewards of ownership.

In accordance with the consolidation rules established in IFRS 10, Lusitano SME No.1 plc, Lusitano Mortgages No.6 plc, Lusitano Project Finance No.1 FTC and Lusitano Mortgages No.7 plc are consolidated using the full consolidation method as from the date of their incorporation (see Note 1). Additionally, Lusitano Mortgages No. 1 plc, Lusitano Mortgages No. 2 plc, Lusitano Mortgages No. 3 plc, Lusitano Mortgages No. 4 plc and Lusitano Mortgages No. 5 plc are not consolidated since they do not meet the rules defined in IFRS 10, namely because the interest retained by the Group is residual, as demonstrated below.

Lusitano Synthetic Limited and Lusitano Synthetic II Limited are synthetic loan securitization operations, involving the contracting of a credit default swap (CDS) for each operation with the objective of eliminating the credit risk associated with a portfolio of loans granted to companies. The loans relating to this portfolio continue to be recognised in the Group's balance sheet under the caption Loans and advances to customers. As at 31 December 2017, the fair value of the CDS of these transactions is positive in Euros 103 779 thousand (31 December 2016: positive fair value of Euros 105 570 thousand).

The main characteristics of these operations, as at 31 December 2017 and 2016, may be analysed as follows:

(in thousands of Euros)

31.12.2017														
Issue	Bonds issued	Initial nominal value	Current nominal value	Interest held by Group (Nominal value)	Interest held by Group (Book value)	Maturity date	Initial rating of the bonds				Current rating of the bonds			
							Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Lusitano Mortgages No.1 plc	Class A	915 000	114 821	-	-	December 2035	AAA	Aaa	AAA	-	A+	A1	AA-	-
	Class B	32 500	32 500	-	-	December 2035	AA	Aa3	AA	-	A+	A1	A	-
	Class C	25 000	25 000	-	-	December 2035	A	A2	A	-	A+	A1	BBB-	-
	Class D	22 500	22 500	-	-	December 2035	BBB	Baa2	BBB	-	A+	Ba1	BB+	-
	Class E	5 000	5 000	-	-	December 2035	BB	Ba1	BB	-	A	Caa1	B-	-
	Class F	10 000	10 000	-	-	December 2035	-	-	-	-	-	-	-	-
Lusitano Mortgages No.2 plc	Class A	920 000	127 091	-	-	December 2036	AAA	Aaa	AAA	-	A+	A1	AA-	-
	Class B	30 000	30 000	-	-	December 2046	AA	Aa3	AA	-	A+	A1	A	-
	Class C	28 000	28 000	-	-	December 2046	A	A3	A	-	A+	A1	BBB-	-
	Class D	16 000	16 000	-	-	December 2046	BBB	Baa3	BBB	-	BBB+	Baa3	BB	-
	Class E	6 000	6 000	-	-	December 2046	BBB-	Ba1	BB	-	BB	B3	B-	-
	Class F	9 000	9 000	-	-	December 2046	-	-	-	-	-	-	-	-
Lusitano Mortgages No.3 plc	Class A	1 140 000	285 314	-	-	December 2047	AAA	Aaa	AAA	-	A-	A1	A-	-
	Class B	27 000	11 196	-	-	December 2047	AA	Aa2	AA	-	BBB	Ba1	BB-	-
	Class C	18 600	7 713	-	-	December 2047	A	A2	A	-	BB	Ba3	B	-
	Class D	14 400	5 971	-	-	December 2047	BBB	Baa2	BBB	-	B	B3	B-	-
	Class E	10 800	5 583	-	-	December 2047	-	-	-	-	-	-	-	-
Lusitano Mortgages No.4 plc	Class A	1 134 000	308 280	-	-	December 2048	AAA	Aaa	AAA	-	BB	A1	A	-
	Class B	22 800	20 406	-	-	December 2048	AA	Aa2	AA	-	BB	Baa2	BBB-	-
	Class C	19 200	17 184	-	-	December 2048	A+	A1	A+	-	BB	Ba3	BB-	-
	Class D	24 000	21 480	-	-	December 2048	BBB+	Baa1	BBB-	-	CCC	Caa3	B-	-
	Class E	10 200	8 490	-	-	December 2048	NA	-	NA	-	-	-	-	-
Lusitano Mortgages No.5 plc	Class A	1 323 000	465 410	-	-	December 2059	AAA	Aaa	AAA	-	BB	A2	BBB+	-
	Class B	26 600	25 494	-	-	December 2059	AA	Aa2	AA	-	BB-	B2	BB+	-
	Class C	22 400	21 469	-	-	December 2059	A	A1	A	-	CCC	Caa3	BB-	-
	Class D	28 000	26 836	-	-	December 2059	BBB+	Baa2	BBB	-	CC	Ca	CCC	-
	Class E	11 900	11 900	-	-	December 2059	N/A	-	N/A	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943 250	371 205	149 589	140 174	March 2060	AAA	Aaa	AAA	-	BBB	A1	BBB+	-
	Class B	65 450	65 450	63 950	35 235	March 2060	AA	Aa3	AA	-	BB-	Baa1	BBB-	-
	Class C	41 800	41 800	41 800	30 964	March 2060	A	A3	A	-	B-	Ba3	BB	-
	Class D	17 600	17 600	17 600	11 846	March 2060	BBB	Baa3	BBB	-	CCC	Caa3	CCC	-
	Class E	31 900	31 900	31 900	16 010	March 2060	BB	-	BB	-	CC	-	D	-
	Class F	22 000	22 000	22 000	1 700	March 2060	-	-	-	-	-	-	-	-
Lusitano Project Finance No.1 FTC		198 101	47 817	47 817	43 203	March 2025	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1 425 000	867 606	867 606	784 883	October 2064	-	-	AAA	AAA	-	-	AA-	AAH
	Class B	294 500	294 500	294 500	186 732	October 2064	-	-	BBB-	-	-	-	BBB-	-
	Class C	180 500	180 500	180 500	180 500	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	57 000	57 000	53 956	October 2064	-	-	-	-	-	-	-	-
Lusitano Finance No. 3	Class A	450 700	-	-	-	October 2029	-	-	-	-	-	-	-	-
	Class B	207 200	48 913	48 913	45 541	October 2029	-	-	-	-	-	-	-	-
	Class C	20 000	10 000	10 000	9 134	October 2029	-	-	-	-	-	-	-	-
Lusitano SME No.3	Class A	385 600	129 276	-	-	December 2037	-	A3	-	AA	-	A1	-	AAL
	Class B	62 700	62 700	62 700	60 464	December 2037	-	Baa3	-	BBB	-	A3	-	BBBH
	Class C	62 700	62 700	62 700	59 432	December 2037	-	B1	-	B	-	Ba1	-	BH
	Class D	116 000	116 000	116 000	81 654	December 2037	-	-	-	-	-	-	-	-
	Class E	9 500	6 201	6 201	5 298	December 2037	-	-	-	-	-	-	-	-
	Class S	88 771	6 160	6 160	2 905	December 2037	-	-	-	-	-	-	-	-
Lusitano Synthetic Limited	Senior	900 000	425 460	425 460	-	April 2034	-	-	-	-	-	-	-	-
	Mezzanine	80 000	79 382	-	-	April 2034	-	-	-	-	-	-	-	-
	Junior	20 000	-	-	-	April 2034	-	-	-	-	-	-	-	-
Lusitano Synthetic II Ltd.	Senior	1 800 000	1 289 247	1 289 247	-	November 2023	-	-	-	-	-	-	-	-
	Mezzanine	180 000	56 141	-	-	November 2023	-	-	-	-	-	-	-	-
	Junior	20 000	-	-	-	November 2023	-	-	-	-	-	-	-	-

(in thousands of Euros)

31.12.2016														
Issue	Bonds issued	Initial nominal value	Current nominal value	Interest held by Group (Nominal value)	Interest held by Group (Book value)	Maturity date	Initial rating of the bonds				Current rating of the bonds			
							Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Lusitano Mortgages No.1 plc	Class A	915 000	143 629	-	-	December 2035	AAA	Aaa	AAA	-	A+	A1	A+	-
	Class B	32 500	32 500	-	-	December 2035	AA	Aa3	AA	-	A+	A1	A-	-
	Class C	25 000	25 000	-	-	December 2035	A	A2	A	-	A+	A1	BB-	-
	Class D	22 500	22 500	-	-	December 2035	BBB	Baa2	BBB	-	A+	Ba2	B+	-
	Class E	5 000	5 000	-	-	December 2035	BB	Ba1	BB	-	A	Caa1	B-	-
	Class F	10 000	10 000	-	-	December 2035	-	-	-	-	-	-	-	-
Lusitano Mortgages No.2 plc	Class A	920 000	156 202	-	-	December 2036	AAA	Aaa	AAA	-	A+	A1	A-	-
	Class B	30 000	30 000	-	-	December 2046	AA	Aa3	AA	-	A+	A1	BB+	-
	Class C	28 000	28 000	-	-	December 2046	A	A3	A	-	A+	A2	B+	-
	Class D	16 000	16 000	-	-	December 2046	BBB	Baa3	BBB	-	BBB+	Ba1	B	-
	Class E	6 000	6 000	-	-	December 2046	BBB-	Ba1	BB	-	BB	B3	B-	-
	Class F	9 000	9 000	-	-	December 2046	-	-	-	-	-	-	-	-
Lusitano Mortgages No.3 plc	Class A	1 140 000	321 423	-	-	December 2047	AAA	Aaa	AAA	-	A-	A2	A-	-
	Class B	27 000	12 613	-	-	December 2047	AA	Aa2	AA	-	BBB	Ba2	B+	-
	Class C	18 600	8 689	-	-	December 2047	A	A2	A	-	BB	B1	B	-
	Class D	14 400	6 727	-	-	December 2047	BBB	Baa2	BBB	-	B	B3	B-	-
	Class E	10 800	6 290	-	-	December 2047	-	-	-	-	-	-	-	-
Lusitano Mortgages No.4 plc	Class A	1 134 000	345 890	-	-	December 2048	AAA	Aaa	AAA	-	BB	A1	A-	-
	Class B	22 800	21 553	-	-	December 2048	AA	Aa2	AA	-	BB	Baa3	BB	-
	Class C	19 200	18 150	-	-	December 2048	A+	A1	A+	-	BB	B2	B	-
	Class D	24 000	22 687	-	-	December 2048	BBB+	Baa1	BBB-	-	CCC	Caa3	B-	-
	Class E	10 200	10 200	-	-	December 2048	NA	-	NA	-	-	-	-	-
Lusitano Mortgages No.5 plc	Class A	1 323 000	522 040	-	-	December 2059	AAA	Aaa	AAA	-	BB	Baa1	BB+	-
	Class B	26 600	25 494	-	-	December 2059	AA	Aa2	AA	-	BB-	B3	B	-
	Class C	22 400	21 469	-	-	December 2059	A	A1	A	-	CCC	Caa3	B-	-
	Class D	28 000	26 836	-	-	December 2059	BBB+	Baa2	BBB	-	CC	Ca	CCC	-
	Class E	11 900	11 900	-	-	December 2059	N/A	-	N/A	-	-	-	-	-
Lusitano SME No.1 plc	Class A	759 525	-	-	-	December 2028	A+	-	A-	-	-	-	-	-
	Class B	40 974	2 917	-	-	December 2028	AAA	-	AAA	-	AAA	-	AAA	-
	Class C	34 073	16 235	-	-	December 2028	CCC	-	B	-	B-	-	BBB+	-
	Class D	28 035	13 358	13 358	12 212	December 2028	-	-	-	-	-	-	-	-
	Class E	8 626	4 313	4 313	8 257	December 2028	-	-	-	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943 250	418 516	90 053	79 031	March 2060	AAA	Aaa	AAA	-	BBB	A1	BBB+	-
	Class B	65 450	65 450	63 950	41 630	March 2060	AA	Aa3	AA	-	BB-	Baa3	BB+	-
	Class C	41 800	41 800	41 800	23 488	March 2060	A	A3	A	-	B-	B3	B	-
	Class D	17 600	17 600	17 600	8 824	March 2060	BBB	Baa3	BBB	-	CCC	Caa3	CCC	-
	Class E	31 900	31 900	31 900	10 804	March 2060	BB	-	BB	-	CC	-	D	-
	Class F	22 000	22 000	22 000	1 700	March 2060	-	-	-	-	-	-	-	-
Lusitano Project Finance No.1 FTC		198 101	87 740	87 740	62 123	March 2025	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1 425 000	979 978	979 973	857 143	October 2064	-	-	AAA	AAA	-	-	A-	AAH
	Class B	294 500	294 500	294 500	166 821	October 2064	-	-	BBB-	-	-	-	BB-	-
	Class C	180 500	180 500	180 500	180 500	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	57 000	57 000	53 956	October 2064	-	-	-	-	-	-	-	-
Lusitano Finance No. 3	Class A	450 700	-	-	-	November 2029	-	-	-	-	-	-	-	-
	Class B	207 200	78 683	78 683	68 327	November 2029	-	-	-	-	-	-	-	-
	Class C	20 000	10 000	10 000	8 079	November 2029	-	-	-	-	-	-	-	-
Lusitano SME No.3	Class A	385 600	335 018	-	-	December 2037	-	A3	-	AA	-	A3	-	AA
	Class B	62 700	62 700	62 700	62 700	December 2037	-	Baa3	-	BBB	-	Baa3	-	BBB
	Class C	62 700	62 700	62 700	62 700	December 2037	-	B1	-	B	-	B1	-	B
	Class D	116 000	116 000	116 000	116 000	December 2037	-	-	-	-	-	-	-	-
	Class E	9 500	9 500	9 500	9 500	December 2037	-	-	-	-	-	-	-	-
	Class S	88 771	56 766	56 766	56 766	December 2037	-	-	-	-	-	-	-	-
Lusitano Synthetic Limited	Senior	900 000	664 581	664 581	-	April 2034	-	-	-	-	-	-	-	-
	Mezzanine	80 000	80 000	-	-	April 2034	-	-	-	-	-	-	-	-
	Junior	20 000	8 074	6 459	-	April 2034	-	-	-	-	-	-	-	-
Lusitano Synthetic II Ltd.	Senior	1 800 000	1 365 888	1 365 888	-	November 2023	-	-	-	-	-	-	-	-
	Mezzanine	180 000	85 007	-	-	November 2023	-	-	-	-	-	-	-	-
	Junior	20 000	-	-	-	November 2023	-	-	-	-	-	-	-	-

NOTE 49 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The governance model of the valuation of the Group's financial instruments is defined in internal regulations, which establishes the policies and procedures to be followed in the identification and valuation of financial instruments, the control procedures and the definition of the responsibilities of the parties involved in this process.

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

Quoted market prices (level 1)

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

The priority in terms of which price is used is given to those observed on official markets; where there is more than one official market the choice falls on the main market on which those instruments are traded.

The Group considers market prices those disclosed by independent entities, assuming that these act for their own economic benefit and that such prices are representative of the active market, using, whenever possible, prices supplied by more than one entity (for a specific asset and/or liability). For the process of re-evaluating financial instruments, the Group analyses the various prices in order to select the one it considers most representative for the instrument under analysis. Additionally, when they exist, prices relating to recent transactions with similar financial instruments are used as inputs, being subsequently compared to those supplied by said entities to better justify the option taken by the Group in favor of a specific price.

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

i) Derivatives traded on an organised market;
ii) Shares quoted on a stock exchange;
iii) Open investment funds (securities) quoted on a stock exchange;
iv) Closed investment funds whose subjacent assets are solely financial instruments listed on a stock exchange;
v) Bonds with more than one provider and for which the instruments are quoted on a stock exchange;
vi) Financial instruments with market offers even if these are not available at the normal information sources (e.g. securities traded based on recovery rate);

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

In this category, the financial instruments are valued using internal valuation techniques, namely discounted cash flow models and option pricing models which imply the use of estimates and require judgments that vary in accordance with the complexity of the financial instruments. Notwithstanding, the Group uses as inputs in its models, observable market data such as interest rate curves, credit spreads, volatility and market indexes. This category also includes instruments with dealer price quotations but which markets have a lower liquidity. Additionally, the Group also uses as observable market variables, those that result from transactions with similar instruments and that are observed with a certain regularity on the market.

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

i) Unquoted bonds; and
ii) OTC (over-the-counter) derivatives.

Valuation models based on unobservable market parameters (level 3)

This level uses models relying on internal valuation techniques or quotations provided by third parties but which imply the use of non-observable market information. The bases and assumptions for the calculation of fair value are in accordance with IFRS 13.

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

i) Debt securities valued using non-observable market inputs;
ii) Unquoted shares;
iii) Closed real estate funds;
iv) Hedge funds;
v) Private equities;
vi) Restructuring funds; and
vii) Over the counter (OTC) derivatives with valuations provided by third parties.

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

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

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

Debt instruments (bonds) with liquidity: the selective independent valuation methodology is used based on observations available on Bloomberg, designated as 'Best Price', where all the valuations available are requested, but only previously validated sources considered as input, with the model excluding prices due to seniority and outlier prices. In the specific case of the Portuguese sovereign debt, and due to the market making activity and the materiality of the Group's positions, the CBBT source valuations are always considered (the CBBT is a composite of valuations prepared by Bloomberg, which considers the average of executable prices with high liquidity).

Debt instruments (bonds) with reduced liquidity: the models considered for the valuation of low liquidity bonds without observable market valuations are determined taking into account the information available on the issuer and the instrument, with the following models being considered: (i) discounted cash flows - cash flows are discounted considering the interest rate risk, credit risk of the issuer and any other risks subjacent to the instrument; or (ii) valuations made available by external counterparties, when it is impossible to determine the fair value of the instrument, with the selection always falling on reliable sources with reputed credibility in the market and impartiality in the valuation of the instruments being analysed.

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

Shares and quoted funds: for quoted market products, the quotation on the respective stock exchange is considered.

Unquoted Shares: the valuation is carried out using external valuations made of the companies in which the shareholding is held. In the event the request for an external valuation is not justified due to the immateriality of this position in the balance sheet, the position is revalued considering the book value of the entity, or is maintained at the acquisition cost with the respective analysis of impairment.

Unquoted funds: the valuation considered is that provided by the fund's management company. In the event there are calls for capital after the reference date of the last available valuation, the valuation is recalculated considering the capital calls subsequent to the reference date at the amount at which these were made, until a new valuation is made available by the management company, already considering the capital calls realised. It should be pointed out that, although it accepts the valuations provided by the management companies, when applicable in accordance with the funds' regulations, the Bank requests the legal certification of accounts issued by independent auditors in order to obtain additional assurance about the information provided by the management company.

Derivative instruments: if these are traded on organised markets, the valuations are observable in the market, otherwise these are valued using standard models and relying on observable variables in the market, namely:

- Foreign currency options: are valued through the front office system, which considers models such as Garman-Kohlhagen, Binomial, Black & Scholes, Levy or Vanna-Volga.
- Interest rate swaps and foreign currency swaps: the valuation of these instruments is done through the front office system, where the fixed leg cash flows of the instrument are discounted based on the yield curve of the respective currency, and the cash flows of the variable leg are projected considering the forward curve and discounted, also considering discount factors and forward rates based on the yield curve of the respective currency.
- Credit Default Swaps: both legs of the CDS are composed of cash flows contingent on the credit risk of the underlying asset and are therefore valued using market credit spreads.
- Futures and Options: the Group trades these products on an organised market, but also has the possibility to trade them on the OTC market. For futures and options traded on an organised market, the valuations are observable in the market, with the valuation being received daily through the broker selected for these products. For futures and options traded on the OTC market, and depending on the type of product and the underlying asset type, discrete time (binominal) or continuous time (Black & Scholes) models may be used.

<u>Investment contracts</u>: as these are contracts issued that are linked to assets held by the Group, their fair value is calculated based on the fair value of the underlying assets.

<u>Investment properties</u>: their fair value is determined based on periodic valuations realised by independent entities specializing in this type of service (see accounting policy in Note 2.24).

The validation of the financial instruments' valuation is carried out by an independent area, which validates the models used and the prices attributed. More specifically, this area is responsible for performing the independent price verification for mark-to-market valuations; for mark-to-model valuations it validates the models used and the changes in same, whenever these occur. For the prices provided by external entities, the validation carried out consists in confirming the use of the correct prices.

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

(in thousands of Euros)

	At fair value			
	Quoted Market Prices (Level 1)	Valuation models based on observable market information (Level 2)	Valuation models based on unobservable market information (Level 3)	Total Fair Value
31 December 2017				
Financial assets held for trading	286	576 705	529	577 520
Securities				
Bonds issued by other entities	-	-	*2*	2
Shares	-	-	*79*	79
Other variable income securities	*286*	-	-	286
Derivatives				
Exchange rate contracts	-	*33 698*	-	33 698
Interest rate contracts	-	*496 800*	*448*	497 248
Credit default contracts	-	*15*	-	15
Other	-	*46 192*	-	46 192
Other financial assets at fair value through profit or loss	620	-	29 563	30 183
Bonds issued by other entities	*620*	-	-	620
Shares and other variable income securities	-	-	*29 563*	29 563
Available-for-sale financial assets	5 664 534	662 642	2 070 262	8 397 438
Bonds issued by government and public entities	*5 448 869*	*519 128*	-	5 967 997
Bonds issued by other entities	*134 072*	*143 514*	*683 526*	961 112
Shares	*81 593*	-	*570 497*	652 090
Other variable income securities	-	-	*816 239*	816 239
Loans and advances to customers	-	1 200 541	-	1 200 541
Derivatives held for risk management purposes	-	66 809	103 779	170 588
Interest rate contracts	-	*66 809*	-	66 809
Credit default contracts	-	-	103 779	103 779
Investment properties		-	1 144 432	1 144 432
Assets at fair value	**5 665 440**	**2 506 697**	**3 348 565**	**11 520 702**
Financial liabilities held for trading	-	557 325	2 440	559 765
Derivatives				
Exchange rate contracts	-	*33 335*	-	33 335
Interest rate contracts	-	*505 423*	*2 440*	507 863
Credit default contracts	-	*113*	-	113
Other	-	*18 454*	-	18 454
Debt securities issued	-	158 080	-	158 080
Derivatives held for risk management purposes	-	76 212	-	76 212
Interest rate contracts	-	*76 212*	-	76 212
Financial Liabilities	**-**	**791 617**	**2 440**	**794 057**

(in thousands of Euros)

	At fair value			
	Quoted Market Prices (Level 1)	Valuation models based on observable market information (Level 2)	Valuation models based on unobservable market information (Level 3)	Total Fair Value
31 December 2016				
Financial assets held for trading	522	654 026	2 174	656 722
Securities				
Bonds issued by other entities	-	-	*1*	1
Shares	*139*	-	*76*	215
Other variable income securities	*383*	-	-	383
Derivatives				
Exchange rate contracts	-	*38 129*	-	38 129
Interest rate contracts	-	*593 613*	*2 097*	595 710
Credit default contracts	-	*18 927*	-	18 927
Other	-	*3 357*	-	3 357
Other financial assets at fair value through profit or loss	1 126 335	17 286	60 186	1 203 807
Bonds issued by government and public entities	*78 039*	-	-	78 039
Bonds issued by other entities	*478 556*	*17 282*	*2 304*	498 142
Shares and other variable income securities	*569 740*	*4*	*57 882*	627 626
Available-for-sale financial assets	7 484 268	826 445	2 191 524	10 502 237
Bonds issued by government and public entities	*5 949 517*	*479 690*	*2 433*	6 431 640
Bonds issued by other entities	*1 335 922*	*346 755*	*593 709*	2 276 386
Shares	*193 895*	-	*734 465*	928 360
Other variable income securities	*4 934*	-	*860 917*	865 851
Loans and advances to customers	-	661 838	-	661 838
Derivatives held for risk management purposes	-	117 200	105 569	222 769
Interest rate contracts	-	*117 200*	-	117 200
Credit default contracts	-	-	105 569	105 569
Investment properties	-	-	1 206 355	1 206 355
Assets at fair value	**8 611 125**	**2 276 795**	**3 565 808**	**14 453 728**
Financial liabilities held for trading	-	630 415	2 416	632 831
Derivatives				
Exchange rate contracts	-	*38 647*	-	38 647
Interest rate contracts	-	*577 430*	*2 416*	579 846
Credit default contracts	-	*245*	-	245
Other	-	*14 093*	-	14 093
Deposits from banks	-	100 394	-	100 394
Due to customers	-	264 750	-	264 750
Debt securities issued	-	190 796	-	190 796
Derivatives held for risk management purposes	-	108 265	-	108 265
Interest rate contracts	-	*108 265*	-	108 265
Investment contracts	-	1 219 183	-	1 219 183
Financial Liabilities	**-**	**2 513 803**	**2 416**	**2 516 219**

The movement in financial assets valued based on non-observable market information (level 3 of the fair value hierarchy) during financial years 2017 and 2016, may be analysed as follows:

(in thousands of Euros)

	31.12.2017									
	Financial assets held for trading - derivatives	Financial assets held for trading - securities	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Derivatives for risk management	Investment properties	Total assets	Investment contracts	Financial liabilities held for trading - derivatives	Total liabilities
Balance at the beginning of the period	2 097	77	60 186	2 191 524	105 569	1 206 355	3 565 808	-	2 416	2 416
Acquisitions	-	-	3 477	5 201 259	-	-	5 204 736	-	-	-
Maturity	-	-	(27)	(189 575)	-	-	(189 602)	-	-	-
Liquidation	-	-	-	(5 017 331)	-	(21 472)	(5 038 803)	-	(1 156)	(1 156)
Transfers in	-	-	-	-	-	68 616	68 616	-	-	-
Transfers out	-	-	(33 968)	(2 617)	-	(52 404)	(88 989)	-	-	-
Changes in value	(1 649)	4	(105)	(112 998)	(1 790)	(56 663)	(173 201)	-	1 180	1 180
Balance at the end of the period	**448**	**81**	**29 563**	**2 070 262**	**103 779**	**1 144 432**	**3 348 565**	**-**	**2 440**	**2 440**

(in thousands of Euros)

	31.12.2016									
	Financial assets held for trading - derivatives	**Financial assets held for trading - securities**	**Financial assets at fair value through profit or loss**	**Available-for-sale financial assets**	**Derivatives for risk management**	**Investment properties**	**Total assets**	**Investment contracts**	**Financial liabilities held for trading - derivatives**	**Total liabilities**
Balance at the beginning of the period	-	14 280	203 523	2 490 040	-	54 625	2 762 468	1 356 037	-	1 356 037
Acquisitions	-	-	309 421	5 923 799	-	111	6 233 331	-	-	-
Maturity	-	-	(142)	(4 480 755)	-	-	(4 480 897)	-	-	-
Liquidation	-	(15 209)	(371 950)	(1 644 007)	-	(69 940)	(2 101 106)	-	-	-
Transfers in	2 341	-	22 795	157 558	102 796	1 211 798	1 497 288	-	2 416	2 416
Transfers out	-	-	(156 933)	(2 709)	-	-	(159 642)	(1 356 037)	-	(1 356 037)
Changes in value	(244)	1 006	53 472	(252 402)	2 773	9 761	(185 634)	-	-	-
Balance at the end of the period	**2 097**	**77**	**60 186**	**2 191 524**	**105 569**	**1 206 355**	**3 565 808**	**-**	**2 416**	**2 416**

The transfers in that occurred in financial year 2016 were mainly related to the end of observable market parameters, and to the reclassification of investment properties, as referred to in Note 28.

The transfers out of available-for-sale financial assets were to assets valued at historical cost, subject to impairment tests. The investment contracts classified in level 3 as at 31 December 2015 were transferred to level 2 of the fair value hierarchy according to the assets subjacent to these contracts.

Potential gains and losses on financial instruments and investment properties classified in level 3 of the fair value hierarchy are recorded in the income statement or revaluation reserves, in accordance with the respective assets' accounting policy. The following amounts were determined in financial year 2017:

(in thousands of Euros)

	31.12.2017			31.12.2016		
	Recognised in Reserves	**Recognised in the Income statement**	**Total**	**Recognised in Reserves**	**Recognised in the Income statement**	**Total**
Financial assets held for trading - derivatives	-	(1 649)	(1 649)	-	(244)	(244)
Financial assets held for trading - securities	-	38	38	-	1 006	1 006
Financial assets at fair value through profit or loss	-	(41 419)	(41 419)	-	53 472	53 472
Available-for-sale financial assets	295 673	-	295 673	(215 251)	-	(215 251)
Derivatives for risk management purposes	-	(1 790)	(1 790)	-	2 773	2 773
Investment properties	-	(56 663)	(56 663)	-	9 761	9 761
	295 673	(101 483)	194 190	(215 251)	66 768	(148 483)

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

(in millions of Euros)

Assets classified under Level 3	31.12.2017						
	Valuation model	Variable analyzed	Carrying book value	Unfavorable scenario		Favorable scenario	
				Change	Impact	Change	Impact
Financial assets held for trading			**0.5**		**-**		**-**
Bonds issued by other entities	Other	**(a)**	0.0		-		-
Shares	Other	**(a)**	0.1		-		-
Derivatives	Other	**(a)**	0.4				
Financial assets at fair value through profit or loss			**29.6**		**-**		**-**
Shares and other variable income securities			29.6		-		-
	Valuation of management company	Net asset value **(b)**	*25.8*		-		-
	Other	**(a)**	*3.7*		-		-
Available-for-sale financial assets			**2 070.3**		**(41.9)**		**42.0**
Bonds issued by other entities			683.5		(23.5)		12.8
	Discounted cash flow model	Discount rate	*51.7*	*(-) 100 bps*	*(1.8)*	*(+) 100 bps*	*1.8*
	Discounted cash flow model	Probability of default	*2.9*	*-50%*	*(1.4)*	*+50%*	*4.9*
	Discounted cash flow model	Probability of default	*618.5*	*2 levels*	*(22.3)*	*2 levels*	*8.1*
	Discounted cash flow model	Probability of default	*10.5*	*-25%*	*2.1*	*+25%*	*(2.1)*
Shares			570.5		(18.5)		29.2
	Discounted cash flow model	Discount rate	*91.2*	*-50%*	*(17.4)*	*+50%*	*28.1*
	Valuation of management company	Net assets value (b)	*447.9*		-		-
	Market multiples		*10.6*	*(-) outliers*	*(1.1)*	*(+) outliers*	*1.1*
	Other	**(a)**	*20.8*				
Other variable income securities			816.2				
	Valuation of management company	Net assets value **(b)**	816.2		-		-
Hedging derivatives	**(c)**	**(c)**	103.8		-		-
Investment properties	Valuation of management company	Net assets value **(b)**	**1 144.4**		**-**		**-**
Total			**3 348.6**		**(41.9)**		**42.0**

(a) No sensitivity analysis was carried out for these categories as these include securities of an individually immaterial value

(b) In the specific case of participation units valued in accordance with quotations provided by the respective management company, it is not reasonable to carry out an analysis of the impact of changes of the variables subjacent to the determination of the quotation by the entity

(c) In the specific case of derivatives valued according to information provided by external entities, it is not reasonable to carry out an analysis of the impact of changes of the variables subjacent to the determination of the quotation by the entity

(in millions of Euros)

Assets classified under Level 3	31.12.2016						
	Valuation model	Variable analyzed	Carrying book value	Unfavorable scenario		Favorable scenario	
				Change	Impact	Change	Impact
Financial assets held for trading			**2.2**		**-**		**-**
Bonds issued by other entities			0.0		-		-
Shares	Other	**(a)**	0.1		-		-
Derivatives	Other	**(a)**	2.1				
Financial assets at fair value through profit or loss			**60.2**		**-**		**-**
Bonds issued by other entities	Other	**(a)**	2.3		-		-
Shares and other variable income securities			57.9		-		-
	Valuation of management company	Net assets value (b)	*56.8*		-		-
	(a)	**(a)**	*1.1*		-		-
Available-for-sale financial assets			**2 191.5**		**(85.7)**		**92.7**
Bonds issued by government and public entities	Discounted cash flow model	Discount rate	2.4	(-) 100 bps	(0.1)	(+) 100 bps	0.1
Bonds issued by other entities			593.7		(23.6)		11.3
	Discounted cash flow model	Discount rate	*104.4*	*(-) 100 bps*	*(0.8)*	*(+) 100 bps*	*0.8*
	Discounted cash flow model	Probability of default	*10.0*	*-50%*	*(1.6)*	*+50%*	*0.8*
	Discounted cash flow model	Probability of default	*468.4*	*2 levels*	*(19.0)*	*2 levels*	*7.5*
	Discounted cash flow model	Probability of default	*11.0*	*-25%*	*(2.2)*	*+25%*	*2.2*
Shares			734.5		(62.1)		81.3
	Discounted cash flow model	Discount rate	*160.2*	*-50%*	*(62.0)*	*+50%*	*81.3*
	Valuation of management company	Net assets value (b)	*534.1*		-		-
	Market multiples		*3.8*	*(-) outliers*	*(0.0)*	*(+) outliers*	*0.0*
	Relevant transactions	**(a)**	*7.3*		-		-
	Other	**(a)**	*29.1*				
Other variable income securities			860.9		-		-
	Valuation of management company	Net assets value **(b)**	860.9		-		-
Hedging derivatives	**(c)**	**(c)**	105.6		-		-
Investment properties	Valuation of management company	Net assets value **(b)**	**1 206.4**		**-**		**-**
Total			**3 565.8**		**(85.7)**		**92.7**

(a) No sensitivity analysis was carried out for these categories as these include securities of an individually immaterial value

(b) In the specific case of participation units valued in accordance with quotations provided by the respective management company, it is not reasonable to carry out an analysis of the impact of changes of the variables subjacent to the determination of the quotation by the entity

(c) In the specific case of derivatives valued according to information provided by external entities, it is not reasonable to carry out an analysis of the impact of changes of the variables subjacent to the determination of the

The main parameters used in the valuation models as at 31 December 2017 and 2016 are as follows:

Interest rate curves

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

(%)

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

Credit spreads

The credit spreads used by the Group in the valuation of credit derivatives are those disclosed on a daily basis by Markit, representing observations pertaining to around 85 renowned international financial entities. The evolution of the main indexes, understood as being representative of the credit spread behavior in the market during the year, is presented as follows:

(basis points)

Index	Series	1 year	3 years	5 years	7 years	10 years
31 December 2017						
CDX USD Main	**28**	-	24.26	49.09	72.34	90.66
iTraxx Eur Main	**27**	**-**	21.51	45.12	65.34	84.28
iTraxx Eur Senior Financial	**27**	**-**	0.00	43.94	0.00	72.75
31 December 2016						
CDX USD Main	**27**	-	35.25	67.77	94.99	112.67
iTraxx Eur Main	**26**	**-**	43.65	72.13	94.18	110.47
iTraxx Eur Senior Financial	**26**	**-**	-	93.43	-	124.98

Interest rate volatility

The values presented below represent the implicit volatilities (at the money) used for the valuation of interest rate options:

(%)

	31.12.2017			31.12.2016		
	EUR	**USD**	**GBP**	**EUR**	**USD**	**GBP**
1 year	12.26	15.31	52.35	14.14	24.43	80.81
3 years	31.32	22.10	-	31.24	37.50	-
5 years	46.25	28.62	58.67	47.41	40.88	97.10
7 years	54.61	30.07	63.27	58.53	39.98	90.36
10 years	61.27	28.18	-	66.68	37.66	-
15 years	64.25	0.00	-	69.39	-	-

Foreign exchange rates and volatility

Presented below, are the foreign exchange rates (European Central Bank) at the balance sheet date and the implicit volatilities (at the money) for the main currencies used in the derivatives' valuation:

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

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

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

Regarding foreign exchange rates, the Group uses in its valuation models the spot rate observed in the market at the moment of the valuation.

Equity indexes

Presented in the table below, is the evolution of the main market equity indexes and their respective volatilities, used in the valuation of equity derivatives:

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

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

(in thousands of Euros)

	Assets / Liabilities recorded at amortised cost	Fair value			
		Quoted Market Prices (Level 1)	Valuation models based on observable market information (Level 2)	Valuation models based on unobservable market information (Level 3)	Total fair value
31 December 2017					
Cash and deposits with Central Banks	3 788 027	-	3 788 027	-	3 788 027
Deposits with banks	380 601	-	380 601	-	380 601
Available-for-sale financial assets (shares) **a)**	50 807	-	-	50 807	50 807
Loans and advances to banks	581 901	-	581 901	-	581 901
Loans and advances to customers	24 590 402	-	-	24 220 066	24 220 066
Financial assets	**29 391 738**	**-**	**4 750 529**	**24 270 873**	**29 021 402**
Deposits from Central Banks	6 410 123	-	6 410 123	-	6 410 123
Deposits from banks	2 015 044	-	1 958 388	-	1 878 413
Due to customers	30 208 071	-	-	30 208 071	30 208 071
Debt securities issued	1 058 700	1 008 569	-	346 094	1 354 663
Financial Liabilities	**39 691 938**	**1 008 569**	**8 368 511**	**30 554 165**	**39 851 270**

a) Assets at acquisition cost, net of impairment. These assets relate to equity instruments issued by unquoted entities, for which no recent transactions were identified on the market and for which it is not possible to reliably estimate their fair value

(in thousands of Euros)

	Assets / Liabilities recorded at amortised cost	Fair value			
		Quoted Market Prices (Level 1)	Valuation models based on observable market information (Level 2)	Valuation models based on unobservable market information (Level 3)	Total fair value
31 December 2016					
Cash and deposits with Central Banks	1 469 259	-	1 469 259	-	1 469 259
Deposits with banks	370 918	-	370 918	-	370 918
Available-for-sale financial assets (shares) **a)**	55 735	-	-	55 735	55 735
Loans and advances to banks	724 167	-	724 167	-	724 167
Loans and advances to customers	27 522 588	-	-	26 659 358	26 659 358
Financial assets	**30 142 667**	**-**	**2 564 344**	**26 715 093**	**29 279 437**
Deposits from Central Banks	6 410 033	-	6 410 033	-	6 410 033
Deposits from banks	3 477 520	-	3 254 377	-	3 254 377
Due to customers	25 724 969	-	-	25 724 969	25 724 969
Debt securities issued	3 627 005	2 426 689	39 145	643 316	3 109 150
Investment contracts	2 177 242	-	2 312 918	-	2 312 918
Subordinated debt	48 100	31 277	45 028	-	76 305
Financial Liabilities	**41 464 869**	**2 457 966**	**12 061 501**	**26 368 285**	**40 887 752**

a) Assets at acquisition cost, net of impairment. These assets relate to equity instruments issued by unquoted entities, for which no recent transactions were identified on the market and for which it is not possible to reliably estimate their fair value

Cash and deposits with Central Banks, Deposits with banks and Loans and advances to credit institutions

Considering the short-term nature of these financial instruments, their carrying book value is a reasonable estimate of their fair value.

Loans and advances to customers

The fair value of loans and advances to customers is estimated based on the discounted expected future cash flows of capital and interest, assuming that the instalments are paid on the dates contractually defined. The expected future cash flows from portfolios of loans with similar credit risk characteristics, such as home mortgages, are estimated collectively. The discount rates used by the Group are the current interest rates used for loans with similar characteristics.

Deposits from Central Banks and Deposits from credit institutions
The fair value of deposits from Central Banks and Deposits from credit institutions is estimated based on the discounted expected future cash flows of capital and interest.

Due to customers and investment contracts
The fair value of these financial instruments is estimated based on the discounted expected future cash flows of capital and interest. The discount rate used by the Group is that which reflects the current interest rates applicable to deposits with similar characteristics at the balance sheet date. Given that the interest rates applicable to these instruments are renewed for periods under one year, there are no material relevant differences in their fair value.

Debt securities issued and Subordinated debt
The fair value of these instruments is based on quoted market prices, when available. When not available, the Group estimates their fair value by discounting their expected future cash flows of capital and interest.

NOTE 50 – RISK MANAGEMENT

The Group is exposed to a number of risks arising from the use of financial instruments, which are analysed below:

Credit risk
Credit risk represents the potential financial loss arising from the failure of a borrower or counterparty to honour its contractual obligation established with the Group in the scope of its credit granting activity. Credit risk is essentially present in traditional banking products – loans, guarantees provided and other contingent liabilities. In credit default swaps (CDS), the net exposure between selling and buying positions in relation to each reference entity, is also considered a credit risk by NOVO BANCO Group. CDSs are accounted for at fair value in accordance with the accounting policy described in Note 2.4.

Credit portfolio management is an ongoing process that requires the interaction between the various teams responsible for risk management throughout the consecutive stages of the credit process. This approach is complemented by the continuous introduction of improvements in the valuation methodologies and tools used to evaluate and control risk, as well as in the procedures and decision making processes.

The risk profile of the Group is analysed on a regular basis by the Risk Committee, especially regarding the evolution of the credit exposure and the monitoring of credit losses.

NOVO BANCO Group's maximum credit risk exposure is analysed as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Deposits with and loans and advances to banks	962 502	1 096 976
Financial assets held for trading	577 155	656 124
Other financial assets at fair value through profit or loss	620	576 181
Available-for-sale financial assets	6 929 109	8 708 026
Loans and advances to customers	25 790 943	28 184 426
Derivatives held for risk management purposes	170 588	222 769
Other assets	366 102	628 091
Guarantees and standby letters provided	3 636 501	3 946 010
Documentary credits	760 797	1 040 679
Irrevocable commitments	769 546	1 410 671
Credit risk associated with the credit derivatives' reference entities	7 814	62 758
	39 971 677	**46 532 711**

For financial assets in the balance sheet, the maximum exposure to credit risk is represented by the carrying book value net of impairment. For the off-balance sheet elements, the maximum exposure of the guarantees is the maximum amount that the Group would have to pay if the guarantees were executed. For loan commitments and other credit-related commitments of an irrevocable nature, the maximum exposure is the total amount of the commitments assumed.

The Group calculates impairment, on a collective or individual basis, for all its financial assets by allocating an initial classification of the respective risk level - Low, High or customers in default.

The collective impairment is applied to exposures of lower materiality and individual analyzes are carried out for the following groups of clients:

- for all credits in default or with no rating assigned with exposure in excess of 1 million euro;
- for all high-risk customers with exposure in excess of 5 million euro;
- for all low-risk clients belonging to the real estate development and financial holdings sectors with credit exposures above 5 million euro; and
- for all other low risk clients with exposures above 25 million euro.

If the value of the collateral, net of haircuts equals or exceeds the exposure, the individual impairment may be nil. Hence, NOVO BANCO Group does not have any past due financial assets for which it has not performed a review as to their recoverability and the subsequent recognition of the respective impairment, when necessary.

(in thousands of Euros)

	31.12.2017					
	Neither overdue nor impaired	Overdue but not impaired	Impaired	Net exposure	Impairment	Net exposure
Deposits with and loans and advances to banks	497 079	-	536 581	1 033 660	(71 158)	962 502
Financial assets held for trading -securities	2	-	-	2	-	2
Bonds issued by government and other public entities	-	-	-	-	-	-
Bonds issued by other entities	2	-	-	2	-	2
Other financial assets at fair value through profit or loss	620	-	-	620	-	620
Bonds issued by government and other public entities	-	-	-	-	-	-
Bonds issued by other entities	620	-	-	620	-	620
Available-for-sale financial assets	6 868 755	-	272 872	7 141 627	(212 518)	6 929 109
Bonds issued by government and other public entities	*5 967 997*	-	-	5 967 997	-	5 967 997
Bonds issued by other entities	*900 758*	-	*272 872*	1 173 630	*(212 518)*	961 112
Loans and advances to customers	21 909 527	4 571	9 508 344	31 422 441	(5 631 498)	25 790 943

(in thousands of Euros)

	31.12.2016					
	Neither overdue nor impaired	Overdue but not impaired	Impaired	Net exposure	Impairment	Net exposure
Deposits with and loans and advances to banks	568 633	-	1 000 757	1 569 390	(472 414)	1 096 976
Financial assets held for trading -securities	1	-	-	1	-	1
Bonds issued by government and other public entities	-	-	-	-	-	-
Bonds issued by other entities	1	-	-	1	-	1
Other financial assets at fair value through profit or loss	576 181	-	-	576 181	-	576 181
Bonds issued by government and other public entities	78 039	-	-	78 039	-	78 039
Bonds issued by other entities	498 142	-	-	498 142	-	498 142
Available-for-sale financial assets	8 667 341	-	271 357	8 938 698	(230 672)	8 708 026
Bonds issued by government and other public entities	*6 431 640*	-	-	6 431 640	-	6 431 640
Bonds issued by other entities	*2 235 701*	-	*271 357*	2 507 058	*(230 672)*	2 276 386
Loans and advances to customers	22 455 693	7 190	11 287 584	33 750 467	(5 566 041)	28 184 426

As at 31 December 2017, the interest from credits with impairment recognised in interest and similar gains increased to Euros 182.9 million (31 December 2016: Euros 222.2 million).

The following table presents the assets that are impaired or past due but not impaired, split by respective maturity or ageing (in the event of being overdue):

(in thousands of Euros)

	31.12.2017					
	Available-for-sale financial assets - debt instruments		Deposits with and loans and advances to banks		Loans and advances to customers	
	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired
Overdue						
Up to 3 months	-	3 400	-	-	2 686	166 555
3 months to 1 year	-	68 559	-	-	740	316 584
1 to 3 years	-	171 847	-	-	548	2 258 876
3 to 5 years	-	15 251	-	-	359	1 450 610
More than 5 years	-	924	-	-	238	1 017 974
	-	**259 981**	**-**	**-**	**4 571**	**5 210 599**
Due						
Up to 3 months	-	-	-	-	-	302 140
3 months to 1 year	-	2 797	-	-	-	706 772
1 to 3 years	-	-	-	-	-	659 937
3 to 5 years	-	2 845	-	-	-	594 688
More than 5 years	-	7 249	-	536 581	-	2 034 208
	-	**12 891**	**-**	**536 581**	**-**	**4 297 745**
	-	**272 872**	**-**	**536 581**	**4 571**	**9 508 344**

(in thousands of Euros)

	31.12.2016					
	Available-for-sale financial assets - debt instruments		Deposits with and loans and advances to banks		Loans and advances to customers	
	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired
Overdue						
Up to 3 months	-	-	-	-	2 129	142 631
3 months to 1 year	-	7 648	-	-	788	873 272
1 to 3 years	-	164 887	-	391 506	1 308	2 991 117
3 to 5 years	-	15 251	-	-	1 177	1 211 231
More than 5 years	-	924	-	-	1 788	710 705
	-	**188 710**	**-**	**391 506**	**7 190**	**5 928 956**
Due						
Up to 3 months	-	-	-	-		320 106
3 months to 1 year	-	29 557	-	-		825 189
1 to 3 years	-	16 262	-	-		1 416 634
3 to 5 years	-	28 248	-	-		1 062 043
More than 5 years	-	8 580	-	609 251		1 734 656
	-	**82 647**	**-**	**609 251**	**-**	**5 358 628**
	-	**271 357**	**-**	**1 000 757**	**7 190**	**11 287 584**

In relation to assets that are not overdue or impaired, the distribution by rating level is presented below. For debt instruments the rating assigned by the Rating agencies is considered; for the loans and advances to customers and cash and deposits with banks the rating and scoring models for the attribution of a credit rating are used, with these being reviewed periodically. For the purpose of presenting the information, the ratings were aggregated into five large risk groups, with the last group including unrated exposures.

(in thousands of Euros)

	31.12.2017					
	Prime + High grade	Upper Medium grade	Lower Medium grade	Non-investment Grade Speculative + Highly speculative	Remaining	Total
Deposits with and loans and advances to banks	-	63 610	974	42 140	390 355	497 079
Financial assets held for trading - securities	-	-	-	-	2	2
Bonds issued by government and other public entities	-	-	-	-	-	-
Bonds issued by other entities	-	-	-	-	2	2
Other financial assets at fair value through profit or loss	-	-	-	-	620	620
Bonds issued by government and other public entities	-	-	-	-	-	-
Bonds issued by other entities	-	-	-	-	620	620
Available-for-sale financial assets	287 657	14 501	5 203 834	549 064	813 699	6 868 755
Bonds issued by government and other public entities	284 867	-	5 164 002	519 128	-	5 967 997
Bonds issued by other entities	2 790	14 501	39 832	29 936	813 699	900 758
Loans and advances to customers	2 282 858	8 091 439	2 978 805	6 357 410	2 199 015	21 909 527

(in thousands of Euros)

	31.12.2016					
	Prime + High grade	Upper Medium grade	Lower Medium grade	Non-investment Grade Speculative + Highly speculative	Remaining	Total
Deposits with and loans and advances to banks	-	64 024	42 573	57 977	404 059	568 633
Financial assets held for trading - securities	-	-	-	-	1	1
Bonds issued by government and other public entities	-	-	-	-	-	-
Bonds issued by other entities	-	-	-	-	1	1
Other financial assets at fair value through profit or loss	16 182	66 665	203 535	178 237	111 562	576 181
Bonds issued by government and other public entities	6 804	924	20 224	45 849	4 238	78 039
Bonds issued by other entities	9 378	65 741	183 311	132 388	107 324	498 142
Available-for-sale financial assets	24 417	299 593	3 546 752	3 851 506	945 073	8 667 341
Bonds issued by government and other public entities	-	4 951	2 931 239	3 493 017	2 433	6 431 640
Bonds issued by other entities	24 417	294 642	615 513	358 489	942 640	2 235 701
Loans and advances to customers	2 115 238	7 718 256	2 891 930	6 833 668	2 896 601	22 455 693

Loans with impairment triggers correspond to loans with objective evidence of loss (Loans in Default) and to loans classified as “Higher Risk Loans”. The objective evidence of loss exists when there is a default event, i.e. from the moment there is a significant change in the lender-borrower relationship that subjects the lender to a monetary loss. The “Higher Risk Loans” correspond to loans without objective evidence of loss, but with risk indicators (e.g. customers with loans past due more than 30 days but less than 90 days; customers under litigation in the Central Credit Register (*Central de Responsabilidades de Crédito*); customers with higher risk rating / scoring; customers allocated to the Department for Monitoring and Accompanying Companies (*Departamento de Seguimento e Acompanhamento de Empresas*); and loans restructured due to financial difficulties of the debtor that are not in default).

Loans without impairment triggers relate to “Low Risk Loans”. All exposures that do not show any of the above Higher Risk indicators and the exposures for which the impairment loss determined is equal to or less than 0.05%, are classified as “Low Risk Loans”. These situations correspond to loans for which the impairment determined is immaterial due to the existence of guarantees / collateral, permitting their classification as “Low Risk Loans”, regardless of their original classification.

As at 31 December 2017 and 2016, the analysis of the gross loans and advances to customers’ exposure and impairment constituted, by segment, is presented as follows:

(in thousands of Euros)

Segment	31.12.2017													
	Credit not at risk						Credit at risk [a]						Total Loans and advances	
	Without impairment triggers		With impairment triggers		Total		Days past due: <= 90 days [b]		Days past due: >90 days		Total			
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	7 834 231	41 740	5 763 341	803 346	13 597 572	845 086	1 003 000	675 226	5 491 792	3 742 829	6 494 792	4 418 055	20 092 364	5 263 141
Mortgage loans	8 096 720	3 928	1 014 056	8 199	9 110 776	12 127	47 485	3 637	592 810	142 911	640 295	146 548	9 751 071	158 675
Consumer and other loans	1 151 743	4 695	140 455	31 457	1 292 198	36 152	9 450	4 602	277 358	168 928	286 808	173 530	1 579 006	209 682
Total	**17 082 694**	**50 363**	**6 917 852**	**843 002**	**24 000 546**	**893 365**	**1 059 935**	**683 465**	**6 361 960**	**4 054 668**	**7 421 895**	**4 738 133**	**31 422 441**	**5 631 498**

[a] Credit at risk correspond to the definition contained in Instruction no. 23/2011 of Banco de Portugal

[b] Credit with principal and/or interest past due under 90 days, but for which there are indications that justify their classification as loans and advances at risk, the bankruptcy or liquidation of the debtor amongst these

(in thousands of Euros)

Segment	31.12.2016													
	Credit not at risk						Credit at risk [a]						Total Loans and advances	
	Without impairment triggers		With impairment triggers		Total		Days past due				Total			
							<= 90 days [b]		>90 days					
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	7 520 033	44 447	7 432 436	708 958	14 952 469	753 405	1 354 514	617 839	6 143 596	3 766 310	7 498 110	4 384 149	22 450 579	5 137 554
Mortgage loans	7 983 733	10 217	989 729	17 269	8 973 462	27 486	59 631	4 047	692 664	153 534	752 295	157 581	9 725 757	185 067
Consumer and other loans	1 037 474	6 565	151 299	28 794	1 188 773	35 359	23 425	6 556	361 933	201 505	385 358	208 061	1 574 131	243 420
Total	**16 541 240**	**61 229**	**8 573 464**	**755 021**	**25 114 704**	**816 250**	**1 437 570**	**628 442**	**7 198 193**	**4 121 349**	**8 635 763**	**4 749 791**	**33 750 467**	**5 566 041**

[a] Credit at risk correspond to the definition contained in Instruction no. 23/2011 of Banco de Portugal

[b] Credit with principal and/or interest past due under 90 days, but for which there are indications that justify their classification as loans and advances at risk, the bankruptcy or liquidation of the debtor amongst these

As at 31 December 2017 and 2016, the analysis of the Loans and advances to customers' portfolio, by segment and by year of reference, is presented as follows:

(in thousands of Euros)

Year of production	31.12.2017											
	Corporate			Mortgage loans			Consumer and other loans			Total		
	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2004 and prior	23 477	778 625	295 924	56 846	1 580 831	37 540	151 607	104 218	8 989	231 930	2 463 674	342 453
	3 835	197 906	57 576	10 817	513 765	12 411	28 664	30 611	2 897	43 316	742 282	72 884
2006	4 790	677 336	240 384	18 148	934 979	19 986	35 164	38 503	4 782	58 102	1 650 818	265 152
2007	12 744	665 127	168 712	28 891	1 405 361	27 753	46 724	49 297	9 952	88 359	2 119 785	206 417
2008	4 671	1 296 605	379 902	19 387	1 042 312	16 212	45 985	52 100	8 260	70 043	2 391 017	404 374
2009	3 792	953 028	266 619	13 199	718 131	13 405	34 175	66 280	16 440	51 166	1 737 439	296 464
2010	14 104	953 907	392 858	12 280	750 665	11 609	34 688	66 513	12 169	61 072	1 771 085	416 636
2011	6 128	997 986	257 683	7 160	346 301	7 894	31 796	80 975	21 940	45 084	1 425 262	287 517
2012	6 598	1 445 509	575 928	4 348	170 681	4 665	35 693	76 318	22 405	46 639	1 692 508	602 998
2013	25 912	1 930 811	638 393	4 946	242 948	3 562	33 633	121 266	43 710	64 491	2 295 025	685 665
2014	10 277	1 634 294	591 449	3 302	190 775	1 090	31 456	83 038	10 059	45 035	1 908 107	602 598
2015	31 120	2 402 226	433 833	4 344	278 876	951	38 752	142 857	17 594	74 216	2 823 959	452 378
2016	30 972	2 769 332	663 603	8 409	597 400	882	52 945	256 200	25 222	92 326	3 622 932	689 707
2017	35 477	3 389 672	300 277	11 680	978 046	715	55 510	410 830	5 263	102 667	4 778 548	306 255
Total	**213 897**	**20 092 364**	**5 263 141**	**203 757**	**9 751 071**	**158 675**	**656 792**	**1 579 006**	**209 682**	**1 074 446**	**31 422 441**	**5 631 498**

(in thousands of Euros)

Year of production	31.12.2016											
	Corporate			Mortgage loans			Consumer and other loans			Total		
	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2004 and prior	29 272	1 091 571	441 148	60 844	1 791 487	48 386	177 658	119 285	9 831	267 774	3 002 343	499 365
2005	4 773	315 778	88 286	11 500	574 059	15 120	32 739	50 144	13 968	49 012	939 981	117 374
2006	6 084	782 741	246 652	19 246	1 032 203	24 167	39 405	55 938	9 704	64 735	1 870 882	280 523
2007	12 956	790 689	231 652	30 709	1 545 879	33 660	57 143	70 746	17 635	100 808	2 407 314	282 947
2008	6 876	1 389 858	298 897	20 430	1 139 801	18 688	51 910	73 687	15 271	79 216	2 603 346	332 856
2009	6 601	1 270 508	364 865	13 957	788 440	14 863	39 616	90 390	22 862	60 174	2 149 338	402 590
2010	16 902	1 387 231	388 141	13 019	829 082	12 563	41 621	139 326	29 549	71 542	2 355 639	430 253
2011	9 416	1 245 221	364 260	7 687	390 763	6 635	37 752	135 259	26 209	54 855	1 771 243	397 104
2012	9 481	1 801 753	609 984	4 713	196 106	3 800	43 558	105 425	23 969	57 752	2 103 284	637 753
2013	30 166	2 573 447	701 376	5 350	275 040	3 316	41 195	154 997	43 377	76 711	3 003 484	748 069
2014	16 154	2 571 185	637 838	3 570	229 257	1 693	38 875	144 370	16 806	58 599	2 944 812	656 337
2015	37 310	3 342 373	410 861	4 660	310 387	1 102	45 269	173 316	10 135	87 239	3 826 076	422 098
2016	48 320	3 888 224	353 594	8 535	623 253	1 074	51 956	261 248	4 104	108 811	4 772 725	358 772
Total	**234 311**	**22 450 579**	**5 137 554**	**204 220**	**9 725 757**	**185 067**	**698 697**	**1 574 131**	**243 420**	**1 137 228**	**33 750 467**	**5 566 041**

The figures presented include, in addition to all new operations of the reference year, renewals, interventions and restructurings of operations originated in previous years, including in the period prior to the constitution of the NOVO BANCO.

As at 31 December 2017 and 2016, the analysis of the gross loans and advances to customers' exposure and impairment assessed individually and collectively, by segment, is presented as follows:

(in thousands of Euros)

	31.12.2017					
	Individual Assessment(1)		Collective Assessment (2)		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	8 453 487	4 967 087	11 638 877	296 054	20 092 364	5 263 141
Mortgage loans	94 335	36 494	9 656 736	122 181	9 751 071	158 675
Consumer and other loans	291 011	164 195	1 287 995	45 487	1 579 006	209 682
Total	**8 838 833**	**5 167 776**	**22 583 608**	**463 722**	**31 422 441**	**5 631 498**

(1) Loans and advances for which the final impairment was determined and approved by the Impairment Committee
(2) Loans and advances for which the final impairment was determined automatically by the Impairment model

(in thousands of Euros)

	31.12.2016					
	Individual Assessment(1)		Collective Assessment (2)		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	9 381 973	4 556 166	13 068 606	581 388	22 450 579	5 137 554
Mortgage loans	37 592	9 298	9 688 165	175 769	9 725 757	185 067
Consumer and other loans	311 378	110 731	1 262 753	132 689	1 574 131	243 420
Total	**9 730 943**	**4 676 195**	**24 019 524**	**889 846**	**33 750 467**	**5 566 041**

(1) Loans and advances for which the final impairment was determined and approved by the Impairment Committee
(2) Loans and advances for which the final impairment was determined automatically by the Impairment model

The loans and advances analysed by the Impairment Committee, for which the impairment amount automatically determined by the model was not changed, are included and presented in the "Collective assessment".

As at 31 December 2017 and 2016, the analysis of the gross loans and advances to customers' exposure and impairment assessed individually and collectively, by geography, is presented as follows:

(in thousands of Euros)

	31.12.2017					
	Individual Assessment*		Collective Assessment**		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Portugal	6 535 373	3 987 973	18 879 099	388 738	25 414 472	4 376 711
Luxembourg	299 783	187 368	21 533	6 409	321 316	193 777
United Kingdom	763 298	649 109	403 818	3 321	1 167 116	652 430
Spain	813 851	233 470	1 375 278	37 995	2 189 129	271 465
Cayman Islands	172	-	650	5	822	5
Ireland	426 356	109 856	1 903 230	27 254	2 329 586	137 110
Total	**8 838 833**	**5 167 776**	**22 583 608**	**463 722**	**31 422 441**	**5 631 498**

* Loans and advances which impairment results from an individual analysis (defined and approved by the Impairment Committee)
** Loans and advances which impairment was assessed on a collective basis and determined automatically by the Impairment model

(in thousands of Euros)

	31.12.2016					
	Individual Assessment*		Collective Assessment**		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Portugal	7 354 551	3 842 713	18 882 834	696 993	26 237 385	4 539 706
Luxembourg	281 685	146 049	314 318	5 290	596 003	151 339
Venezuela	-	-	2 754	31	2 754	31
United Kingdom	1 001 409	400 040	700 492	9 768	1 701 901	409 808
Spain	896 237	214 354	1 464 782	42 494	2 361 019	256 848
Cayman Islands	-	-	1 311	-	1 311	-
Ireland	197 061	73 039	2 653 033	135 270	2 850 094	208 309
Total	**9 730 943**	**4 676 195**	**24 019 524**	**889 846**	**33 750 467**	**5 566 041**

* Loans and advances w hich impairment results from an individual analysis (defined and approved by the Impairment Committee)
** Loans and advances w hich impairment w as assessed on a collective basis and determined automatically by the Impairment model

In order to mitigate credit risk, credit operations are collateralised, namely with mortgages or pledges. The fair value of those guarantees is determined on the date of the loan disbursement, being revalued periodically. The gross amount of the loans to customers and respective fair value of the collateral, limited to the amount of the associated loans, are as follows:

(in thousands of Euros)

	31.12.2017		31.12.2016	
	Amount of loans	Fair value of collateral	Amount of loans	Fair value of collateral
Individuals - Mortgage				
Mortgages	9 434 591	9 398 739	9 418 249	9 381 349
Pledges	57 840	57 521	64 516	64 201
Not collateralized	258 640	-	242 992	-
	9 751 071	9 456 260	9 725 757	9 445 550
Individuals - Other				
Mortgages	306 879	284 102	297 289	283 428
Pledges	393 427	251 190	425 964	307 650
Not collateralized	878 700	-	850 878	-
	1 579 006	535 292	1 574 131	591 078
Corporate				
Mortgages	4 470 386	3 991 868	4 433 776	3 961 038
Pledges	5 102 764	2 429 229	6 075 630	3 173 704
Not collateralized	10 519 214	-	11 941 173	-
	20 092 364	6 421 097	22 450 579	7 134 742
Total	**31 422 441**	**16 412 649**	**33 750 467**	**17 171 370**

The differential between the amount of the loans and advances to customers and the fair value of the collateral represents the total loans' exposure that exceeds the value of the collateral, with this value not being affected by collateral with a fair value in excess of the loan to which it is associated.

The details of the collateral – mortgages is presented as follows:

(in thousands of Euros)

	31.12.2017							
	Individuals - Mortgage loans		Individuals - Other loans		Corporate loans		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
<0.5M€	189 118	9 258 603	5 432	234 899	18 782	659 802	213 332	10 153 304
>= 0.5M€ and <1.0M€	184	108 142	67	24 427	2 869	341 057	3 120	473 626
>= 1.0M€ and <5.0M€	33	31 994	94	24 776	7 464	964 744	7 591	1 021 514
>= 5.0M€ and <10.0M€	-	-	-	-	2 339	536 044	2 339	536 044
>= 10.0M€ and <20.0M€	-	-	-	-	4 997	518 316	4 997	518 316
>= 20.0M€ and <50.0M€	-	-	-	-	3 078	685 888	3 078	685 888
>=50M€	-	-	-	-	1 582	286 017	1 582	286 017
	189 335	**9 398 739**	**5 593**	**284 102**	**41 111**	**3 991 868**	**236 039**	**13 674 709**

(in thousands of Euros)

	31.12.2016							
	Individuals - Mortgage loans		Individuals - Other loans		Corporate loans		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
<0.5M€	188 977	9 252 160	4 974	229 867	17 623	645 236	211 574	10 127 263
>= 0.5M€ and <1.0M€	167	97 471	59	25 888	2 330	389 733	2 556	513 092
>= 1.0M€ and <5.0M€	34	31 718	96	27 673	5 533	1 095 319	5 663	1 154 710
>= 5.0M€ and <10.0M€	-	-	-	-	1 478	552 871	1 478	552 871
>= 10.0M€ and <20.0M€	-	-	-	-	151	553 818	151	553 818
>= 20.0M€ and <50.0M€	-	-	-	-	1 255	485 664	1 255	485 664
>=50M€	-	-	-	-	1 581	238 397	1 581	238 397
	189 178	**9 381 349**	**5 129**	**283 428**	**29 951**	**3 961 038**	**224 258**	**13 625 815**

The amounts of the collateral – mortgages, presented above, represent the maximum coverage value of the assets collateralised, i.e. which are considered up to the gross amount of the individual loans collateralised.

The assessment of the risk of an operation or set of operations takes into account the associated credit risk mitigation elements, according to the internal rules and procedures implemented to meet the requirements defined by Banco de Portugal.

Relevant collaterals are essentially the following:
- Real estate properties, where the value considered is that which corresponds to the latest available valuation;
- Financial pledges, where the value considered corresponds to the quotation on the last day of the month - in the case of a quoted security - or to the value of the pledge - in the case of cash.

The acceptance of collateral as a guarantee for loans and advances to customers leads to the need to define and implement risk mitigation techniques in respect of the exposures of said collateral. Thus, and as an approach to this matter, the Group stipulated a number of procedures applicable to collateral (namely the financial and real estate properties collateral), covering amongst others, the volatility of the value of the collateral, its liquidity as well as an indication as to the recovery rates associated with each type of collateral.

Therefore, the internal rules governing the credit granting powers have a specific chapter on this point, "Acceptance of collateral - Risk mitigation techniques in respect of the exposures of said collateral, namely the risks of liquidity and volatility."

The real estate properties revaluation process is conducted by valuation experts registered with the CMVM, and is based on the methodology described in Note 2.12.

The analysis of risk exposure by sector of activity, as at 31 December 2017 and 2016, is presented as follows:

(in thousands of Euros)

	31.12.2017								
	Loans and advances to customers		Financial assets held for trading	Other financial assets at fair value through profit or loss	Derivatives held for risk management purposes	Available-for-sale financial assets		Guarantees and endorsements provided	
	Gross amount	Impairment				Gross amount	Impairment	Gross amount	Impairment
Agriculture, Forestry and Fishery	436 098	(206 483)	113	-	-	10 870	-	13 633	(7 265)
Mining	116 877	(14 990)	302	-	-	1 484	(1 378)	5 686	(91)
Food, Beverages and Tobacco	757 687	(61 161)	13 141	-	-	29 735	(2 636)	74 439	(683)
Textiles and Clothing	327 179	(47 490)	190	-	-	23 223	(3 606)	13 999	(2 365)
Leather and Shoes	76 986	(9 685)	16	-	-	499	(499)	1 521	(103)
Wood and Cork	124 331	(33 591)	497	-	-	2 754	(1 251)	5 451	(46)
Paper and Printing Industry	235 407	(55 976)	-	-	-	38 319	(35 319)	8 367	(47)
Refining of Petroleum	5 267	(874)	-	-	-	-	-	17 973	(1)
Chemicals and Rubber	371 612	(23 635)	2 684	-	-	6 990	(5)	50 820	(210)
Non-metallic Minerals	207 317	(54 696)	-	-	-	29 363	(3 522)	13 735	(525)
Metallurgical Industries and Metallic Products	455 558	(95 789)	325	-	-	3 864	(3 218)	38 583	(433)
Production of Machinery, Equipment and Electrical Devi	173 762	(21 706)	269	-	-	3 596	(603)	86 390	(356)
Production of Transport Material	68 747	(3 657)	-	-	-	9 015	(40)	13 944	(55)
Other Transforming Industries	204 436	(46 514)	-	-	-	-	-	33 884	(533)
Electricity, Gas and Water	464 654	(16 633)	49 753	-	-	194 602	-	112 165	(279)
Construction and Public Works	1 889 801	(601 426)	86 201	-	-	210 235	(1 889)	1 033 233	(61 970)
Wholesale and Retail Trade	1 844 395	(486 745)	3 605	-	-	59 582	(27 232)	314 807	(4 103)
Tourism	1 044 609	(78 071)	707	-	-	8 196	(8 015)	81 835	(4 940)
Transport and Communication	1 248 325	(153 309)	106 906	-	-	42 083	(5 693)	606 262	(1 957)
Financial Activities	1 307 030	(536 459)	277 409	26 734	170 588	1 828 962	(385 985)	159 915	(1 385)
Real Estate Activities	2 627 736	(691 617)	7 320	3 449	-	193 142	(84 579)	301 717	(4 938)
Services Provided to Companies	3 674 516	(1 358 613)	22 006	-	-	801 662	(539 118)	574 657	(7 342)
Public Administration and Services	818 249	(50 025)	1 822	-	-	5 967 241	-	24 467	(6 919)
Other activities of collective services	1 577 620	(613 437)	4 254	-	-	153 707	(66 291)	170 732	(39 522)
Mortgage Loans	9 751 071	(158 675)	-	-	-	-	-	64	-
Consumers Loans	1 579 006	(209 682)	-	-	-	-	-	4 326	(19)
Other	34 165	(559)	-	-	-	8 171	(8 171)	20 370	(387)
TOTAL	**31 422 441**	**(5 631 498)**	**577 520**	**30 183**	**170 588**	**9 627 295**	**(1 179 050)**	**3 782 975**	**(146 474)**

(in thousands of Euros)

	31.12.2016								
	Loans and advances to customers		Financial assets held for trading	Other financial assets at fair value through profit or loss	Derivatives held for risk management purposes	Available-for-sale financial assets		Guarantees and endorsements provided	
	Gross amount	Impairment				Gross amount	Impairment	Gross amount	Impairment
Agriculture, Forestry and Fishery	444 421	(59 206)	1 540	-	-	14 185	-	22 354	(1 457)
Mining	138 042	(12 464)	598	91 604	-	201 066	(2 502)	6 429	(117)
Food, Beverages and Tobacco	711 495	(49 945)	2 281	13 706	-	45 390	(566)	59 693	(1 686)
Textiles and Clothing	296 001	(40 696)	176	1 685	-	38 860	(2 105)	8 869	(1 236)
Leather and Shoes	76 598	(10 256)	46	20	-	499	(499)	1 643	(111)
Wood and Cork	124 518	(32 245)	578	-	-	1 251	(1 251)	5 047	(72)
Paper and Printing Industry	260 901	(23 131)	75	13 283	-	57 310	(35 617)	10 026	(1 043)
Refining of Petroleum	5 027	(148)	52	-	-	-	-	20 693	(11)
Chemicals and Rubber	351 241	(22 979)	3 268	27 010	-	89 867	(11 935)	59 585	(3 052)
Non-metallic Minerals	196 393	(52 156)	51	860	-	12 145	(4 042)	14 213	(550)
Metallurgical Industries and Metallic Products	989 343	(277 753)	235	8 680	-	25 800	(3 218)	43 280	(2 517)
Production of Machinery, Equipment and Electrical Devi	188 097	(16 191)	446	5 465	-	66 347	(1 331)	95 459	(1 173)
Production of Transport Material	66 605	(3 313)	-	38 409	-	84 809	(40)	15 425	(206)
Other Transforming Industries	227 549	(31 137)	-	-	-	1 958	(17)	28 986	(737)
Electricity, Gas and Water	632 629	(10 965)	64 409	68 363	-	475 529	-	119 823	(428)
Construction and Public Works	2 166 377	(592 310)	101 497	11 363	-	241 876	(11 743)	1 098 452	(54 450)
Wholesale and Retail Trade	2 037 388	(607 851)	826	16 887	-	94 760	(25 902)	302 405	(8 331)
Tourism	1 128 884	(92 473)	1 876	1 339	-	8 203	(8 018)	80 939	(3 059)
Transport and Communication	1 364 752	(87 862)	127 645	48 912	-	194 731	(9 244)	651 815	(3 417)
Financial Activities	1 354 156	(372 400)	274 092	735 487	222 769	2 325 706	(331 790)	291 539	(5 231)
Real Estate Activities	2 945 248	(715 673)	10 521	9 549	-	228 503	(65 628)	204 621	(11 997)
Services Provided to Companies	3 675 527	(1 230 466)	30 562	8 554	-	799 218	(497 200)	680 751	(6 739)
Public Administration and Services	846 544	(33 290)	2 334	96 896	-	6 469 721	-	29 580	(1 231)
Other activities of collective services	2 149 470	(762 301)	18 718	5 735	-	159 031	(68 579)	173 717	(3 118)
Mortgage Loans	9 725 757	(185 067)	-	-	-	-	-	131	-
Consumers Loans	1 574 131	(243 420)	-	-	-	-	-	5 007	(38)
Other	73 373	(343)	14 896	-	-	11 698	(9 264)	27 871	(336)
TOTAL	**33 750 467**	**(5 566 041)**	**656 722**	**1 203 807**	**222 769**	**11 648 463**	**(1 090 491)**	**4 058 353**	**(112 343)**

According to Banco de Portugal Instruction no. 32/2013, the Group identifies and marks loan agreements restructured due to financial difficulties of the customer whenever there are changes to the terms and conditions of an agreement in respect of which the customer defaulted, or it is foreseeable that this will come to happen, in respect of a financial obligation. A change to the terms and conditions of the agreement is deemed to exist when (i) there are contractual changes to the customer's benefit, such as extension of the contract period, introduction of grace periods, reduction of rate or partial pardon of debt; (ii) a new loan operation is contracted to settle existing debt (total or partial); or (iii) the new terms of the agreement are more favorable than those applied to other customers with the same risk profile.

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

The amounts of the loans restructured due to financial difficulties of the customer as at 31 December 2017 and 2016, are as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Corporate	6 458 131	7 319 019
Mortgage loans	303 545	331 201
Consumer and other loans	337 081	356 392
Total	**7 098 757**	**8 006 612**

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

(in thousands of Euros)

Measure	31.12.2017								
	Credit not at risk			Credit at risk [a]			Total		
	No. transactions	Exposure	Impairment	No. transactions	Exposure	Impairment	No. transactions	Exposure	Impairment
Principal or interest forgiveness	48	67 844	4 955	308	448 641	325 782	356	516 485	330 737
Assets received in partial settlement of loan	19	1 741	1 537	3	1 353	639	22	3 094	2 176
Capitalization of interest	46	234 258	54 384	308	225 740	160 153	354	459 998	214 537
New loan in total or partial payment of existing loan	2 993	462 165	108 115	1 389	953 690	731 529	4 382	1 415 855	839 644
Extension of repayment period	1 872	1 405 534	292 358	1 690	835 868	497 352	3 562	2 241 402	789 710
Introduction of a grace period of principal or interest	1 521	463 410	60 857	352	295 545	182 757	1 873	758 955	243 614
Decrease in the interest rates	265	384 630	62 680	64	383 264	170 460	329	767 894	233 140
Change of the lease payment plan	261	152 508	5 305	91	29 904	13 971	352	182 412	19 276
Change in the interest payment periods	20	7 641	89	29	251 359	147 808	49	259 000	147 897
Other	6 346	204 190	6 027	4 609	289 472	171 298	10 955	493 662	177 325
Total	**13 391**	**3 383 921**	**596 307**	**8 843**	**3 714 836**	**2 401 749**	**22 234**	**7 098 757**	**2 998 056**

[a] Loans and advances at risk correspond to the definition contained in Instruction no. 23/2011 of Banco de Portugal

(in thousands of Euros)

Measure	31.12.2016								
	Credit not at risk			Credit at risk [a]			Total		
	No. transactions	Exposure	Impairment	No. transactions	Exposure	Impairment	No. transactions	Exposure	Impairment
Principal or interest forgiveness	24	67 007	3 474	236	306 041	192 786	260	373 048	196 260
Assets received in partial settlement of loan	6	105	4	1	10	2	7	115	6
Capitalization of interest	46	468 953	75 165	214	184 573	125 719	260	653 526	200 884
New loan in total or partial payment of existing loan	3 235	415 652	47 638	1 287	989 971	611 554	4 522	1 405 623	659 192
Extension of repayment period	1 903	1 734 185	258 621	1 372	839 018	371 762	3 275	2 573 203	630 383
Introduction of a grace period of principal or interest	1 677	471 137	48 802	378	372 949	193 190	2 055	844 086	241 992
Decrease in the interest rates	236	325 940	45 110	90	436 747	295 768	326	762 687	340 878
Change of the lease payment plan	246	125 855	5 695	87	40 914	17 154	333	166 769	22 849
Change in the interest payment periods	20	44 188	1 469	36	397 489	138 056	56	441 677	139 525
Other	7 957	355 043	27 697	7 327	430 835	210 912	15 284	785 878	238 609
Total	**15 350**	**4 008 065**	**513 675**	**11 028**	**3 998 547**	**2 156 903**	**26 378**	**8 006 612**	**2 670 578**

[a] Loans and advances at risk correspond to the definition contained in Instruction no. 23/2011 of Banco de Portugal

The movement of the restructured loans during financial years 2017 and 2016 was as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Balance at the beginning of the period	8 006 612	6 633 768
Loans and advances restructured during period	1 603 293	2 914 994
Loans and advances reclassified to "Normal"	(74 537)	(198 396)
Loans and advances written off	(249 142)	(80 726)
Other	(2 187 469)	(1 263 028)
Balance at the end of the period	**7 098 757**	**8 006 612**

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, share prices, commodity prices, volatility and credit spread.

Market risk management is integrated with the balance sheet management through the CALCO Capital (Asset and Liability Committee) structure, constituted at the entity's top level. CALCO is responsible for defining the policies governing the composition and structure of the balance sheet as well as for controlling exposure to the interest rate, currency and liquidity risks.

The main measurement of market risk is the assessment of unrealised losses under adverse market conditions, for which the Value at Risk (VaR) methodology is used. NOVO BANCO Group's VaR model uses the Monte Carlo simulation, based on a confidence level of 99% and an investment period of 10 days. Volatilities and correlations are historical, based on an observation period of one year. As a complement to VaR, stress testing scenarios have been developed, which allow for the evaluation of the impact of losses potentially higher than those considered by the VaR measurement.

(in thousands of Euros)

	31.12.2017				31.12.2016			
	December	Period average	Maximum	Minimum	December	Period average	Maximum	Minimum
Exchange risk	1 657	3 874	5 071	3 709	2 709	9 922	16 314	2 709
Interest rate risk	5 243	2 194	5 831	548	1 206	790	1 269	525
Shares and commodities	867	1 045	638	491	2 611	1 982	3 310	638
Volatility	91	158	282	255	83	205	399	72
Credit spread	33	487	53	361	475	1 291	2 533	475
Diversification effect	(2 639)	(2 750)	(5 043)	(1 630)	(2 967)	(3 573)	(2 360)	(5 262)
Total	**5 251**	**5 008**	**6 832**	**3 734**	**4 116**	**10 618**	**21 465**	**(844)**

NOVO BANCO Group has a VaR at risk of Euros 5 251 thousand (31 December 2016: Euros 4 116 thousand) in respect of its trading positions.

Following the issue of the recommendations of Basel II (Pillar 2) and Instruction no. 19/2005 of Banco de Portugal, the NOVO BANCO Group calculates the exposure to its balance sheet interest rate risk based on the methodology of the Bank of International Settlement (BIS), classifying all balance and off-balance sheet captions which are not part of the trading portfolio, by re-pricing intervals.

(in thousands of Euros)

	31.12.2017						
	Eligible amounts	Not sensitive	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years
Loans to and deposits with banks	4 865 274	237 376	4 016 682	48 976	203 515	4 468	354 257
Loans and advances to customers	32 285 993	73 214	17 474 228	5 346 320	2 219 773	6 022 908	1 149 550
Securities	9 636 138	2 769 561	769 780	961 189	797 467	3 519 318	818 823
Total			**22 260 690**	**6 356 485**	**3 220 755**	**9 546 694**	**2 322 630**
Deposits from banks	8 461 476	-	1 506 080	46 373	116 815	6 792 208	-
Due to customers	31 165 946	-	10 856 772	4 006 323	5 951 922	10 112 868	238 061
Debt securities issued	1 205 880	-	504 634	-	-	16 657	684 589
Total			**12 867 486**	**4 052 696**	**6 068 737**	**16 921 733**	**922 650**
Balance sheet GAP (Assets - Liabilities)	2 873 952		9 393 204	2 303 789	(2 847 982)	(7 375 039)	1 399 980
Off-Balance sheet	1		491 214	362 589	2 000	(229 688)	(626 114)
Structural GAP	**2 873 953**		**9 884 418**	**2 666 378**	**(2 845 982)**	**(7 604 727)**	**773 866**
Accumulated GAP			**9 884 418**	**12 550 796**	**9 704 814**	**2 100 087**	**2 873 953**

(in thousands of Euros)

	31.12.2016						
	Eligible amounts	Not sensitive	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years
Loans to and deposits with banks	2 696 622	241 605	1 758 493	12 077	6 968	274 424	403 055
Loans and advances to customers	34 778 097	-	18 222 237	6 745 808	2 067 810	6 514 915	1 227 327
Securities	11 720 560	2 963 823	1 331 797	744 983	1 701 968	2 937 984	2 040 005
Total			**21 312 527**	**7 502 868**	**3 776 746**	**9 727 323**	**3 670 387**
Deposits from banks	10 203 900	-	3 134 747	63 865	139 023	6 866 265	-
Due to customers	26 116 823	-	9 098 726	4 433 079	4 885 820	7 473 924	225 274
Debt securities issued	3 752 001	-	1 007 025	20 932	-	1 508 225	1 215 819
Investment contracts	3 392 904	1 231 264	81 599	78 943	490 144	1 374 660	136 294
Technical reserves	1 333 568	49 973	5 460	7 171	680 096	201 866	389 002
Total			**13 327 557**	**4 603 990**	**6 195 083**	**17 424 940**	**1 966 389**
Balance sheet GAP (Assets - Liabilities)	2 471 892		7 984 970	2 898 878	(2 418 337)	(7 697 617)	1 703 998
Off-Balance sheet	(1)		144 005	361 763	67 080	(205 000)	(367 849)
Structural GAP	**2 471 891**		**8 128 975**	**3 260 641**	**(2 351 257)**	**(7 902 617)**	**1 336 149**
Accumulated GAP			**8 128 975**	**11 389 616**	**9 038 359**	**1 135 742**	**2 471 891**

Sensitivity analyses of the interest rate risk of the Bank’s portfolios are performed, based on an approximation of the duration model approach, considering several scenarios of yield curve shifts at all interest rate levels.

(in thousands of Euros)

	31.12.2017				31.12.2016			
	Parallel increase of 100 bp	Parallel decrease of 100 bp	Increase after 1 year of 50 bp	Decrease after 1 year of 50 bp	Parallel increase of 100 bp	Parallel decrease of 100 bp	Increase after 1 year of 50 bp	Decrease after 1 year of 50 bp
Sensitivity to interest rate risk	(1 897)	1 897	(1 117)	1 117	16 732	(16 732)	10 324	(10 324)

The following table presents the average balances, interest for the period and average interest rates relating to the Group's major financial asset and liability categories, for the financial years ended on 31 December 2017 and 2016:

(in thousands of Euros)

	31.12.2017			31.12.2016		
	Average balance of the period	Interest of the period	Average interest rate	Average balance of the period	Interest of the period	Average interest rate
Monetary assets	2 650 165	28 706	1.08%	2 480 452	57 341	2.31%
Loans and advances to customers	32 474 245	752 121	2.32%	34 695 249	931 516	2.68%
Securities and other	9 222 880	80 994	0.88%	9 647 420	177 282	1.84%
Non-interest earning assets	-	-	-	-	-	-
Financial assets and differentials	**44 347 290**	**861 821**	**1.94%**	**46 823 121**	**1 166 139**	**2.49%**
Monetary Liabilities	8 985 111	32 580	0.36%	11 442 470	41 030	0.36%
Due to customers	26 319 159	226 420	0.86%	25 122 638	229 120	0.91%
Covered liabilities and other	5 761 472	208 251	3.61%	7 413 300	381 505	5.15%
Non-interest earning assets	3 281 548	-	-	2 844 713	-	-
Financial liabilities and differentials	**44 347 290**	**467 251**	**1.05%**	**46 823 121**	**651 655**	**1.39%**
Net interest income		**394 570**	**0.89%**		**514 484**	**1.10%**

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

(in thousands of Euros)

		31.12.2017				31.12.2016			
		Spot	Forward	Other elements	Net exposure	Spot	Forward	Other elements	Net exposure
USD	UNITED STATES DOLLAR	(1 242 323)	1 201 842	9 115	(31 366)	(723 092)	687 236	(4 815)	(40 671)
GBP	GREAT BRITISH POUND	33 130	(29 233)	(1 215)	2 682	449 490	(465 513)	(4 656)	(20 679)
BRL	BRAZILIAN REAL	899	-	-	899	1 426	(2)	-	1 424
MOP	MACAO PATACA	5 145	(5 402)	-	(257)	205 548	(223 508)	-	(17 960)
JPY	JAPANESE YEN	178	56	(998)	(764)	(63)	490	-	427
CHF	SWISS FRANC	(8 368)	12 167	-	3 799	5 404	(1 415)	-	3 989
SEK	SWEDISH KRONE	199	(239)	(760)	(800)	(1 905)	2 442	-	537
NOK	NORWEGIAN KRONE	(27 019)	27 519	919	1 419	(13 448)	13 867	-	419
CAD	CANADIAN DOLLAR	(59 262)	61 111	(2 294)	(445)	(50 847)	53 108	-	2 261
ZAR	SOUTH AFRICAN RAND	(562)	419	-	(143)	(1 536)	961	(36)	(611)
AUD	AUSTRALIAN DOLLAR	(10 836)	11 078	-	242	(16 399)	17 128	-	729
VEB	VENEZUELAN BOLIVAR	12 217	-	-	12 217	6 710	-	-	6 710
PLN	POLISH ZLOTY	4 415	(8 092)	3 731	54	12 047	(17 934)	6 051	164
MAD	MOROCCAN DIRHAM	(2 726)	2 938	-	212	20	(9)	-	11
MXN	MEXICAN PESO	1 011	(590)	-	421	7 814	(341)	-	7 473
AOA	ANGOLAN KWANZA	30 200	-	-	30 200	34 143	-	-	34 143
CVE	CAPE VERDEAN ESCUDO	11 149	-	-	11 149	15 017	-	-	15 017
HKD	HONG-KONG DOLLAR	(969)	982	-	13	(28 364)	44 660	-	16 296
	OTHER	11 281	(1 840)	(728)	8 713	10 836	(2 925)	67	7 978
		(1 242 241)	**1 272 716**	**7 770**	**38 245**	**(87 199)**	**108 245**	**(3 389)**	**17 657**

Note: asset / (liability)

Exposure to "peripheral" Eurozone countries' sovereign debt

As at 31 December 2017 and 2016, the Group's exposure to sovereign debt of "peripheral" Eurozone countries, is presented as follows:

(in thousands of Euros)

	31.12.2017				
	Loans and advances to customers	Financial assets held for trading and at Fair value	Derivative instruments (1)	Available-for-sale financial assets	Total
Portugal	769 731	-	(98)	3 855 377	4 625 010
Spain	44 335	-	-	1 491 633	1 535 968
Greece	-	-	-	-	-
Italy	-	-	-	336 120	336 120
	814 066	**-**	**(98)**	**5 683 130**	**6 497 098**

(1) Net values: receivable / (payable)

(in thousands of Euros)

	31.12.2016				
	Loans and advances to customers	Financial assets held for trading and at Fair value	Derivative instruments (1)	Available-for-sale financial assets	Total
Portugal	790 340	45 344	5 169	3 493 017	4 333 870
Spain	44 136	1 073	-	1 042 662	1 087 871
Ireland	-	-	-	4 951	4 951
Italy	-	23 284	-	1 888 577	1 911 861
	834 476	**69 701**	**5 169**	**6 429 207**	**7 338 553**

(1) Net values: receivable / (payable)

All the exposures presented above, except those relating to loans and advances to customers, are recorded in the Group's balance sheet at fair value, which is based on market quotations or, in relation to derivatives, based on valuation techniques using observable market parameters / prices.

The details of the exposure regarding the securities registered as Available-for-sale financial assets and as Financial assets held for trading and Financial assets at fair value through profit or loss, is as follows:

(in thousands of Euros)

	31.12.2017					
	Nominal Amount	Market quotation	Accrued interest	Carrying book value	Impairment	Fair value reserves
Available-for-sale financial assets						
Portugal	**3 489 874**	**3 809 812**	**45 565**	**3 855 377**	**-**	**111 943**
Maturity up to 1 year	1 179 320	1 181 619	82	1 181 701	-	2
Maturity exceeding 1 year	2 310 554	2 628 193	45 483	2 673 676	-	111 941
Spain	**1 350 122**	**1 465 829**	**25 804**	**1 491 633**	**-**	**5 733**
Maturity exceeding 1 year	1 350 122	1 465 829	25 804	1 491 633	-	5 733
Italy	**330 000**	**335 937**	**183**	**336 120**	**-**	**2 577**
Maturity exceeding 1 year	330 000	335 937	183	336 120	-	2 577
	5 169 996	**5 611 578**	**71 552**	**5 683 130**	**-**	**120 253**

(in thousands of Euros)

	31.12.2016					
	Nominal Amount	Market quotation	Accrued interest	Carrying book value	Impairment	Fair value reserves
Available-for-sale financial assets						
Portugal	**3 384 224**	**3 467 556**	**25 461**	**3 493 017**	**-**	**28 319**
Maturity up to 1 year	1 478 558	1 479 671	209	1 479 880	-	409
Maturity exceeding 1 year	1 905 666	1 987 885	25 252	2 013 137	-	27 910
Spain	**951 922**	**1 027 705**	**14 957**	**1 042 662**	**-**	**3 294**
Maturity up to 1 year	200 000	200 402	-	200 402	-	(16)
Maturity exceeding 1 year	751 922	827 303	14 957	842 260	-	3 310
Ireland	**4 500**	**4 910**	**41**	**4 951**	**-**	**37**
Maturity exceeding 1 year	4 500	4 910	41	4 951	-	37
Italy	**1 858 550**	**1 887 034**	**1 543**	**1 888 577**	**-**	**(13 363)**
Maturity up to 1 year	645 000	645 497	-	645 497	-	485
Maturity exceeding 1 year	1 213 550	1 241 537	1 543	1 243 080	-	(13 848)
	6 199 196	**6 387 205**	**42 002**	**6 429 207**	**-**	**18 287**
Financial assets at fair value						
Portugal	42 263	44 693	651	45 344	-	-
Spain	934	1 072	1	1 073	-	-
Italy	21 138	23 161	123	23 284	-	-
	64 335	**68 926**	**775**	**69 701**	**-**	**-**

Liquidity risk

Liquidity risk derives from the potential inability, current or future, of an institution satisfying its commitments as they mature, without incurring excessive losses.

Liquidity risk can be divided into two types:

- 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;
- 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 asset, even if incurring in significant losses. The risk of (re)financing should be reduced through an adequate diversification of funding sources and maturities.

Banks are subject to liquidity risk as an inherent consequence of the business of transforming maturities (long-term borrowers and short-term depositors), with the prudent management of liquidity risk being therefore crucial.

Noting that the values ate 31 December 2017 presented below do not include GNB Vida given that his entity is at this time a discontinued operation, as the data related to the liquidity risk of this Company are presented in separate in Note 53. The values of 31 December 2016 include GNB Vida as at the time the Company was not comprised by IFRS 5.

As at 31 December 2017, the value of the asset portfolio eligible as collateral for rediscounting operations with the ECB, after haircuts, amounted to Euros 12.7 billion (31 December 2016: Euros 11.6 billion) This amount includes all the exposure to Portuguese sovereign debt, in the total amount of approximately Euros 3.4 billion (of which Euros 1.0 billion with a maturity under 1 year). It should be noted that these amounts do not include GNB Vida.

At NB Group liquidity is managed in a centralised manner, at the Head office, for the prudential consolidation perimeter. In order to evaluate the global liquidity risk exposure, reports are prepared which permit not only the identification of negative mismatches, but also lead to a dynamic hedging of these situations.

(in millions of Euros)

	31.12.2017						
	Eligible amounts	Up to 7 days	7 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	More than 1 year
ASSETS							
Cash	237	237	-	-	-	-	-
Deposits with and loans and advances to banks and Central Banks	4 628	4 010	6	-	49	198	365
Loans and advances to customers **(1)**	23 950	211	256	477	601	854	21 552
Securities **(2)**	16 780	36	82	402	476	1 986	13 797
Other net assets	706	97	8	1	1	1	598
Off-balance sheet (Commitments and Derivatives) **(4)**	103	2	2	15	44	40	-
Total		**4 593**	**354**	**895**	**1 171**	**3 079**	**36 312**
LIABILITIES							
Deposits from banks, Central Banks and Other loans	8 461	944	91	83	46	202	7 094
Due to customers	31 166	937	1 087	385	213	313	28 231
Debt securities issued **(3)**	1 206	-	-	-	-	-	1 206
Other short-term liabilities	1 212	1 117	2	13	-	-	80
Off-balance sheet (Commitments and Derivatives) **(4)**	888	37	24	37	76	91	622
Total		**3 035**	**1 204**	**518**	**335**	**606**	**37 233**
GAP (Assets - Liabilities)		**1 559**	**(851)**	**375**	**836**	**2 472**	
Accumulated GAP		**1 559**	**708**	**1 084**	**1 919**	**4 391**	
Net Assets Buffer > 12 months							**3 657**

(1) This caption does not include the loans capable of being used for the obtaining of liquidity from the ECB
(2) This caption includes the securities and loans capable of being used for the obtaining of liquidity from the ECB. The securities capable of being used for ECB purposes are net of haircuts
(3) The amounts are stated at the nominal amount up to one year and at the carrying book value for longer periods
(4) The derivatives are considered at their Cash Flows for linear products and at NPV for non-linear products

(in millions of Euros)

	31.12.2016						
	Eligible amounts	Up to 7 days	7 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	More than 1 year
ASSETS							
Cash	242	242	-	-	-	-	-
Deposits with and loans and advances to banks and Central Banks	2 434	1 616	31	1	102	1	683
Loans and advances to customers **(1)**	25 083	231	298	431	515	759	22 850
Securities **(2)**	16 366	57	129	885	316	1 694	13 286
Other net assets	739	76	-	-	5	7	651
Off-balance sheet (Commitments and Derivatives) **(4)**	143	4	14	22	42	61	-
Total		**2 226**	**472**	**1 339**	**980**	**2 522**	**37 470**
LIABILITIES							
Deposits from banks, Central Banks and Other loans	10 203	877	488	781	664	139	7 254
Due to customers	26 418	553	111	137	358	148	25 112
Debt securities issued **(3)**	3 895	100	40	183	22	-	3 550
Other short-term liabilities	920	714	3	2	2	-	199
Off-balance sheet (Commitments and Derivatives) **(4)**	1 605	60	48	42	94	102	1 259
Total		**2 304**	**690**	**1 145**	**1 140**	**389**	**37 374**
GAP (Assets - Liabilities)		**(80)**	**(218)**	**194**	**(159)**	**2 132**	
Accumulated GAP		**(80)**	**(298)**	**(103)**	**(262)**	**1 870**	
Net Assets Buffer > 12 months							**3 151**

(1) This caption does not include the loans capable of being used for the obtaining of liquidity from the ECB
(2) This caption includes the securities and loans capable of being used for the obtaining of liquidity from the ECB. The securities capable of being used for ECB purposes are net of haircuts
(3) The amounts are stated at the nominal amount up to one year and at the carrying book value for longer periods
(4) The derivatives are considered at their Cash Flows for linear products and at NPV for non-linear products

The one-year cumulative liquidity gap moved from Euros 1 870 million on 31 December 2016 to Euros 4 391 million on 31 December 2017, with the net assets buffer over 12 months attaining Euros 3 657 million (31 December 2016: Euros 3 151 million). It should be noted that these amounts do not include GNB Vida.

In order to try to anticipate possible constraints, internal stress scenarios in terms of liquidity are carried out, which are representative of the types of crises that can occur, based on idiosyncratic scenarios (characterised by a loss of confidence in the Bank, and that can also include a rating downgrade) and market scenarios (similar to those experienced during the 2011 sovereign crisis).

The Group continues to follow all legislative changes in order to comply with regulatory obligations, namely in relation to the liquidity ratios of Basel III – LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio). The LCR aims to promote the resilience of banks to short-term liquidity risk by ensuring that these hold liquid assets of a high quality, in sufficient value to survive a severe stress scenario over a period of 30 days, whilst the NSFR aims to ensure that banks maintain a stable funding for their off-balance sheet assets and operations, for a period of one year. These ratios were adopted by the European Union, and the LCR has a limit of 80% since 1 January 2017, with this figure having to converge during the year such that the limit of 100% is attained as from 1 January 2018.

The information on encumbered and unencumbered assets, as defined by Instruction no. 28/2014 of Banco de Portugal (note that this information is prepared from a prudential perspective, where the consolidation perimeter differs from that used in the financial statements presented) is shown in the table below:

(in thousands of Euros)

Assets	31.12.2017			
	Carrying book value of encumbered assets	Fair value of encumbered assets	Carrying book value of unencumbered assets	Fair value of unencumbered assets
Assets of the institution	**12 435 911**	**n/a**	**35 368 958**	**n/a**
Equity instruments	-	-	2 774 133	2 774 133
Debt securities	959 506	959 506	5 979 990	5 979 990
Other assets	11 476 406	n/a	26 614 834	n/a

(in thousands of Euros)

Assets	31.12.2016			
	Carrying book value of encumbered assets	Fair value of encumbered assets	Carrying book value of unencumbered assets	Fair value of unencumbered assets
Assets of the institution	**14 224 902**	**n/a**	**33 573 127**	**n/a**
Equity instruments	-	-	2 915 380	2 915 380
Debt securities	1 827 010	1 827 010	3 821 236	3 821 236
Other assets	12 397 892	n/a	26 836 511	n/a

(in thousands of Euros)

Collateral received	31.12.2017		31.12.2016	
	Fair value of encumbered collateral received or of own debt securities issued	Fair value of collateral received or of own debt securities issued and encumberable	Fair value of encumbered collateral received or of own debt securities issued	Fair value of collateral received or of own debt securities issued and encumberable
Collateral received	**32 633**	**-**	**26 572**	**-**
Equity instruments	-	-	-	-
Debt securities	32 633	-	26 572	-
Other collateral received	-	-	-	-
Own debt securities issued other than own covered bonds or ABS	**-**	**-**	**385 000**	**-**

(in thousands of Euros)

Encumbered assets, encumbered collateral received and associated liabilities	31.12.2017		31.12.2016	
	Associated liabilities, contingent liabilities and securities loaned	Assets, collateral received and own debt securities issued other than encumbered own covered bonds or ABS	Associated liabilities, contingent liabilities and securities loaned	Assets, collateral received and own debt securities issued other than encumbered own covered bonds or ABS
Carrying book value of the selected financial liabilities	7 825 436	12 468 544	9 820 310	14 636 474

The encumbered assets are represented mainly by loans and securities used in financing operations with the ECB, in repo operations, in mortgage bond issues and in securitisations. There are also assets given as collateral to cover the Bank's counterparty risk in derivative transactions.

Operational risk

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

To manage operational risk, a system was developed that standardizes, systematizes and regulates the frequency of actions undertaken with the objective of identifying, monitoring, controlling and mitigating this risk. This system is supported by an organizational structure, integrated within the Global Risk Department, exclusively dedicated to this task, as well as by Operational Risk Management Representatives designated by each of the relevant departments, branches and subsidiaries, whose responsibility it is to comply with the procedures in place and the daily management of this risk in their areas of competence.

Capital Management and Solvency Ratio

The main objective of the Group's capital management is to ensure compliance with the Group's strategic objectives in terms of capital adequacy, respecting and enforcing the minimum capital requirements set by the supervisory entities.

The definition of the strategy for capital adequacy management rests with the Executive Board of Directors and is integrated in the global definition of the Group objectives.

The Group is subject to prudential supervision by the European Central Bank, working in close cooperation with Banco de Portugal. In accordance with the Capital Adequacy Directive of the EU, the supervisory body establishes the prudential rules to be observed by the institutions under its supervision. These rules determine the minimum ratio of Own funds to Capital requirements for the risks assumed that the institutions are obliged to fulfil.

Between the months of July and September 2017 inclusive, as a result of the application of article 16 (2) (a) of Regulation (EU) no. 1024/2013, the NOVO BANCO Group did not meet its minimum capital requirements, a situation that was corrected as foreseen through the capital increases occurring in the scope of the sale process of the institution, in the amounts of Euros 750 million in October 2017 and Euros 250 million in December 2017. At 31 December 2017, the Bank complied with minimum capital requirements for all types of capital, except at the level of total own funds, in respect of which it was verified that the requirement relating to the capital conservation reserve component was not being complied with, situation to be regularised with the issuance of Tier 2 instruments, currently under preparation.

The Group is authorised to apply the approach based on the use of internal models for credit risk (Internal Ratings-Based Approach (IRB)) and the standardised method (The Standardised Approach "TSA") for operational risk. Specifically, the IRB method for the calculation of the credit risk-weighted assets can be applied to the exposure classes of institutions, corporate and retail of both NOVO BANCO Portugal and NOVO BANCO's Branch in London. The shares' risk classes and the positions taken in the form of securitization are always handled by the IRB method regardless of the Group entities in which the respective exposures are recorded.

The European Parliament and Council approved, on 26 June 2013, Directive 2013/36/EU and Regulation (EU) no. 575/2013 that regulate, in the European Union, the access to the credit institution and investment company activity and determine the prudential requirements to be observed by those same entities as from 1 January 2014. This legislation transposes into the European legal order the recommendations of the Basel Committee, normally designated Basel III.

Regulation (EU) no. 2016/445 regulates the transitory regime foreseen in Regulation (EU) no. 575/2013 regarding own funds.

The capital adequacy calculations of NOVO BANCO Group as at 31 December 2017 and 2016, based on the information available, the European Regulatory Framework in force and considering the transitory period foreseen in the Regulation referred to above, may be presented as follows:

(in millions of Euros)

		31.12.2017	31.12.2016
Realized ordinary capital		5 900	4 900
Reserves and Retained earnings		420	1 289
Net income / (loss) for the period		(1 389)	(837)
Revaluation reserves		(153)	(275)
Non-controlling interests		52	55
A - Accounting Equity		**4 830**	**5 132**
Revaluation reserves		(54)	(49)
Non-controlling interests		(28)	(24)
B - Prudential adjustments to Equity		**(82)**	**(73)**
Goodwill and other intangibles		(26)	(62)
Deferred taxes		(635)	(796)
Shareholdings in financial companies		(11)	(146)
Other		(29)	(4)
C - Prudential deductions		**(701)**	**(1 008)**
D - Common Equity Tier I (A+B+C)		**4 047**	**4 051**
Instrumentos elegíveis para Tier I		3	2
Deductions from Tier I		(3)	(2)
E - Tier I		**4 047**	**4 051**
Eligible instruments for Tier I		138	127
Deductions from Tier II		(68)	(127)
F - Tier II		**70**	**-**
G - Eligible Own Funds		**4 117**	**4 051**
H - Risk Weighted Assets		**31 740**	**33 627**
Prudential ratios			
Common Equity Tier I	**(D / H)**	**12.8%**	**12.0%**
Tier I	**(E / H)**	**12.8%**	**12.0%**
Solvency	**(G / H)**	**13.0%**	**12.0%**

NOTE 51 – CONTRACTUAL COMMITMENTS

Credit Support Annex (CSA)

NOVO BANCO has a number of contracts negotiated with counterparts with which it trades derivatives on the Over-the-counter market. The CSAs take the form of collateral agreements established between two parties negotiating over-the-counter derivatives with each other, with the main objective of providing protection against credit risk, defining for that purpose a number of rules regarding collateral. Derivative transactions are regulated by the International Swaps and Derivatives Association (ISDA) and have minimum risk margin that may change according to the ratings of the parties.

NOTE 52 – ASSET TRANSFERS

As part of the restructuring process of the Portuguese real estate sector, several initiatives were launched in order to create financial, operational and management conditions to revitalize the sector. Accordingly, the Government, in close liaison with the business and the financial sector, including BES, encouraged the creation of companies and specialised funds that, through concentration, aggregation, mergers and integrated management, could achieve the required synergies to recover the companies. Pursuing the goals established, companies (parent companies) were incorporated, in which the Originating Bank had minority interests and which, in turn, now hold almost all of the share capital of certain subsidiaries (subsidiaries of those parent companies) in order to acquire certain real estate bank loans.

A number of assignments operations of financial assets (namely loans and advances to customers) were made to the latter entities (subsidiaries of the parent companies). These entities are responsible for managing the assets received as collateral and, after the assignment of the loans and advances to customers, for implementing a plan to increase their value. Almost all of the financial assets assigned under these operations were derecognised from the balance sheet of the Group, since a substantial portion of the risks and rewards associated with these, as well as the respective control, were transferred to those third parties.

These acquiring entities have a specific management structure, fully autonomous from the assignor banks, appointed on the date of their incorporation and have the following main responsibilities:

- to define the entity's purpose;
- to administer and manage, exclusively and independently, the assets acquired, to define the objectives and investment policy as well as the management and affairs of the entity.

The acquiring entities are predominantly financed through the issuance of senior equity instruments, fully subscribed by the parent companies. The amount of capital represented by senior securities equals the fair value of the underlying asset, determined through a negotiation process based on valuations made by both parties. These securities are remunerated at an interest rate that reflects the risk of the company holding the assets. Additionally, the funding can be supplemented through bank underwriting of junior capital instruments in an amount equal to the difference between the carrying book value of the assets transferred and the fair value subjacent to the senior securities' valuation. These junior capital instruments, when subscribed by the Group, will give rise to a contingent positive amount, if the value of the assets assigned exceeds the value of the senior securities plus their remuneration, and are normally limited to a maximum of 25% of the aggregate amount of the senior and junior securities issued.

Given that these junior securities reflect a differential assessment (gap) of the fair value of the assets assigned, based on a valuation performed by independent bodies and a negotiation process between the parties, they are fully provided for in the Group's balance sheet.

Therefore, following the asset assignment operations, the Group subscribed:

- equity instruments, representing the parent companies' share capital, which recovery will be through the cash flows expected to be generated by the wide range of assets assigned by the various banks. These securities are recorded in the Available-for-sale financial assets portfolio and are measured at market value, with valuations being regularly disclosed by said companies, which accounts are audited at the end of each period;
- junior instruments issued by the loan acquiring companies, which are fully provided for to reflect the best estimate of the impairment of the financial assets transferred.

The instruments subscribed by the NOVO BANCO Group represent clear minority positions in the share capital of the parent companies and of its subsidiaries.

In this context, holding no control but being exposed to some of the risks and rewards of ownership, the NOVO BANCO Group, in accordance with IAS 39.21, performed an analysis of its exposure to the variability of the risks and rewards of the transferred assets before and after the operation, having concluded that it has not substantially retained all the risks and rewards of ownership. Additionally, and considering that it has no control either, it proceeded, in accordance with IAS 39.20c (i) with the derecognition of the assets transferred and (ii) the recognition of the assets received in return, as shown in the following table:

(in thousands of Euros)

	Amounts at transfer date							
	Amounts of the assets transferred			Securities subscribed				
	Net assets transferred	Transfer amount	Result of the transfer	Shares (Senior securities)	Junior securities	Total	Impairment	Carrying book value
At 31 December 2012								
Fundo Recuperação Turismo, FCR	282 121	282 121	-	256 892	34 906	291 798	(34 906)	256 892
FLIT SICAV	252 866	254 547	1 682	235 318	23 247	258 565	(23 247)	235 318
Discovery Portugal Real Estate Fund	96 196	93 208	(2 988)	96 733	-	96 733	-	96 733
Fundo Vallis Construction Sector	66 272	66 272	-	81 002	21 992	102 994	(21 992)	81 002
Fundo Recuperação, FCR	145 564	149 883	4 319	148 787	36 182	184 969	(23 000)	161 969
At 31 December 2013								
Fundo Vallis Construction Sector	18 552	18 552	-	1 606	2 874	4 480	(2 874)	1 606
FLIT SICAV	80 769	80 135	(634)	85 360	-	85 360	-	85 360
Discovery Portugal Real Estate Fund	51 809	45 387	(6 422)	51 955	-	51 955	-	51 955
Fundo Recuperação Turismo, FCR	11 066	11 066	-	-	-	-	-	-
Fundo Recuperação, FCR	52 983	52 963	(20)	726	-	726	-	726
Fundo Reestruturação Empresarial	67 836	67 836	-	99 403	-	99 403	-	99 403
At 31 December 2014								
Discovery Portugal Real Estate Fund	73 802	74 240	438	58 238	-	58 238	-	58 238
Fundo Vallis Construction Sector	-	-	-	1 289	314	1 603	(314)	1 289
Fundo Recuperação, FCR	-	-	-	14 565	-	14 565	-	14 565
Fundo Reestruturação Empresarial	5 389	5 389	-	4 078	-	4 078	-	4 078
Fundo Aquarius	108 517	108 481	(36)	104 339	-	104 339	-	104 339
FLIT SICAV	-	-	-	1 500	-	1 500	-	1 500
At 31 December 2015								
Fundo Aquarius	24 883	24 753	(130)	30 406	-	30 406	-	30 406
Fundo Recuperação, FCR	1 471	1 471	-	-	-	-	-	-
Discovery Portugal Real Estate Fund	5 348	5 774	427	4 855	-	4 855	-	4 855
At 31 December 2016								
Fundo Aquarius	710	602	(108)	600	-	600	-	600
Fundo Vallis Construction Sector	14 156	14 156	-	14 453	-	14 453	-	14 453
At 31 December 2017								
Fundo Aquarius	555	470	(86)	624	-	624	-	624
FLIT SICAV	3 261	3 298	37	-	-	-	-	-
	1 364 127	**1 360 604**	**(3 522)**	**1 292 729**	**119 515**	**1 412 245**	**(106 333)**	**1 305 911**

As at 31 December 2017, the Group's total exposure to securities associated with operations relating to the assignment of loans and advances to customers amounted to a gross Euros 1 371.6 million and the respective impairment to Euros 288.8 million (31 December 2016: gross amount of Euros 1 437.8 million and impairment of Euros 249.4 million).

The Group maintains an indirect exposure to the assets ceded, considering its minority participation in the pool of assets ceded by other financial institutions, due to the minority participation subscribed in the parent companies. There was, however, an operation with the company FLITPTREL VIII in respect of which, as the acquiring company substantially holds assets transferred by the Group and taking into consideration the junior securities held, the variability test resulted in a substantial exposure to all the risks and rewards. Under this circumstance, the operation amounting to Euros 60 million remains recognised in the Group's balance sheet under Loans and advances to customers.

NOTE 53 – NON-CURRENT ASSETS HELD FOR SALE - DISCONTINUED OPERATIONS

Under IFRS 5 - Non-current assets held for sale and discontinued operations, a group of directly associated assets and liabilities are reclassified for discontinuation if their balance sheet value is recoverable through a sale transaction, with same having to be ready for immediate sale.

Thus, during financial years 2016 and 2017, the Bank transferred to this category certain subsidiaries and associated companies that integrate the Group's consolidation perimeter, but for which the Bank's intention is their sale and is actively in the selling process.

These entities are presented in the consolidated financial statement as discontinued units, in specific lines of assets and liabilities, valued according to the applicable IAS / IFRS, so the net value of assets and liabilities are measured at the lesser value of their accounting value or at the fair value of their sales cost.

The breakdown of Non-current assets and liabilities held for sale – discontinued operations as at 31 December 2017 and 2016, net of consolidation adjustments, is as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Assets of discontinued operations		
Banco Internacional de Cabo Verde	28 440	32 553
BES Vénétie	1 077 178	1 130 161
Banco Well Link (previous NB Ásia)	4 785	51 365
Quinta dos Cónegos	471	3 115
OBLOG	-	177
NB Venezuela Branch	6 427	-
GNB Vida	4 397 108	-
Banco Delle Tre Venezie	9 633	-
Económico FI	3 060	-
	5 527 102	**1 217 371**
Impairment losses		
BES Vénétie	(103 454)	-
GNB Vida	(287 438)	-
Banco Delle Tre Venezie	(3 608)	-
NB Venezuela Branch	(1 646)	-
	(396 146)	**-**
	5 130 956	**1 217 371**
Liabilities of discontinued operations		
Banco Internacional de Cabo Verde	75 902	83 669
BES Vénétie	908 226	599 040
Banco Well Link (previous NB Ásia)	-	61 641
Quinta dos Cónegos	432	-
OBLOG	-	4 457
NB Venezuela Branch	3 673	-
GNB Vida	4 537 729	-
	5 525 962	**748 807**

The impairment, determined as at 31 December 2017, of GNB Vida and BES Vénétie is presented as follows:

(in thousands of Euros)

	31.12.2017	
	GNB Vida	BES Vénétie
Fair value net of selling costs	200 000	48 000
Net equity at the date of the discontinuation	487 438	151 454
Impairment	**(287 438)**	**(103 454)**

The movement in the impairment of discontinued operations is presented as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Opening balance	-	-
Allocation/ reversals for the period	396 146	-
Closing balance	**396 146**	**-**

The net profits / (losses) from the discontinued operations for the financial years ended on 31 December 2017 and 2016 are as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016 *
Profit / (loss) generated by discontinued operations		
Banco Internacional de Cabo Verde	(33)	-
BES Vénétie	2 179	1 168
Banco Well Link (previous NB Ásia)	66 043	104
Quinta dos Cónegos	21	11
OBLOG	3 530	(626)
NB Venezuela Branch	(510)	-
GNB Vida	3 672	(66 022)
Banco Delle Tre Venezie	(123)	-
Ventures II [a)]	-	4 344
Ventures III [a)]	-	(7 547)
ES Ventures SCR [a)]	-	(3 135)
Fundo Inovação e Internacionalização [a)]	-	(4 746)
	74 779	**(76 449)**

a) Subsidiaries classified as Non-current assets held for sale - discontinued operations during 2016 and sold in the same financial year, led to the accounting of a capital loss of Euros 5.9 million.

* Restated

Banco Well Link (previously NB Ásia)

As a result of the commitments assumed between the Portuguese State and the European Competition Authority, the shareholding held in NB Ásia was considered as non-strategic, with the Bank having classified this shareholding as a discontinued operation in financial year 2016, given the advanced stage of the negotiation process for its sale in that financial year. In May 2017, the closing of the sale operation of 75% of NB Ásia took place, and the Group recorded a gain in the Net profit / (loss) of discontinued operations of Euros 66 million. The remaining equity participation registered on Balance Sheet initially of 25% was subsequently diluted through share capital increases of WL Link Bank, already foreseen in the share purchase agreements, the last share capital increase was approved by the regulator on 14 December 2017. Consequently the equity participation of NOVO BANCO (which does not participate in the share capital increases) decreased to 10%. The shareholding of NOVO BANCO will be sold through crossed call and put options to be exercised on 1, 3 and 5 years. The Group no longer has significant influence over NB Ásia, which is why it ceased to be consolidated as a discontinued operation, and the equity participation owned is registered on Balance Sheet,.

GNB Vida

Also arising from the commitments assumed between the Portuguese State and the European Competition Authority and notified to the Group at the end of 2017, after the conclusion of the sale process of the Bank, the Group began, in 2017, an organised sale process of a stake of up to 100% of the share capital of GNB Vida. Consequently, this entity was considered a discontinued operation on 31 December 2017. The fair value presented above of Euros 200 million, net of an impairment loss of Euros 287 million recognised in 2017, was based on the indicative values of a set of proposals received for the acquisition of said company. It should be noted, however, that the negotiation process is ongoing and that this estimate of the Executive Board of Directors of the Bank should continue to be monitored and reviewed, accordingly, in the next financial year.

BES Vénétie

As a result of the commitments assumed between the Portuguese State and the European Competition Authority, the shareholding held in BES Vénétie was considered as non-strategic, with the Bank having classified this shareholding as a discontinued operation in 2016, given the advanced stage of the negotiation process for its sale in that financial year. The fair value presented above of Euros 48 million, and in respect of which an impairment loss of Euros 103 million was recognised in 2017, was based on a proposal received for the acquisition of this entity.

Banco Internacional de Cabo Verde

On 2 August, NOVO BANCO informed the market it had celebrated with IIBG Holdings B.S.C., an enterprise from Bahrein, a sale and purchase agreement for 90% of the Banco Internacional de Cabo Verde's share capital. The conclusion of this transaction depends on the necessary approvals, namely from Banco de Cabo Verde.

The financial statements as at 31 December 2017 and 2016 for each of these units are presented below.

BALANCE SHEET AS AT 31 DECEMBER 2017 AND 2016

(in thousands of Euros)

	BICV		BES Vénétie		Quinta dos Cónegos		NB Venezuela Branch	GNB Vida
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2017
Assets								
Cash and deposits with Central Banks	5 674	9 175	38 616	3 361	-	-	2 138	-
Deposits with banks	1 146	1 324	18 346	32 591	2 520	-	2	210 205
Financial assets held for trading	-	-	-	19	-	-	-	1 567
Other financial assets at fair value through profit or loss	-	-	-	-	-	-	-	1 063 840
Available-for-sale financial assets	1 849	1 985	800	39 920	-	-	520	3 509 370
Loans and advances to banks	60 228	63 576	40 000	1 278	-	-	6	89 672
Loans and advances to customers	17 172	18 247	982 916	1 017 269	-	-	530	-
Non-current assets held for sale	-	520	14 196	11 518	-	-	-	-
Investment properties	-	-	-	-	-	-	-	49 666
Other tangible assets	1 677	1 873	7 302	7 580	-	3 089	2 643	333
Intangible assets	573	771	2 185	2 137	-	-	23	190
Current tax assets	113	123	382	-	-	-	-	13 191
Deferred tax assets	-	-	4 849	5 918	-	-	180	32 084
Technical reserves of reinsurance ceded	-	-	-	-	-	-	-	7 320
Other assets	1 187	21	7 765	9 214	9	26	386	56 285
Total Assets	**89 619**	**97 615**	**1 117 357**	**1 130 805**	**2 529**	**3 115**	**6 428**	**5 033 723**
Liabilities								
Deposits from Central Banks	45	51	40 000	92 000	-	-	-	-
Financial liabilities held for trading	-	2	255	288	-	-	-	800
Deposits from banks	1	1	128	456 186	-	-	-	-
Due to customers	75 374	83 057	842 018	336 091	-	-	3 594	-
Investment contracts	-	-	-	-	-	-	-	3 124 453
Provisions	17	446	3 824	3 908	167	-	1	28 123
Technical reserves	-	-	-	-	-	-	-	1 257 533
Current tax liabilities	-	-	427	467	-	-	-	-
Subordinated debt	-	-	43 365	42 728	-	-	-	57 252
Other liabilities	465	112	11 391	25 681	265	1 002	78	78 124
Total Liabilities	**75 902**	**83 669**	**941 408**	**957 349**	**432**	**1 002**	**3 673**	**4 546 285**
Equity								
Share Capital	12 996	12 996	75 117	75 117	3 700	3 700	91	50 000
Share premiums	-	-	27 014	27 014	-	-	-	-
Reserves, Retained earnings and Other comprehensive income	710	2 035	68 628	67 442	(1 672)	(1 628)	3 164	433 766
Profit / (loss) for the period	11	(1 085)	2 331	1 183	69	41	(500)	3 672
Total Equity attributable to shareholders of the Bank	**13 717**	**13 946**	**173 090**	**170 756**	**2 097**	**2 113**	**2 755**	**487 438**
Non-controlling interests	-	-	2 859	2 700	-	-	-	-
Total Equity	**13 717**	**13 946**	**175 949**	**173 456**	**2 097**	**2 113**	**2 755**	**487 438**
Total Liabilities and Equity	**89 619**	**97 615**	**1 117 357**	**1 130 805**	**2 529**	**3 115**	**6 428**	**5 033 723**

INCOME STATEMENT
FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2017

(in thousands of Euros)

	BICV		BES Vénétie		Quinta dos Cónegos		NB Venezuela Branch	GNB Vida
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2017
Interest and similar income	1 895	1 676	31 845	38 026	-	-	276	78 544
Interest expense and similar charges	(191)	(183)	(9 861)	(17 117)	(36)	(34)	(102)	(79 534)
Net interest income	**1 704**	**1 493**	**21 984**	**20 909**	**(36)**	**(34)**	**174**	**(990)**
Dividend income	-	-	4	7	-	-	-	6 006
Fee and commission income	298	365	13 676	16 604	-	-	145	15 315
Fee and commission expenses	(15)	(18)	(2 332)	(2 089)	-	-	-	(23 769)
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	-	-	(93)	(810)	-	-	-	12 898
Net gains / (losses) from available-for-sale financial assets		-	300	322	-	-	221	62 868
Net gains / (losses) from foreign exchange revaluation	1	18	140	347	-	-	-	(23 304)
Net gains/ (losses) from the sale of other assets	-	-	(5 096)	(6 167)	247	-	(203)	(1 373)
Insurance earned premiums, net of reinsurance	-	-	-	-	-	-	-	52 962
Claims incurred, net of reinsurance	-	-	-	-	-	-	-	(188 655)
Change in technical reserves, net of reinsurance	-	-	-	-	-	-	-	116 072
Other operating income and expenses	(12)	(392)	360	497	285	421	(37)	1 503
Operating income	**1 976**	**1 466**	**28 943**	**29 620**	**496**	**387**	**300**	**29 533**
Staff costs	(793)	(895)	(16 291)	(17 090)	(95)	(103)	(199)	(3 107)
General and administrative expenses	(768)	(668)	(8 513)	(8 923)	(161)	(180)	(667)	(4 890)
Depreciation and amortization	(400)	(453)	(471)	(657)	(25)	(56)	(224)	(71)
Provisions, net of reversals	-	(446)	212	736	(167)	-	(1)	(498)
Impairment losses on loans and advances, net of reversals and recoveries	37	(89)	(1 102)	(4 103)	-	-	(2)	-
Impairment losses on other financial assets, net of reversals and recoveries	(32)	-	557	2 448	-	(7)	-	(15 059)
Impairment losses on other assets, net of reversals and recoveries	-	-	-	-	-	-	-	-
Operating expenses	**(1 956)**	**(2 551)**	**(25 608)**	**(27 589)**	**(448)**	**(346)**	**(1 093)**	**(23 625)**
Shares of profits / (losses) of associated companies	-	-	(158)	3	-	-	-	-
Profit / (loss) befor income tax	**20**	**(1 085)**	**3 177**	**2 034**	**48**	**41**	**(793)**	**5 908**
Corporate income tax								
Current	(9)	-	382	(787)	21	-	-	(635)
Deferred	-	-	(1 069)	88	-	-	293	(1 601)
	(9)	**-**	**(687)**	**(699)**	**21**	**-**	**293**	**(2 236)**
Net profit / (loss) for the period	**11**	**(1 085)**	**2 490**	**1 335**	**69**	**41**	**(500)**	**3 672**
Attributable to the shareholders of the Bank	**11**	**(1 085)**	**2 331**	**1 183**	**69**	**41**	**(500)**	**3 672**
Attributable to non-controlling interests	**-**	-	**159**	152	**-**	-	**-**	**-**
	11	**(1 085)**	**2 490**	**1 335**	**69**	**41**	**(500)**	**3 672**

CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2017

(in thousands of Euros)

	BICV		BES Vénétie		Quinta dos Cónegos	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Cash flows from operating activities						
Interest and similar income received	2 085	1 996	34 843	39 747	-	-
Interest expense and similar charges paid	(219)	(202)	(8 990)	(14 501)	(36)	(34)
Fees and commissions received	-	-	8 733	10 172	-	-
Fees and commissions paid	-	-	(912)	(937)	-	-
Cash payments to staff and suppliers	(1 860)	(1 629)	(23 985)	(23 975)	(256)	(283)
	6	**165**	**9 689**	**10 506**	**(292)**	**(317)**
Changes in operating assets and liabilities:						
Deposits with Central Banks	-	-	(52 000)	(55 000)	-	-
Deposits from Central Banks	(6)	(1)	-	-	-	-
Acquisition of available-for-sale financial assets	136	-	(2 677)	(9 078)	-	-
Loans and advances to banks	-	-	(38 723)	1 278	-	-
Deposits from banks	-	-	(454 703)	(152 441)	(737)	-
Loans and advances to customers	542	2 855	28 312	211 099	-	-
Due to customers and other loans	(7 673)	(9 682)	505 927	(15 520)	-	-
Other operating assets and liabilities	(26)	1 320	25 549	36	518	317
Net cash from operating activities before corporate income tax	**(7 021)**	**(5 343)**	**21 374**	**(9 120)**	**(511)**	**-**
Corporate income taxes paid	-	(31)	382	(787)	-	-
	(7 021)	**(5 374)**	**21 756**	**(9 907)**	**(511)**	**-**
Cash flows from investing activities						
Acquisition of fixed assets	(7)	(17)	-	-	-	-
Disposal of fixed assets	-	-	232	53	3 300	-
	(7)	**(17)**	**232**	**53**	**3 300**	**-**
Cash flows from financing activities						
Issue of bonds and other debt securities	-	-	637	(1 014)	-	-
Reimbursement of shareholder loans and supplementary capital	-	-	-	-	(269)	-
Cash flows from financing activities	**-**	**-**	**637**	**(1 014)**	**(269)**	**-**
Effect of exchange rate changes on cash and cash equivalents	1	18	-	-	-	-
Net changes in cash and cash equivalents	**(7 027)**	**(5 373)**	**22 625**	**(10 868)**	**2 520**	**-**
Cash and cash equivalents at the beginning of the period	74 075	79 448	34 336	45 204	-	-
Cash and cash equivalents at the end of the period	67 048	74 075	56 961	34 336	2 520	-
	(7 027)	**(5 373)**	**22 625**	**(10 868)**	**2 520**	**-**
Cash and cash equivalents include:						
Cash	1 030	719	124	181	-	-
Deposits with banks	66 018	73 356	56 837	34 155	2 520	-
Total	**67 048**	**74 075**	**56 961**	**34 336**	**2 520**	**-**

CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2017

(in thousands of Euros)

	31.12.2017
	NB Venezuela (*)
Operating activities	
Profit / (loss) before tax	(245)
Adjustments for:	
Bad debt provisions	6
Depreciation and amortisation	26
Commissions receivable	(23)
(Increase)/Decrease in operating assets	
Change in accrued interest and other assets	(2 135)
(Increase)/Decrease in operating liabilities	
Change in deposits from Central Bank	126
Change in deposits from banks	(124)
Change in other liabilities	749
Net cash flow from operations	**(1 620)**
Taxes paid	9 906
Net cash flow from operating activities	**8 288**
Investing activities	
Sale of shares and bonds	(450)
Other investment flows	(714)
Net cash flow from investing activities	(1 164)
Net changes in cash and cash equivalents	**7 124**
Cash and cash equivalents at the beginning of the period	2 284
Cash and cash equivalents at the end of the period	9 408
	7 124

(*) The NB Venezuela Branch prepares the cash flow statement using the indirect method

CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2017

(in thousands of Euros)	GNB Vida 31.12.2017
Cash flows from operating activities	
Receipts	
Insurance transactions	98 415
Reinsurance transactions	1 668
Investment contract transactions	55 387
Other operating activities	6
	155 476
Payments	
Insurance transactions	(200 939)
Reinsurance transactions	(48 183)
Investment contract transactions	(440 018)
Commissions	(14 717)
Participation in results	(925)
Other operating activities	(127)
	(704 909)
Payments to staff	(2 026)
Payments to suppliers	(9 405)
Other payments and receipts	1 741
Net cash from operating activities before income tax	**(559 123)**
Taxes and rates	(17 625)
Corporate income tax	(528)
Cash flows from operating activities	**(577 276)**
Cash flows from investing activities	
Receipts	
Disposal of invstments	22 081 816
Dividends	6 006
Interest	78 102
Other revenue	6 758
	22 172 682
Payments	
Acquisition of investments	(21 501 249)
Acquisition of fixed assets	(285)
Management, maintenance and other expenses	(1 973)
	(21 503 507)
Cash flows from investing activities	**669 175**
Cash flows from financing activities	
Payments	
Interest on loans	(2 307)
Cash flow from financing activities	**(2 307)**
Net changes in cash and equivalents	89 592
Cash and equivalents at the beginning of the period	117 208
Cash and equivalents at the end of the period	206 800
	89 592

The risks from the insurance activity are presented below:

Insurance business specific risk (life insurance)

The insurance business specific risk reflects at the moment of the policy underwriting, the fact that it is not possible to estimate with certainty the effective real cost of future claims as well as the moment in which they will occur. This risk may be broken down into longevity risk, mortality risk, disability risk, discontinuity, and expense risk.

Insurance specific risk is managed through a combination of underwriting, pricing, technical reserves and reinsurance policies.

Underwriting

Risk acceptance is subject to written rules and guidelines drawn up based on the analysis of portfolio statistic indicators and which aim to attain the best possible match between price and risk. The information provided by the Company’s reinsurers is also taken into account and the underwriting policies are defined by business segment.

GNB Seguros Vida has internal rules, duly approved and disclosed, concerning the policy underwriting and management process, segmenting this process into three groups of products, namely financial products, risk products associated with distributor credit products and risk products not associated with credit products ('dry sale').

Pricing

GNB Seguros Vida seeks to establish premiums that are sufficient and adequate to cover all commitments (outstanding claims, expenses and cost of capital).

In terms of the economic viability of the product, the price suitability is tested upstream through techniques of realistic cash flow projections; downstream, the profitability of each product or group of products is monitored annually when calculating the Market Consistent Embedded Value.

Before products are launched they are analysed and discussed by the New Activities and Products Committee. This Committee, which is formed by members of the Board of Directors as well as by elements from the commercial (coordination), actuarial, financial investment, legal and compliance, planning and control, and systems departments, meets whenever the company intends to launch or restructure products and/or activities. The purpose of this Committee is to evaluate the risk / return involved in the launch of new activities or products, as well as to validate all the requirements (precontractual and contractual documents, advertising material, promotion, and training) and related procedures and processes.

The Company has defined metrics and guidelines that establish the minimum profitability requirements of any new product and the sensitivity analyses that must be performed. The Company calculates the Market Consistent Embedded Value and the Traditional Embedded value once a year.

Insurance specific risks

Biometric risks

Biometric risks include the risks of longevity, mortality and disability. The longevity risk covers the uncertainty as to the effective loss due to policyholders living longer than expected, and it can be more significant, for example, in annuities. The longevity risk is managed through the pricing, the underwriting policy and by regularly reviewing the mortality tables used to set prices and create the respective reserves. The mortality risk is linked to an increase in the mortality rate, which may impact insurance policies that guarantee capital in the event of death. This risk is mitigated through underwriting policies, a regular review of the mortality tables used and reinsurance. The disability risk covers the uncertainty of effective losses due to disability rates being higher than expected.

The sensitivity of the portfolio to biometric risks is analysed using realistic cash flow projections - Market Consistent Embedded Value Model.

Risk of discontinuity

The risk of discontinuity relates to the risk of non-payment of premiums and cancellation of policies. The redemption and cancellation rates are monitored regularly in order to assess their impact on GNB Vida's portfolio. The portfolio's sensitivity to this risk is analysed using realistic cash flow projections – Market Consistent Embedded Value Model.

The main assumptions used, by type of contract, as at 31 December 2017, are as follows:

	Mortality Table	Technical rate
Retirement savings plans and capitalization products		
Up to December 1997	GKM 80	4%
From January 1998 to June 1999	GKM 80	3.25%
From 1 July 1999 to February 2003	GKM 80	2.25% to 3%
From 1 March 2003 to December 2003	GKM 80	2.75%
After 1 January 2004	GKM 80	Set by calendar year
Insurance in case of life		
Annuities		
Up to June 2002	TV 73/77	4%
From 1 July 2002 to December 2003	TV 73/77	3%
From 1 January 2004 to September 2006	GKF 95	3%
From September 2006 to December 2015	GKF - 3 years	2%
After January 2016	GKF - 3 years	0%
Other insurance		
Insurance in case of death		
Up to December 2004	GKM 80	4%
After 1 January 2005	GKM 80	0% to 2%
Mixed insurance		
Up to September 1998	GKM 80	4%
After 1 October 1998	GKM 80	3%

For liability adequacy testing purposes, the mortality assumptions are based on the best estimates derived from portfolio experience analyses. Future cash flows are evaluated using the internal embedded value model and discounted at risk-free interest rates.

The mortality assumptions used as at 31 December 2017 are as follows:

Mortality Table	
Annuities	GRM 95
Savings and other contracts	30% GKM 80

Technical reserves

In general, GNB Vida's policy on reserves is prudential and uses recognised actuarial methods, in accordance with the legislation in force. The main policy objective is to constitute appropriate and sufficient reserves to allow GNB Vida to meet all its future liabilities. For each line of business, GNB Vida records reserves in the respective liability captions against future claims and segregates assets to represent these reserves. This requires the preparation of estimates and the use of assumptions that may affect the reported amount of assets and liabilities in future years.

Such estimates and assumptions are periodically evaluated, including through statistical analysis of historical internal and/ or external data.

GNB Vida also uses the LAT (liability adequacy test) to assess the adequacy of technical provisions for IFRS 4 products.

Claims management

The risk derived from claims management arises from the possibility of an increase in liabilities due to the insufficiency or inadequate quality of the data used in the reserving process or of an increase in management and litigation expenses due to the inadequate management of these processes.

To address this risk, a clear set of rules and procedures has been established, alongside with controls for claims management.

GNB Vida has implemented a claims workflow, through which it can monitor and identify the tasks performed, in progress or pending, as well as monitor compliance with deadlines and claims with lengthy resolution.

Reinsurance

GNB Vida signs reinsurance treaties to limit its risk exposure. Reinsurance coverage can be done on a policy-by-policy basis (facultative reinsurance), namely when the level of cover required by the policyholder exceeds internal underwriting limits, or on a portfolio basis (treaty reinsurance), where individual policyholder exposures are within internal limits but there is an unacceptable cumulative risk. The main objective of reinsurance is to mitigate large individual claims whose indemnity levels are high, as well as the impact of multiple claims provoked by a single occurrence.

Exchange risk

(in thousands of Euros)

	31.12.2017					
	EUR	USD	Other EU	JPY	Other	Total
Cash and cash equivalents and demand deposits	151 590	52 180	-	43	2 986	206 799
Financial assets / liabilities held for trading	(512)	1 250	-	-	(20)	718
At fair value through profit or loss (FVO)	910 502	135 431	1 816	2	5 804	1 053 555
Available-for-sale financial assets (AFS)	3 380 038	66 786	60 238	-	2 306	3 509 368
Loans and advances and accounts receivable	97 589	12 616	-	807	3 609	114 621
Technical reserves of reinsurance ceded	7 320	-	-	-	-	7 320
Other debtors for insurance and other transactions	26 513	-	-	-	-	26 513
Technical reserves	(1 257 535)	-	-	-	-	(1 257 535)
Financial liabilities	(2 996 429)	-	-	-	-	(2 996 429)
Other creditors for insurance and other transactions	(32 207)	-	-	-	-	(32 207)
Net exposure	**286 869**	**268 263**	**62 054**	**852**	**14 685**	**632 723**

(in thousands of Euros)

	31.12.2016					
	EUR	USD	Other EU	JPY	Other	Total
Cash and cash equivalents and demand deposits	95 461	19 088	-	989	1 671	117 209
Financial assets / liabilities held for trading	(370)	12 285	-	-	(1 012)	10 903
At fair value through profit or loss (FVO)	1 034 936	124 180	22 650	-	1 628	1 183 394
Available-for-sale financial assets (AFS)	3 670 168	25 017	53 478	-	-	3 748 663
Loans and advances and accounts receivable	84 045	8 992	-	133	-	93 170
Technical reserves of reinsurance ceded	6 355	-	-	-	-	6 355
Other debtors for insurance and other transactions	30 883	-	-	-	-	30 883
Technical reserves	(1 333 567)	-	-	-	-	(1 333 567)
Financial liabilities	(3 261 980)	-	-	-	-	(3 261 980)
Other creditors for insurance and other transactions	(54 466)	-	-	-	-	(54 466)
Net exposure	**271 465**	**189 562**	**76 128**	**1 122**	**2 287**	**540 564**

Liquidity risk

(in thousands of Euros)

	31.12.2017						
	Up to 1 year	1 to 3 years	3 to 5 years	5 to 15 years	More than 15 years	No defined maturity	Total
Cash and cash equivalents and demand deposits	169 298	-	-	-	-	37 502	**206 800**
Financial assets / liabilities held for trading	1 283	88	(654)	-	1	-	**718**
At fair value through profit or loss (FVO)	55 151	43 435	97 050	111 705	98 779	647 435	**1 053 555**
Available-for-sale financial assets (AFS)	32 955	134 981	1 729 813	879 638	114 931	617 048	**3 509 367**
Loans and advances and accounts receivable	114 622	-	-	-	-	-	**114 622**
Technical reserves of reinsurance ceded	7 320	-	-	-	-	-	**7 320**
Other debtors for insurance and other transactions	26 513	-	-	-	-	-	**26 513**
Total Assets	**407 142**	**178 504**	**1 826 209**	**991 343**	**213 711**	**1 301 985**	**4 918 894**
Technical reserves	105 449	199 585	161 879	538 112	171 304	81 206	**1 257 535**
Financial liabilities	110 219	1 480 372	686 477	498 587	198 828	21 946	**2 996 429**
Subordinated debt	-	-	-	45 028	-	45 048	**90 076**
Deposits received from reinsurers and Other financial liabilities (excluding derivatives)	123 734	-	-	-	-	8	**123 742**
Other creditors for insurance and other transactions	32 207	-	-	-	-	-	**32 207**
Total Liabilities	**371 609**	**1 679 957**	**848 356**	**1 081 727**	**370 132**	**148 208**	**4 499 989**

(in thousands of Euros)

	31.12.2016						
	Up to 1 year	1 to 3 years	3 to 5 years	5 to 15 years	more than 15 years	No defined maturity	Total
Cash and cash equivalents and demand deposits	101 203	-	-	-	-	16 005	**117 208**
Financial assets / liabilities held for trading	12 054	-	(1 154)	-	-	3	**10 903**
At fair value through profit or loss (FVO)	40 876	133 711	106 428	210 597	83 558	608 226	**1 183 396**
Available-for-sale financial assets (AFS)	123 434	165 643	1 094 472	1 590 694	93 441	680 979	**3 748 663**
Loans and advances and accounts receivable	93 171	-	-	-	-	-	**93 171**
Technical reserves of reinsurance ceded	6 355	-	-	-	-	-	**6 355**
Other debtors for insurance and other transactions	30 883	-	-	-	-	-	**30 883**
Total Assets	**407 976**	**299 354**	**1 199 746**	**1 801 291**	**176 999**	**1 305 213**	**5 190 579**
Technical reserves	67 966	181 868	230 397	611 405	200 509	41 421	**1 333 566**
Financial liabilities	171 852	222 597	2 077 740	561 490	206 612	21 689	**3 261 980**
Subordinated debt	-	-	-	45 028	-	45 048	**90 076**
Deposits received from reinsurers and Other financial liabilities (excluding derivatives)	130 954	-	-	-	-	8	**130 962**
Other creditors for insurance and other transactions	58 347	-	-	-	-	-	**58 347**
Total Liabilities	**429 119**	**404 465**	**2 308 137**	**1 217 923**	**407 121**	**108 166**	**4 874 931**

Interest rate risk

(in thousands of Euros)

	31.12.2017						
	Not sensitive	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Total
Cash and cash equivalents and demand deposits	206 800	-	-	-	-	-	**206 800**
Financial assets / liabilities held for trading	71	1 264	-	-	(617)	-	**718**
At fair value through profit or loss (FVO)	564 066	13 145	34 771	12 687	179 602	249 285	**1 053 556**
Available-for-sale financial assets (AFS)	647 388	10 307	9 625	12 925	1 848 214	980 909	**3 509 368**
Loans and advances and accounts receivable	24 953	89 587	-	-	82	-	**114 622**
Technical reserves	(81 206)	(9 898)	(15 176)	(607 086)	(183 678)	(360 490)	**(1 257 534)**
Financial liabilities	(1 137 288)	(58 785)	(52 054)	(362 894)	(1 302 728)	(82 680)	**(2 996 429)**
Subordinated debt	-	(90 076)	-	-	-	-	**(90 076)**
Net exposure	**224 784**	**(44 456)**	**(22 834)**	**(944 368)**	**540 875**	**787 024**	**541 025**

(in thousands of Euros)

	31.12.2016						
	Not sensitive	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Total
Cash and cash equivalents and demand deposits	117 208	-	-	-	-	-	**117 208**
Financial assets / liabilities held for trading	10 903	-	-	-	-	-	**10 903**
At fair value through profit or loss (FVO)	607 803	88 797	24 161	21 099	151 552	289 983	**1 183 395**
Available-for-sale financial assets (AFS)	491 569	338 824	25 342	64 180	1 150 695	1 678 053	**3 748 663**
Loans and advances and accounts receivable	17 619	63 540	12 012	-	-	-	**93 171**
Technical reserves	(62 952)	(9 521)	(11 332)	(669 070)	(198 715)	(392 635)	**(1 344 215)**
Financial liabilities	(1 287 022)	(72 482)	(94 656)	(916 427)	(1 034 590)	(549 760)	**(3 954 937)**
Subordinated debt	-	(90 068)	-	-	-	-	**(90 068)**
Net exposure	**(104 872)**	**319 090**	**(44 463)**	**(1 500 218)**	**68 942**	**1 025 641**	**(235 880)**

Credit risk

	31.12.2017						
	AAA	AA	A	BBB	<BBB	Not Rated	Total
Cash and cash equivalents and demand deposits	-	-	-	-	206 799	-	206 800
Financial assets / liabilities held for trading	-	-	88	(651)	1 264	18	718
At fair value through profit or loss (FVO)	12 758	11 043	47 234	269 370	97 484	615 666	1 053 555
Available-for-sale financial assets (AFS)	-	75 404	608 692	2 223 017	54 211	548 043	3 509 367
Loans and advances and accounts receivable	-	-	-	-	89 672	24 949	114 622
Technical reserves of reinsurance ceded	-	7 320	-	-	-	-	7 320
Other debtors for insurance and other transactions	-	-	-	-	196	26 317	26 513
Total	**12 758**	**93 767**	**656 014**	**2 491 736**	**449 626**	**1 214 993**	**4 918 894**

	31.12.2016						
	AAA	AA	A	BBB	<BBB	Not Rated	Total
Cash and cash equivalents and demand deposits	-	-	-	-	117 208	-	117 208
Financial assets / liabilities held for trading	-	-	(245)	(1 005)	12 054	99	10 903
At fair value through profit or loss (FVO)	2 684	3 035	57 055	194 129	112 201	814 290	1 183 394
Available-for-sale financial assets (AFS)	-	18 172	291 912	611 818	358 684	2 468 077	3 748 663
Loans and advances and accounts receivable	-	-	-	-	75 552	17 619	93 171
Technical reserves of reinsurance ceded	-	6 355	-	-	-	-	6 355
Other debtors for insurance and other transactions	-	-	-	-	270	30 612	30 882
Total	2 684	27 563	348 722	804 942	675 969	3 330 698	5 190 576

NOTE 54 – RECENTLY ISSUED ACCOUNTING STANDARDS AND INTERPRETATIONS

The standards presented below became effective on 1 January 2017.There was no materially relevant impact in the Group accounts regarding these standards which were taken into consideration in the Group accounts with reference to 31 December 2017.

IAS 7 (amendment), **'Revision of disclosures'**. (to be applied in the periods starting on or after 1 January 2017) This amendment introduces an additional disclosure about variations in financing liabilities, broken down between the transactions that gave rise to cash movements and those that did not, and how this information reconciles with the cash flows from financing activities in the Statement of Cash Flows.

IAS 12 (amendment), '**Income tax** – Recognition of deferred tax assets on unrealised losses'. (to be applied in the periods starting on or after 1 January 2017) This standard is still subject to endorsement by the European Union. This amendment clarifies how to account for deferred tax assets related to assets measured at fair value, how to estimate future taxable profits when there are deductible timing differences and how to evaluate the recoverability of deferred tax assets when there are restrictions in the tax legislation.

The standards (new and amendments) presented below were already published, endorsed by the European Union and its implementation is mandatory for the annual periods starting in or after 1 January 2018. However, none of these standards presented below were adopted beforehand.

IFRS 9 (new), **'Financial instruments'** (to be applied as from the annual periods beginning on or after 1 January 2018). IFRS 9 replaces the requirements of IAS 39 in respect of: (i) the classification and measurement of financial assets and liabilities; (ii) the recognition of impairment of receivables (through the expected loss model); and (iii) the requirements for the recognition and classification of hedge accounting. See the impacts of this standard in a specific section below. The Group will disclose the impact of IFRS 9 as soon as the conditions for same are met, which will occur, at the latest, when the annual financial statements for 2017 are published.

IFRS 15 (new), **'Revenue from contracts with customers'** (to be applied as from the annual periods beginning on or after 1 January 2018). This new standard applies only to contracts for the delivery of products or services, and requires an entity to recognize revenue when the contractual obligation to deliver assets or services is satisfied and in the amount that reflects the consideration to which the entity has the right, as provided for in the “5 steps methodology". The implementation of these standards is not expected to have a materially relevant impact in the Groups’ financial statements.

IFRS 16 (new), **‘Leases’** (to be applied as from the annual periods beginning on or after 1 January 2019). This standard is still subject to endorsement by the European Union. This new standard replaces IAS 17, with a significant impact on the accounting by lessees that are now obliged to recognize future lease liabilities reflecting lease payments and an asset for "right of use" for all leases, except certain short-term and low-value asset leases. The definition of a lease was also changed, being now based on the "right to control the use of an identified asset".

IFRS 4 (amendment), **'Insurance contracts** (application of IFRS 4 with IFRS 9)'. (to be applied as from the annual periods beginning on or after 1 January 2018) This amendment is still subject to endorsement by the European Union. This amendment gives the entities that negotiate insurance contracts the option to recognize in Other comprehensive income, instead of recognizing in the Income statement, the volatility that may result from the application of IFRS 9 before the new insurance contract standard is published. In addition, a temporary exemption is granted in respect of the application of IFRS 9 until 2021 to entities which predominant activity is that of being an insurer. This exemption is optional and does not apply to consolidated financial statements that include an insurer entity.

Amendments on IFRS 15, **'Revenue from contracts with customers'.** (to be applied as from the annual periods beginning on or after 1 January 2018). These changes refer to the additional steps to be follow to determine the performance obligations of a contract, at the time of the revenue recognition of an intellectual property license, the review of the indicators for the classification of the principal versus agent relationship, and the new regimes foreseen to simplify the transition.

Standards (new and amendments) and interpretations already published which are presented below are mandatory for annual periods that begin on or after 1 January 2018. However, these standard were not yet endorsed by the European Union. The future implementation of these standards is not expected to have a materially relevant impact.

Standards

<u>Annual Improvements 2014 - 2016, (generally effective for annual periods beginning on or after 1 January 2019). This cycle of improvements impact the following standards: IFRS 1, IFRS 12 and IAS 28.</u>

IAS 40 (amendment), **'Transfer of investment properties'.** (to be applied for annual periods beginning on or after 1 January 2018). This amendment is still subject to endorsement by the

European Union. This amendment clarifies that assets can only be transferred to and from the investment property category when there is evidence of change in use. The change of management's intention alone is not sufficient to effect the transfer.

IFRS 2 (amendment), 'Classification and measurement of share-based payment transactions' (effective for annual periods beginning on or after 1 January 2018). This amendment is still subject to endorsement by the European Union. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications to a share-based payment plan that change the classification an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

IFRS 9 (amendment), 'Prepayment features with negative compensation' (effective for annual periods beginning on or after 1 January 2019). This amendment is still subject to endorsement by the European Union. The amendment introduces the possibility to classify certain financial assets with negative compensation features at amortized cost, provided that specific conditions are fulfilled, instead of being classified at fair value through profit or loss.

IAS 28 (amendment), 'Long-term interests in Associates and Joint Ventures' (effective for annual periods beginning on or after 1 January 2019). This amendment is still subject to endorsement by the European Union. The amendment clarifies that long-term investments in associates and joint ventures (components of an entity's investments in associates and joint ventures), that are not being measured through the equity method, are to be measured in accordance with IFRS 9, being subject to impairment expected credit loss model, prior to any impairment test of the investment as a whole.
Annual Improvements 2015 - 2017, (generally effective for annual periods beginning on or after 1 January 2019). These improvements are still subject to endorsement by the European Union. The 2015-2017 annual improvements impact: IAS 23, IAS 12, IFRS 3 and IFRS 11.

IFRS 17 (new), **'Insurance contracts'** (to be applied for annual periods beginning on or after 1 January 2021). This standard is still subject to endorsement by the European Union. This new standard replaces IFRS 4 and applies to all entities that issue insurance contracts, reinsurance contracts and investment contracts with discretionary participation features. IFRS 17 is based on the actual measurement of technical liabilities at each reporting date. The actual measurement can be based on a complete "building block approach" or a simplified "premium allocation approach". The recognition of the technical margin is different depending on whether it is positive or negative. IFRS 17 is of retrospective application.

Interpretations

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

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

International Financial Reporting Standard 9 – Financial Instruments

On 24 July 2014, in response to the challenge proposed by the G20 following the global financial crisis, the International Accounting Standards Board ("IASB") issued the final version of IFRS 9 - Financial Instruments ("IFRS 9"). This new standard will be effective for years beginning on or after January 1, 2018, which will replace IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39"). As permitted by the transitional provisions of IFRS 9, the Group will not restate the comparative values in its financial statements arising from the application of IFRS 9. The impacts on the consolidated financial statements of the Group will be recognized in retained earnings and, therefore, in the capital regulatory reported.

IFRS 9 incorporates significant changes to IAS 39 essentially at three levels: (i) new rules for the classification, recognition and measurement of financial assets in accordance with the business model of the Group and the characteristics of the contractual cash flows of these assets; (ii) new concepts in the methodology and measurement of impairment of financial assets, calculated on an expected loss basis ("ECL" – Expected Credit Loss); and (iii) new hedge accounting requirements more aligned with entities' risk management practices.

The impacts on the Group's consolidated financial statements resulting from the adoption of this new standard are estimated by reference at 1 January 2018, having the available information to that date, and the assumption of a bundle of assumptions. Bearing in mind these estimates, it is expectable that IFRS 9 adoption results in a decrease of the total equity of the Group at at 1 January 2018, of approximately Euros -349 million.

The tax treatment of the impacts that come to be from the IFRS 9 adoption, mainly from credit impairment, is dependent on the tax legislation that comes to be approved in 2018.

During the financial year 2018 the Group will keep on reviewing, improving and validating developed methodologies to execute the new requisites from IFRS 9 and will monitor eventual guidance from national and international regulators to what this standard is concerned.

a) Classification and measurement of financial assets and liabilities

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

- Amortised cost: a debt financial instrument that (i) is managed under a business model whose goal is the keep financial assets in the portfolio, and receive all their contractual cash flows and (ii) has contractual cash flows in specific dates that match exclusively with principal and interest payments over the principal outstanding;
- Fair value of recognised variations in other comprehensive income: a debt financial instrument that (i) is managed under a business model whose goal is achieved either by receiving all the contractual cash flows or by selling the financial assets and (ii) has contractual cash flows in specific dates that match exclusively with principal and interest payments over the principal outstanding;
- Fair value of recognised variations in the income statement: all other debt financial instruments must be measured at their fair value through profit or loss.

Regarding other financial instruments, namely equity and derivative instruments, these are, by definition, classified at fair value through profit or loss. As aforementioned, for equity instruments, there is an irrevocable option to designate that all fair value changes be recognised in other comprehensive income. This irrevocable classification will imply that, upon the disinvestment / realisation of these financial assets, the amounts recognised in equity are not recycled to the income statement for the year.

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

(i) most of the loans and balances receivable from banks and customers will continue to be measured at amortised cost. There was no impact from the reclassification of loans and advances to fair value through profit or loss or other comprehensive income;

(ii) debt instruments classified as available-for-sale will mostly be measured at fair value with changes recognised in other comprehensive income, with some of these instruments having been reclassified to amortized cost, which impact is estimated at Euros -97 million in the equity of the Group.

(iii) equity instruments will be classified and measured at fair value through profit or loss, unless the Group irrevocably decides, for non-trading assets, to classify these assets at fair value with changes recognised in other comprehensive income. The reclassification of available-for-sale equity instruments to fair value through profit or loss had no impact in equity of the Group, while the fair value classification with recognized variations in other comprehensive income had an impact of approximately Euro 8 million in equity of the Group.

In summary, by reference to 1 January 2018, the impacts on the consolidated Group’s equity of the new IFRS 9 requirements for the classification and measurement of financial assets amount to Euros -84 million, including impairments.

The classification and measurement of financial liabilities under IAS 39 remains substantially the same under IFRS 9. However, it should be noted that, in most situations, changes in the fair value of financial liabilities designated at fair value through profit or loss, arising from the entity's own credit risk, will be recognised in equity (other comprehensive income) instead of in the income statement as required by IAS 39, unless this accounting treatment generates accounting mismatch. Subsequent reclassifications of these changes to the income statement are not permitted, not even on the repurchase of these liabilities.

b) Expected Credit Impairment Loss Model

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

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

“Stage 1”: financial assets are classified in *stage* 1 whenever there is no significant increase in credit risk as from the date of their initial recognition. For these assets, the expected credit impairment loss resulting from the probability of occurrence of events of default during the 12 months subsequent to the reporting date, or until the estimated residual maturity, if it is less than 12 months after the reporting date, should be recognized in the income statement for the year. It is estimated that 53% of the Group´s loan portfolio is classified as “Stage 1”;

“Stage 2”: financial assets for which there has been a significant increase in credit risk as from the date of their initial recognition are classified in *stage* 2. For these financial assets, expected credit impairment losses are recognised over the assets' lifetime. However, interest will continue to be calculated on the gross amount of the asset. It is estimated that approximately 18% of the Group´s loan portfolio is classified as “Stage 2”; and

“Stage 3”: assets classified in this *stage* present objective evidence of impairment, on the reporting date, as a result of one or more events that have already occurred and that have resulted in a loss. In this case, the expected credit impairment loss for the expected residual life of the financial assets will be recognised in the income statement for the year. Interest is calculated on the net book value of the assets. It is estimated that approximately 29% of the Group´s loan portfolio is classified as “Stage 3”

Measurement

Generally, impairment losses of assets classified in *stages* 1 and 2 largely replace the impairment recognised from a collective assessment perspective of financial assets as foreseen in IAS 39. In turn, the impairment losses determined of assets classified in *stage* 3, to a certain extent replace the impairment recognised from an individual and collective assessment perspective of financial assets already impaired as provided for in IAS 39.

The provision for expected credit losses in accordance with IFRS 9 is affected by a number of risk factors, such as, amongst others, the probability of default ("PD"), loss given default ("LGD"), exposure at default ("EAD"), as well as the expected life of the financial asset.

PD represents the probability that a loan will not be repaid and will default, within the 12-month horizon for *stage* 1 or during its expected lifetime, in the case it is less than 12 months and during its expected lifetime, for *stage* 2. The PD models are based on historical information incorporating information on current market conditions and reasonable and supportable information on future economic conditions.

LGD is the estimated value to be recovered in the event of default and is also modeled on historical data and reasonable and supportable information on future and current economic conditions, where appropriate. LGD methodologies take into account the value of the collateral received.

The EAD represents an estimate of the amount of credit at the time the default event might occur. For off-balance sheet exposures and unused commitments, the EAD includes an estimate of additional amounts to be used up to the moment of default.

Transition between *stages*

The transition of financial assets from *stage* 1 to *stage* 2 occurs at the moment their credit risk increases significantly when compared to their credit risk on the date of their initial recognition. The determination of a significant increase in credit risk is based on the analysis of quantitative and/or qualitative internal and external indicators used by the Group in the normal management of credit risk, thereby imposing a greater linkage of the accounting requirements with the credit risk management policies established by the Group.

Specifically, the Group established thresholds for significant increases in credit risk of an absolute and relative nature in the PD for the remaining life compared with at the initial recognition.

Generally, the transitions of financial assets from *stage* 2 to *stage* 3 occur when these assets default, that is, if: (i) they find material default for more than 90 consecutive days; and / or (ii) there are indicators that show that the contractual obligations associated with such assets are unlikely to be met - "unlikeliness to pay". This definition of default is consistent with the definition used in the Bank's current credit risk management policies.

Forward looking information

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

For the more material portfolios, the Group will adopt sophisticated credit risk modeling approaches to measure expected credit losses, leveraging, where possible, existing AIRB (Advanced Internal Rating Based) models. For the remaining portfolios, and according to the materiality of each one, the Group will develop new models or use simplified approaches.

In summary, by reference to 1 January 2018, the impact on consolidated Group’s equity of the new requirements of IFRS 9 of impairment amount to Euros -272 million.

Impacts on the control system and on the internal governance structure

In order to ensure that appropriate controls and validations are carried out in measurement the ECL, the Group considered the existing internal governance framework. However, as part of the implementation process, it is expected that the internal control structure will be revised, inter alia, by the implementation of new controls, when necessary, in the main areas impacted by IFRS 9, such as the development and weighting of macroeconomic scenarios, the determination of significant increase in credit risk and the credit risk data and systems.

c) Hedge accounting

The new hedge accounting model of IFRS 9 aims not only to simplify the process of creating and maintaining hedge relationships, but also to align the accounting of these relationships with the risk management activities of each institution, to extend the eligibility of a larger number hedged instruments and hedging, but also types of risk.

IFRS 9 includes new requirements for hedge accounting that have two main objectives: (i) the simplification of current needs and (ii) the alignment of hedge accounting with entity risk management. The Group have not yet implemented the IFRS 9 in its hedging accounting, in accordance with the possibility provided for in the standard.

Estimated impacts on equity

The adoption of IFRS 9 will also have an impact at the Group capital level particularly because of the anticipated increase in the stock of impairment provisions under the new expected credit losses model in comparison with the current approach of losses incurred present in IAS 39 and consequent accounting referential.

On 12 December 2017, the European Union, through Regulation (EU) no. 2017/2395 of the European Parliament, that amended Regulation (EU) no. 575/2013, introduced a transitory regime with the aim of reducing the impact of the adoption of IFRS 9 on the own funds of financial institutions. The abovementioned Regulation allows financial institutions to derogate from this transitory regime, with the Group deciding on implementing the referred transitional regime.

The Group estimated a CET 1 ratio impact of approximately -29 bp

Group Implementation Strategy

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

Regarding the governance structure of the IFRS 9 implementation project, the Group has created a Committee responsible for seeing this project through, as well as assuring that all areas relevant to this project are involved for the success of same. This way, the Accounting, Consolidation and Tax Department, the Department of Treasury and Finance, the Global Risk Department, and the

Information Systems Department are involved in this Committee. Whenever found necessary, other departments of the Bank are involved in the project.

NOTE 55 – SUBSEQUENT EVENTS

On 1 March 2018, the sale to BANCAMIGA Banco Universal, CA, of Venezuela of the assets and liabilities of the NOVO BANCO Branch in this country was announced to the market. With the materialization of this transaction NOVO BANCO ceased to have any activity in Venezuela.

Translation Note: This document (Report and Accounts) is a free translation of the original issued in the Portuguese language. In the event of discrepancies the original version prevails.

2. ANNEX

Adoption of the Financial Stability Forum (FSF) and Committee of European Banking Supervisors (CEBS) Recommendations concerning the Transparency of Information and the Valuation of Assets

(Circular Letters no. 97/2008/DSB, of 3 December and no. 58/2009/DSB of 5 August of the Banco de Portugal)

In its Circular Letter no. 58/2009/DSB of 5 August 2009, Banco de Portugal reiterated "the need for institutions to maintain adequate compliance with the recommendations of the Financial Stability Forum (FSF), as well as those issued by the Committee of European Banking Supervisors (CEBS), concerning the transparency of information and the valuation of assets, taking into account the proportionality principle", as set out in Circular Letters no. 46/08/DSBDR of 15 July 2008 and no. 97/08/DSB of 3 December 2008.

Banco de Portugal recommends the inclusion in the reporting documents of a specific chapter or annex exclusively dedicated to the issues dealt with in the FSF and CEBS recommendations.

This chapter aims to ensure compliance with Banco de Portugal's recommendations, including references to where the information provided may be found within the Management Report or in the Notes to the Financial Statements for 2017 and 2016.

I. BUSINESS MODEL

1. Description of the business model

A detailed description of the Group's business model is provided in Item 4 of the Management Report. The performance of the main business areas (operational segments) of the NOVO BANCO Group (the "Group") is also presented in Note 4[1].

2. Strategy and Objectives

The Group's strategy and objectives are provided in Item 4 of the Management Report. The securitisation transactions are detailed in Note 48.

3., 4. and 5. Activities developed and contribution to the business

Item 4 of the Management Report and Note 4 contain information about the activity and contribution to the business.

II. RISK AND RISK MANAGEMENT

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

Item 7 of the Management Report describes how the risk management function is organised within the Group. Note 50 contains diverse information that together enable the market to form a thorough perception about the risks incurred by the Group and the management mechanisms in place to monitor and control such risks.

[1] The numbering refers to the Notes to the Consolidated Financial Statements

III. IMPACT OF THE PERIOD OF FINANCIAL TURMOIL ON THE RESULTS

8., 9., 10 and 11. Qualitative and quantitative description of the results and comparison of impacts between periods

Note 1 contains the information regarding the setup of NOVO BANCO on the 3 August 2014 and subsequent events up to 31 December 2017.

12. Decomposition of realised and non realised write-downs

The profit and loss of assets and liabilities held for trading, assets and liabilities at fair value through profit or loss and assets available for sale are detailed by financial instrument in Notes 7 and 8. In addition, unrealised gains and losses on assets available for sale are detailed in Notes 23 and 44, while the most significant positions are breakdown in Note 23.

13. Financial turmoil and the share price

NOVO BANCO does not have listed shares.

14. Maximum loss risk

Item 7 of the Management Report and Note 50 contain the relevant information about potential losses in market stress situations.

15. Debt issued by the Group and results

Note 49 contains information on the impact of debt revaluation and the methods used to calculate this impact on the results.

IV. LEVEL AND TYPE OF EXPOSURES AFFECTED BY THE PERIOD OF TURMOIL

16. Nominal and fair value of exposures

17. Credit risk mitigators

18. Information about the Group’s exposures

As at 31 December 2017 exposure to Portuguese sovereign debt totalled 3 855 million euro (2016: 3 538 million euro), 1 492 million euro of Spanish sovereign debt (2016: 1 044 million euro), 336 million of Italian sovereign debt euro (2016: 1 912 million euro) and no exposure to Greek sovereign debt in 2017 as well as in 2016.

The information about the Group’s exposures is provided in Note 50.

19. Movement in exposures between periods

Note 50 contains diverse information comparing the exposures to markets and results for 2017 and for 2016. The disclosed information is considered sufficient, given the detail and quantification provided.

20. Non consolidated exposure

All the structures related to securitisation operations originated by the Group are presented in Note 48. None of the SPEs (Special Purpose Entities) were consolidated due to the market turbulence.

21. Exposure to monoline insurers and quality of the assets insured

The Group does not have exposures to monoline insurers.

V. ACCOUNTING POLICIES AND VALUATION METHODS

22. Structured Products

These situations are described in Note 2 – Summary of significant accounting policies.

23. Special Purpose Entities (SPEs) and consolidation

Disclosure available in Notes 2 and 48.

24. and 25. Fair value of financial instruments

See the comments to item 16 of this Annex. Notes 2 and 49 contain the conditions for utilisation of the fair value option as well as the methodology used to value the financial instruments.

VI. OTHER RELEVANT ASPECTS OF DISCLOSURE

26. Description of the disclosure policies and principles

NOVO BANCO Group, within the context of accounting and financial information disclosure, aims to comply with all the regulatory requirements, defined by the accounting standards or by the supervisory and regulatory entities.

At the same time, the Group aims to meet the best market practices in information disclosure, balancing the cost of preparing the relevant information with the benefit that it may provide to the users.

From the information made available to the Group's shareholder, clients, employees, supervisory entities and the public in general, it is highlighted the Annual and Half Year Management Reports, the Financial Statements and the respective Notes, the information on Corporate Governance and the Sustainability Accounts.

The Management Reports and Financial Statements, released on a half-yearly basis, are prepared under IFRS that comply with the highest degree of disclosure and transparency and facilitate comparison to other domestic and international banks.

The information on Corporate Governance disclosure in item 9 of the Management Report, presents the most relevant topics about the governing structure of the Group.

The Sustainability Accounts convey the Group's perspective about social responsibility in the context of the numerous challenges that the modern world faces, whether of an environmental or social nature, or pertaining to innovation and entrepreneurship.

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SEPARATE FINANCIAL STATEMENTS AND EXPLANATORY NOTES AS AT 31 DECEMBER 2017

NOVO BANCO, S.A.

SEPARATE INCOME STATEMENT
FOR THE YEARS ENDED ON 31 DECEMBER 2017 AND 2016

(in thousands of Euros)

	Notes	31.12.2017	31.12.2016
Interest and similar income	4	792 947	973 798
Interest expense and similar charges	4	511 788	598 964
Net interest income		281 159	374 834
Dividend income	5	23 550	159 838
Fee and commission income	6	349 293	335 932
Fee and commission expenses	6	(63 352)	(91 136)
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	7	(61 550)	101 210
Net gains / (losses) from available-for-sale financial assets	8	56 225	11 593
Net gains / (losses) from foreign exchange differences	9	30 449	5 004
Net gains/ (losses) from the sale of other assets	10	53 274	(15 558)
Other operating income and expenses	11	933 109	(43 861)
Operating income		1 602 157	837 856
Staff costs	12	(249 112)	(267 424)
General and administrative expenses	14	(216 903)	(234 903)
Depreciation and amortization	25 & 26	(56 286)	(53 958)
Provisions, net of reversals	33	(188 852)	(50 902)
Impairment losses of loans and advances, net of reversals	22	(1 141 563)	(555 873)
Impairment losses of other financial assets, net of reversals	20 & 21	(193 623)	(379 035)
Impairment losses of other assets, net of reversals	24, 25, 27 & 28	(370 288)	(246 522)
Operating expenses		(2 416 627)	(1 788 617)
Profit / (loss) before income tax		**(814 470)**	**(950 761)**
Income tax			
Current tax	34	(9 154)	(6 888)
Deferred tax	34	(429 422)	212 905
		(438 576)	**206 017**
Net profit / (loss) for the period		**(1 253 046)**	**(744 744)**
Basic earnings per share (in Euros)	15	(0,21)	(0,15)
Diluted earnings per share (in Euros)	15	(0,21)	(0,15)

The accompanying explanatory notes are an integral part of these financial statements

NOVO BANCO, S.A.

SEPARATE STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED ON 31 DECEMBER 2017 AND 2016

(in thousands of Euros)

	Notes	31.12.2017	31.12.2016
Net profit / (loss) for the period		**(1 253 046)**	**(744 744)**
Other comprehensive income / (loss) for the period			
Items that will not be reclassified to profit and loss			
Remeasurement of defined benefit plans	13	(23 715)	(79 437)
Taxes on remeasurement of defined benefit plans	a)	-	2 933
		(23 715)	(76 504)
Items that may be reclassified to profit and loss			
Foreign exchange differences	a)	2 883	2 643
Taxes on foreign exchange differences	a)	(15 572)	(773)
		(12 689)	1 870
Available-for-sale financial assets			
Potential gains and losses in the period	37	262 470	(145 601)
Gains and losses included in profit and loss for the period	37	(127 333)	117 926
Corporate income taxes	37	(43 119)	9 208
		92 018	(18 467)
Total other comprehensive income / (loss) for the period		**55 614**	**(93 101)**
Total comprehensive income / (loss) for the period		**(1 197 432)**	**(837 845)**

a) See Statement of Changes in Equity

The accompanying explanatory notes are an integral part of these financial statements

NOVO BANCO, S.A.

SEPARATE BALANCE SHEET AS AT 31 DECEMBER 2017 AND 2016

(in thousands of Euros)

	Notes	31.12.2017	31.12.2016
Assets			
Cash and deposits with Central Banks	16	3 782 902	1 464 402
Deposits with banks	17	189 725	116 774
Financial assets held for trading	18	582 954	665 364
Other financial assets at fair value through profit or loss	19	3 973	4 876
Available-for-sale financial assets	20	10 902 287	9 970 699
Loans and advances to banks	21	752 892	1 325 623
(of which: Operations with reverse repurchase agreements)	*21*	*21 463*	*12 772*
Loans and advances to customers	22	23 492 905	25 905 409
Derivatives held for risk management purposes	23	171 085	223 583
Non-current assets held for sale	24	245 817	84 474
Other tangible assets	25	151 698	199 683
Intangible assets	26	7 860	42 325
Investments in subsidiaries and associated companies	27	693 477	1 167 445
Current tax assets	34	4 445	10 201
Deferred tax assets	34	1 947 425	2 636 686
Other assets	28	3 547 696	3 025 767
Total Assets		**46 477 141**	**46 843 311**
Liabilities			
Deposits from Central Banks	29	6 410 123	6 410 033
Financial liabilities held for trading	18	560 646	645 359
Deposits from banks	30	2 887 106	4 694 253
(of which: Operations with reverse repurchase agreements)	*30*	*79 737*	*1 625 020*
Due to customers	31	29 961 813	25 599 957
(of which: Operations with reverse repurchase agreements)	*31*	*227 964*	*216 625*
Debt securities issued	32	617 861	3 025 503
Financial liabilities associated with reclassified assets	40	447 548	685 588
Derivatives held for risk management purposes	23	76 210	108 263
Non-current liabilities held for sale	24	3 673	-
Provisions	33	413 996	334 546
Current tax liabilities	34	10 776	12 852
Deferred tax liabilities	34	-	87 979
Other liabilities	35	627 577	564 272
Total Liabilities		**42 017 329**	**42 168 605**
Equity			
Share capital	36	5 900 000	4 900 000
Reserves, Retained earnings and Other comprehensive income	37	(187 142)	519 450
Net profit / (loss) for the period		(1 253 046)	(744 744)
Total Equity		**4 459 812**	**4 674 706**
Total Liabilities and Equity		**46 477 141**	**46 843 311**

The accompanying explanatory notes are an integral part of these financial statements

NOVO BANCO, S.A.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED ON 31 DECEMBER 2017 AND 2016

(in thousands of Euros)

	Notes	Share capital	Reserves, Retained earnings and Other comprehensive income			Net profit / (loss) for the period	Total Equity
			Fair value reserves	Other reserves, Retained earnings and Other comprehensive income	Total		
Balance as at 31 December 2015		**4 900 000**	**61 553**	**1 602 566**	**1 664 119**	**(1 064 641)**	**5 499 478**
Other comprehensive income							
Changes in fair value, net of tax	37	-	(18 467)	-	(18 467)	-	(18 467)
Remeasurement of defined benefit plans, net of tax	37	-	-	(76 504)	(76 504)	-	(76 504)
Foreign exchange differences, net of tax **(a)**		-	-	1 870	1 870	-	1 870
Net profit / (loss) for the period		-	-	-	-	(744 744)	(744 744)
Total comprehensive income for the period		**-**	**(18 467)**	**(74 634)**	**(93 101)**	**(744 744)**	**(837 845)**
Appropriation to retained earnings of net profit / (loss) of the previous period		-	-	(1 064 641)	(1 064 641)	1 064 641	-
Merger reserves of BIC International Bank (BIBL)		-	-	1 346	1 346	-	1 346
Other movements		-	-	11 727	11 727	-	11 727
Balance as at 31 December 2016		**4 900 000**	**43 086**	**476 364**	**519 450**	**(744 744)**	**4 674 706**
Other comprehensive income							
Changes in fair value, net of tax	37	-	92 018	-	92 018	-	92 018
Remeasurement of defined benefit plans, net of tax	37	-	-	(23 715)	(23 715)	-	(23 715)
Foreign exchange differences, net of tax **(a)**		-	-	(12 689)	(12 689)	-	(12 689)
Net profit / (loss) for the period		-	-	-	-	(1 253 046)	(1 253 046)
Total comprehensive income for the period		**-**	**92 018**	**(36 404)**	**55 614**	**(1 253 046)**	**(1 197 432)**
Share capital increase	36	1 000 000	-	-	-	-	1 000 000
Appropriation to retained earnings of net profit / (loss) of the previous period		-	-	(744 744)	(744 744)	744 744	-
Other movements		-	-	(17 462)	(17 462)	-	(17 462)
Balance as at 31 December 2017		**5 900 000**	**135 104**	**(322 246)**	**(187 142)**	**(1 253 046)**	**4 459 812**

(a) Includes foreign currency conversion differences of hyperinflationary economies

The accompanying explanatory notes are an integral part of these financial statements

NOVO BANCO, S.A.

CASH FLOW STATEMENT
FOR THE FINANCIAL YEARS ENDED ON 31 DECEMBER 2017 AND 2016

(in thousands of Euros)

	Notes	31.12.2017	31.12.2016
Cash flows from operating activities			
Interest and similar income received		756 190	1 019 438
Interest expense and similar charges paid		(600 231)	(666 139)
Fees and commissions received		349 890	336 183
Fees and commissions paid		(67 088)	(95 392)
Recoveries on loans previously written off		34 924	31 605
Contributions to the pension fund		(62 680)	(139 296)
Cash payments to employees and suppliers		(430 610)	(455 816)
		(19 605)	**30 583**
Changes in operating assets and liabilities:			
Deposits with / from Central Banks		(8 979)	(1 064 332)
Financial assets at fair value through profit or loss		(62 035)	297 582
Acquisition of available-for-sale financial assets		(18 954 565)	(18 668 176)
Sale of available-for-sale financial assets		18 039 451	19 205 534
Loans and advances to banks		571 420	1 164 420
Deposits from banks		(1 790 691)	(362 602)
Loans and advances to customers		996 631	1 750 320
Due to customers and other loans		2 603 723	(1 588 218)
Derivatives held for risk management purposes		48 088	(2 012)
Other operating assets and liabilities		152 560	518 800
Net cash from operating activities before corporate income tax		**1 575 999**	**1 281 899**
Corporate income taxes paid		(40 179)	(28 728)
Net cash from operating activities		**1 535 820**	**1 253 171**
Cash flows from investing activities			
Acquisition of investments in subsidiaries and associated companies	1	(22 477)	(26 334)
Sale of investments in subsidiaries and associated companies	1	29 205	42 765
Dividends received		23 550	159 838
Acquisition of tangible fixed assets		(5 463)	(8 198)
Sale of tangible fixed assets		2 349	12 618
Acquisition of intangible assets		(8 766)	(5 684)
Sale of intangible assets		52	-
Net cash from investing activities		**18 450**	**175 005**
Cash flows from financing activities			
Share capital increase		1 000 000	-
Issue of bonds and other debt securities		50 000	450 000
Reimbursement of bonds and other debt securities		(221 888)	(1 158 605)
Net cash from financing activities		**828 112**	**(708 605)**
Net changes in cash and cash equivalents		**2 382 382**	**719 571**
Cash and cash equivalents at the beginning of the period		**1 327 710**	**609 586**
Effect of exchange rate changes on cash and cash equivalents		-	(1 447)
Net changes in cash and cash equivalents		2 382 382	719 571
Cash and cash equivalents at the end of the period		**3 710 092**	**1 327 710**
Cash and cash equivalents include:			
Cash	16	163 096	175 575
Deposits with Central Banks	16	3 619 806	1 288 827
(of which, Restricted balances)		(262 535)	(253 466)
Deposits with banks	17	189 725	116 774
Total		**3 710 092**	**1 327 710**

The accompanying explanatory notes are an integral part of these financial statements

NOVO BANCO, S.A.

Explanatory Notes to the Separate Financial Statements as at 31 December 2017

(Amounts expressed in thousands of Euros, except when otherwise indicated)

NOTE 1 – ACTIVITY

NOVO BANCO, S.A. is the main entity of the financial Group NOVO BANCO centered on the banking activity, having been incorporated on 3 August 2014 per deliberation of the Board of Directors of Banco de Portugal ("Banco de Portugal") dated 3 August 2014 (8 p.m.), under no. 5 of article 145-G of the General Law on Credit Institutions and Financial Companies ("Regime Geral das Instituições de Crédito e Sociedades Financeiras" (RGICSF))[1], approved by Decree-Law no. 298/92, of 31 December, following the resolution measure applied by Banco de Portugal to Banco Espírito Santo, S.A. (BES), under the terms of paragraphs 1 and 3-c) of article 145-C of the RGICSF, which gave rise to the deliberation of 3 August 2014 on the transfer of the assets, liabilities, off-balance sheet elements and assets under management of BES to NOVO BANCO, S.A..

As a result of the resolution measure applied, Fundo de Resolução became the sole holder of the share capital of NOVO BANCO, in the amount of Euros 4 900 million, which acquired the status of Transition Bank, with a limited duration, with the commitment having been assumed by the Portuguese State to the European Commission for its sale within two years from the date of its incorporation, which may be extended by a further year.

The signature by Fundo de Resolução of the contractual documents for the sale of NOVO BANCO took place on 31 March 2017. On 18 October, the sales process of NOVO BANCO was completed, following the acquisition of a majority (75%) of its share capital by Nani Holdings, SGPS, SA, Company owned by the US group Lone Star, through two capital increases in the amounts of Euros 750 million and Euros 250 million, in October and December, respectively. Thus, as at 31 December 2017, the share capital of the Bank amounts to Euros 5 900 million, represented by 9 799 999 997 nominative shares, with no nominal value. This sale was preceded by the materialization of a Liability Management Exercise (LME) operation over bonds which accounting value amounted to approximately Euros 3 billion (thousand million).

Associated with the sale process, a Contingent Capital Mechanism was created which, in case the capital ratios fall below a certain level and losses are registered in a delimited portfolio of assets, Fundo de Resolução will pay an amount corresponding to the lower value between the registered losses and the necessary amount to replace the capital ratio to the corresponding level, until a maximum of Euros 3 890 million.

[1] References made to RGICSF refer to the version in force at the date of the resolution measure. The current version of the RGICSF has suffered changes, namely in article 145, following the publication of Law 23 – A/2015, of 26 March, that came into force on the day following its publication.

With the conclusion of the sales process, NOVO BANCO ceased to be considered a transition bank and began to operate normally even though subject to certain measures restricting its activity imposed by the European Competition Authority.

As from 18 October 2017, the financial statements of NOVO BANCO are consolidated by Nani Holdings SGPS, S.A., with registered office at Avenida D. João II, no. 46, 4A, Lisbon.

NOVO BANCO, S.A. has its registered office in Lisbon, at Avenida da Liberdade, no. 195.

NOVO BANCO has a retail network comprising 454 branches in Portugal and abroad (31 December 2016: 515 branches), including branches in London, Spain, Cayman Islands, Venezuela and Luxembourg, an offshore branch in the Madeira Free Trade Zone and 5 representative offices overseas (31 December 2016: 6 representative offices).

On 31 December 2016, the merger by incorporation of BIC International Bank (BIBL) took place.

<u>Deliberation of 3 August 2014 of Banco de Portugal on the transfer of assets, liabilities, off-balance sheet elements and assets under management of BES to Novo Banco, S.A.</u>

As determined by Point Two of the resolution of the Board of Directors of Banco de Portugal of 3 August 2014 (8 p.m.), considering the resolution by the same Board of Directors of 11 August (5 p.m.) (hereinafter “Deliberation of 3 August 2014”), under and for the purposes of that provided in paragraph 1 of article 145-H of the RGICSF, the assets, liabilities, off-balance sheet elements and assets under management of BES were transferred to NOVO BANCO, S.A., in accordance with the criteria defined in Annex 2 to the Deliberation of 3 August 2014.

In the ordinary meeting of the Board of Directors of Banco de Portugal on 29 December 2015, a deliberation was adopted (hereinafter “Deliberation of 29 December 2015”) relating to the agenda point "Transfers, retransmissions and changes and clarifications of Annex 2 of the deliberation of 3 August 2014 (8 p.m.)", which resulted in the following revised and consolidated version of Annex 2 of the Deliberation of 3 August 2014:

Assets, liabilities, off-balance sheet elements and assets under management of Banco Espírito Santo, SA, subject to transfer to NOVO BANCO, SA

1. *Assets, liabilities, off-balance sheet elements and assets under management of Banco Espírito Santo, SA (BES), recorded in the accounting records, which are subject to transfer to NOVO BANCO, SA, in accordance with the following criteria:*

(a) *All the assets, licenses and rights, including property rights of BES are transferred in their entirety to NOVO BANCO, SA, with the exception of the following:*

(i) Shares representative of the share capital of Banco Espírito Santo Angola, S.A.;

(ii) Shares representative of the share capital of Espírito Santo Bank (Miami);

(iii) Shares representative of the share capital of Aman Bank (Libya);

(iv) Treasury stock (also designated as 'own shares') of Banco Espírito Santo, S.A.;

(v) Credit claims over Espírito Santo International and its shareholders, the shareholders of Espírito Santo Control, the entities under a control or group relationship, as provided under article 21 of the Portuguese Securities Code ("Código dos Valores Mobiliários"), with Espírito Santo International and credit claims on entities under a control or group relationship, as provided under article 21 of the Portuguese Securities Code, with Espírito Santo Financial Group (hereinafter referred to as "Espírito Santo Group"), with the exception of (A) credit claims on Espírito Santo Financial Group, secured by financial pledge on all the shares of Companhia de Seguros Tranquilidade, SA, (B) credit claims on entities included in BES's perimeter of consolidated supervision (hereinafter referred to as "BES Group"), and (C) credit claims on insurance companies supervised by the Instituto de Seguros de Portugal (Insurance and Pension Funds Supervisory Authority), namely: Companhia de Seguros Tranquilidade, T-Vida-Companhia de Seguros, Europ Assistance and Seguros Logo;

(vi) Cash and cash equivalents in the amount of Euros 10 million, to enable the Board of Directors of BES to undertake the necessary steps to recover the value of its assets and meet its tax or administrative obligations;

(vii) Effective as from 29 December 2015, shares representative of the entire share capital of BES Finance, Limited.

***(b)** BES's responsibilities to third parties, that are liabilities or off-balance sheet items of BES, are fully transferred to NOVO BANCO, SA, except for those indicated below ("Excluded Liabilities"):*

(i) Liabilities to (a) the respective shareholders, whose participation is equal to or higher than 2% of the share capital or to persons or entities which in the two years preceding the transfer held a participation equal to or higher than 2% of the share capital of BES, members of the management and supervisory bodies, statutory auditors or statutory audit firms, or persons with similar status in other companies that are in a control or group relationship with the institution, (b) persons or entities that have been shareholders, performed the functions or provided the services referred to in the foregoing subparagraph in the four years prior the setting-up of NOVO BANCO, SA, and whose action or omissions was at the origin of the financial difficulties experienced by the credit institution or which contributed to aggravate that situation; (c) the spouses, first degree natural or in-law relatives or third parties acting on behalf of the persons or entities referred to in the foregoing subparagraphs, (d) those responsible for facts related to the credit institution, or that have profited from these facts, directly or through a third party, and which were at the origin of the financial difficulties or contributed to aggravate that situation, due to action or failure to act in the performance of their functions, according to Banco de Portugal's understanding;

(ii) Obligations contracted with entities included within the Espírito Santo Group that constitute subordinated claims under the terms of articles 48 and 49 of the Insolvency and Corporate Recovery Code ("Código da Insolvência e da Recuperação de Empresas"), except for the entities of BES Group whose responsibilities to BES were transferred to NOVO BANCO, without prejudice, with regard to this last entity, to the exclusion foreseen in subparagraph (v);

(iii) Any obligations towards, or guarantees provided to third parties regarding any type of liabilities held by entities integrating the Espírito Santo Group, with the exception of the entities integrated in BES Group whose holdings were transferred to NOVO BANCO, SA;

(iv) All the liabilities resulting from the issuance of instruments that are or were at any time, eligible for the calculation of BES's own funds and which conditions were approved by Banco de Portugal;

(v) Any liabilities or contingencies, namely those resulting from fraud or the breach of regulatory, criminal or administrative provisions or regulations, with the exception of the active tax contingencies;

(vi) Any liabilities or contingencies of BES relating to shares, instruments or contracts from which results subordinated credits over Banco Espírito Santo, S.A.;

(vii) Any obligations, guarantees, liabilities or contingencies assumed in the trading, financial intermediation and distribution process of debt instruments issued by any entities, without prejudice to any unsubordinated loans, with debtor position is not excluded by any of the foregoing subparagraphs, namely subparagraphs (iii) and (v), and (a) were payable at the date of the resolution measure by virtue of their term having expired or, in the case of conditional credits, by virtue of the condition (and provided their respective maturity depended solely on said condition) having already been met, and cumulatively (b) resulted from contractual dispositions (bilateral legal transactions), existing prior to 30 June 2014, that had met the rules for the expression of the will and the contractual link of BES and which existence can be proven with documents existing in BES's archives, in terms that permit the control and inspection of the decisions made.

(viii) Effective as from 29 December 2015, all the rights and responsibilities of NOVO BANCO, arising from the non-subordinated debt instruments listed in Annex 2B (excluding those held by NOVO BANCO), together with all the liabilities, contingencies and off-balance sheet elements, to the extent they are related to said debt instruments (including (i) the issuing, trading and sale of same and (ii) arising from any contractual documents or other instruments celebrated or issued by the bank, and connected with those instruments, including program or subscription documents, or any other acts practiced by the bank in respect of said instruments, on a date before, simultaneous with or after the respective date of issue of the bonds);

(ix) The Liability Oak Finance.

(c) *BES liabilities that are not transferred will be maintained within the legal framework of BES;*

(d) *All the remaining off-balance sheet items of BES are transferred in full to NOVO BANCO, SA, except those related to Banco Espírito Santo Angola, S.A., Espírito Santo Bank (Miami) and Aman Bank (Libya) and those relating to the entities whose liabilities with BES were not transferred under subparagraph (v) of paragraph (a) of no. 1 and, with effect from 29 December 2015, to BES Finance, Limited;*

(e) *The assets under management of BES will be assets under management of NOVO BANCO, SA;*

(f) *All the employees and service providers of BES are transferred to NOVO BANCO, SA;*

(g) *Any guarantee related to any obligation transferred to NOVO BANCO, SA is also transferred to NOVO BANCO, SA. Any guarantee related to any obligation not transferred to NOVO BANCO, SA will, likewise, not be transferred to NOVO BANCO, SA.*

2. *After the transfer referred to in the foregoing sub-paragraphs, Banco de Portugal may at any time transfer or re-transmit assets, liabilities, off-balance-sheet items and assets under management between BES and NOVO BANCO, SA, in accordance with no. 5 of article 145-H (5) of the Legal Framework.*

3. BES will sign an agreement with NOVO BANCO, SA, confirming the transfer of the assets and *liabilities governed by foreign law and/or located abroad, under the terms defined by Banco de Portugal. This will include BES obligation to ensure that it will comply with all the formalities and procedures necessary for that purpose.*

4. *Considering that all the rating procedures within the scope of the permission under the IRB approach granted to BES on a consolidated basis, as from 31 March 2009, are fully transferred to NOVO BANCO, SA, Banco de Portugal, satisfied that the requirements provided for in Part II, Title II, Chapter 3 of Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013 (CRR) are met, and that the systems for the management and rating of credit risk exposures are sound and implemented with integrity, decides, under article 143 (1) of the same Regulation to consent NOVO BANCO, S.A. to calculate its risk-weighted exposure amounts using the IRB methodology, with immediate effect and under the terms of the permission granted to BES.*

5. *The assets, liabilities and off-balance-sheet items are transferred at their book value, and the assets are adjusted in compliance with the values listed in Annex 2A, in order to ensure a conservative valuation, to be confirmed in the audit referred to in Point 3.*

6. *Based on this valuation, the capital requirements for NOVO BANCO, SA, are calculated to be Euros 4 900 million.*

__7.__ The operational and precautionary measures implementing the present deliberation remain in force for the persons that were members of the Board of Directors and Supervisory Board of BES during the mandates that started in or following 2012 and up to the conclusion of the inquiries, which prevent the transfer to NOVO BANCO S.A. of any liabilities to such persons.

__8.__ Demonstration of evidence that the persons referred to in sub-paragraph (b) (i) (c) of this Annex do not act on behalf of the persons or the entities referred to in the foregoing points and that, therefore, the right to the funds deposited belongs to the formal holder of the accounts shall comply with the following rules: a) demonstration of evidence is NOVO BANCO, S.A.'s responsibility; b) demonstration of evidence shall take into account, amongst other relevant circumstances the professional activities of the persons in question, their degree of dependence on the persons referred to in the foregoing points, their income level and the deposited amount; c) demonstration of evidence shall be supported by documents and archived so that the decisions taken can be controlled and verified. Until such decisions are taken, the operational measures implementing the present deliberation remain in force.

__9.__ The transfer ordered (and, as applicable, confirmed by the conclusion of the contract confirming the transfer determined by Banco de Portugal) is not intended to confer on any counterparties and third parties any new rights nor to enable the exercise of any rights that in the absence of such transfer would not exist or could not be exercised on or in relation to the assets, liabilities, off-balance sheet elements and assets under the management of BES, S.A., thus transferred, including any rights of termination, resolution or rights to order early redemptions, close-out netting or netting / set-off, nor to result in (i) any default, (ii) change in conditions, rights or obligations, or (iii) subjecting to approval, or (iv) right to enforce guarantees, (v) right to make retentions or netting / set-off between any payments or claims under such assets, liabilities, off-balance sheet elements and assets under management transferred.

__10.__ Any credits already constituted or to be constituted related to tax facts occurring prior to 3 August 2014, whether or not recorded in the accounts of BES are transferred to NOVO BANCO.

__11.__ The provision in subparagraphs (v) to (vii) of paragraph (b) of no. 1 of the present Annex shall be interpreted in light of the clarifications contained in Annex 2C.

According to the announcement of Banco de Portugal of 29 December 2015, "this set of decisions comprises the final and definitive change of the perimeter of assets, liabilities, off-balance sheet elements and assets under management transferred to NOVO BANCO, which transfer is now definitively fixed".

NOTE 2 – MAIN ACCOUNTING POLICIES

2.1. Bases of presentation

In accordance with Regulation (EC) no. 1606/2002, of 19 July 2002, of the European Council and Parliament and Notice no. 5/2015 of Banco de Portugal, the financial statements of NOVO BANCO, S.A. (Bank or NOVO BANCO) are prepared in accordance with the International Financial Reporting Standards (IFRS), as defined and adopted by the European Union (EU), effective as at 31 December 2017.

The IFRS comprise accounting standards issued by the International Accounting Standards Board (IASB) as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), and by their predecessor bodies.

These financial statements of NOVO BANCO are presented as at 31 December 2017. The accounting policies used by the Bank in the preparation of its financial statements are consistent with those used in the preparation of the separate financial statements as at 31 December 2016.

In the preparation of its financial statements as at 31 December 2017, the Bank adopted the accounting standards issued by the IASB and the IFRIC interpretations with mandatory application as from 1 January 2017, including the standards described in Note 46. The accounting policies used by the Bank in preparing the financial statements, described in this note, were adopted accordingly.

The accounting standards and interpretations recently issued but not yet effective and which the Bank has not yet applied in the preparation of its financial statements, can also be analysed in Note 46.

The financial statements are expressed in thousands of Euros, rounded to the nearest thousand. They were prepared under the historical cost convention, except for the assets and liabilities accounted for at fair value, namely derivative financial instruments, financial assets and liabilities at fair value through profit or loss, available-for-sale financial assets and hedged assets and liabilities, in respect of their hedged component.

The preparation of financial statements in accordance with the NIC requires that the Bank make judgements and estimates and use assumptions that affect the application of the accounting policies and the reported amounts of income, expenses, assets and liabilities. Changes in such assumptions or differences of same compared to the reality may impact the current estimates and judgements. The areas involving a higher level of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are analysed in Note 3.

The financial statements and the Management report as at 31 December 2017 were approved at the Executive Board of Directors' meeting held on 18 April 2018, and shall be submitted for approval at the Annual General Meeting that has the power to change them. However, it is the conviction of the Executive Board of Directors that these will be approved without significant changes.

2.2. Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into Euros at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on this translation are recognised in the income statement.

Non-monetary assets and liabilities recorded at historical cost, denominated in foreign currency, are translated using the exchange rate prevailing at the transaction date. Non-monetary assets and liabilities, denominated in foreign currency, that are stated at fair value are translated into Euros at the foreign exchange rates ruling at the dates the fair value was determined. The resulting exchange differences are accounted for in the income statement, except if related to equity instruments classified as available-for-sale, which are recorded in reserves.

Foreign exchange differences relating to cash flow hedges and the hedging of the net investment in foreign operational units, when they exist, are recognised in other comprehensive income.

2.3. Derivative financial instruments and hedge accounting

Classification

The Bank classifies as derivatives held for risk management purposes the (i) hedging derivatives and (ii) derivatives used to manage the risk of certain financial assets and liabilities designated at fair value through profit or loss that were not classified as hedging derivatives.

All other derivatives are classified as trading derivatives.

Recognition and measurement

Derivative financial instruments are initially recognised at their fair value on the date the derivative contract is entered into (trade date). Subsequent to initial recognition, the fair value of derivative financial instruments is remeasured on a regular basis and the resulting gains or losses on remeasurement are recognised directly in the income statement, except for derivatives designated as hedging instruments. The recognition of the resulting gains or losses arising on the derivatives designated as hedging instruments depends on the nature of the risk being hedged and the hedge model used.

Derivatives traded on organised markets, namely futures and some options contracts, are recorded as trading derivatives and their fair value changes are recorded against the income statement. Since fair value changes in these derivatives are settled daily through margin accounts held by the Bank, these derivatives present a nil fair value on the balance sheet. The margin accounts are included under Other assets (see Note 28) and comprise the minimum collateral mandatory for open positions.

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

Hedge accounting

- Classification criteria

Derivative financial instruments used for hedging purposes may be classified in the accounts as hedging instruments provided the following criteria are cumulatively met:

(i) At the inception of the hedge, the hedge relationship is identified and documented, including identification of the hedged item and hedging instrument and evaluation of the effectiveness of the hedge;

(ii) The hedge is expected to be highly effective, both at the inception of the hedge and on an ongoing basis;

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

(iv) For cash flows hedges, the cash flows have a high probability of occurring.

- Fair value hedge

In a fair value hedging operation, the carrying value of the hedged asset or liability, determined in accordance with the respective accounting policy, is adjusted so as to reflect the changes in its fair value attributable to the risk being hedged. Changes in the fair value of the derivatives that are designated as hedging instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the risk hedged.

If the hedge no longer meets the criteria for hedge accounting, the derivative financial instrument is transferred to the trading portfolio and hedge accounting is discontinued prospectively. The cumulative adjustment to the carrying book value of a hedged asset or liability corresponding to a fixed income instrument, is amortised over the period to its maturity, using the effective interest rate method.

- Cash flow hedge

When a derivative financial instrument is designated as a hedge against the variability of highly probable future cash flows, the effective portion of the changes in the fair value of the hedging derivative is recognised in reserves, being recycled to the income statement in the periods in which the hedged item affects the income statement. The ineffective portion is recognised in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in reserves at that time is recognised in the income statement when the hedged transaction also affects the income statement. When a hedged transaction is no longer expected to occur, the cumulative gain or loss reported in equity is recognised immediately in the income statement and the hedging instrument is reclassified to the trading portfolio.

As at 31 December 2017 and 2016, the Bank held no hedging operations classified as cash flow hedges.

Embedded derivatives

Derivatives that are embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not related to the host instrument and the aggregate instrument (embedded derivative and host instrument) is not carried at fair value through profit or loss.

The embedded derivatives are measured at fair value with the changes in fair value being recognised in the income statement.

When embedded derivatives are not separated from the host instruments, the financial instruments are recognised and measured in accordance with the policy described in Note 2.5.

2.4. Loans and advances to customers

Loans and advances to customers include loans and advances originated by the Bank, which are not intended to be sold in the short-term. These loans and advances are recognised on the date the cash is advanced to customers.

Loans and advances to customers are derecognised from the balance sheet when (i) the Bank's contractual rights to receive the cash flows have expired, (ii) the Bank has transferred substantially all the risks and rewards of ownership or (iii) although retaining some but not substantially all of the risks and rewards of ownership, the Bank has transferred the control over the assets.

Loans and advances to customers are initially recorded at fair value plus transaction costs and are subsequently measured at amortised cost, using the effective interest rate method, net of impairment losses.

In accordance with its documented strategy for risk management, the Bank contracts derivative financial instruments to hedge certain risks pertaining to a specific part of the loan portfolio, without, however, resorting to hedge accounting as described in Note 2.3. In these situations, the initial recognition of the loan is made through its measurement at fair value through profit or loss. In this manner, measurement consistency is achieved between the loans and the derivatives for risk management purposes (accounting mismatch). This procedure is in accordance with the accounting policy for classification, recognition and measurement of financial assets at fair value through profit or loss, as described in Note 2.5.

Impairment

The Bank regularly assesses whether there is objective evidence of impairment in its loan portfolio. Impairment losses identified are recognised in the income statement and are subsequently reversed through the income statement if, in a subsequent period, the amount of the impairment losses decreases.

A loan or a loan portfolio, defined as a group of loans with similar credit risk characteristics, is impaired when: (i) there is objective evidence of impairment as a result of one or more events occurring subsequent to its initial recognition and (ii) that event (or events) has an impact on the recoverable amount of the estimated future cash flows of that loan or of the loan portfolio, that can be reliably estimated.

For the exposures selected for individual analysis the existence of specific impairment is assessed. For this assessment and in identifying the impaired loans on an individual basis, the Bank uses the information that feeds the credit risk models implemented and takes into consideration, amongst others, the following factors:

- the aggregate exposure to the customer and the existence of non-performing loans;
- the economic and financial viability of the customer's business model and its ability to generate sufficient cash flows to service its debt obligations in the future;
- the existence of privileged creditors;
- the existence, nature and estimated value of the collateral;
- the exposure of the customer to the financial sector;
- the amount and timing of expected recoveries.

When loans have been individually assessed and there is no objective evidence that impairment exists, these loans are grouped together on the basis of similar credit risk characteristics (loan portfolio segment), and assessed collectively - collective assessment of impairment.

Loans that are assessed individually and for which, based on the assessment, an impairment loss is identified, are not included in the collective assessment of impairment.

For these loans, the amount of the impairment loss to be recognised is calculated as the difference between the carrying book value of the loan, including accrued interest, and the present value of the expected future cash flows (considering the recovery period), discounted at the original effective interest rate of the contract. The carrying value of loans and advances is presented in the balance sheet net of impairment losses. If a loan has a variable interest rate, the discount rate for measuring the impairment loss is the current effective interest rate determined under the rules of each contract.

The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from the foreclosure / taking possession (hereafter also “recovery”) and sale of the collateral, less the costs inherent to its recovery and sale.

For purposes of the collective assessment of impairment, loans are grouped on the basis of similar credit risk characteristics, taking in consideration the Bank’s credit risk management process. Future cash flows in a group of loans that are collectively assessed for impairment are estimated on the basis of the contractual cash flows and the historical loss experience. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank in order to monitor the differences between the loss estimates and the actual losses experienced.

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

The loan write-off policy followed by the Bank is governed by the principles defined by Banco de Portugal. Accordingly, the loan write-off only occurs after (i) the full amount of the loan has been deemed past due and has been demanded; (ii) it is considered that appropriate collection efforts have been undertaken; and (iii) the loan’s recovery expectations are very low, leading to an extreme scenario of full impairment.

Having met this criteria, the rules implemented for the selection of loans that may be written off are presented next, as follows:

- Loans cannot have an associated collateral;
- Loans must be deemed past due in their entirety (recorded, in their entirety, in past due loans, with no portion being recorded in maturing debt);
- Loans cannot be marked as renegotiated past due, or integrate an active settlement agreement;

- The impairment loss provision has to cover at least 95% of the amount, except in respect of mortgage loans when the recovery is performed through the foreclosure of the property, and for which the remaining amount of the loans and advances not so recovered are also written off against the asset.

2.5. Other financial assets

Classification

The Bank classifies its other financial assets at initial recognition taking into consideration the intention inherent to them, under the following categories:

- Financial assets at fair value through profit or loss

This category includes: (i) financial assets held for trading, which are those acquired for the purpose of selling in the short-term or which are owned as part of a portfolio of financial assets, normally securities, for which there is evidence of recent activities leading to short-term profit taking and (ii) financial assets that are designated at fair value through profit or loss at inception, with changes being recognised in the income statement.

The Bank classifies, at inception, certain financial assets as at fair value through profit or loss when:

- such financial assets are managed, measured and analysed internally on a fair value basis;
- such financial assets are being hedged (from an economic perspective), in order to eliminate an accounting mismatch between the valuation of the assets and the derivatives; or
- such financial assets contain embedded derivatives.

Note 19 contains a summary of the assets and liabilities that were designated at fair value through profit or loss at inception.

The structured products acquired by the Bank that correspond to financial instruments containing one or more embedded derivatives are classified under the fair value through profit or loss category because they always meet one of the three above mentioned conditions.

- Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity and which are not classified, at inception, at fair value through profit or loss or as available-for-sale.

Any reclassification or sale of financial assets recognised in this category that is not realised close to their maturity or that is not foreseen in the exceptions listed in the accounting standard, will force the Group to reclassify the entire portfolio as Available-for-sale financial assets and prevent it, during 2 years, from classifying any financial asset in this category.

- Available-for-sale financial assets

These are non-derivative financial assets (i) intended to be held for an indefinite period of time by the Bank, (ii) that are designated as available-for-sale at initial recognition and (iii) that are not classified in the categories previously referred to.

Initial recognition and measurement and derecognition

Acquisitions and sales of: (i) financial assets at fair value through profit or loss, (ii) held-to-maturity investments and (iii) available-for-sale financial assets are recognised on their trade date – the date on which the Bank commits to purchase or sell the asset.

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

Financial assets are derecognised when (i) the Bank's contractual rights to receive their cash flows have expired, (ii) the Bank has transferred substantially all the risks and rewards of ownership or (iii) although retaining some but not substantially all of the risks and rewards of ownership, the Bank has transferred the control over the assets.

Subsequent measurement

After its initial recognition, financial assets at fair value through profit or loss are subsequently valued at fair value, and gains and losses arising from changes in their fair value are recognised in the income statement.

Available-for-sale financial assets are also carried at fair value. Gains and losses arising from changes in their fair value are, however, recognised directly in reserves (other comprehensive income), until the financial assets are derecognised or an impairment loss is identified, at which time the cumulative gain or loss previously recognised in reserves is recognised in the income statement in the caption Net gains / (losses) from available-for-sale financial assets. Foreign exchange differences associated with shares and other equity instruments are also recognised in reserves, whilst foreign exchange differences arising from debt instruments are recognised in the income statement. Interest, calculated using the effective interest rate method, and dividends are recognised in the income statement.

Held-to-maturity investments are carried at amortised cost using the effective interest rate method, net of any impairment losses recognised.

The fair values of investments listed on active markets are based on bid prices, the bid price of the last transaction or on the last bid known. For unlisted securities, the Bank establishes fair value using (i) valuation techniques, including the use of recent similar arm's length transactions, discounted cash flow analyses and option pricing models customised to reflect the specificities and circumstances of the instrument, and (ii) valuation assumptions based on market information.

Reclassifications between categories

The Bank only reclassifies non-derivative financial assets with fixed or determinable payments and fixed maturities, from the available-for-sale financial assets category to the held-to-maturity investments category, provided it has the intention and ability to hold those financial assets to maturity.

Reclassifications between these categories are made at the fair value of the assets reclassified, determined at the date of the reclassification. The difference between this fair value and the respective nominal value is recognised in the income statement up to the asset's maturity, based on the effective interest rate method. The fair value reserve at the date of the reclassification is also recognised in the income statement, based on the effective interest rate method.

A financial asset that is no longer held for sale or repurchase in the short-term (even if acquired for said purpose) can, in rare circumstances, be reclassified from the portfolio of financial assets at fair value through profit or loss. The fair value of the asset on the reclassification date will be its new cost or amortised cost, as applicable.

After initial recognition, financial assets cannot be reclassified to the category of financial assets at fair value through profit or loss in the income statement.

Reclassifications of available-for-sale financial assets to loans and advances to customers – securitised loans - are permitted if there is an intention and ability to maintain same for the foreseeable future or until maturity.

In financial year 2017, no reclassifications of financial assets were realised between the above mentioned categories.

Impairment

The Bank periodically assesses whether there is objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or group of financial assets is impaired whenever there is objective evidence of impairment as a result of one or more events occurring after their initial recognition, such as: (i) for the equity securities, a prolonged or significant value decline in the market value of the securities below their acquisition cost, and

(ii) for the debt securities, when that event (or events) has an impact on the estimated future cash flows of the financial asset, or group of financial assets, that can be reliably estimated.

For held-to-maturity investments, the amount of the impairment loss is measured as the difference between the asset's book value and the present value of the estimated future cash flows (considering the recovery period) discounted at the financial asset's original effective interest rate and is recognised in the income statement. These assets are presented in the balance sheet net of impairment losses. If the held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, determined based on the rules of each contract. For held-to-maturity investments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through the income statement.

If there is objective evidence that an impairment loss of available-for-sale financial assets has occurred, the unrealised cumulative loss recognised in reserves (other comprehensive income), measured as the difference between the acquisition cost and the current fair value, net of any impairment loss on that financial asset previously recognised in the income statement, is taken to the income statement. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is reversed through the income statement up to the acquisition cost if the increase is objectively related to an event occurring after the impairment loss was recognised, except in relation to equity securities, for which impairment losses may not be reversed and gains are recognised in reserves.

2.6. Assets sold with repurchase agreements, securities loaned and short sales

Securities sold subject to repurchase agreements (repos) at a fixed price or at a price that corresponds to the sales price plus a lender's return are not derecognised from the balance sheet. The corresponding liability is included under amounts due to banks or to customers, as appropriate. The difference between the sale and repurchase price is treated as interest and deferred over the life of the agreement, using the effective interest rate method.

Securities purchased under agreements to resell (reverse repos) at a fixed price or at a price that corresponds to the purchase price plus a lender's return are not recognised in the balance sheet, the purchase price paid being recorded as loans and advances to banks or customers, as appropriate. The difference between the purchase and resale price is treated as interest and deferred over the life of the agreement, using the effective interest rate method.

Securities ceded under loan agreements are not derecognised in the balance sheet, being classified and measured in accordance with the accounting policy described in Note 2.5. Securities received under borrowing agreements are not recognised in the balance sheet.

Short sales correspond to securities sold that are not included in the Bank's assets. They are recorded as financial liabilities held for trade, at the fair value of the assets to be returned in the scope of the repurchase agreement. Gains and losses resulting from the change in their respective fair value are recognised directly in the income statement.

2.7. Financial liabilities

An instrument is classified as a financial liability when it contains a contractual obligation to transfer cash or another financial asset, regardless of its legal form. Financial liabilities are derecognised when the underlying obligation is liquidated, expires or is cancelled.

Non-derivatives financial liabilities include deposits from banks and customers, loans, debt securities, subordinated debt and short sales.

These financial liabilities are recognised (i) initially, at fair value less transaction costs and (ii) subsequently, at amortised cost, using the effective interest rate method, except for short sales and financial liabilities designated at fair value through profit or loss, which are measured at fair value.

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

- such financial liabilities are being hedged (from an economic perspective) in order to eliminate accounting mismatches between the valuation of the assets and the derivatives; or
- such financial liabilities contain embedded derivatives.

The structured products issued by the Bank, that correspond to financial instruments containing embedded derivatives - with the exception of the structured products for which the embedded derivatives were separated, recorded separately and revalued at fair value -, are classified under the fair value through profit or loss category because they always meet one of the above mentioned conditions.

The fair value of listed financial liabilities is their current market bid prices. In the absence of a quoted price, the Bank establishes the fair value using valuation techniques based on market information, including the issuer's own credit risk.

If the Bank repurchases debt securities issued, these are derecognised from the balance sheet and the difference between the carrying book value of the liability and its acquisition cost is recognised in the income statement.

2.8. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The legally enforceable right may not be contingent on future events, and must be enforceable in the course of the normal activity of NOVO BANCO, as well as in the event of default, bankruptcy or insolvency of the Bank or the counterpart.

2.9 Financial and performance guarantees

Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss due to non-compliance with the contractual terms of a debt instrument, namely the payment of principal and/or interest.

Financial guarantees are initially recognised in the financial statements at fair value. Financial guarantees are subsequently measured at the higher of (i) the fair value recognised on initial recognition and (ii) the amount of any financial obligation arising as a result of guarantee contracts, measured at the balance sheet date. Any change in the amount of the liability relating to guarantees is taken to the income statement.

Financial guarantee contracts issued by the Bank normally have a stated maturity date and a periodic fee, usually paid in advance, which varies in function of the counterpart risk, the amount and the time period of the contract. Consequently, the fair value of the financial guarantee contracts issued by the Bank, at the inception date, is approximately equal to the initial fee received, considering that the conditions agreed to are market conditions. Hence, the amount recognised at the contract date is equal to the amount of the commission initially received, which is recognised in the income statement over the period to which it relates. Subsequent periodic fees are recognised in the income statement in the period to which they relate.

Performance guarantees

Performance guarantees are contracts that result in the compensation of a party if the other does not comply with its contractual obligation. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of the commissions received during the contract period. When there is a breach of contract, the Bank has the right to reverse the guarantee, recognizing the amounts in Loans and advances to customers after transferring the compensation for the losses to the collateral taker.

2.10. Equity instruments

An instrument is classified as an equity instrument when it does not contain a contractual obligation to deliver cash or another financial asset, regardless of its legal form, but evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Transaction costs directly attributable to the issuance of equity instruments are recorded against equity as a deduction from the amount issued. Amounts paid or received relating to acquisitions or sales of equity instruments are recognised in equity, net of transaction costs.

Distributions to holders of an equity instrument are deducted directly from equity as dividends, when declared.

2.11. Foreclosed properties and non-current assets held for sale

Non-current assets or disposal groups (groups of assets to be disposed of together and the related liabilities that include at least one non-current asset) are classified as held for sale when their carrying values will be recovered mainly through a sale transaction (including those acquired exclusively with a view to their subsequent disposal), the assets or disposal groups are available for immediate sale and the sale is highly probable (within the period of one year).

Immediately before the initial classification as held for sale, the measurement of the non-current assets (or of all the assets and liabilities in a disposal group) is brought up to date in accordance with the applicable IFRS. Subsequently, these assets or disposal groups are remeasured at the lower of their initial recognition value and fair value less costs to sell, with unrealised losses so determined being recorded in the income statement for the financial year. When the carrying book value corresponds to fair value less costs to sell, the fair value level of the IFRS 13 hierarchy corresponds to level 3.

In the scope of its loan granting activity, the Bank incurs in the risk of the borrower failing to repay all the amounts due. In case of loans and advances with mortgage collateral, the Bank executes these and receives real estate properties resulting from foreclosure. Due to the provisions of the “Regime Geral das Instituições de Crédito e Sociedades Financeiras” (RGICSF), banks are prevented, unless authorised by Banco de Portugal, from acquiring real estate property that is not essential to their installation and daily operations and the pursuit of their object (no. 1 of article 112 of RGICSF), being able to acquire, however, real estate property in exchange for loans granted by same. This real estate property must be sold within 2 years, period which may, based on reasonable grounds, be extended by Banco de Portugal, on the conditions to be determined by this Authority (article 114 of RGICSF).

Although the Bank's objective is to immediately dispose of all real estate property acquired as payment in kind for loans, during financial year 2016 the Bank altered the classification of this real estate properties from Non-current assets held for sale to Other assets, due to the permanence of same in the portfolio exceeding 12 months. However, the accounting method has not changed, these being initially recognised at the lower of their fair value less costs to sell and the carrying value of the subjacent loans. Subsequently, this real estate property is measured at the lower of its initial carrying value and the corresponding fair value less costs to sell and is not depreciated. Unrealised losses in these assets, so determined, are recorded in the income statement.

The valuation of this real estate property is performed in accordance with one of the following methodologies, applied in accordance with the specific situation of the asset:

(i) *Market Method*

The Market Comparison Criteria takes as a reference transaction values of similar and comparable real estate properties to the real estate property under valuation, obtained through market prospection carried out in the area.

(ii) *Income Method*

Under this method, the real estate property is valued based on the capitalization of its net income, discounted to the present using the discounted cash-flow method.

(iii) *Cost Method*

The Cost Method is a criterion that separates the value of the real estate property into its fundamental components: urban ground value and urbanity value; construction value; and indirect costs value.

Valuations carried out are performed by independent expert valuers specialised in these services. The valuation reports are analysed internally, with an assessment of the adequacy of the processes, comparing the sales value with the revalued amounts of the assets.

2.12. Other tangible assets

The Banks's other tangible assets are measured at cost less accumulated depreciation and impairment losses. The cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs with other tangible assets are only recognised when it is probable that future economic benefits associated with them will flow to the Bank. All repair and maintenance costs are charged to the income statement during the period in which they are incurred, on the accrual basis.

Land is not depreciated. The depreciation of other tangible assets is calculated using the straight-line method, at the following depreciation rates that reflect their estimated useful lives:

	Number of years
Property for own use	35 to 50
Improvements in leasehold property	10
Computer equipment	4 to 5
Furniture	4 to 10
Fixtures	5 to 10
Security equipment	4 to 10
Office equipment	4 to 10
Transport equipment	4
Other	5

The useful lives and residual values of the tangible fixed assets are reviewed at each reporting date.
When there is an indication that an asset may be impaired, IAS 36 requires that its recoverable amount be estimated and an impairment loss be recognised when the book value of the asset exceeds its recoverable amount. Impairment losses are recognised in the income statement, being reversed in subsequent periods, when the reasons that led to their initial recognition cease to exist. For this purpose, the new depreciated amount shall not exceed that which would be recorded had the impairment losses not been imputed to the asset, but considering the normal depreciation the asset would have been subject to.

The recoverable amount is determined as the higher of its net selling price and its value in use, which is based on the net present value of the estimated future cash flows arising from the continued use and ultimate disposal of the asset at the end of its useful life.

On the date of the derecognition of a tangible fixed asset, the gain or loss determined as the difference between the net selling price and the carrying book value is recognised under the caption Other operating income and expenses.

2.13. Intangible assets

The costs incurred with the acquisition, production and development of software are capitalised, as are additional costs incurred by the Bank to implement said software. These costs are amortised on a straight-line basis over their expected useful lives, which usually range between 3 and 6 years.

Costs that are directly associated with the development of specific software applications, that will probably generate economic benefits beyond one financial year, are recognised and recorded as intangible assets. These costs include staff costs incurred whilst they are directly associated with the projects in question.

All remaining costs associated with information technology services are recognised as an expense as incurred.

2.14. Leases

The Bank classifies its lease agreements as finance leases or operating leases taking into consideration the substance of the transaction rather than its legal form, in accordance with IAS 17 – Leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases are classified as operating leases.

Operating leases

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

Finance leases

- As lessee

Finance lease contracts are recorded at the inception date, both under assets and liabilities, at the cost of the asset leased, which is equal to the present value of the outstanding lease instalments. Instalments comprise (i) an interest charge, which is recognised in the income statement and (ii) the repayment of principal, which is deducted from liabilities. Financial charges are recognised as costs over the lease period, in order to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

- As lessor

Assets leased out are recorded in the balance sheet as loans granted, at an amount equal to the net investment made in the leased assets, together with any estimated unguaranteed residual value.

Interest included in instalments charged to customers is recorded as interest income, whilst repayments of principal, also included in the instalments, are deducted from the amount of the loans granted. The recognition of the interest reflects a constant periodic rate of return on the lessor's net outstanding investment.

2.15. Employee benefits

Pensions

Pursuant to the signing of the Collective Labor Agreement (“Acordo Colectivo de Trabalho” (ACT)) for the banking sector and its subsequent amendments resulting from the 3 tripartite agreements described in Note 13, pension funds and other mechanisms were set up to cover liabilities assumed with pensions on retirement, disability, survival and health-care benefits.

The liabilities’ coverage is assured through pension funds managed by GNB - Sociedade Gestora de Fundos de Pensões, SA, subsidiary of the Group.

The existing pension plans are defined benefit plans, given that they define the criteria used to determine the pension benefit to be received by employees during retirement, usually dependent on one or more factors such as age, years of service and salary level.

The retirement pension liabilities were calculated as at 31 December 2017 and 2016, for each plan individually, using the Projected Unit Credit Method, and will be annually reviewed by qualified independent actuaries. The discount rate used in this calculation is determined with reference to market rates associated with high-quality corporate bonds, denominated in the currency in which the benefits will be paid out and with a maturity similar to the expiry date of the plan’s liabilities.

The Bank determines the net interest income / expense for the period incurred with the pension plan by multiplying the plan’s net assets / liabilities (liabilities net of the fair value of the fund’s assets) by the discount rate used to measure the retirement pension liabilities referred to above. On that basis, the net interest income / expense was determined based on the interest cost on the retirement pension liabilities net of the expected return on the funds’ assets, both calculated using the discount rate applied in the determination of the retirement pension liabilities.

Remeasurement gains and losses, namely (i) actuarial gains and losses arising due to differences between actuarial assumptions used and real values verified (experience adjustments) and changes in actuarial assumptions and (ii) gains and losses arising due to the difference between the expected return on the fund’s assets and the actual investment returns, are recognised in equity under the caption other comprehensive income.

The Bank recognizes as a cost in the income statement a net total amount that includes (i) the current service costs, (ii) the net interest income / expense with the pension fund, (iii) the effect of early retirement, (iv) the past service costs, and (v) the effect of settlements or curtailments occurring during the period. The net interest income / expense with the pension plan is recognised as interest and similar income or interest expense and similar charges, depending on its nature. Early retirement costs correspond to increases in liabilities due to employees retiring before turning 65. Whenever the possibility of the early retirement provided for in the pension fund regulation is invoked, the responsibilities of same must be incremented by the value of the actuarial calculation of the liabilities corresponding to the period between the early retirement and the employee turning 65.

The Bank makes payments to the funds in order to assure their solvency, the minimum levels set by Banco de Portugal being: (i) the liability with pensioners must be totally funded at the end of each period, and (ii) the liability relating to past service costs for active employees must be funded at a minimum level of 95%.

The Bank assesses the recoverability of any excess in a fund in function of the retirement pension liabilities, based on the expectation of reductions in future contributions.

Health-care benefits

Banking employees are assured health-care benefits through a specific Social-Medical Assistance Service. This Social-Medical Assistance Service (SAMS) is an autonomous entity which is managed by the respective Union.

SAMS provides its beneficiaries services and/or contributions with medical assistance expenses, diagnostics, medication, hospitalization and surgeries, in accordance with its funding availability and internal regulations.
Until 1 February 2017, the Bank's annual mandatory contributions to SAMS amounted to 6.50% of the total annual remuneration of active employees, including, amongst others, the holiday subsidy and Christmas subsidy.

Arising from the signature of the new Collective Labor Agreement (ACT) on 5 July 2016, published in Labor Bulletin (Boletim do Trabalho) no. 29, of 8 August 2016, the Bank's contributions to SAMS as from 1 February 2017, correspond to a fixed amount (as per Annex VI of the new ACT) for each employee, 14 times a year.

The calculation and recognition of the Bank's liability with post-retirement health-care benefits is similar to the calculation and recognition of the pension liability described above. These benefits are covered by the Pension Fund, which presently covers all liabilities with pensions and health-care benefits.

Long-term service bonus and Career bonus

In accordance with the ACT ("Acordo Colectivo de Trabalho") for the Banking Sector, in force until July 2016, NOVO BANCO assumed the commitment to pay active employees who completed 15, 25 and 30 years of service in the Bank, long-term service bonuses corresponding, respectively, to one, two and three times their monthly remuneration paid at the date the bonuses are paid out.

At the date of early retirement due to disability or presumed disability, employees had the right to a long-term service bonus proportional to that which they would receive if they were to remain in service until meeting the next bonus level.

These long-term service bonuses were accounted for by the Bank in accordance with IAS 19, as other long-term employee benefits.

The Bank's liability with these long-term service bonuses were periodically estimated by the Bank using the Projected Unit Credit Method. The actuarial assumptions used were based on expectations as to future salary increases and mortality tables. The discount rate used in this calculation was determined using the methodology described for retirement pensions.

In each period, the increase in the liability for long-term service bonuses, including actuarial gains and losses and past service costs, was charged to the income statement.

Arising from the signature of the new ACT on 5 July 2016, the long-term service bonus was extinguished, with the Bank having paid its employees the proportional amounts relating to the premium which would have been due on the entry into force of the new ACT.

Instead of the long-term service bonus, the new ACT provides for the payment by the Bank of a career bonus, due the moment immediately prior to the retirement of the employee when said employee retires at the service of the Bank, corresponding to 1.5 of his/her salary at the time of its payment.

The career bonus is accounted for by the Bank in accordance with IAS 19, as a long-term employee benefit. The remeasurement effects and past service costs of this benefit are recognised in the income statement for the year, as occurred with the accounting model for long-term service bonuses.

The amount of the Bank's liability with this career bonus is periodically estimated based on the Projected Unit Credit Method. The actuarial assumptions used are based on expectations of future salary increases and mortality tables. The discount rate used in this calculation is determined applying the same methodology described above for retirement pensions.

Employees' variable remuneration

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

- Profit-sharing and bonus plans

The Bank recognizes the cost expected with profit-sharing pay-outs and bonuses when it has a present, legal or constructive, obligation to make such payments as a result of past events, and can make a reliable estimate of the obligation.

- Obligations with holidays, holiday subsidy and Christmas subsidy

In accordance with the legislation in force in Portugal, employees are annually entitled to one month of holidays and one month of holiday subsidy, this being a right acquired in the year prior to their payment. In addition, employees are annually entitled to one month of Christmas subsidy, which right is acquired throughout the year and settled during the month of December of each calendar year. Hence, these liabilities are recorded in the period in which the employees acquire the right to same, regardless of the date of their respective payment.

2.16. Corporate Income tax

Corporate income tax comprises current tax and deferred tax. Corporate income tax will be recognised in the income statement except to the extent that it relates to items that should be recognised directly in equity, in which case it will be recognised under deferred tax reserves (other comprehensive income). Corporate income tax to be recognised directly in equity relating to fair value remeasurement of available-for-sale financial assets and cash flow hedges will be subsequently recognised in the income statement when the gains or losses giving rise to said income tax are also recognised.

Current tax is the tax expected to be paid on the taxable profit for the year, calculated using tax rules and tax rates enacted or substantively enacted in each jurisdiction. The tax is recognised in each financial reporting period based on management estimates as regards the average effective tax rate foreseen for the entire fiscal year.

Deferred tax is calculated on timing differences arising between the carrying book values of assets and liabilities for financial reporting purposes and their respective tax base, and is calculated using the tax rates enacted or substantively enacted at the balance sheet date in each jurisdiction and that are expected to apply when the timing differences are reversed.

Deferred tax liabilities are recognised for all taxable timing differences, differences arising on the initial recognition of assets and liabilities that neither affect the accounting nor taxable profit, and that do not result on a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future and the Bank does not control the timing of the reversal of the timing differences. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible timing differences can be offset. Deferred tax liabilities are always accounted for, regardless of the performance of NOVO BANCO.

The taxable income or loss determined by the Bank may be corrected by the Portuguese Tax Authorities during a period of four years, unless any tax credits have been deducted or used in which case the statutory limitation period is that of the financial year of the deduction or use (5 or 12 years in the case of tax losses, depending on the financial year). The Executive Board of Directors considers that any corrections, resulting mainly from differences in interpretation of tax legislation, will not have a material effect on the financial statements.

For the balance sheet presentation, as established in IAS 12, the Bank offsets deferred tax assets and liabilities since the corporate income tax paid to the Tax Authorities is determined on a net basis, i.e., offsetting current tax assets against current tax liabilities.

2.17. Provisions and Contingent liabilities

Provisions are recognised when: (i) the Bank has a current legal or constructive obligation, (ii) it is probable that its settlement will be required in the future and (iii) a reliable estimate of the obligation can be made.

Provisions related to legal cases opposing the Bank to third parties, are constituted according to internal risk assessments made by Management, with the support and advice of its legal advisors.

When the effect of the passage of time (discounting) is material, the provision corresponds to the net present value of the expected future payments, discounted at an appropriate rate considering the risk associated with the obligation. In these cases, the increase in the provision due to the passage of time is recognised in financial expenses.

Restructuring provisions are recognised when the Bank has approved a formal, detailed restructuring plan and such restructuring has either commenced or has been publicly announced.

A provision for onerous contracts will be recognised when the benefits expected to be derived by the Bank from a contract are lower than the unavoidable costs of meeting its obligation under the contract. This provision will be measured at the present value of the lower of the estimated cost of terminating the contract and the estimated net costs of continuing the contract.

If a future outflow of funds is not probable, this situation reflects a contingent liability. Contingent liabilities are always disclosed, except when the likelihood of their occurrence is remote.

In preparing the Bank's separate and consolidated financial statements as at 31 December 2017 and 2016, the Executive Board of Directors reflected the Resolution Deliberation and related decisions taken by Banco de Portugal, namely the decisions of 29 December 2015, in particular that relating to the clarification of contingent liabilities. In this context, these financial statements, in particular with respect to provisions for contingencies arising from lawsuits, reflect the exact perimeter of assets, liabilities, off-balance sheet elements and assets under management of BES transferred to NOVO BANCO, as determined by Banco de Portugal and taking as a reference the current legal bases and the information available as at this date.

2.18. Recognition of interest income and expense

Interest income and expense is recognised in the income statement under interest and similar income and interest expense and similar charges for all financial instruments measured at amortised cost and for all available-for-sale financial assets, using the effective interest rate method. Interest arising on financial assets and liabilities at fair value through profit or loss is also included under interest and similar income or interest expense and similar charges, as appropriate.

The effective interest rate is the rate that discounts the estimated future cash payments or receipts throughout the expected life of the financial instrument or, when appropriate, a shorter period to the net book value of the financial asset or liability. The effective interest rate is calculated at inception and is not subsequently revised, except in respect of financial assets and liabilities with a variable interest rate. In this case, the effective interest rate is periodically revised, taking into consideration the impact of the change in the interest rate of reference on the estimated future cash flows.

When calculating the effective interest rate, the Bank estimates the cash flows considering all the contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all the commissions that are an integral part of the effective interest rate, transaction costs and all other related premiums or discounts.

Interest on loans and advances to customers includes the interest for which the impairment losses have been recognised.

For derivative financial instruments, excluding derivatives held for risk management purposes (see Note 2.3), the interest component of the changes in their fair value is not separated and is classified under net gains / (losses) from financial assets and liabilities at fair value through profit or loss. The interest component of the changes in the fair value of derivatives held for risk management purposes is recognised under interest and similar income or interest expense and similar charges.

2.19. Recognition of fee and commission income

Fees and commissions are recognised as follows:

- Fees and commissions that are earned on the execution of a significant act, such as loan syndication fees, are recognised as income when the significant act has been completed.
- Fees and commissions earned over the period during which the services are provided are recognised as income in the financial year in which the services are provided.
- Fees and commissions that are an integral part of the effective interest rate of a financial instrument are recognised as income using the effective interest rate method.

2.20. Recognition of dividend income

Dividend income is recognised when the right to receive the dividend payment is established.

2.21 Segmental reporting

According to paragraph 4 of IFRS 8 – Operating Segments, the Bank is exempt from presenting segmental reporting on a separate basis, given that the separate financial statements are presented together with the consolidated financial statements.

2.22. Earnings per share

The basic earnings per share is calculated by dividing the net income available to the shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

For the diluted earnings per share calculation, the weighted average number of ordinary shares outstanding is adjusted to reflect the impact of all potential dilutive ordinary shares, such as convertible debt and share options granted to employees. The dilution effect translates into a decrease in earnings per share, based on the assumption that the convertible instruments will be converted or the options granted exercised.

2.23. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with a maturity of less than three months from the date of acquisition/ contracting and which risk of change in value is immaterial, including cash, deposits with Central Banks and deposits with other credit institutions. Cash and cash equivalents exclude restricted balances with Central Banks.

2.24. Insurance and reinsurance brokerage services

NOVO BANCO is an entity authorised by the Instituto de Seguros de Portugal (hereafter also "Portuguese Insurance Institute") to practice insurance brokerage activities, under the Category of Dependent Insurance Broker, pursuant to article 8, paragraph a), subparagraph i), of Decree-Law no. 144/2006, of 31 July, carrying out this insurance intermediation activity through the sale of life and non-life insurance contracts. As compensation for the insurance intermediation services provided, the Bank receives commissions that are defined in agreements / protocols established between the Bank and the Insurance Companies.

The commissions received for the insurance intermediation services take the following forms:

- commissions that include a fixed and a variable component. The fixed component is determined by applying a predetermined rate to the amount of the subscriptions realised through the Bank and the variable component is calculated monthly following pre-established criteria, with the total annual commission being equal to the sum of the commissions calculated monthly;
- other variable commissions, which are determined annually and paid over by the Insurance Company at the beginning of the year subsequent to that to which they relate.

The commissions received for insurance brokering services are recognised on an accrual basis, meaning that commissions which are settled in a period different to that to which they relate, are recorded as an account receivable under a caption of Other assets.

NOTE 3 – MAIN ACCOUNTING ESTIMATES AND JUDGEMENTS USED IN PREPARING THE FINANCIAL STATEMENTS

Considering that the current accounting framework requires applying judgements and calculating estimates involving some degree of subjectivity, the use of different parameters or judgements based on different evidence may result in different estimates. The main accounting estimates and judgments used in the application of the accounting principles by the Bank are discussed in this Note in order to improve the understanding of how their application affects the Bank's reported results and disclosure.

3.1. Impairment of available-for-sale financial assets

The Bank determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decline in their fair value or when it foresees an impact on the assets' future cash flows. This determination requires a judgement based on all available relevant information, including the normal volatility of the financial instruments' prices. For this purpose and considering the high volatility of the markets, the following parameters are considered triggers of the existence of impairment:

(i) Equity securities: continued or significant decline in its market value against the acquisition cost;
(ii) Debt securities: objective evidence of events that have an impact on the recoverability of the estimated future cash flows of these assets.

In addition, valuations are generally obtained through market quotations (mark to market) or valuation models (mark to model) that require the use of certain assumptions or judgement in defining fair value estimates.

The use of alternative methodologies and different assumptions and estimates can result in a different level of impairment losses being recognised. The amount of the impairment of available-for-sale financial assets determined based on the above criteria is indicated in Note 20.

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

Fair values are based on listed market prices when available; otherwise fair value is determined with reference to similar recent arm's length transaction prices or using valuation methodologies, based on the net present value of estimated future cash flows taking into consideration market conditions for the underlying instruments, the time value, the yield curve and volatility factors, in accordance with IFRS 13 - Fair Value Measurement. These methodologies may require the use of assumptions or judgements in estimating fair value.
Consequently, the use of a different methodology or different assumptions or judgements in applying a particular model could have produced different financial results, summarised in Notes 41 and 42.

3.3. Impairment losses of loans and advances to customers

The Bank reviews its loan portfolio on a regular basis to assess impairment, as described in Note 2.4.

The assessment process applied to the loan portfolio to determine whether an impairment loss should be recorded in the income statement is subject to numerous estimates and judgements. The default frequency, risk ratings, loss recovery rates and the estimation of both the amount and timing of future cash flows, amongst other factors, are considered in making this assessment.

The use of alternative methodologies and different assumptions and estimates could result in a different level of impairment losses being recognised. The amount of the impairment of loans and advances to customers determined based on the above criteria is indicated in Note 22.

3.4. Corporate income taxes

The Bank is subject to corporate income tax in numerous jurisdictions. Certain interpretations and estimates are required in determining the overall corporate income tax amount. Different interpretations and estimates could result in a different level of income tax, current and deferred, being recognised in the period and evidenced in Note 34.

This aspect assumes greater relevance for the purposes of the analysis of the recoverability of deferred taxes, since the Bank considers projections of future taxable income based on a set of assumptions, including estimates of pre-tax results, adjustments to the taxable income and its interpretation of tax legislation. Thus, the recoverability of deferred tax assets depends on the implementation of the Executive Board of Director's strategy, namely the ability to generate the estimated taxable income and interpret the tax legislation.

The Tax Authorities are entitled to review and adjust the self-assessed corporate income tax returns of NOVO BANCO during a period of four years or during the period that tax losses or tax credits can be deducted (up to twelve years, depending on the financial year during which they were assessed). Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of tax law. However, Management believes that in the context of the separate financial statements no additional charges of a significant amount will occur.

3.5. Pensions and other employee benefits

The determination of the retirement pension liabilities presented in Note 13 requires the use of assumptions and estimates, including the use of actuarial tables, assumptions regarding the growth of pensions, salaries and discounts rates. These assumptions are based on the expectations of NOVO BANCO for the period during which the liabilities will be settled as well as other factors that may impact the costs and liabilities of the pension plan. The sensitivity analysis of the above assumptions is presented in Note 13.

Changes in these assumptions could materially affect the amounts determined.

3.6. Provisions

The Bank recognizes provisions intended to cover for losses arising from the restructuring processes and commercial offers approved by the Executive Board of Directors of the Bank, when these are not opposed by Banco de Portugal and CMVM. The amount of the provisions reflect NOVO BANCO's best estimate as each reporting date. The subjectivity inherent to the determination of the probability and amount of the internal resources required for the payment of the obligations may lead to significant adjustments (a) due to variations in the assumptions used (b) for the future recognition of provisions previously disclosed as contingent liabilities; and/or (c) for the future write-off of provisions, when they come to be classified as mere contingent liabilities. The provisions determined are detailed in Note 33.

3.7. Foreclosed properties and non-current assets held for sale

Foreclosed properties and non-current assets held for sale are measured at the lower of net book value and fair value less selling costs.

The fair value of these assets is determined based on valuations carried out by independent entities specializing in this type of service, using the market, income or cost methods defined in Note 2.11. The valuation reports are analysed internally, namely comparing the sales values with the revalued values of the properties in order to maintain the valuation parameters and processes aligned with the market evolution.

The use of alternative methodologies and different assumptions could result in a different level of fair value with an impact on the respective balance sheet amount recognised.

NOTE 4 – NET INTEREST INCOME

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2017			31.12.2016		
	From assets / liabilities at amortized cost and available-for-sale assets	From assets / liabilities at fair value through profit or loss	Total	From assets / liabilities at amortized cost and available-for-sale assets	From assets / liabilities at fair value through profit or loss	Total
Interest and similar income						
Interest from loans and advances	617 444	24 073	641 517	766 977	16 507	783 484
Interest from financial assets at fair value through profit or loss	75	-	75	-	89	89
Interest from deposits with and loans and advances to banks	36 351	-	36 351	62 399	-	62 399
Interest from available-for-sale financial assets	91 680	-	91 680	87 314	-	87 314
Interest from derivatives held for risk management purposes	-	19 739	19 739	-	34 382	34 382
Other interest and similar income	3 585	-	3 585	6 130	-	6 130
	749 135	**43 812**	**792 947**	**922 820**	**50 978**	**973 798**
Interest expense and similar charges						
Interest on debt securities	201 233	128	201 361	270 975	1 841	272 816
Interest on amounts due to customers	217 956	1 895	219 851	216 324	2 200	218 524
Interest on deposits from Central Banks and other banks	43 434	11 197	54 631	56 897	14 811	71 708
Interest on derivatives held for risk management purposes	-	25 404	25 404	-	24 180	24 180
Other interest and similar charges	10 541	-	10 541	11 736	-	11 736
	473 164	**38 624**	**511 788**	**555 932**	**43 032**	**598 964**
	275 971	**5 188**	**281 159**	**366 888**	**7 946**	**374 834**

The interest from (i) deposits with and loans and advances to banks, (ii) on amounts due to customers and (iii) on deposits from Central Banks and other banks include, as at 31 December 2017, respectively, the amounts of Euros 523 thousand, Euros 3 555 thousand and Euros 5 842 thousand in operations with repurchase agreements (31 December 2016: Euros 533 thousand, Euros 6 thousand and Euros 18 415 thousand, respectively).

The Interest income and Interest expenses captions relating to interest from derivatives held for risk management purposes include, in accordance with the accounting policy described in Notes 2.3 and 2.18, interest from hedging derivatives and from derivatives used to manage the economic risk of certain financial assets and liabilities designated at fair value through profit or loss, as per the accounting policies described in Notes 2.4, 2.5 and 2.7.

NOTE 5 – INCOME FROM EQUITY INSTRUMENTS

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Dividends from subsidiaries and associated companies	18 495	92 244
Dividends from available-for-sale financial assets	5 055	40 871
	23 550	133 115

As at 31 December 2017, this caption includes dividends received from GNB Gestão de Ativos in the amount of Euros 10 500 thousand, from Unicre of Euros 3 396 thousand, from BEST of Euros 2 471 thousand and from GNB Seguros of Euros 2 128 thousand (31 December 2016: includes dividends received from GNB Gestão de Ativos in the amount of Euros 100 000 thousand, from Unicre of Euros 14 442 thousand and from ES Health Care of Euros 9 400 thousand).

NOTE 6 – NET FEE AND COMMISSION INCOME

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Fee and commission income		
From banking services	231 447	212 458
From guarantees provided	64 569	72 991
From transactions of securities	4 665	5 453
From commitments to third parties	10 198	12 255
Other fee and commission income	38 414	32 775
	349 293	**335 932**
Fee and commission expense		
With banking services rendered by third parties	48 749	46 721
With guarantees received	2 914	33 374
With transactions of securities	5 264	5 748
Other fee and commission expenses	6 425	5 293
	63 352	**91 136**
	285 941	**244 796**

The caption Fee and commission expense with guarantees received includes, as at 31 December 2017 and 2016, an amount of Euros 2.0 million and Euros 32.9 million, respectively, relating to commissions borne with the guarantee received from the Portuguese Government for the debt securities issued (see Note 32).

NOTE 7 – NET GAINS / (LOSSES) FROM FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2017			31.12.2016		
	Gains	Losses	Total	Gains	Losses	Total
Securities held for trading						
Bonds and other fixed income securities						
Issued by government and public entities	8	7	1	-	2	(2)
Issued by other entities	486	163	323	373	221	152
Shares	161	3	158	212	175	37
Other variable income securities	-	-	-	27	-	27
	655	**173**	**482**	**612**	**398**	**214**
Derivative financial instruments						
Foreign exchange rate contracts	39 128	43 009	(3 881)	56 827	51 601	5 226
Interest rate contracts	801 024	800 886	138	1 370 670	1 471 948	(101 278)
Equity / Index contracts	61 288	20 085	41 203	52 595	19 673	32 922
Credit default contracts	71 017	87 497	(16 480)	107 091	121 002	(13 911)
Other	7 020	55 542	(48 522)	24 668	9 791	14 877
	979 477	**1 007 019**	**(27 542)**	**1 611 851**	**1 674 015**	**(62 164)**
Other financial assets at fair value through profit or loss						
Securities						
Bonds and other fixed income securities						
Issued by other entities	484	7 364	(6 880)	38 214	517	37 697
Shares	514	3	511	-	3 119	(3 119)
Other variable income securities	-	-	-	8	2 277	(2 269)
	998	**7 367**	**(6 369)**	**38 222**	**5 913**	**32 309**
Other financial assets (1)						
Loans and advances to customers	8 867	41 476	(32 609)	35 972	5 656	30 316
	8 867	**41 476**	**(32 609)**	**35 972**	**5 656**	**30 316**
Financial liabilities (1)						
Deposit from banks	2 339	-	2 339	78 506	-	78 506
Due to customers	2 067	-	2 067	21 381	37	21 344
Debt securities issued	82	-	82	685	-	685
	4 488	**-**	**4 488**	**100 572**	**37**	**100 535**
	14 353	**48 843**	**(34 490)**	**174 766**	**11 606**	**163 160**
	994 485	**1 056 035**	**(61 550)**	**1 787 229**	**1 686 019**	**101 210**

(1) Includes the fair value change of hedged assets / liabilities or at fair value option, as presented in Note 23

As at 31 December 2017, this caption includes a negative effect of Euros 63.7 million relating to the change in fair value of financial liabilities designated at fair value through profit or loss, attributable to the Bank´s own credit risk (31 December 2016: positive effect of Euros 24.2 million).

In accordance with the accounting policies followed by the Bank, financial instruments are initially recognised at fair value. It is deemed that the best evidence of the fair value of the instrument at inception is the transaction price. However, in certain circumstances, the fair value of a financial instrument at inception, determined based on valuation techniques, may differ from the transaction price, namely due to the existence of a intermediation fee, originating a day one profit.

The Bank recognizes in its income statement the gains arising from the intermediation fee (day one profit), which is generated, primarily, through currency and derivative financial product intermediation, given that the fair value of these instruments, both at inception and subsequently, is determined based solely on observable market data and reflects the Bank's access to the wholesale market.

As at 31 December 2017, the gains recognised in the income statement arising from intermediation fees amounted to approximately Euros 6 137 thousand (31 December 2016: Euros 6 597 thousand) and are essentially related to foreign currency transactions.

NOTE 8 – NET GAINS / (LOSSES) FROM AVAILABLE-FOR-SALE FINANCIAL ASSETS

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2017			31.12.2016		
	Gains	Losses	Total	Gains	Losses	Total
Bonds and other fixed income securities						
Issued by government and public entities	46 944	6 459	40 485	26 598	20 367	6 231
Issued by other entities	894	28	866	273	88	185
Shares	7 328	165	7 163	45 595	2 054	43 541
Other variable income securities	8 141	430	7 711	4 948	43 312	(38 364)
	63 307	**7 082**	**56 225**	**77 414**	**65 821**	**11 593**

During the year 2016, in the scope of the Visa Europe acquisition by Visa International, a gain of Euros 26 583 thousand was recorded.

In addition, during the 2017 financial year, income from equity instruments in the amount of Euros 5 055 thousand, which includes dividends received from SIBS in the amount of Euros 1 483 thousand, from Euronext in the amount of Euros 1 243 thousand and of ESA – Energia in the amount of Euros 950 thousand (31 December 2016: Euros 19 906 thousand, including dividends received from ES Health Care in the amount of Euros 9 444 thousand and from SIBS in the amount of Euros 2 027 thousand).

NOTE 9 – NET GAINS / (LOSSES) FROM FOREIGN EXCHANGE DIFFERENCES

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2017			31.12.2016		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange revaluation	1 031 745	1 001 296	30 449	956 000	950 996	5 004
	1 031 745	**1 001 296**	**30 449**	**956 000**	**950 996**	**5 004**

This caption includes the results of the foreign exchange revaluation of monetary assets and liabilities denominated in foreign currency in accordance with the accounting policy described in Note 2.2.

NOTE 10 – NET GAINS / (LOSSES) FROM THE SALE OF OTHER ASSETS

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Loans and advances to customers	(35 123)	(215)
Real estate properties	1 123	(15 495)
Equipment	(376)	(197)
Financial shareholdings	85 580	5 237
Other	2 070	(4 888)
	53 274	**(15 558)**

As at 31 December 2017, the capital gain recorded in financial shareholdings corresponds to the gain generated on the sale of 75% of NB Ásia and 100% of Praça Marquês.

NOTE 11 – OTHER OPERATING INCOME AND EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Other operating income		
IT services	597	251
Gains / (losses) on recoveries of loans	34 924	31 605
Non-recurring advisory services	436	1 605
Renegotiation of ACT (Collective Labor Agreement)	-	28 189
Contingent Capital Mechanism	791 695	-
Gains on the acquisition of debt issued by the Group (see Note 32)	176 220	-
Other income	52 032	19 823
	1 055 904	**81 473**
Other operating expenses		
Direct and indirect taxes	(8 903)	(8 638)
Contributions to the Deposits Guarantee Fund	(19)	(78)
Contributions to the Resolution Fund	(7 673)	(6 599)
Contributions to the Sole Resolution Fund	(19 602)	(25 030)
Banking levy	(30 256)	(36 342)
Membership subscriptions and donations	(1 868)	(2 066)
Charges of Supervisory entities	(1 670)	(1 615)
Contractual indemnities (SPE)	(3 307)	(11 838)
Other expenses	(49 497)	(33 128)
	(122 795)	**(125 334)**
Other operating income / (expenses)	**933 109**	**(43 861)**

In light of the conditions agreed in the sale process of NOVO BANCO, a Contingent Capital Mechanism was created . In this context, in case the capital ratios fall below a certain level and losses are registered in a delimited portfolio of assets, Fundo de Resolução will pay an amount corresponding to the lower value between the registered losses and the necessary amount to replace the capital ratio to the corresponding level, until a maximum of Euros 3 890 million. The capital corresponds to a pre-defined asset perimeter, with an initial net carrying book value (June 2016) of circa Euros 7.9 billion. As at 31 December 2017, these assets presented a net carrying book value of Euros 5.4 billion (mainly due to the losses registered and the occurrence of the receivables). Regarding the losses presented by NOVO BANCO as at 31 December 2017, the conditions which determine that in 2018 Fundo de Resolução will have a payment obligation of Euros 791 695 thousand (see note 28), were verified.

Following acquisitions made during the 2017 financial year and the realization of the Liability Management Exercise (LME), the Bank recognised a gain of Euros 176.2 million (see Note 32).

NOTE 12 – STAFF COSTS

The breakdown of the Staff costs is as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Wages and salaries	185 819	196 765
Remuneration	184 368	196 765
Career bonuses (see Note 13)	1 451	-
Mandatory social charges	57 187	64 129
Costs with post-employment benefits (see Note 13)	1 919	1 246
Other costs	4 187	5 284
	249 112	**267 424**

The cost with remuneration and other benefits attributed to key management personnel of NOVO BANCO, is presented in Note 39.

The number of employees of the Bank, considering both permanent and fixed-term employees, has the following breakdown by professional category:

	31.12.2017	31.12.2016
Senior management functions	426	452
Middle management functions	592	658
Specific functions	2 163	2 172
Administrative and other functions	1 789	1 976
	4 970	**5 258**

The provisions and costs related to the restructuring processes are presented in Note 33.

NOTE 13 – EMPLOYEE BENEFITS

Pension and health-care benefits

In compliance with the Collective Labor Agreement (ACT) for the banking sector established with the unions, the Bank undertook the commitment to grant its employees, or their families, pensions on retirement, disability and survival. These payments consist of a percentage that increases in function of years of service, applied to each year's negotiated salary table for the active work force.

Banking employees also receive health-care benefits through a specific Social-Medical Assistance Service (SAMS), managed by the respective Union, where, until 1 February 2017, the Bank makes annual contribution to SAMS amounting to 6.50% of the total annual remuneration of the active employees, including, amongst others, the holiday subsidy and Christmas subsidy.

Arising from the signature of the new Collective Labor Agreement (ACT) on 5 July 2016, published in Labour Bulletin (Boletim do Trabalho) no. 29, of 8 August 2016, the Bank's contributions to SAMS as from 1 February 2017, correspond to a fixed amount (as per Annex VI of the new ACT) for each employee, 14 times a year.

The measurement and recognition of the Bank's liability with post-retirement health-care benefits is similar to the measurement and recognition of the pension liability. These benefits are covered by the Pension Fund, which currently covers all liabilities with pensions and health-care benefits.

For employees hired before 31 December 2008, the retirement pension and the disability, survival and death pensions consecrated under the ACT, as well as the liabilities for health-care benefits (SAMS), are covered by a closed pension fund, managed by GNB – Sociedade Gestora de Fundos de Pensões, S.A..

Protection of employees in the event of maternity, paternity and adoption, as well as old age, is covered by the General Social Security Regime, given that with the publication of Decree-Law no. 1-A/2011, of 3 January, all banking employees that were beneficiaries of "CAFEB – Caixa de Abono de Família dos Empregados Bancários" were integrated in the General Social Security Regime as from 1 January 2011.

Employees hired after 31 December 2008 are covered by the Portuguese General Social Security Regime.

Retirement pensions of banking employees integrated in the General Social Security Regime within the scope of the second tripartite agreement continue to be calculated in accordance with the provisions of the ACT and other conventions; however, banking employees are entitled to receive a pension under the General Regime, that takes into account the number of years of contributions under that regime. The banks are responsible for the difference between the pension determined in accordance with the provisions of the ACT and that which the banking employees are entitled to receive from the General Social Security Regime.

The contribution rate is 26.6%, 23.6% paid by the employer and 3% paid by the employees to the General Social Security Regime in substitution of the Caixa de Abono de Família dos Empregados Bancários (CAFEB), abolished by said Decree-law. In consequence of this change, pension entitlements of active employees are to be covered on the terms defined under the General Social Security Regime, for the length of their employment between 1 January 2011 and their retirement date. The differential required to make up the pension guaranteed under the ACT is paid by the Banks.

At the end of financial year 2011 and pursuant to the 3rd tripartite agreement, it was decided to transfer, definitively and irreversibly, to the General Social Security Regime all the banks' liabilities with pensions in payment to retirees and pensioners that were in that condition as at 31 December 2011 at constant amounts (0% discount rate) for the component foreseen in the "Instrumento de Regulação Colectiva de Trabalho" (IRCT) applicable to banking employees, including the eventualities of death, disability and survival. The liabilities relating to the updating of pension amounts, pension benefits other than those to be borne by Social Security, health-care contributions to SAMS, death allowances and deferred survivor's pensions will remain under the banks' responsibility, with the corresponding funding being met through the respective pension funds.

The agreement further established that the financial institutions' pension fund assets relating to the part allocated to the satisfaction responsibilities for those pensions, be transferred to the State.

According to the deliberation of the Board of Directors of Banco de Portugal of 3 August 2014 (8 p.m.), considering the resolution by the same Board of Directors of 11 August 2014 (5 p.m.), and the additional clarifications contained in the deliberation of the Board of Directors of Banco de Portugal, of 11 February 2015, it was clarified that the Banco Espírito Santo responsibilities not transferred to NOVO BANCO relate to the retirement and survival pensions and complementary retirement and survival pensions of the Directors of BES who had been members of its Executive Committee, as defined in BES's Articles of Association and BES's General Assembly Regulations to which the Articles of Association refer, not having, therefore, been transferred to NOVO BANCO, without prejudice to the transfer of the responsibilities relating exclusively to the employment contracts with BES.

In light of the foregoing, only the pension fund liabilities arising from the Complementary Executive Commission Plan were split, with a part (described above) remaining in BES, with the other part being transferred to NOVO BANCO, together with the Pension Fund's liabilities relating to the Base Plan and the Complementary Plan.

To quantify the amounts relating to the split of the Pension Fund assets allocated to the liabilities that remained in BES, following the decision of Banco de Portugal of 11 February 2015, from those that were transferred to NOVO BANCO, the assets existing on 3 August 2014 were split in proportion to the liabilities calculated on the same date, allocated to each of the groups of former participants and beneficiaries allocated to each of the entities. The split performed on these terms will result, on 3 August 2014, in a level of funding of the Complementary Plan of the Executive Commission that is equal for each of the associates of the Fund (NOVO BANCO and BES).

The splitting method applied to the liabilities and assets of the Pension Fund between NOVO BANCO and BES, described in the preceding paragraph, is based on the recommendation of the ASF transmitted to Sociedade Gestora do Fundo de Pensões (Managing Company of the Pension Fund). However, up to the present date, the formalization of the effective splitting of the liabilities / assets of BES and NOVO BANCO has not yet occurred, with both formally continuing to be members of the same Pension Fund, currently designated Fundo de Pensões NOVO BANCO.

On 1 June 2016, an amendment was made to the constitutive contract of Fundo de Pensões NOVO BANCO, with the complementary plan moving to defined contribution as opposed to defined benefit. In view of the foregoing, and in accordance with IAS 19, the liabilities and assets of this plan are net of the amounts presented for the defined benefit plans.

The key actuarial assumptions used to calculate retirement pension and health-care liabilities are identical and are as follows:

	31.12.2017		31.12.2016		
	Assumptions	**Actual**	**Assumptions**		**Actual**
Actuarial Assumptions					
Projected rate of return on plan assets	2.10%	9.04%	2.10%		-0.89%
Discount rate	2.10%	-	2.10%		-
Pension increase rate	0.50%	-3.04%	0.25%	**(1)**	0.50%
Salary increase rate	0.75%	1.63%	0.50%	**(2)**	1.87%
Mortality table men	TV 88/90		TV 73/77-2 years		
Mortality table women	TV 88/90-2 years		TV 88/90-2 years		

(1) 0.75% in 2017; in 2018 and 2019 a growth rate of 0.00% was considered and from 2020 a growth rate of 0.25% was considered

(2) 0.75% in 2017; as from 2018 a growth rate of 0.50% was considered

Note: these assumptions are also applied to the calculation of responsibilities with SAMS

Disability decreases are not considered in the calculation of the liabilities. The determination of the discount rate as at 31 December 2017 and 2016 was based on: (i) developments in the main indices in respect of high quality corporate bonds and (ii) the duration of the liabilities.

The pension plan participants have the following breakdown:

	31.12.2017	31.12.2016
Employees	3 983	4 629
Pensioners and survivors	6 533	6 326
TOTAL	**10 516**	**10 955**

The application of IAS 19 in terms of liabilities and coverage levels as at 31 December 2017 and 2016 is presented as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Assets / (liabilities) recognized in the balance sheet		
Total liabilities	**(1 629 305)**	**(1 542 016)**
Liabilities with retirement pensions		
Pensioners	(1 043 483)	(891 720)
Employees	(585 822)	(650 296)
Coverage		
Fair value of plan assets	**1 614 543**	**1 523 694**
Net assets / (liabilities) in the balance sheet (See Notes 28 and 35)	**(14 762)**	**(18 322)**
Accumulated actuarial deviations recognized in other comprehensive income	407 419	383 704

According to the policy defined in Note 2.15 - Employee Benefits, the Bank calculates liabilities for pensions and actuarial gains and losses half-yearly and evaluates at each balance sheet date and for each plan separately, the recoverability of the excess cover in light of the respective pension liabilities.

As at 31 December 2017 and 2016, the sensitivity analysis to a 0.25% increase in the rate of the assumptions used and to a one-year increase in the mortality table results in the following changes in the present value of the liabilities determined for past services:

(in thousands of Euros)

Assumptions	Change in the amount of liabilities due to the change:			
	31.12.2017		31.12.2016	
	of +0.25% in the rate used	of -0.25% in the rate used	of +0.25% in the rate used	of -0.25% in the rate used
Discount rate	(61 308)	60 218	(58 752)	58 751
Salary increase rate	20 982	(24 784)	16 571	(15 065)
Pension increase rate	44 086	(43 927)	21 090	(21 091)
	of +1 year	of -1 year	of +1 year	of -1 year
Mortality table	(53 037)	49 193	(48 207)	46 700

The evolution of liabilities for pensions and health-care benefits can be analysed as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Retirement pension liabilities at the beginning of the period	**1 542 016**	**1 513 154**
Current service cost	381	1 036
Interest expense	32 350	36 888
Plan participants' contribution	2 732	2 808
Contributions from other entities	237	287
Actuarial (gains) / losses in the period:		
- Changes in demographic assumptions	19 474	-
- Changes in financial assumptions	80 842	25 700
- Experience adjustments (gains) / losses	14 859	11 667
Pensions paid by the fund / transfers and once-off bonuses	(61 751)	(68 013)
Amount of the responsibilities transferred to defined contribution plans	(26 066)	-
Early retirement	30 047	38 473
Foreign exchange differences and other	(5 816)	(19 984)
Retirement pension liabilities at the end of the period	**1 629 305**	**1 542 016**

The evolution of the value of the pension funds may be analysed as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Fair value of fund assets at the beginning of the period	**1 523 694**	**1 481 484**
Net return from the fund	122 866	(5 381)
- Share of the net interest on the assets	31 861	36 737
- Experience adjustments (gains) / losses	91 005	(42 118)
Bank contributions	62 680	116 871
Plan participants' contributions	2 732	2 808
Pensions paid by the fund	(61 751)	(68 013)
Amount of the assets transferred to defined contribution plans	(26 066)	-
Foreign exchange differences and other	(9 612)	(4 075)
Fair value of fund assets at the end of the period	**1 614 543**	**1 523 694**

The assets of the pension funds may be analysed as follows:

(in thousands of Euros)

	31.12.2017			31.12.2016		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equity instruments	137 162	89 444	226 606	61 225	58 532	119 757
Debt instruments	843 652	-	843 652	600 908	-	600 908
Investment funds	194 009	52 983	246 992	451 606	64 858	516 464
Structured debt	9 868	-	9 868	-	5 803	5 803
Derivative instruments	-	-	-	-	-	-
Real estate properties	-	114 537	114 537	-	129 806	129 806
Cash and cash equivalents	-	172 888	172 888	-	150 956	150 956
Total	**1 184 691**	**429 852**	**1 614 543**	**1 113 739**	**409 955**	**1 523 694**

The assets of the pension funds used by the Bank or representative of securities issued by the Bank are detailed as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Real estate properties	63 405	85 067
Total	**63 405**	**85 067**

The evolution of the actuarial gains and losses in the balance sheet can be analysed as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Accumulated actuarial losses recognized in other comprehensive income at the beginning of the period	**383 704**	**304 267**
Actuarial (gains) / losses in the period:		
- Changes in assumptions	100 316	25 700
- Experience adjustments (gains) / losses	(76 146)	53 785
Other	(455)	(48)
Accumulated actuarial losses recognized in other comprehensive income at the end of the period	**407 419**	**383 704**

The costs in 2017 and 2016 with retirement pensions and health-care benefits have the following breakdown:

(in thousands of Euros)

	31.12.2017	31.12.2016
Current service cost	381	1 036
Interest expense / (income)	2 723	2 294
Other	1 538	210
Cost with post-employment benefits	**4 642**	**3 540**

In financial year 2017, the cost with early retirements of Euros 30.0 million falls within the Bank's restructuring process and, as such, was recognised against the use of the restructuring provision (see Note 33). In financial year 2016, early retirements totaling Euros 35.1 million were recognised against the use of the restructuring provision.

The evolution of the net assets / (liabilities) on the balance sheet may be analysed as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
At the beginning of the period	**(18 322)**	**(31 670)**
Cost for period	(4 642)	(3 540)
Actuarial gains / (losses) recognized in other comprehensive income	(24 170)	(79 485)
Contributions made in the period	62 680	116 871
Other	(30 308)	(20 498)
At the end of the period	**(14 762)**	**(18 322)**

The summary of the liabilities and balances of the funds, as well as of the experience gains and losses as at 31 December 2017 and 2016 is analysed as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016	31.12.2015	31.12.2014
Retirement pension liabilities	(1 629 305)	(1 542 016)	(1 513 154)	(1 470 481)
Fair value of plan assets	1 614 543	1 523 694	1 481 484	1 410 335
(Under) / overfunding of liabilities	**(14 762)**	**(18 322)**	**(31 670)**	**(60 146)**
(Gains) / losses on experience adjustments in retirement pension liabilities	14 859	11 667	(2 835)	13 005
(Gains) / losses on experience adjustments in plan assets	(91 005)	42 118	16 161	118 921

The average duration of the liabilities of the defined benefit plans is approximately 16 years (2016: approximately 17 years). The table below presents the temporal breakdown of the estimated benefits payable.

(in thousands of Euros)

	Up to 1 year	From 1 to 2 years	From 2 to 5 years	More than 5 years
Estimated amount of benefits payable	55 875	57 250	175 675	1 888 531

As at 31 December 2017, the balance sheet liabilities are fully funded for the base and complementary plan. No contribution was made to the EC Complementary Plan, since it is conditional on the formalization of the separation of responsibilities and assets between NB and BES resulting from the Banco de Portugal deliberation of 11/02/2015. The amount not financed totals Euros 14 762 thousand. No additional contributions are foreseen for the defined benefit plans for the coming financial year, since the fund's income is expected to be sufficient to cover the changes in liabilities.

Career bonus

As at 31 December 2017, the liabilities assumed by the Bank amounted to Euros 6 261 thousand, corresponding to the liabilities for past services subjacent to the career bonus, as described in Note 2.15 – Employee benefits – Long-term service bonus and Career bonus (31 December 2016: Euros 5 056 thousand), see Note 35.

The costs recognised in financial year 2017 with the career bonus totaled Euros 1 451 thousand (see Note 12). In financial year 2016, there were no costs with the long-term service bonus / career bonus due to the fact that the liabilities determined for the career bonus, increased by the proportional amounts payable for the long-term service bonus arising from the alteration of the ACT, are lower than the liabilities related to the long-term service bonus determined and recorded as at 31 December 2015.

NOTE 14 – GENERAL AND ADMINISTRATIVE EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Rentals	31 699	36 740
Advertising	8 708	10 850
Communication	12 519	14 837
Maintenance and repairs	8 493	9 160
Travelling and representation	2 781	3 433
Transportation of valuables	4 010	3 988
Insurance	5 347	3 739
IT services	52 368	51 370
Independent work	7 757	4 795
Temporary work	1 770	1 477
Electronic payment systems	9 867	9 543
Legal costs	15 715	22 500
Consultancy and audit fees	17 410	16 488
Water, energy and fuel	5 491	7 637
Consumables	2 019	2 131
Cleaning	3 399	4 216
Safety and vigilance	1 511	2 042
Other costs	26 039	29 957
	216 903	**234 903**

The caption Rentals includes Euros 4 973 thousand (31 December 2016: Euros 5 781 thousand) related to costs with operating leases of vehicles, with the Bank being allowed, at any moment, to cancel same and, therefore, the future payments.

The caption Other costs includes, amongst others, training and costs with services rendered by Joint Ventures (Agrupamentos Complementares de Empresas (ACE)) in which NOVO BANCO has a stake.

The fees invoiced during financial years 2017 and 2016 by the Statutory Audit Firm, according to that laid down in article 508-F of the Portuguese Companies Code, have the following breakdown:

(in thousands of Euros)

	31.12.2017	31.12.2016
Annual statutory audit	1 558	3 235
Other assurance services	1 016	1 335
Other services	86	522
Amount of total services billed	**2 660**	**5 092**

As at 31 December 2016, the fees related to the statutory audit and limited review services include prior year fees that were only invoiced in 2016.

NOTE 15 – EARNINGS PER SHARE

Basic earnings per share

The basic earnings per share are calculated dividing the net profit attributable to the shareholders of the Bank in the period / financial year by the weighted average number of ordinary shares in circulation during the year.

(in thousands of Euros)

	31.12.2017	31.12.2016
Net profit / (loss) attributable to shareholders of the Bank	**(1 253 046)**	**(744 744)**
Weighted average number of ordinary shares outstanding (thousands)	5 906 849	4 900 000
Basic earnings per share attributable to shareholders of the Bank (in Euros)	**(0.21)**	**(0.15)**

Diluted earnings per share

The diluted earnings per share are calculated considering the net profit attributable to the shareholders of the Bank and the weighted average number of ordinary shares in circulation, adjusted for the effects of all potential dilutive ordinary shares.

The diluted earnings per share do not differ from the basic earnings per share, since no dilution effect exists.

NOTE 16 – CASH AND DEPOSITS WITH CENTRAL BANKS

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

(in thousands of Euros)

	31.12.2017	31.12.2016
Cash	163 096	175 575
Demand deposits with Central Banks		
Banco de Portugal	3 584 409	1 234 082
Other Central Banks	35 397	54 745
	3 619 806	1 288 827
	3 782 902	**1 464 402**

As at 31 December 2017, the caption Demand Deposits with Banco de Portugal includes mandatory deposits, intended to satisfy the minimum legal cash requirements, in an amount of Euros 224.1 million (31 December 2016: Euros 198,7 million). According to European Central Bank Regulation (CE) no. 1358/2011, of 12 December 2011, minimum cash requirements of demand deposits with Banco de Portugal are interest-bearing and correspond to 1% of the deposits and debt certificates maturing in less than 2 years, after excluding from these the deposits and the debt certificates of institutions subject to the European Central Bank Systems' minimum reserve requirements. As at 31 December 2017, the interest rate on these deposits was 0.00% (31 December 2016: 0.01%).

Compliance with minimum cash requirements, for a given observation period, is monitored taking into account the average amount of the deposits with Banco de Portugal over said period. The balance of the Bank's account with Banco de Portugal as at 31 December 2017 was included in the observation period running from 20 December 2017 to 30 January 2018.

NOTE 17 – DEPOSITS WITH OTHER BANKS

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

(in thousands of Euros)

	31.12.2017	31.12.2016
Deposits with banks in Portugal		
Uncollected checks	67 170	60 034
Repayable on demand	9 775	13 035
	76 945	**73 069**
Deposits with banks abroad		
Repayable on demand	112 780	43 705
	112 780	**43 705**
	189 725	**116 774**

The Uncollected checks in Portugal and abroad were sent for collection during the first business days subsequent to the balance sheet dates.

NOTE 18 – FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

As at 31 December 2017 and 2016, the captions of Financial assets and liabilities held for trading has the following breakdown:

(in thousands of Euros)

	31.12.2017	31.12.2016
Financial assets held for trading		
Securities		
Bonds and other fixed income securities		
Issued by other entities	2	1
Shares	79	215
	81	**216**
Derivatives		
Derivative financial instruments with a positive fair value	582 873	665 148
	582 954	**665 364**
Financial liabilities held for trading		
Derivatives		
Derivative financial instruments with a negative fair value	560 646	645 359
	560 646	**645 359**

As at 31 December 2017 and 2016, the analysis of the securities held for trading, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Up to 3 months	2	1
Undetermined	79	215
	81	**216**

A breakdown of the securities held for trading, by fair value hierarchy, is presented in Note 41.

As at 31 December 2017 and 2016, derivative financial instruments are analysed as follows:

(in thousands of Euros)

	31.12.2017			31.12.2016		
	Notional	Fair value		Notional	Fair value	
		Assets	Liabilities		Assets	Liabilities
Trading derivatives						
Exchange rate contracts						
Forwards						
- buy	507 855	3 840	4 779	483 958	8 730	7 572
- sell	507 865			482 707		
Currency Swaps						
- buy	1 422 121	1 715	690	1 088 802	903	548
- sell	1 429 390			1 082 763		
Currency Interest Rate Swaps						
- buy	24 507	21 657	21 886	25 935	23 017	23 273
- sell	24 508			25 913		
Currency Options						
- buy	394 388	6 783	7 041	320 846	8 289	7 713
- sell	399 717			270 183		
		33 995	**34 396**		**40 939**	**39 106**
Interest rate contracts						
Interest Rate Swaps						
- buy	6 715 247	502 287	507 260	7 146 548	600 965	577 654
- sell	6 750 068			7 175 625		
Interest Rate Caps & Floors						
- buy	43 734	501	539	45 616	1 078	1 035
- sell	47 623			60 100		
Interest Rate Futures a)						
- sell	185 000	-	-	-	-	-
Interest Rate Options						
- buy	1 650 963	-	-	-	-	-
		502 788	**507 799**		**602 043**	**578 689**
Equity / Index contracts						
Equity / Index Swaps						
- buy	26 625	561	557	16 702	740	251
- sell	26 625			16 702		
Equity / Index Options						
- buy	957 486	45 514	17 781	312 664	2 499	13 698
- sell	1 083 744			405 119		
Equity / Index Futures a)						
- buy	12 968	-	-	10 735	-	-
- sell	-			59 218		
Future Options a)						
- buy	6	-	-	550 232	-	-
- sell	-			-		
		46 075	**18 338**		**3 239**	**13 949**
Credit default contracts						
Credit Default Swaps						
- buy	7 814	15	113	108 888	18 927	13 615
- sell	7 814			108 888		
		15	**113**		**18 927**	**13 615**
Total		**582 873**	**560 646**		**665 148**	**645 359**

a) Derivatives traded on organized markets, w hich market value is settled daily through the margin account (see Note 28)

The Bank calculates the Credit Value Adjustment (CVA) for derivative instruments in accordance with the following methodology: (i) Portfolio basis – the calculation of the CVA corresponds to the application, to the aggregate exposure of each counterpart, of an expected loss and a rate of recovery, considering the average duration period estimated for each exposure; (ii) Individual basis – the calculation of the CVA on an individual basis is based on the determination of the exposure using stochastic methods (Expected Positive Exposure) which translates into the calculation of the expected fair value exposure that each derivative is likely to assume over its remaining life. Subsequently, an expected loss and a recovery rate are applied to the exposure so determined. During 2017, the Bank recognised a gain of Euros 5.9 million related with the CVA of the derivative instruments (31 December 2016: loss of Euros 8.1 million).

As at 31 December 2017 and 2016, the analysis of derivative financial instruments held for trading, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2017			31.12.2016		
	Notional		Fair value (net)	Notional		Fair value (net)
	Buy	Sell		Buy	Sell	
Up to 3 months	2 079 219	2 258 547	(15 748)	1 666 901	1 635 672	(23 243)
3 months to 1 year	2 589 198	958 105	7 851	1 387 394	885 899	(11 686)
1 to 5 years	2 339 702	2 423 743	(12 237)	1 818 555	1 873 335	(14 171)
More than 5 years	4 755 595	4 821 959	42 361	5 238 076	5 292 312	68 889
	11 763 714	**10 462 354**	**22 227**	**10 110 926**	**9 687 218**	**19 789**

NOTE 19 – OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The breakdown of this balance is as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Bonds and other fixed income securities		
Issued by other entities	-	1 414
Shares and other variable income securities	3 973	3 462
	3 973	**4 876**

The Bank's option, considering IAS 39 and in accordance with the accounting policy described in Note 2.5, to define these financial assets at fair value through profit or loss, is in accordance with its documented management strategy, given that these financial assets (i) are managed and their performance evaluated on a fair value basis and / or (ii) have embedded derivative instruments.

As at 31 December 2017 and 2016, the analysis of the financial assets at fair value through profit or loss, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
More than 5 years	-	1 414
Undetermined	3 973	3 462
	3 973	**4 876**

Details of the securities held at fair value through profit or loss, by fair value hierarchy, are presented in Note 41.

NOTE 20 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

(in thousands of Euros)

	Cost (1)	Fair value reserves		Accumulated impairment losses	Book value
		Positive	Negative		
Bonds and other fixed income securities					
Issued by government and public entities	**5 773 413**	**117 616**	**(1 291)**	**-**	**5 889 738**
Resident	3 668 112	109 304	(298)	-	3 777 118
Non-resident	2 105 301	8 312	(993)	-	2 112 620
Issued by other entities	**2 433 793**	**61 937**	**(66 284)**	**(214 750)**	**2 214 696**
Resident	1 316 894	51 811	(52 163)	(197 130)	1 119 412
Non-resident	1 116 899	10 126	(14 121)	(17 620)	1 095 284
Shares	**1 411 626**	**56 955**	**(19 094)**	**(713 174)**	**736 313**
Resident	669 243	16 662	(2)	(535 388)	150 515
Non-resident	742 383	40 293	(19 092)	(177 786)	585 798
Other variable income securities	**2 739 312**	**46 533**	**(651)**	**(723 654)**	**2 061 540**
Resident	2 673 797	43 615	(651)	(684 856)	2 031 905
Non-resident	65 515	2 918	-	(38 798)	29 635
Balance at 31 December 2017	**12 358 144**	**283 041**	**(87 320)**	**(1 651 578)**	**10 902 287**
Bonds and other fixed income securities					
Issued by government and public entities	**4 693 978**	**51 348**	**(7 329)**	**-**	**4 737 997**
Resident	2 164 428	41 349	(1 525)	-	2 204 252
Non-resident	2 529 550	9 999	(5 804)	-	2 533 745
Issued by other entities	**2 566 658**	**42 554**	**(97 042)**	**(209 232)**	**2 302 938**
Resident	1 339 877	42 494	(18 078)	(179 742)	1 184 551
Non-resident	1 226 781	60	(78 964)	(29 490)	1 118 387
Shares	**1 481 077**	**62 653**	**(18 044)**	**(646 547)**	**879 139**
Resident	691 670	9 970	(1)	(486 861)	214 778
Non-resident	789 407	52 683	(18 043)	(159 686)	664 361
Other variable income securities	**2 677 160**	**29 436**	**(2 798)**	**(653 173)**	**2 050 625**
Resident	2 598 297	27 193	(2 798)	(616 221)	2 006 471
Non-resident	78 863	2 243	-	(36 952)	44 154
Balance at 31 December 2016	**11 418 873**	**185 991**	**(125 213)**	**(1 508 952)**	**9 970 699**

(1) Acquisition cost for shares and other variable income securities and amortized cost for debt securities

As at 31 December 2017, this caption includes assets amounting to Euros 48 811 thousand measured at acquisition cost net of impairment (31 December 2016: Euros 53 752 thousand).

In accordance with the accounting policy presented in Note 2.5, the Bank performs periodic assessments in order to confirm if there is objective evidence of impairment in its portfolio of the Available-for-sale financial assets, applying the judgment criteria described in Note 3.1.

As at 31 December 2017 and 2016, the exposure, under this caption, to sovereign debt of the Eurozone "peripheral" countries is presented in Note 42 – Risk management.

The changes occurring in the impairment losses of Available-for-sale financial assets are presented as follows:

(in thousands of Euros)

	31.12.2017				
	Bonds		Shares	Other var. income securities	Total
	Gov. & public entities	Other entities			
Balance at the beginning of the period	-	209 232	646 547	653 173	1 508 952
Allocation for the period	-	27 921	87 574	93 461	208 956
Utilization during the period	-	(6 287)	(18 857)	(22 981)	(48 125)
Reversals	-	(15 333)	-	-	(15 333)
Foreign exchange differences and other	-	(783)	(2 090)	1	(2 872)
Balance at the end of the period	**-**	**214 750**	**713 174**	**723 654**	**1 651 578**

(in thousands of Euros)

	31.12.2016				
	Bonds		Shares	Other var. income securities	Total
	Gov. & public entities	Other entities			
Balance at the beginning of the period	-	159 417	534 786	632 667	1 326 870
Allocation for the period	-	68 367	207 708	69 209	345 284
Utilization during the period	-	(417)	(114 788)	(48 703)	(163 908)
Reversals	-	(17 307)	(1 423)	-	(18 730)
Foreign exchange differences and other	-	(828)	20 264	-	19 436
Balance at the end of the period	**-**	**209 232**	**646 547**	**653 173**	**1 508 952**

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

(in thousands of Euros)

	31.12.2017	31.12.2016
Up to 3 months	790 681	1 098 669
3 months to 1 year	1 094 177	1 763 058
1 to 5 years	3 405 502	1 718 836
More than 5 years	2 814 074	2 460 372
Undetermined	2 797 853	2 929 764
	10 902 287	**9 970 699**

A breakdown of the available-for-sale securities, by fair value, is presented in Note 41.

NOTE 21 – LOANS AND ADVANCES TO BANKS

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

(in thousands of Euros)

	31.12.2017	31.12.2016
Loans and advances to banks in Portugal		
Deposits with banks	146 890	244 825
Loans	9 552	24 850
Very short-term deposits	-	12 808
Operations with reverse repurchase agreements	11 713	12 772
Other loans and advances	4	6
	168 159	**295 261**
Loans and advances to banks abroad		
Deposits with banks	72 584	91 279
Very short-term deposits	166	41 722
Loans	182 975	538 196
Operations with reverse repurchase agreements	9 750	-
Other loans and advances	390 415	440 073
	655 890	**1 111 270**
Overdue loans and advances	-	391 506
	824 049	**1 798 037**
Impairment losses	(71 157)	(472 414)
	752 892	**1 325 623**

As at 31 December 2016, impairment losses include, essentially, an exposure in the amount of Euros 341.5 million totally provided to which the write-off was made during the 2017 financial year.

Operations with reverse repurchase agreements, as at 31 December 2017, mature in one year and, as at 31 December 2016, relate to operations with a maturity of one to five years.

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

(in thousands of Euros)

	31.12.2017	31.12.2016
Up to 3 months	70 437	460 529
3 months to 1 year	352 415	221 019
1 to 5 years	4 724	275 809
More than 5 years	396 473	449 174
Undetermined (overdue loans)	-	391 506
	824 049	**1 798 037**

The changes occurring in 2017 and 2016 in the impairment losses of loans and advances to banks are presented as follows:

(in thousands of Euros)

	31.12.2017		
	Loans and advances	**Overdue loans and advances**	**Total**
Balance at the beginning of the period	80 918	391 496	472 414
Utilization during the period	-	(341 496)	(341 496)
Transfers	-	(50 000)	(50 000)
Foreign exchange differences and other	(9 761)	-	(9 761)
Balance at the end of the period	**71 157**	**-**	**71 157**

(in thousands of Euros)

	31.12.2016		
	Loans and advances	**Overdue loans and advances**	**Total**
Balance at the beginning of the period	186 900	-	186 900
Allocation for the period	2 482	50 000	52 482
Reversals	-	(1)	(1)
Foreign exchange differences and other [a)]	(108 464)	341 497	233 033
Balance at the end of the period	**80 918**	**391 496**	**472 414**

a) Includes Euros 230 819 thousand related to impairment arising on the merger of BIBL (see Note 45)

NOTE 22 – LOANS AND ADVANCES TO CUSTOMERS

As at 31 December 2017 and 2016, this balance is analysed as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Domestic loans and advances		
Corporate		
Current account loans	1 477 498	1 685 362
Loans	8 842 693	9 358 615
Discounted bills	82 337	95 888
Factoring	857 995	811 974
Overdrafts	5 267	13 961
Finance leases	1 499 863	1 561 954
Other loans and advances	35 443	54 983
Individuals		
Mortgage loans	6 669 308	6 554 510
Consumer credit and other loans	873 490	793 951
	20 343 894	**20 931 198**
Foreign loans and advances		
Corporate		
Current account loans	339 713	396 674
Loans	1 938 271	2 783 886
Discounted bills	82 327	288 439
Factoring	105 199	90 045
Overdrafts	73 572	65 415
Finance leases	51 965	48 118
Other loans and advances	4 804	5 274
Individuals		
Mortgage loans	847 452	759 513
Consumer credit and other loans	331 506	334 361
	3 774 809	**4 771 725**
Overdue loans and advances and interest		
Up to 3 months	56 329	71 416
3 months to 1 year	364 576	937 544
1 to 3 years	2 188 967	2 847 499
More than 3 years	2 458 188	1 854 160
	5 068 060	**5 710 619**
	29 186 763	**31 413 542**
Impairment losses	**(5 693 858)**	**(5 508 133)**
	23 492 905	**25 905 409**

As at 31 December 2017, the balance of loans and advances to customers includes Euros 4 684.8 million (31 December 2016: Euros 4 621.9 million) in mortgage loans that collateralize the issue of covered bonds (see Note 32).

This caption includes, as at 31 December 2017, Euros 1 195 823 thousand (31 December 2016: Euros 657 093 thousand) recorded in the balance sheet at fair value through profit or loss (see Note 41).

As at 31 December 2017, the amount of interest income and commission fees recorded in the balance sheet related to credit operations totals Euros 52 742 thousand (31 December 2016: Euros 33 025 thousand).

The caption Loans and advances to customers includes a positive fair value of Euros 70 663 thousand related to the fair value adjustment of covered items (see Note 23).

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

(in thousands of Euros)

	31.12.2017	31.12.2016
Up to 3 months	2 772 627	3 676 722
3 months to 1 year	2 061 031	2 117 294
1 to 5 years	4 239 123	5 310 284
More than 5 years	15 045 922	14 598 623
Undetermined (overdue loans)	5 068 060	5 710 619
	29 186 763	**31 413 542**

The changes occurring during the period in impairment losses of loans and advances to customers are presented as follows:

(in thousands of Euros)

	31.12.2017			
	Corporate loans	Individuals - Mortgage loans	Individuals - Other loans	Total
Balance at the beginning of the period	5 130 011	140 453	237 669	5 508 133
Allocation / reversals for the period	1 076 178	(3 641)	69 026	1 141 563
Utilization during the period	(1 007 097)	(24 851)	(66 026)	(1 097 974)
Transfers	50 000	-	-	50 000
Foreign exchange differences and other	115 116	13 597	(36 577)	92 136
Balance at the end of the period	**5 364 208**	**125 558**	**204 092**	**5 693 858**

(in thousands of Euros)

	31.12.2016			
	Corporate loans	Individuals - Mortgage loans	Individuals - Other loans	Total
Balance at the beginning of the period	5 285 706	150 831	268 481	5 705 018
Allocation / reversals for the period	469 583	13 381	72 909	555 873
Utilization during the period	(571 492)	(27 330)	(44 259)	(643 081)
Transfers	(126 492)	-	-	(126 492)
Foreign exchange differences and other	72 706	3 571	(59 462)	16 815
Balance at the end of the period	**5 130 011**	**140 453**	**237 669**	**5 508 133**

The increase of impairments for loans of Euros 1141.6 million recorded in 2017 (31 December 2016: Euros 555.9 million) was mainly related to a series of events occurred during 2017 in some of the main economic groups to which the Bank was exposed and which led, through the normal application of the credit impairment policy described in Note 2.4., to an increase in impairment losses in the current year as a result of the individual impairment analysis. To this increase has also contributed the main exposures to certain sectors or to certain economic groups that have a high concentration of their activity in geographies that continue to present macroeconomic difficulties.

Loans and advances to customers by interest rate type are as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Fixed interest rate	3 032 876	3 282 970
Variable interest rate	26 153 887	28 130 572
	29 186 763	**31 413 542**

An analysis of finance lease loans, by residual maturity period, is presented as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Gross investment in finance leases receivable		
Up to 1 year	271 967	262 839
1 to 5 years	784 883	792 953
More than 5 years	738 420	806 072
	1 795 270	1 861 864
Unrealized finance income in finance leases		
Up to 1 year	39 237	42 329
1 to 5 years	104 945	112 432
More than 5 years	57 577	59 029
	201 759	213 790
Present value of minimum lease payments receivable		
Up to 1 year	232 730	220 511
1 to 5 years	679 938	680 521
More than 5 years	680 843	747 043
	1 593 511	1 648 075
Impairment	(259 388)	(265 578)
	1 334 123	**1 382 497**

NOTE 23 – DERIVATIVES HELD FOR RISK MANAGEMENT PURPOSES

As at 31 December 2017 and 2016, the fair value of the derivatives held for risk management purposes is analysed as follows:

(in thousands of Euros)

	31.12.2017			31.12.2016		
	Hedging	Risk management	Total	Hedging	Risk management	Total
Derivatives held for risk management purposes						
Derivatives held for risk management purposes - assets	546	170 539	171 085	7 106	216 477	223 583
Derivatives held for risk management purposes - liabilities	(76 210)	-	(76 210)	(106 478)	(1 785)	(108 263)
	(75 664)	**170 539**	**94 875**	**(99 372)**	**214 692**	**115 320**
Fair value component of assets and liabilities hedged or recorded at fair value through profit or loss						
Financial assets						
Loans and advances to customers	70 663	-	70 663	102 849	-	102 849
	70 663	**-**	**70 663**	**102 849**	**-**	**102 849**
Financial liabilities						
Deposits from banks	-	-	-	(2 394)	-	(2 394)
Due to customers	-	-	-	-	(2 067)	(2 067)
Debt securities issued	-	-	-	(82)	-	(82)
	-	**-**	**-**	**(2 476)**	**(2 067)**	**(4 543)**
	70 663	**-**	**70 663**	**100 373**	**(2 067)**	**98 306**

As mentioned in the accounting policy described in Note 2.3, the caption Derivatives held for risk management purposes include hedging derivatives and derivatives contracted to manage the economic risk of certain financial assets and liabilities designated at fair value through profit or loss (and that were not designated as hedging derivatives).

Hedging derivatives – fair value

As at 31 December 2017 and 2016, fair value hedging operations may be analysed as follows:

(in thousands of Euros)

31.12.2017							
Derivative	Hedged item	Hedged risk	Notional	Fair value of derivative [1]	Change in fair value of derivative in period	Fair value component of item hedged [2]	Change in fair value component of item hedged in period [2]
Interest Rate Swap/CIRS	Loans and advances to customers	Interest and exchange rates	1 416 278	(75 664)	29 097	70 663	(32 609)
Interest Rate Swap	Deposit from banks	Interest rate	-	-	(2 379)	-	2 339
Interest Rate Swap	Debt securities issued	Interest rate	-	-	(95)	-	82
			1 416 278	**(75 664)**	**26 623**	**70 663**	**(30 188)**

[1] Includes accrued interest
[2] Attributable to hedged risk

(in thousands of Euros)

31.12.2016							
Derivative	Hedged item	Hedged risk	Notional	Fair value of derivative [1]	Change in fair value of derivative in period	Fair value component of item hedged [2]	Change in fair value component of item hedged in period [2]
Interest Rate Swap/CIRS	Loans and advances to customers	Interest and exchange rates	1 160 962	(105 001)	(31 092)	102 849	30 316
Interest Rate Swap	Deposit from banks	Interest rate	196 000	3 948	(81 169)	(2 394)	78 506
Interest Rate Swap	Debt securities issued	Interest rate	80 000	1 681	(726)	(82)	685
			1 436 962	**(99 372)**	**(112 987)**	**100 373**	**109 507**

[1] Includes accrued interest
[2] Attributable to hedged risk

Changes in the fair value associated with the assets and liabilities mentioned above and with the respective hedging derivatives are recognised in the income statement in the caption Net gains / (losses) from financial assets and liabilities at fair value through profit or loss (See Note 7).

As at 31 December 2017, the ineffective portion of the fair value hedging operations resulted in a cost of Euros 3.6 million that was recognised in the income statement (31 December 2016: cost of Euros 3.5 million). The Bank periodically evaluates the effectiveness of the hedges.

The fair value component of the financial liabilities at fair value through profit or loss attributable to the Bank's credit risk is positive and the cumulative effect as at 31 December 2017 is Euros 77.5 million (31 December 2016: Euros 185.2 million). The Bank recognised in the income statement for the financial year ended on 31 December 2017 a negative effect of Euros 63.7 million related to the change in the value of financial liabilities designated at fair value through profit or loss attributable to the entity's own credit risk (31 December 2016: Euros 24.2 million) (see Note 7).

Other derivatives held for risk management purposes

Other derivatives held for risk management purposes include derivatives used to hedge financial assets and liabilities at fair value through profit or loss, in accordance with the accounting policies described in Notes 2.4, 2.5 and 2.7 and that the Bank did not designate for hedge accounting.

The book value of financial assets and liabilities at fair value through profit or loss may be analysed as follows:

(in thousands of Euros)

31.12.2017									
		Derivative			Associated financial asset / liability				
Derivative	Associated financial asset / liability	Notional	Fair value	Change in fair value during period	Fair value	Change in fair value during period	Carrying book value	Redemption amount at maturity
	Assets							
Credit default swaps	Loans and advances to customers	258 466	103 779	-	-	-	-	135 523
	Liabilities							
Interest Rate Swap	Deposits from banks	342 744	66 760	(33 689)	-	-	152 219	168 976
Interest Rate Swap	Due to customers	-	-	(1 628)	-	2 067	-	-
Interest Rate Swap/FX Forward/Index Swap	Debt securities issued	-	-	(12 416)	-	-	-	-
		601 210	**170 539**	**(47 733)**	**-**	**2 067**	**152 219**	**304 499**

(in thousands of Euros)

31.12.2016								
		Derivative			Associated financial asset / liability			
Derivative	Associated financial asset / liability	Notional	Fair value	Change in fair value during period	Fair value	Change in fair value during period	Carrying book value	Redemption amount at maturity
	Assets							
Credit default swaps	Loans and advances to customers	398 370	105 570	-	-	-	-	199 185
	Liabilities							
Interest Rate Swap	Deposits from banks	468 494	101 582	1 043	-	-	143 428	234 168
Interest Rate Swap	Due to customers	730 000	4 666	(16 761)	(2 067)	21 344	264 723	262 656
Interest Rate Swap/ FX Forward	Debt securities issued	8 160	2 874	(15 303)	-	-	-	-
		1 605 024	**214 692**	**(31 021)**	**(2 067)**	**21 344**	**408 151**	**696 009**

The credit default swaps associated with loans and advances to customers are part of synthetic securitization operations, as mentioned in Note 40.

Changes in the fair value of the hedged assets and liabilities mentioned above and of the respective hedging derivatives are recognised in the income statement in the caption Net gains / (losses) from financial assets and liabilities at fair value through profit or loss (See Note 7).

As at 31 December 2017 and 2016, the analysis of derivatives held for risk management and hedging purposes, by residual maturity period, may be analysed as follows:

(in thousands of Euros)

	31.12.2017			31.12.2016		
	Notional		Fair value (net)	Notional		Fair value (net)
	Buy	Sell		Buy	Sell	
Up to 3 months	-	-	-	165 000	165 000	2 628
3 months to 1 year	45 000	45 000	(967)	307 080	307 080	8 796
1 to 5 years	229 688	229 688	(12 790)	208 000	208 000	(16 182)
More than 5 years	734 056	734 056	108 632	840 913	840 913	120 078
	1 008 744	**1 008 744**	**94 875**	**1 520 993**	**1 520 993**	**115 320**

NOTE 24 – NON-CURRENT ASSETS HELD FOR SALE

This caption, as at 31 December 2017 and 2016, is analysed as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Non-current assets held for sale		
GNB Vida	620 472	-
BES Vénétie	55 070	55 070
Banco Well Link (previously NB Ásia)	4 785	22 148
Quinta dos Cónegos	4 893	4 893
Banco Delle Tre Venezie	8 926	-
Sucursal da Venezuela (Venezuelan Branch)	6 427	-
SCI Georges Mandel	2 401	-
Other	11 037	12 757
	714 011	**94 868**
Impairment losses		
GNB Vida	(420 472)	-
BES Vénétie	(32 787)	-
Quinta dos Cónegos	(3 452)	(3 452)
Banco Delle Tre Venezie	(2 901)	-
Sucursal da Venezuela (Venezuelan Branch)	(1 647)	-
Other	(6 935)	(6 942)
	(468 194)	**(10 394)**
	245 817	**84 474**

Other non-current assets held for sale include shareholdings and respective shareholder loans, which were reclassified under IFRS 5, to non-current assets held for sale. During financial year ended 31 December 2017, the sale of 75% of the shareholding in NB Ásia (currently Banco Well Link) took place, with the recording of a capital gain of Euros 88.2 million (see Note 10).

The Bank implemented a plan aimed at the immediate sale of all non-current assets held for sale, continuing its efforts to meet the sales program established. During the 2016 financial year, given the market conditions that did not permit, in some situations, the materialization of the sales within the expected time period, the real estate properties previously recorded in non-current assets held for sale, related to payments in kind in respect of the recovery of loans and advances, were transferred to other assets, in accordance with the accounting policy described in Note 2.11 (also see Note 28).

The movement of the non-current assets held for sale was as follow:

(in thousands of Euros)

	31.12.2017		31.12.2016	
	Non-current tangible assets held for sale	Other non-current assets held for sale	Non-current tangible assets held for sale	Other non-current assets held for sale
Balance at the beginning of the period	-	94 868	1 668 394	12 875
Transfers to other assets (see Note 28)	-	-	(1 473 791)	-
Transfers [a)]	-	638 226	-	81 182
Additions	-	1 468	206 550	-
Sales	-	(20 283)	(401 155)	(384)
Other	-	(268)	2	1 195
Balance at the end of the period	**-**	**714 011**	**-**	**94 868**

(a) In 2017, includes the transfer of the shareholdings in GNB Vida, Banco Delle Tre Venezie, Sucursal da Venezuela (Venezuelan Branch) and SCI Georges Mandel, in accordance with IFRS 5. In 2016, includes the transfer of shareholdings and shareholder loans in BES Vénétie, NB Ásia and Quinta dos Cónegos, in accordance with IFRS 5.

The movements occurring in impairment losses are presented as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Balance at the beginning of the period	10 394	429 219
Allocation / reversals for the period	252 688	56 509
Utilisation during the period	(91)	(112 489)
Transfers **(a)**	205 203	(362 845)
Balance at the end of the period	**468 194**	**10 394**

a) As at 31 December 2017, refers to the impairment of the shareholding in GNB Vida transferred from investments in subsidiaries and associated companies. As at 31 December 2016, includes Euros 366 297 thousand of impairment losses related to assets transferred to other assets (see Note 28) and the transfer of Euros 3 452 thousand related to impairment losses of the shareholding in Quinta dos Cónegos that w as transferred from investments in subsidiaries and associated companies (see Note 27)

NOTE 25 – OTHER TANGIBLE ASSETS

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

(in thousands of Euros)

	31.12.2017	31.12.2016
Real estate properties		
For own use	219 524	243 436
Improvements in leasehold properties	148 917	168 011
	368 441	**411 447**
Equipment		
Computer equipment	104 755	213 118
Fixtures	68 270	119 983
Furniture	72 835	105 050
Security equipment	27 215	33 876
Office equipment	8 037	27 618
Transport equipment	697	804
Other	175	629
	281 984	**501 078**
Work in progress		
Improvements in leasehold properties	117	16
Real estate properties	405	7
Equipment	38	396
Other	-	427
	560	**846**
	650 985	**913 371**
Accumulated depreciation	(488 165)	(713 688)
Impairment losses	(11 122)	-
	(499 287)	**(713 688)**
	151 698	**199 683**

The movement in this caption was as follows:

(in thousands of Euros)

	Real estate properties	Equipment	Other	Work in progress	Total
Acquisition cost					
Balance at 31 December 2015	**447 127**	**511 735**	**24**	**437**	**959 323**
Acquisitions	124	6 116	-	1 958	8 198
Disposals / write-offs	(36 825)	(17 475)	-	-	(54 300)
Reclassifications **(a)**	(670)	193	-	(1 549)	(2 026)
Foreign exchange differences and other	1 691	485	-	-	2 176
Balance at 31 December 2016	**411 447**	**501 054**	**24**	**846**	**913 371**
Acquisitions	424	3 706	-	1 333	5 463
Disposals / write-offs	(17 855)	(220 056)	-	-	(237 911)
Reclassifications **(b)**	(20 532)	(886)	-	(1 619)	(23 037)
Foreign exchange differences and other	(5 043)	(1 858)	-	-	(6 901)
Balance at 31 December 2017	**368 441**	**281 960**	**24**	**560**	**650 985**
Accumulated depreciation					
Balance at 31 December 2015	**269 111**	**460 652**	**-**	**-**	**729 763**
Depreciation	9 705	14 844	-	-	24 549
Disposals / write-offs	(29 296)	(13 413)	-	-	(42 709)
Reclassifications **(a)**	(729)	(213)	-	-	(942)
Foreign exchange differences and other	1 536	1 491	-	-	3 027
Balance at 31 December 2016	**250 327**	**463 361**	**-**	**-**	**713 688**
Depreciation	7 984	12 768	-	-	20 752
Disposals / write-offs	(17 659)	(218 930)	-	-	(236 589)
Reclassifications **(b)**	(7 900)	(1 563)	-	-	(9 463)
Foreign exchange differences and other	548	(771)	-	-	(223)
Balance at 31 December 2017	**233 300**	**254 865**	**-**	**-**	**488 165**
Impairment					
Balance at 31 December 2015	**-**	**-**	**-**	**-**	**-**
Balance at 31 December 2016	-	-	-	-	-
Impairment losses	11 122	-	-	-	11 122
Balance at 31 December 2017	**11 122**	**-**	**-**	**-**	**11 122**
Carrying book value at 31 December 2017	**124 019**	**27 095**	**24**	**560**	**151 698**
Carrying book value at 31 December 2016	**161 120**	**37 693**	**24**	**846**	**199 683**

(a) Includes Euros 1 997 thousand of tangible fixed assets (real estate properties and equipment) and Euros 914 thousand in accumulated depreciation relating to branches discontinued that were reclassified at their carrying book value to the appropriate captions of the balance sheet

(b) Includes Euros 20 315 thousand of tangible fixed assets (real estate properties and equipment) and Euros 6 634 thousand in accumulated depreciation relating to branches discontinued that were reclassified at their carrying book value to the appropriate captions of the balance sheet

NOTE 26– INTANGIBLE ASSETS

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

(in thousands of Euros)

	31.12.2017	31.12.2016
Internally developed		
Software - Automatic data processing system	78 677	79 690
Acquired from third parties		
Software - Automatic data processing system	387 085	642 153
Work in progress	1 921	6 798
	467 683	**728 641**
Accumulated amortization	(459 823)	(686 316)
	7 860	**42 325**

The caption Intangible assets developed internally includes costs incurred by the Bank units specialised in the development and implementation of software applications that will generate economic benefits in the future (see Note 2.13).

The movement in this caption was as follows:

(in thousands of Euros)

	Software	Work in progress	Total
Acquisition cost			
Balance at 31 December 2015	**714 929**	**12 207**	**727 136**
Acquisitions:			
Internally developed	(1)	4 257	4 256
Acquired from third parties	2 334	3 350	5 684
Disposals / write-offs	(22)	-	(22)
Transfers **(a)**	5 955	(13 016)	(7 061)
Foreign exchange differences and other	(1 352)	-	(1 352)
Balance at 31 December 2016	**721 843**	**6 798**	**728 641**
Acquisitions:			
Internally developed	-	3 736	3 736
Acquired from third parties	3 503	5 263	8 766
Disposals / write-offs	(378 729)	-	(378 729)
Transfers **(b)**	2 582	(13 876)	(11 294)
Foreign exchange differences and other	116 563	-	116 563
Balance at 31 December 2017	**465 762**	**1 921**	**467 683**
Accumulated amortization			
Balance at 31 December 2015	**658 667**	-	**658 667**
Amortization for the period	29 409	-	29 409
Disposals / write-offs	(22)	-	(22)
Foreign exchange differences and other	(1 738)	-	(1 738)
Balance at 31 December 2016	**686 316**	-	**686 316**
Amortization for the period	35 534	-	35 534
Disposals / write-offs	(378 677)	-	(378 677)
Foreign exchange differences and other	116 650	-	116 650
Balance at 31 December 2017	**459 823**	**-**	**459 823**
Carrying book value at 31 December 2017	**5 939**	**1 921**	**7 860**
Carrying book value at 31 December 2016	**35 527**	**6 798**	**42 325**

(a) Includes Euros 7 074 thousand in discontinued investment projects that were imputed to costs

(b) Includes Euros 11 294 thousand in discontinued investment projects that were imputed to costs

NOTE 27 – INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES

The financial information relating to subsidiaries and associated companies is presented in the following table:

(in thousands of Euros)

	31.12.2017				31.12.2016			
	No. shares	Direct shareholding %	Nominal amount (Euros)	Shareholding cost	No. shares	Direct shareholding %	Nominal amount (Euros)	Shareholding cost
NB AÇORES	2 144 404	57.53%	5.00	10 308	2 144 404	57.53%	5.00	10 308
GNB Vida [(1)]	-	-	-	-	50 000 000	100.00%	1.00	620 472
NB FINANCE	100 000	100.00%	1.00	1 700	100 000	100.00%	1	1 700
BEST	62 999 700	100.00%	1.00	100 418	62 999 700	100.00%	1.00	100 418
ES Plc	30 000	100.00%	5.00	38	30 000	100.00%	5.00	38
GNB SEGUROS	749 800	24.99%	5.00	3 749	749 800	24.99%	5.00	3 749
ES TECH VENTURES	71 500 000	100.00%	1.00	71 500	71 500 000	100.00%	1.00	71 500
GNB GA	2 350 000	100.00%	5.00	86 722	2 350 000	100.00%	5.00	86 722
GNB CONCESSÕES	682 306	71.66%	5.00	20 602	682 306	71.66%	5.00	20 602
ESEGUR	242 000	44.00%	5.00	9 634	242 000	44.00%	5.00	9 634
E.S. REPRESENTAÇÕES	49 995	99.99%	0.25	14	49 995	99.99%	0.29	14
LOCARENT	525 000	50.00%	5.00	2 967	525 000	50.00%	5.00	2 967
SCI GEORGES MANDEL [(1)]	-	-	-	-	15 750	22.57%	152.45	2 401
BES GMBH	1	100.00%	25 000.00	365 025	1	100.00%	25 000.00	365 025
NOVO BANCO SERVICIOS	2 676 665	100.00%	0.40	1 057	2 676 665	100.00%	0.40	1 057
NOVO VANGUARDA	500 000	100.00%	1.00	500	500 000	100.00%	1.00	500
PRAÇA DO MARQUES	-	-	-	-	3 185 000	100.00%	4.99	27 724
OBLOG	-	-	-	-	199 900	66.63%	5.00	-
NB ÁFRICA	13 300 000	100.00%	5.00	66 500	13 300 000	100.00%	5.00	66 500
BANCO DELLE TRE VENEZIE SPA [(1)]	-	-	-	-	8 926	20.00%	1 000.00	8 926
UNICRE	350 029	17.50%	5.00	11 497	350 029	17.50%	5.00	11 497
IJAR LEASING ALGERIE	122 499	35.00%	72.66	12 362	122 499	35.00%	85.93	12 362
EDENRED PORTUGAL	101 477 601	50.00%	0.01	4 984	101 477 601	50.00%	0.01	4 984
NANIUM	-	-	-	-	6 158 777	41.06%	1.00	1 481
MULTIPESSOAL	20 000	22.52%	5.00	100	20 000	22.52%	5.00	100
HERDADE DO PINHEIRINHO I	5 280 000	100.00%	1.00	5 280	-	-	-	-
HERDADE DO PINHEIRINHO II	17 200 000	100.00%	1.00	17 197	-	-	-	-
				792 154				**1 430 681**
Impairment losses				(98 677)				(263 236)
				693 477				**1 167 445**

(1) Shareholdings transferred to non-current assets held for sale (see Note 24)

In May 2017 the sale of the shareholding of 41.06% in Nanium and of the respective supplementary capital contributions was finalised for the price of Euros 18 585 thousand, with a capital gain of Euros 103 thousand being recognised. The shareholding in Praça do Marques was also disposed of during financial year 2017, with a capital gain of Euros 23 thousand having been recognised. The company Oblog was liquidated during the year 2017.

The movement occurring in impairment losses is as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Balance at the beginning of the period	263 236	336 850
Allocation / reversals for the period	44 146	171 239
Utilization during the period [(1)]	(3 501)	(17 205)
Transfers [(2)]	(205 203)	(3 452)
Other [(3)]	(1)	(224 196)
Balance at the end of the period	**98 677**	**263 236**

(1) In 2016 refers to the sale of Novo AF to GNB GA

(2) In 2016 refers to the impairment of Quinta dos Cónegos, which was transferred together with the respective shareholding to the caption Non-current assets held for sale, and in 2017 refers to the impairment of GNB Vida, which was transferred together with the respective shareholding to the caption Non-current assets held for sale (see Note 24)

(3) In 2016 includes Euros 224 197 thousand arising from the merger of BIBL

NOTE 28 – OTHER ASSETS

As at 31 December 2017 and 2016, the balance Other assets is analysed as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Collateral deposits placed	642 533	707 317
Derivative products	*373 862*	*441 372*
Collateral CLEARNET, VISA and EBA	*49 711*	*27 187*
Collateral deposits relating to reinsurance operations	*218 960*	*238 758*
Recoverable government subsidies on mortgage loans	1 495	1 741
Public sector	278 227	328 664
Contigent Capital Agreement (Note 10)	791 695	-
Other debtors	712 361	741 263
Income receivable	18 383	25 204
Deferred costs	68 621	74 250
Pensões de reforma e benefícios de saúde (ver Nota 13)	3 333	4 103
Precious metals, numismatics, medal collection and other liquid assets	9 328	9 226
Stock exchange transactions pending settlement	50 269	35 660
Other transactions pending settlement	19 281	32 912
Real estate properties a)	1 284 259	1 406 570
Equipment a)	22 277	23 204
Other assets	172 819	181 055
	4 074 881	**3 571 169**
Impairment losses		
Real estate properties a)	*(318 733)*	*(343 424)*
Equipment a)	*(13 470)*	*(11 694)*
Other debtors - Shareholder loans, supplementary capital contributions	*(129 122)*	*(125 197)*
Other	*(65 860)*	*(65 087)*
	(527 185)	**(545 402)**
	3 547 696	**3 025 767**

a) Real estate properties and equipment received in settlement of loans and discontinued

The caption Collateral deposits placed includes, amongst others, deposits made by the Bank as collateral in order to celebrate certain derivative contracts on organised markets (margin accounts) and on over the counter markets (Credit Support Annex – CSA).

The Other debtors amount includes, amongst others:

- Euros 112.9 million of shareholder loans and supplementary capital contributions resulting from the assignment of loans and advances, which are fully provided against (31 December 2016: Euros 112.3 million, fully provided against); and
- Euros 50.0 million relating to shareholder loans granted to Locarent – Companhia Portuguesa de Aluguer de Viaturas, S.A. (31 December 2016: Euros 100 million).

As at 31 December 2017, the caption Deferred costs includes an amount of Euros 47 414 thousand (31 December 2016: Euros 54 168 thousand) relating to the difference between the nominal amount of the loans and advances granted to Bank employees under the Collective Labor Agreement (ACT) for the Banking Sector and their respective fair value at their grant date, calculated in accordance with IAS 39. This amount is charged to the income statement under staff costs over the lower of the remaining period to the maturity of the loan granted and the estimated remaining service life of the employee.

Stock exchange transactions pending settlement refer to transactions with securities, recorded at the trade date, pending settlement, in accordance with the accounting policy described in Note 2.5.

The movements in impairment losses are presented as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Balance at the beginning of the period	545 402	196 142
Allocation for the period	68 000	26 492
Utilisation during the period	(70 515)	(35 802)
Write-back for the period	(5 668)	(7 718)
Reclassifications [a]	-	366 297
Foreign exchange differences and other	(10 034)	(9)
Balance at the end of the period	**527 185**	**545 402**

a) Related to assets transferred from Non-current assets held for sale (see Note 24)

The movements in the real estate properties were as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Balance at the beginning of the period	1 406 570	-
Reclassifications from Non-current assets held for sale (see Note 24)	-	1 451 519
Additions	181 514	101 620
Sales	(303 389)	(146 569)
Other movements	(436)	-
Balance at the end of the period	**1 284 259**	**1 406 570**

As at 31 December 2017 and 2016, the detail of the real estate properties, by type, is as follows:

(in thousands of Euros)

	31.12.2017				
	Number of properties	Gross value	Impairment	Net book value	Fair value of assets (b)
Land					
Urban	1 514	236 796	63 684	173 112	181 610
Rural	541	278 204	78 791	199 413	204 982
	2 055	515 000	142 475	372 525	386 592
Buildings under construction					
Commercial	11	825	147	678	1 305
Residential	29	1 879	569	1 310	1 370
Other	5	15 275	10 568	4 707	5 332
	45	17 979	11 284	6 695	8 007
Buildings constructed					
Commercial	1 365	204 473	45 541	158 932	172 855
Residential	3 528	360 016	53 327	306 689	323 304
Other	634	184 570	45 653	138 917	152 871
	5 527	749 059	144 521	604 538	649 030
Other [a]	**8**	**2 221**	**20 453**	**(18 232)**	**(17 198)**
	7 635	**1 284 259**	**318 733**	**965 526**	**1 026 431**

(a) The net book value of this caption is negative due to the imputation of costs incurred with the sale of real estate properties
(b) Determined in accordance with accounting policy 2.11

(in thousands of Euros)

	31.12.2016				
	Number of properties	Gross value	Impairment	Net book value	Fair value of assets (b)
Land					
Urban	1 733	301 340	71 467	229 873	240 023
Rural	538	221 768	65 306	156 462	162 690
	2 271	523 108	136 773	386 335	402 713
Buildings under construction					
Commercial	14	957	67	890	1 595
Residential	32	13 056	7 047	6 009	7 948
Other	8	16 180	11 309	4 871	5 450
	54	30 193	18 423	11 770	14 993
Buildings constructed					
Commercial	1 425	212 331	48 789	163 542	178 143
Residential	4 413	445 559	71 089	374 470	389 712
Other	662	194 762	45 137	149 625	165 683
	6 500	852 652	165 015	687 637	733 538
Other [a]	**1**	**617**	**23 213**	**(22 596)**	**(22 330)**
	8 826	**1 406 570**	**343 424**	**1 063 146**	**1 128 914**

(a) The net book value of this caption is negative due to the imputation of costs incurred with the sale of real estate properties
(b) Determined in accordance with accounting policy 2.11

Next we present the detail of the real estate properties, by ageing:

(in thousands of Euros)

	31.12.2017				
	Up to 1 year	1 to 2.5 years	2.5 to 5 years	More than 5 years	Total net book value
Land					
Urban	5 682	36 236	51 312	79 882	173 112
Rural	62 552	22 335	81 134	33 392	199 413
	68 234	58 571	132 446	113 274	372 525
Buildings under construction					
Commercial	-	162	451	65	678
Residential	239	-	615	456	1 310
Other	-	1 299	-	3 408	4 707
	239	1 461	1 066	3 929	6 695
Buildings constructed					
Commercial	16 717	41 286	48 906	52 023	158 932
Residential	48 701	85 357	88 984	83 647	306 689
Other	12 559	45 550	41 817	38 991	138 917
	77 977	172 193	179 707	174 661	604 538
Other [a]	**(18 537)**	**-**	**-**	**305**	**(18 232)**
	127 913	**232 225**	**313 219**	**292 169**	**965 526**

(a) The net book value of this caption is negative due to the imputation of costs incurred with the sale of real estate properties

(in thousands of Euros)

	31.12.2016				
	Up to 1 year	**1 to 2.5 years**	**2.5 to 5 years**	**More than 5 years**	**Total net book value**
Land					
Urban	47 609	36 783	108 359	37 122	229 873
Rural	18 854	44 477	76 197	16 934	156 462
	66 463	81 260	184 556	54 056	386 335
Buildings under construction					
Commercial	-	373	452	65	890
Residential	434	-	879	4 696	6 009
Other	-	1 447	-	3 424	4 871
	434	1 820	1 331	8 185	11 770
Buildings constructed					
Commercial	43 211	27 237	55 243	37 851	163 542
Residential	90 142	92 135	124 456	67 737	374 470
Other	33 333	32 013	58 835	25 444	149 625
	166 686	151 385	238 534	131 032	687 637
Other [(a)]	**(22 810)**	**-**	**214**	**-**	**(22 596)**
	210 773	**234 465**	**424 635**	**193 273**	**1 063 146**

(a) The net book value of this caption is negative due to the imputation of costs incurred with the sale of real estate properties

The Bank implemented a plan aimed at the immediate sale of all real estate property received in respect of the recovery of loans and advances. However, given that the process related to the land registry update in respect of these assets is not yet finalised and considering the current market conditions, it has not been possible, in some situations, to materialize the sales in the expected period. However, the Bank continues to develop all its efforts to meet the sales plan established, of which we highlight the following (i) a web site specifically aimed at the sale of real estate property; (ii) the development and participation in real estate events in Portugal and abroad; (iii) the celebration of protocols with several real estate agents; (iv) the regular sponsorship of auctions; and (v) sales campaigns in the major emigration centers. Despite its intention to sell these assets, the Bank regularly requests the Banco de Portugal's authorization, under article 114 of RGICSF, to extend the time period it has to hold the foreclosed assets.

As at 31 December 2017, the amount related to discontinued facilities included in the caption Real estate properties is Euros 20 315 thousand (31 December 2016: Euros 13 132 thousand), with the Bank having recorded impairment losses for these assets in the total amount of Euros 6 634 thousand (31 December 2016: Euros 5 643 thousand).

NOTE 29 – DEPOSITS FROM CENTRAL BANKS

The balance Deposits from Central Banks is presented as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
From the European System of Central Banks		
Deposits	5	5
Other funds	6 410 000	6 410 000
	6 410 005	**6 410 005**
From other Central Banks		
Deposits	118	28
	6 410 123	**6 410 033**

As at 31 December 2017, the caption Other funds from the European System of Central Banks includes Euros 6 410 million, covered by Bank financial assets pledged as collateral (31 December 2016: Euros 6 410 million) (see Note 38).

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

(in thousands of Euros)

	31.12.2017	31.12.2016
Up to 3 months	123	33
1 to 5 years	6 410 000	6 410 000
	6 410 123	**6 410 033**

Deposits from Central Banks are renewable after the maturity date.

NOTE 30 – DEPOSITS FROM BANKS

The balance Deposits from banks is presented as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Domestic		
Deposits	613 292	710 885
Very short-term funds	42 530	18 975
Other funds	9 806	3 697
	665 628	**733 557**
International		
Deposits	1 220 653	1 416 962
Loans	771 791	862 978
Very short-term funds	43 252	1
Repurchase agreements	79 737	1 625 020
Other funds	106 045	55 735
	2 221 478	**3 960 696**
	2 887 106	**4 694 253**

As at 31 December 2017, this caption includes deposits in the amount of Euros 152 219 thousand recorded in the balance sheet at fair value through profit or loss (31 December 2016: Euros 243 822 thousand) (see Note 41).

The balance of the caption Repurchase agreements corresponds to sales of securities with reverse repurchase agreements (repos), recorded in accordance with the accounting policy described in Note 2.6.

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

(in thousands of Euros)

	31.12.2017	31.12.2016
Up to 3 months	1 351 644	2 302 016
3 months to 1 year	579 138	1 134 548
1 to 5 years	312 540	500 405
More than 5 years	643 784	757 284
	2 887 106	**4 694 253**

The maturities of the sales operations with repurchase agreements (repos) are as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
International		
Up to 3 months	-	937 236
3 months to 1 year	79 737	600 739
1 to 5 years	-	87 044
	79 737	**1 625 020**

NOTE 31 – DUE TO CUSTOMERS

The caption Due to customers has the following breakdown:

(in thousands of Euros)

	31.12.2017	31.12.2016
Repayable on demand		
Demand deposits	8 747 780	7 999 379
Time deposits		
Time deposits	17 175 871	14 049 714
Other	303	355
	17 176 174	**14 050 069**
Savings accounts		
Pensioners	245 049	303 307
Other	3 283 774	2 847 800
	3 528 823	**3 151 107**
Other funds		
Repurchase agreements	227 964	216 625
Other	281 072	182 777
	509 036	**399 402**
	29 961 813	**25 599 957**

As at 31 December 2016, the caption Due to customers – Time deposits includes funds in the amount of Euros 264 723 thousand recorded in the balance sheet at fair value through profit or loss. As at 31 December 2017, there were no amounts Due to customers at fair value through profit or loss.

The balance of the Sales operations with repurchase agreements corresponds to sales of securities with repurchase agreements (repos), recorded in accordance with the accounting policy described in Note 2.6.

As at 31 December 2017, sales of securities with repurchase agreements have a maturity period of between 3 months and one year (31 December 2016: Euros 29.1 million that matured in the period of under 3 months and the remainder in the period of 3 months to one year).

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

(in thousands of Euros)

	31.12.2017	31.12.2016
Repayable on demand	**8 747 780**	**7 999 379**
Term deposits		
Up to 3 months	8 364 965	7 594 918
3 months to 1 year	7 581 648	7 013 729
1 to 5 years	4 857 188	2 646 455
More than 5 years	410 232	345 476
	21 214 033	**17 600 578**
	29 961 813	**25 599 957**

NOTE 32 – DEBT SECURITIES ISSUED

The balance Debt securities issued has the following breakdown:

(in thousands of Euros)

	31.12.2017	31.12.2016
Euro Medium Term Notes (EMTN)	617 861	2 700 185
Bonds	-	283 308
Covered bonds	-	42 010
	617 861	**3 025 503**

As at 31 December 2016, the Bank had debt securities issued with the guarantee of the Portuguese Republic, in a nominal amount of Euros 1 800 million, of which Euros 1 517 million had been acquired by the Bank. In the first half of 2017, the Bank reimbursed same in their entirety.

Under the Covered Bonds Program (Programa de Emissão de Obrigações Hipotecárias), which has a maximum amount of Euros 10 000 million, the Bank issued covered bonds of which Euros 4 200 million remain in the portfolio as at 31 December 2017 (31 December 2016: Euros 4 190 million). The main characteristics of the outstanding issues as at 31 December 2017 and 2016 are as follows:

31.12.2017									
Description	**Nominal value** (in thousands of Euros)	**Carrying book value** (in thousands of Euros)	Issue date	Maturity date	Interest payment	Interest rate	Rating		
							Moody's	Fitch	DBRS
NB 2015 SR.1	1 000 000	-	07/10/2015	07/10/2018	Quarterly	Euribor 3 Months + 0.25%	Baa2	-	A
NB 2015 SR.2	1 000 000	-	07/10/2015	07/10/2019	Quarterly	Euribor 3 Months + 0.25%	Baa2	-	A
NB 2015 SR.3	1 000 000	-	07/10/2015	07/10/2020	Quarterly	Euribor 3 Months + 0.25%	Baa2	-	A
NB 2015 SR.4	700 000	-	07/10/2015	07/10/2022	Quarterly	Euribor 3 Months + 0.25%	Baa2	-	A
NB 2015 SR.5	500 000	-	22/12/2016	22/12/2023	Quarterly	Euribor 3 Months + 0.25%	Baa2	-	A
	4 200 000	**-**							

Description	Nominal value (in thousands of Euros)	Carrying book value (in thousands of Euros)	Issue date	Maturity date	Interest payment	Interest rate	Rating Moody's	Rating Fitch	Rating DBRS
31.12.2016									
BES Covered bonds DUE 4.6%	40 000	42 010	15-12-2010	26-01-2017	Annually	Fixed rate 4.6%	Ba1	-	BBB
NB 2015 SR.1	1 000 000	-	07-10-2015	07-10-2018	Quarterly	Euribor 3 Months + 0.25%	Baa1	-	A
NB 2015 SR.2	1 000 000	-	07-10-2015	07-10-2019	Quarterly	Euribor 3 Months + 0.25%	Baa1	-	A
NB 2015 SR.3	1 000 000	-	07-10-2015	07-10-2020	Quarterly	Euribor 3 Months + 0.25%	Baa1	-	A
NB 2015 SR.4	700 000	-	07-10-2015	07-10-2022	Quarterly	Euribor 3 Months + 0.25%	Baa1	-	A
NB 2015 SR.5	450 000	-	22-12-2016	22-12-2023	Quarterly	Euribor 3 Months + 0.25%	Baa1	-	A
	4 190 000	**42 010**							

These covered bonds are guaranteed by a cover asset pool, comprising mortgage and other assets, segregated in the Bank's accounts as autonomous patrimony and over which the holders of the relevant covered debt securities have a special creditor privilege. The conditions of said issue are framed in Decree-Law no. 59/2006, and in Notices nos. 5, 6, 7 and 8 and Instruction no. 13, of Banco de Portugal.

As at 31 December 2017, the assets that collateralize these covered debt securities amount to Euros 4 684.8 million (31 December 2016: Euros 4 621.9 million) (see Note 22).

The movement occurring in debt securities issued, during financial years 2017 and 2016, is as follows:

(in thousands of Euros)

	Balance at 31.12.2016	Issues	Redemptions	LME	Net purchases	Other movements a)	Balance at 31.12.2017
Euro Medium Term Notes (EMTN)	2 700 185	-	(25 000)	(2 044 793)	(83)	(12 448)	617 861
Bonds	283 308	-	(283 000)	-	-	(308)	-
Covered bonds	42 010	50 000	(40 000)	-	(50 025)	(1 985)	-
	3 025 503	**50 000**	**(348 000)**	**(2 044 793)**	**(50 108)**	**(14 741)**	**617 861**

a) Other movements include accrued interest, corrections for hedging operations, fair value adjustments and foreign exchange differences

(in thousands of Euros)

	Balance at 31.12.2015	Issues	Redemptions	Net purchases	Other movements a)	Balance at 31.12.2016
Euro Medium Term Notes (EMTN)	3 272 563	-	(239 702)	(393 914)	61 238	2 700 185
Certificates of deposit	4 615	-	(4 615)	-	-	-
Bonds	93 351	-	-	(14)	189 971	283 308
Covered bonds	119 036	450 000	(75 000)	(449 975)	(2 051)	42 010
	3 489 565	**450 000**	**(319 317)**	**(843 903)**	**249 158**	**3 025 503**

a) Other movements include accrued interest, corrections for hedging operations, fair value adjustments and foreign exchange differences

In accordance with the accounting policy described in Note 2.7, debt securities issued repurchased by the Bank are derecognised from liabilities and the difference between the carrying book value of the liability and its acquisition cost is recognised in the income statement. As a result of repurchases made during the 2017 financial year and the realization of the Liability Management Exercise (LME), the Bank recognised a gain of Euros 176.2 million (see Note 11).

Under the purchase and sale agreement announced on 31 March 2017, the LME, finalised on 4 October 2017, was one of the precedent conditions for the sale of NOVO BANCO to Lone Star. The LME was an acquisition offer operation over several senior debt issued by NOVO BANCO, with the goal of reinforcing the Bank´s equity, which took place between 25 July and 2 October 2017, with financial settlement on 4 October. The operation involved 36 bond series with maturities between 2019 and 2052, in an overall nominal value of Euros 8.3 billion, meaning Euros 3 billion in accounting liabilities.

The materialization of the operation translated into the acquisition and reimbursement of bonds representative of 73% of their accounting value, with an immediate result of Euros 176.2 million. For Bank customers who opted for the sale or who were reimbursed, term deposits were made available with specific conditions, therefore this operation had limited impact on cash flows.

As at 31 December 2017 and 2016, the analysis of Debt securities issued, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Up to 3 months	-	325 317
3 months to 1 year	-	20 942
1 to 5 years	-	1 525 484
More than 5 years	617 861	1 153 760
	617 861	**3 025 503**

The main characteristics of the debts securities, as at 31 December 2017 and 2016, are as follows:

(in thousands of Euros)

Entity	Description	Currency	Issue date	Carrying book value	Maturity	Interest rate	Market
		31.12.2017					
Euro Medium Term Notes							
NB (Luxembourg Branch)	BES Luxembourg 3.5% 02/01/43	EUR	2013	55 581	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3.5% 23/01/43	EUR	2013	108 157	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3.5% 19/02/2043	EUR	2013	83 073	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3.5% 18/03/2043	EUR	2013	59 087	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC	EUR	2013	43 241	2048	Zero Coupon	XLUX
NB (Luxembourg Branch)	Banco Esp San Lux ZC 12/02/49	EUR	2014	51 424	2049	Zero Coupon	XLUX
NB (Luxembourg Branch)	Banco Esp San Lux ZC 19/02/49	EUR	2014	49 813	2049	Zero Coupon	XLUX
NB (Luxembourg Branch)	Banco Esp San Lux ZC 27/02/51	EUR	2014	32 327	2051	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 06/03/2051	EUR	2014	16 052	2051	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 03/04/48	EUR	2014	48 083	2048	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 09/04/52	EUR	2014	42 308	2052	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 16/04/46	EUR	2014	28 715	2046	Zero Coupon	XLUX
				617 861			

a) Liabilities at fair value through profit or loss or with embedded derivatives

(in thousands of Euros)

Entity	Description		31.12.2016 Currency	Issue date	Carrying book value	Maturity	Interest rate	Market
Bonds								
Novo Banco	BES GUAR FEB 16		EUR	2012	183 163	2017	Euribor 3m + 0.9%	XLIS
Novo Banco	PTBENHOM0017		EUR	2012	100 145	2017	Euribor 3m + 0.9%	XLIS
Euro Medium Term Notes								
NB (London Branch)	EMTN Series 3		EUR	2012	111 800	2022	Fixed rate 5%	XLUX
NB (London Branch)	EMTN Series 6		EUR	2012	78 572	2022	Fixed rate 5%	XLUX
NB (London Branch)	EMTN Series 7		EUR	2012	164 238	2019	Fixed rate 5%	XLUX
NB (London Branch)	EMTN Series 10		EUR	2012	548 201	2019	Fixed rate 5%	XLUX
NB (London Branch)	EMTN Series 12		EUR	2012	351 653	2019	Fixed rate 5%	XLUX
NB (London Branch)	EMTN Series 13		EUR	2012	236 937	2019	Fixed rate 5%	XLUX
NB (London Branch)	EMTN Series 14		EUR	2012	224 455	2019	Fixed rate 5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 5.75% 28/06/17		EUR	2012	20 942	2017	Fixed rate 5.75%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3% 21/06/22		USD	2012	59 573	2022	Fixed rate 3%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3.5% 02/01/43		EUR	2013	55 034	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3.5% 23/01/43		EUR	2013	107 377	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3.5% 19/02/2043		EUR	2013	82 783	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3.5% 18/03/2043		EUR	2013	58 644	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC		EUR	2013	41 499	2048	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 22/01/2049		EUR	2014	32 496	2049	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 29/01/2049		EUR	2014	44 621	2049	Zero Coupon	XLUX
NB (Luxembourg Branch)	Banco Esp San Lux ZC 05/02/49		EUR	2014	38 292	2049	Zero Coupon	XLUX
NB (Luxembourg Branch)	Banco Esp San Lux ZC 12/02/49		EUR	2014	49 310	2049	Zero Coupon	XLUX
NB (Luxembourg Branch)	Banco Esp San Lux ZC 19/02/49		EUR	2014	48 655	2049	Zero Coupon	XLUX
NB (Luxembourg Branch)	Banco Esp San Lux ZC 27/02/51		EUR	2014	39 893	2051	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 06/03/2051		EUR	2014	41 456	2051	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 13/03/48		EUR	2014	35 630	2048	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 25/03/50		EUR	2014	41 304	2050	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 27/03/47		EUR	2014	50 320	2047	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 03/04/48		EUR	2014	45 113	2048	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 09/04/52		EUR	2014	41 276	2052	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 16/04/46		EUR	2014	50 111	2046	Zero Coupon	XLUX
Covered bonds								
Novo Banco	BES DUE 4.6%	a)	EUR	2010	42 010	2018	Fixed rate 4.6%	XLIS
					3 025 503			

a) Liabilities at fair value through profit or loss or with embedded derivatives

As at 31 December 2016, this caption includes Euros 42 010 thousand in liabilities represented by debt securities recorded in the balance sheet at fair value through profit or loss (see Note 41).

NOTE 33 – PROVISIONS

During financial years 2017 and 2016, the caption Provisions presents the following movements:

(in thousands of Euros)

	Restructuring provisions	Provision for guarantees	Commercial offers	Other provisions	Total
Balance at 31 December 2015	**-**	**-**	**295 780**	**126 347**	**422 127**
Allocation / (restitution) for the period	94 480	5 805	2 500	(51 883)	50 902
Utilization during the period	(85 043)	-	(145 025)	(13 982)	(244 050)
Transfers [a)]	-	106 492	-	-	106 492
Foreign exchange differences and other	-	293	-	(1 218)	(925)
Balance at 31 December 2016	**9 437**	**112 590**	**153 255**	**59 264**	**334 546**
Allocation / (restitution) for the period	133 731	35 138	300	19 683	188 852
Utilization during the period	(51 176)	-	(48 715)	(7 964)	(107 855)
Foreign exchange differences and other	-	(1 544)	260	(263)	(1 547)
Balance at 31 December 2017	**91 992**	**146 184**	**105 100**	**70 720**	**413 996**

a) Provisions for guarantees that in 2016 w ere transferred from loans and advances to customers

At the end of 2015, the Board of Directors of NOVO BANCO presented to the European Commission a Restructuring Plan that was prepared in strict collaboration with Banco de Portugal and involved a set of measures, highlighting the concentration of the retail and corporate banking activities in Portugal and Spain, the disinvestment in non-strategic assets and the reduction, in 2016, of Euros 150 million in recurring operating costs (excluding restructuring costs) associated with a decrease of 1 000 employees and a re-dimensioning of the distribution network to 550 branches. In the scope of IAS 37, during 2016 a provision for this restructuring was created in the amount of Euros 94.5 million, to cover the facilities' closure costs and the employee layoffs. Until 31 December 2016, circa Euros 85.0 million were used and during financial year 2017 Euros 5.3 million of said provision were used, for which reason, as at 31 December 2017, the amount of this provision in the balance sheet stood at Euros 3.6 million. The restructuring plan was executed during the year 2016, and at 31 December 2016 the job reduction objective had been met, the distribution network was reduced and operating costs recorded a decrease surpassing the objective.

The goals agreed with the European Commission for 30 June 2017, included a Euros 230 million reduction on recurring operational costs (excluding restructuring costs) when compared to 2015. This cost reduction is due to a re-sizing to 5 908 employees at the Group level and the distribution network to 475 branches. In IAS 37 scope, in 2017 a provision for this restructure was created, in the amount of Euros 52.6 million, making up for the costs of shutting down facilities and reducing employees. This new phase of the restructuring plan was executed, so at 30 June 2017, the goal of downsizing employees and the distribution network was met and the operational costs recorded a decrease bigger than the established goal. Until 31 December 2017 Euros 46.4 million of the provision created were used; the remaining Euros 6.1 million balance is meant to make up for any costs that may incur due to this restructure.

In the scope of the sales process of NOVO BANCO, finalised in October 2017, additional commitments were entered into with the European Commission. As such, a restructuring provision of Euros 82.3 million was set up to meet the new objectives. This provision covers restructuring measures that include the concentration of the banking activity in Portugal and Spain in the retail and corporate areas, the disinvestment in non-strategic assets, the decrease in the number of employees and the redimensioning of the distribution network.

Provisions for commercial offers, in the amount of Euros 105.1 million (31 December 2016: Euros 153.3 million), are intended to cover costs resulting from commercial offers approved by the Executive Board of Directors of NOVO BANCO, directed at retail customers holding NOVO BANCO unsubordinated bonds. The Executive Board of Directors considers the amount of this provision adequate based on the experience gained in the negotiations already completed and sales price expectations concerning the bonds and financial instruments subscribed by the customers.

Other provisions amounting to Euros 70.7 million (31 December 2016: Euros 59.3 million) are intended to cover certain duly identified contingencies related to the Bank's activities, the most relevant of which being:

- Contingencies associated with ongoing tax processes, for which cover the Bank maintains provisions of Euros 10.0 million (31 December 2016: Euros 8.9 million);
- The remaining balance, of circa Euros 60.7 million (31 December 2016: Euros 50.4), maintained to cover for unrealised losses in connection with the normal activities of the Bank, such as, amongst others, fraud, theft and robbery and ongoing judicial cases.

Contingent liabilities are disclosed in Note 38.

NOTE 34 – INCOME TAXES

NOVO BANCO is subject, in individual terms, to taxation in accordance with the Corporate Income Tax Code (IRC). So, deferred taxes are recorded depending on the time differences between accounting and tax results relevant for IRC, anytime such time differences seem to reverse in the future.

NOVO BANCO is also subject to the Special Regime applicable to Deferred Tax Assets approved by Law no. 61/2014, of 26 August, to which it adhered, and to taxes, contribution and other levies foreseen in standalone legislation.

For the financial year ended on 31 December 2017, NOVO BANCO was subject to corporate income tax (IRC) at the general rate of 21%, which remained unchanged from the previous year.

Corporate income taxes (current or deferred) are recognised in the income statement except in cases where the underlying transactions or items with which they are related have been reflected under equity captions (for example, revaluation of available-for-sale financial assets). In these situations, the corresponding tax is also charged to equity, not affecting the net profit / (loss) for the year.

For purposes of the deferred tax asset calculation as at 31 December 2017, and as occurred in the periods following 3 August 2014, the following aspects were taken into consideration:

- The transfer of assets, liabilities, off-balance sheet elements and assets under management of BES, following the resolution of Banco de Portugal of 3 August 2014, constitutes an asset contribution operation, under article 73 et sec of the IRC Code, as a result of which the tax neutrality regime foreseen in article 73 of this Code is applied. This legal-tax framework has received the written approval of the Portuguese Tax Administration and is foreseen in article 145-AU of the RGICSF.

- Considering the above-mentioned, the deferred tax assets and liabilities relating to timing differences arising on the assets and liabilities included in the transfer made under said deliberation were also transferred to NOVO BANCO.
- According to no. 2 of article 145-AU of the RGICSF and the deliberations of Banco de Portugal of 3 August 2014 and 27 April 2015, the right to deduct tax losses declared by BES in respect of IRC were transferred to NOVO BANCO. An application was submitted to the Ministry of Finance, under no. 4 of article 145-AU of the RGICSF, requesting the confirmation that the tax losses generated by BES and subject to carry forward could be transmitted to NOVO BANCO, request that was approved. As explained below, based on the assessment of the recoverability of deferred tax assets associated with tax losses, and despite the approval of the transfer of the tax losses generated by BES and subject to carry-forward, the corresponding deferred tax assets are not recognised on the balance sheet.
- The Special Regime applicable to Deferred Tax Assets approved by Law no. 61/2014, of 26 August, to which NOVO BANCO adhered, foresees that said special regime of tax deductibility of costs and other equity changes related with retirement pension and survival benefit liabilities vis-à-vis retirees and pensioners not be applicable to a specific financial year in the event in said period a tax loss is determined.
- In accordance with the previous paragraph:
  - As at 31 December 2015, the deferred tax assets arising on the transfer of liabilities and on the accounting policy change regarding the recognition of actuarial gains and losses, in the amount of Euros 25 022 thousand and Euros 159 188 thousand, respectively, are recoverable over the minimum periods of 12 and 6 years, and are also eligible for purposes of the conversion into tax credits foreseen in the Special Regime applicable to Deferred Tax Assets approved by Law no. 61/2014, of 26 August.
  - Following the determination of a negative net result for financial year 2015, the approval of the annual accounts by the corporate bodies and the application of said Special Regime for Deferred Tax Assets, part of the deferred tax assets arising on the transfer of the liabilities to the Social Security and on the accounting policy change regarding the recognition of actuarial gains and losses, were converted into tax credits, with the final amount having been approved during the second half of 2017, in the amount of Euros 153 555 thousand.
  - Also, following the determination of a negative net result for financial year 2016 and the approval of the annual accounts by the corporate bodies, Special Regime´s application implies once again, in 2017, a conversion of the deferred tax assets into a tax credit in a related proportion of this net result in the amount of the equity, estimated in Euros 121.5 million. This estimated amount may suffer changes related to the audit certification and of *Autoridade Tributária e Aduaneira* (Taxes and Customs Authority) itself that will take place in 2018.

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

Deferred taxes are calculated based on the tax rates anticipated to be in force at the timing differences' reversal date, which correspond to the rates enacted or substantively enacted at the balance sheet date.

Consequently, as at 31 December 2017, the deferred tax related to timing differences was determined based on an aggregate rate of 31%, resulting from the sum of the general IRC rate (21%), the Municipal Surcharge of 1.5% and an average rate of State Surcharge of 8.5%.

Pursuant to Law no. 55-A/2010, of 31 December, a Banking Levy (Contribuição sobre o Sector Bancário) was created, which is levied on the average annual liabilities recorded on the balance sheet net of own funds and of deposits covered by the guarantee of the Deposits Guarantee Fund and on the notional amount of derivative financial instruments. The Banking Levy is not eligible as a tax cost, and the respective regime was extended by Law no. 64-B/2011, of 30 December, by Law no. 66-B/2012, of 31 December, by Law no. 83-C/2013, of 31 December, by Law no. 82-B/2014, of 31 December, by Law no.159-C/2015, of 30 December and by Law no. 42/2016, of 28 December. As at 31 December 2017, NOVO BANCO recognised Banking Levy charges as a cost in the amount of Euros 30 256 thousand (31 December 2016: Euros 36 342 thousand). The cost recognised as at 31 December 2017 has been calculated and paid based on the maximum rate of 0.110% levied on the average annual liabilities recorded on the balance sheet, net of own funds and deposits covered by the guarantee of Fundo de Garantia de Depósitos, approved by Law no. 7-A/2016, of 30 March and by Ordinance no. 165-A/2016, of 14 June.

The deferred tax assets and liabilities recognised in the balance sheet as at 31 December 2017 and 2016 may be analysed as follows:

(in thousands of Euros)

	Assets		Liabilities		Net	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Financial instruments	240 606	297 260	(105 281)	(70 447)	135 325	226 813
Loans and advances to customers	1 342 490	1 256 637	-	-	1 342 490	1 256 637
Other tangible assets	-	17 340	(8 735)	(16 283)	(8 735)	1 057
Investments in subsidiaries and associated companies	-	-	(1 058)	(989)	(1 058)	(989)
Provisions	70 492	86 261	-	-	70 492	86 261
Pensions	19 415	65 049	-	-	19 415	65 049
Long-term service bonuses	-	5 109	-	-	-	5 109
Other	580	-	(114)	(260)	466	(260)
Tax losses carried forward	389 030	909 030	-	-	389 030	909 030
Deferred tax asset / (liability)	**2 062 613**	**2 636 686**	**(115 188)**	**(87 979)**	**1 947 425**	**2 548 707**
Asset / liability set-off for deferred tax purposes	(115 188)	-	115 188	-	-	-
Net Deferred tax asset / (liability)	**1 947 425**	**2 636 686**	**-**	**(87 979)**	**1 947 425**	**2 548 707**

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available to allow for the utilization of the deductible timing differences. The Bank has evaluated the recoverability of the deferred tax assets considering its expectations of future taxable profits up till 2028. The recovery of the deferred tax assets covered by the Special Regime applicable to Deferred Tax Assets is not dependent on the generation of future taxable income.

As at 31 December 2017 and 2016, deferred tax assets related to tax losses, assessed in previous financial years, correspond to Euros 389 030 thousand and Euros 909 030 thousand, respectively.

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 for the period 2018-2022 ("PMP 2018-2022") approved by the Executive Board of Directors of NOVO BANCO, at 29 March 2018.

The Bank proceeded, in the last quarter of 2017, to annul deferred tax assets generated by tax losses were recognised in previous periods in the amount of Euros 520 million, with same amounting, as at 31 December 2017, to Euros 380 million (31 December 2016: Euros 909 million).

The decrease in the Bank's ability to recover the deferred tax assets generated by tax losses subjacent to the abovementioned annulment, when compared with the estimation of the Executive Board of Directors in the financial year ended in 2016, is related, on the one hand, to the structural commitments assumed between the Portuguese State and the Directorate-General for Competition of the European Commission ("DGCOMP") revised following the agreement for the partial sale of the Bank finalised at the end of October 2017 and formally communicated to the Bank in December 2017 and, on the other, to the greater degree of conservatism in the macroeconomic projections for Portugal in the medium and long term, considering the challenges and difficulties observed by NOVO BANCO in its fourth consecutive year of activity.

The commitments assumed with DGCOMP have imposed new and strict restrictions on the growth of the activity projected in the new business plan for the period 2018 through 2022, with a direct negative impact on the generation of future taxable profits, namely when compared with the previous medium-term business plan ("PMP 2017-2021") and which had served as the basis for the recoverability analysis of deferred tax assets generated by tax losses carried out with reference to 31 December 2016. In addition, the greater aggressiveness assumed in the plan to reduce non-productive assets also contributed to this less favorable evolution when compared with the PMP 2017-2021.

Under these circumstances, the variations in relation to the PMP 2017-2021 in the main assumptions used in the evaluation of the expectation of future taxable income to be used in the analysis of the recovery of deferred tax assets generated by tax losses are analysed as follows:

- Annual Composite Growth Rate (CAGR) between 2017 and 2021 in customer loans (gross) of 0%, which represents a reduction compared to the projected in the previous PMP for 2021 of approximately 7.9 billion euros;
- CAGR between 2017 and 2021 in customer funds of 0.5%, which represents a reduction compared to the projected in the previous PMP for 2021 of approximately 4.3 billion euros;
- Downward revision of the projections of results in financial operations through the new restrictions imposed during the restructuring period at the level of the proprietary portfolio, not allowing the Bank any activity beyond what is expected for a commercial bank.

In the evaluation of the expectation of future taxable income generation in Portugal for the purposes of the above recovery exercise, the following assumptions were also taken into account:

- Growth of pre-tax income at a rate of 3.02% from 2022;
- Significantly unfavorable evolution of net interest income in relation to the projections presented in the previous MTP, since the positive impact of the expected decrease in the cost of term deposits and the reduction in the Bank's cost of funding, namely through the LME operation carried out in 2017, are not sufficient to compensate for the significant reduction of the loan portfolio in the period from 2018 to 2022, compared to the growth shown in the previous MTP;
- Increase, in the long term, of interest rate benchmarks;
- Reduction of operating costs, reflecting the favorable effect of decreases in the number of employees and branches and, generally, simplification and increase of process efficiency; and
- Appropriations for credit impairment in line with the evolution of the Bank's activity and supported by the macroeconomic projections, especially bearing in mind the significant effort made in the last 3 years in the provisioning of the loan portfolio.

The movements in the deferred tax captions were recognised as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Balance at the beginning of the period	2 548 707	2 475 719
Recognized in Results for the period	(429 422)	212 905
Recognized in Fair value reserves	(43 119)	9 208
Recognized in Other reserves	(15 572)	11 710
Conversion of Deferred taxes into Tax credits	114 198	(160 866)
Foreign exchange differences and other	(227 367)	31
Balance at the end of the period (Assets / (Liabilities))	1 947 425	2 548 707

Current tax assets and liabilities recognised in the balance sheet as at 31 December 2017 and 2016 may be analysed as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Assets		
Corporate tax recoverable	-	-
Other	4 445	10 201
	4 445	10 201
Liabilities		
Corporate tax payable	5 051	7 243
Other	5 725	5 609
	10 776	12 852

The taxes recognised in the income statement and in reserves, in financial years 2017 and 2016, had the following origins:

(in thousands of Euros)

	31.12.2017		31.12.2016	
	Recognized in the income statement	Recognized in reserves	Recognized in the income statement	Recognized in reserves
Deferred taxes				
Financial Instruments	49 797	43 119	(94 286)	(9 208)
Loans and advances to customers	(143 234)	-	(120 385)	(18 691)
Other tangible assets	(5 780)	15 572	(297)	773
Investments in subsidiaries and associated companies	68	-	5 535	-
Provisions	15 769	-	20 787	2 849
Pensions	(6 073)	-	(19 245)	(2 933)
Long-term service bonuses	-	-	3 139	-
Other	(1 125)	-	184	-
Tax losses carried forward	520 000	-	(8 337)	6 292
Deferred taxes	**429 422**	**58 691**	**(212 905)**	**(20 918)**
Current taxes	**9 154**	**-**	**6 888**	**-**
Total tax recognized (income) / cost	**438 576**	**58 691**	**(206 017)**	**(20 918)**

The reconciliation of the corporate income tax rate, for the portion recognised in the income statement, may be analysed as follows:

(in thousands of Euros)

	31.12.2017		31-12-2016*	
	%	Amount	%	Amount
Loss before tax		**(814 470)**		**(950 761)**
Tax rate	21,0		21,0	
Income tax calculated based on the tax rate of NOVO BANCO		**(171 039)**		**(199 660)**
Tax-exempt dividends	0,5	(4 083)	2,8	(26 750)
Extraordinary contribution to the Bank Levy	(3,7)	30 256	(3,8)	36 342
Impairment on investments in subsidiaries or associated companies not subject to participation	(7,6)	62 274	6,8	(64 280)
Impairment on investments in subsidiaries or associated companies subject to participation	(7,1)	58 056	(5,8)	55 522
Non-deductible costs	(8,8)	71 730	(7,8)	74 432
Taxes of Bank Branches and tax withheld abroad	(0,9)	7 709	(1,1)	10 121
Rate differential on the generation / reversal of timing differences	4,3	(35 060)	6,0	(56 622)
Annulment of tax losses carried forward	(63,8)	520 000	-	-
Change in the rate of IRC	12,8	(104 531)	-	-
Profits / losses in units with a more favorable tax regime	(1,7)	13 933	-	-
Other	1,3	(10 669)	3,7	(35 122)
Total tax recognized	**(53,8)**	**438 576**	**21,7**	**(206 017)**

NOTE 35 – OTHER LIABILITIES

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

(in thousands of Euros)

	31.12.2017	31.12.2016
Public sector	31 951	38 938
Security deposit accounts	101 091	132 489
Other creditors	238 502	199 196
Career bonuses (see Note 13)	6 261	5 056
Retirement pensions and health-care benefits (see Note 13)	18 095	22 425
Other accrued expenses	73 328	77 541
Deferred income	2 817	6 706
Stock exchange transactions pending settlement	25 999	14 500
Other transactions pending settlement	129 533	67 421
	627 577	**564 272**

Stock exchange transactions pending settlement refer to transactions with securities pending settlement, recorded on the trade date, in accordance with the accounting policy described in Note 2.5.

NOTE 36 – SHARE CAPITAL

As at 31 December 2016, the Bank's share capital, in the amount of Euros 4 900 000 000, was represented by 4 900 000 000 registered shares, with a nominal value of Euro 1 per share, fully subscribed and realised by Fundo de Resolução.

During financial year 2017, and following the acquisition of 75% of NOVO BANCO by Lone Star, two capital increases in the amounts of Euros 750 million and Euros 250 million, in October and December, respectively, were realised. Thus, as at 31 December 2017, the share capital of the Bank amounts to Euros 5 900 000 000, represented by 9 799 999 997 registered shares, with no nominal value, being fully subscribed and realised by the following shareholders.

	Share Capital %	
	31.12.2017	31.12.2016
Nani Holdings, SGPS, SA	75.00%	-
Fundo de Resolução[(1)]	25.00%	100.00%
	100.00%	**100.00%**

[(1)] In view of the commitments assumed by the Portuguese Republic before the European Commisson, the Resolution Fund is inhibited from exercising its voting rights.

NOVO BANCO adhered to the Special Regime applicable to Deferred Tax Assets (DTA) approved by Law no. 61/2014, of 26 August. Said regime applies to deferred tax assets related to the non-deduction, for corporate income tax purposes, of costs and negative equity changes recorded up to 31 December 2015 for impairment losses on loans and advances to customers and with employee post-employment or long-term benefits. Said regime foresees that those assets can be converted into tax credits when the taxable entity reports an annual net loss.

Law no. 23/2016, of 19 August, changed the temporal scope of this Special Regime, establishing that it was not applicable to expenses and eligible negative changes in shareholders' equity accounted for in taxable periods that were to begin on or after 1 January 2016.

In this context, following the determination of a negative net result for the 2015 financial year and the approval of the annual accounts by the corporate bodies, and the application of said Special Regime applicable to Deferred Tax Assets, part of the deferred tax assets eligible as a result of the transfer to the Social Security of the liabilities and of the change in the accounting policy regarding the recognition of actuarial deviations was converted into a tax credit, with the final amount having been approved during the second half of 2017 of Euros 153 555 thousand, and received in December 2017. The application of said Special Regime implies the simultaneous constitution of a special reserve in the amount of Euros 168 911 thousand.

The conversion of the eligible deferred tax assets into tax credits was made in function of the proportion of the amount of said net loss to total equity at the individual company level.

A special reserve was constituted with an amount identical to the tax credit approved, increased by 10%. This special reserve was constituted using the originating reserve and is to be incorporated in the share capital.

The constitution of the conversion rights in representative securities of the share capital given to the State, which is related to the determination of a net loss in financial year 2015, will occur during the year 2018.

The conversion rights are securities that grant to the State the right to demand of NOVO BANCO the respective share capital increase, through the incorporation of the amount of the special reserve and the consequent issue and delivery of ordinary shares at no cost. The shareholders of NOVO BANCO have the unilateral right to acquire the conversion rights from the State.

Also following the determination of a net loss in financial year 2016, and the approval of the annual accounts by the Corporate Bodies, the application of said Special Regime will imply again, in 2017, the conversion of the deferred tax assets eligible for tax credit in proportion of that same net loss to the amount of equity, estimated in Euros 121.5 million, the simultaneous constitution of a special reserve, estimated in Euros 133.7 million, and the constitution of the conversion rights in representative securities of the share capital given to the State.

These estimated amounts may undergo changes as a result of the certification of the auditors and of the Taxation Authority itself that is to occur in 2018.

It is estimated that the conversion rights to be issued and allocated to the State following the net loss of financial years 2015 and 2016 will confer on same a shareholding of up to about 5.8% of the share capital of NOVO BANCO.

NOTE 37 – OTHER RESERVES, RETAINED EARNINGS AND NON-CONTROLLING INTERESTS

The Bank's reserves and retained earnings had the following breakdown as at 31 December 2017 and 2016:

(in thousands of Euros)

	31.12.2017	31.12.2016
Originating reserve	2 402 165	2 527 761
Special reserve [(a)]	302 569	176 952
Fair value reserves	135 104	43 086
Other reserves and Retained earnings	(3 026 980)	(2 228 349)
	(187 142)	**519 450**

[(a)] The amount at 31 December 2016 is an estimate that was corrected during 2017 to Euros 168 911 thousand

Originating reserve

The originating reserve results from the difference between the assets and liabilities transferred from BES to NOVO BANCO, on the terms defined in the resolution measure applied by Banco de Portugal to BES. The amount of the reserve includes the effects of Banco de Portugal's Resolution Measure ("Medida de Resolução") (and subsequent alterations) and those of the conclusions reached through the audit conducted by the independent auditor nominated by Banco de Portugal.

Special reserve

As mentioned in Note 36, the special reserve was created as a result of the adhesion of NOVO BANCO to the Special Regime applicable to Deferred Tax Assets approved by Law no. 61/2014, of 26 August, which implied the conversion of eligible deferred tax assets into tax credits and the simultaneous creation of a special reserve, following the determination of a net loss in financial years 2015 and 2016 and the approval of the respective annual accounts by the corporate bodies. The special reserve was constituted in the same amount of the tax credit calculated, increased by 10%, against the originating reserve and is destined to be incorporated into the share capital. The amounts of the originating reserve transferred to the special reserve are presented as follows:

(in thousands of Euros)

	31.12.2017
2016 (net loss of 2015)	168 911
2017 (net loss of 2016)	133 658
	302 569

Fair value reserves

The fair value reserves represent the amount of the unrealised gains and losses arising from the securities portfolio classified as available-for-sale, net of impairment losses. The amount of this reserve is shown net of deferred taxes, presenting a nil balance in the opening balance sheet.

The movements in these captions may be presented as follows:

(in thousands of Euros)

	Fair value reserves			Other comprehensive income, Other reserves and Retained earnings			
	Available-for-sale financial assets	Deferred tax reserves	Total Fair value reserves	Actuarial deviations (net of taxes)	Other reserves and Retained earnings	Total Other reserves and Retained earnings	Total
Balance at 31 December 2015	**88 453**	**(26 900)**	**61 553**	**(304 267)**	**1 906 833**	**1 602 566**	**1 664 119**
Actuarial deviations	-	-	-	(76 504)	-	(76 504)	(76 504)
Changes in fair value	(27 675)	9 208	(18 467)	-	-	-	(18 467)
Appropriation of the Net profit / (loss) of the previous year to Retained earnings	-	-	-	-	(1 064 641)	(1 064 641)	(1 064 641)
Merger reserve of BIC International Bank (BIBL)	-	-	-	-	1 346	1 346	1 346
Foreign exchange differences	-	-	-	-	1 870	1 870	1 870
Other	-	-	-	-	11 727	11 727	11 727
Balance at 31 December 2016	**60 778**	**(17 692)**	**43 086**	**(380 771)**	**857 135**	**476 364**	**519 450**
Actuarial deviations	-	-	-	(23 715)	-	(23 715)	(23 715)
Changes in fair value	135 137	(43 119)	92 018	-	-	-	92 018
Appropriation of the Net profit / (loss) of the previous year to Retained earnings	-	-	-	-	(744 744)	(744 744)	(744 744)
Foreign exchange differences	-	-	-	-	(12 689)	(12 689)	(12 689)
Other	-	-	-	-	(17 462)	(17 462)	(17 462)
Balance at 31 December 2017	**195 915**	**(60 811)**	**135 104**	**(404 486)**	**82 240**	**(322 246)**	**(187 142)**

Fair value reserves are analysed as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Amortized cost of available-for-sale financial assets	12 358 144	11 418 873
Accumulated impairment recognized	(1 651 578)	(1 508 952)
Amortized cost of available-for-sale financial assets, net of impairment	10 706 566	9 909 921
Market value of available-for-sale financial assets	10 902 287	9 970 699
Unrealized gains / (losses) recognized in fair value reserves	195 721	60 778
Fair value reserves from discontinued operations	194	-
Deferred taxes	(60 811)	(17 692)
	135 104	**43 086**

The movement in fair value reserves, net of deferred taxes and impairment losses may be analysed as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Balance at the beginning of the period	**43 086**	**61 553**
Changes in fair value reserves	262 470	(145 601)
Disposals during period	(83 463)	7 674
Impairment recognized during the period	(43 870)	110 252
Deferred taxes recognized in reserves during the period (see Note 34)	(43 119)	9 208
Balance at the end of the period	**135 104**	**43 086**

NOTE 38 – CONTINGENT LIABILITIES AND COMMITMENTS

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

(in thousands of Euros)

	31.12.2017	31.12.2016
Contingent liabilities		
Guarantees and standby letters	3 817 601	4 485 029
Financial assets pledged as collateral	12 052 762	13 580 555
Open documentary credits	756 055	1 040 679
Other	2 747	2 985
	16 629 165	**19 109 248**
Commitments		
Revocable commitments	5 168 584	5 844 537
Irrevocable commitments	1 060 606	1 618 561
	6 229 190	**7 463 098**

Guarantees and standby letters provided are banking operations that do not imply any mobilization of funds for the Bank.

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

- The market value of financial assets pledged as collateral to the European Central Bank and/or Banco de Portugal in the scope of a liquidity facility, in the amount of Euros 11.6 billion (31 December 2016: Euros 12.8 billion);
- Securities pledged as collateral to the Portuguese Securities and Exchange Commission (“Comissão do Mercado de Valores Mobiliários” (CMVM)) in the scope of the Investors Indemnity System (“Sistema de Indemnização aos Investidores”), in the amount of Euros 8.6 million (31 December 2016: Euros 12.8 million);
- Securities pledged as collateral to the Deposits’ Guarantee Fund (“Fundo de Garantia de Depósitos”), in the amount of Euros 70.1 million (31 December 2016: Euros 75.0 million); and

- Securities pledged as collateral to the European Investment Bank, in the amount of Euros 263.1 million (31 December 2016: Euros 446.7 million).

The above mentioned financial assets pledged as collateral are recorded in the various asset categories of the Bank's balance sheet and may be executed in the event the Bank does not fulfil its obligations under the terms and conditions of the contracts celebrated.

Documentary credits are irrevocable commitments made by the Bank, on behalf of its customers, to pay or order to pay a certain amount to a supplier of goods or services, within a determined period, against the presentation of documentation of the expedition of the goods or rendering of the services. The condition of "irrevocable" derives from the fact that neither it nor the terms initially agreed to can be changed or cancelled without the agreement of all parties.

Revocable and irrevocable commitments represent contractual agreements to extend credit to Bank customers (e.g. undrawn credit lines), which are, generally, contracted for fixed periods of time or with other expiration conditions and, usually, require the payment of a commission. Almost all credit commitments in force require that customers continue meeting certain conditions that were verified at the time the credit was contracted.

Despite the characteristics of these contingent liabilities and commitments, these operations require a previous rigorous risk assessment of the solvency of the customer and of its business, just like any other commercial operation. When necessary, the Bank requires that these operations be collateralised. Since it is expected that the majority of these operations will mature without any use of funds, these amounts do not necessarily represent future outflows.

Additionally, the off-balance sheet elements related to banking services provided are as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Deposit and custodianship of securities and other items for customers	32 659 157	33 224 939
Assets received for subsequent collection on behalf of clients	242 986	207 336
Securitized loans under management (servicing)	3 658 444	4 103 320
Other responsibilities related to banking services	2 233 452	2 494 880
	38 794 039	**40 030 475**

Under the resolution measure applied to BES per deliberation of Banco de Portugal of 3 August 2014, (point 1., paragraph b), subparagraph (vii) of Appendix 2), as altered by deliberation of Banco de Portugal of 11 August 2014, the "*Excluded Liabilities*" from the transfer to NOVO BANCO include "*any obligations, guarantees, liabilities or contingencies assumed in the trading, financial intermediation and distribution of debt instruments issued by entities integrating Espírito Santo Group (…)*".

Under the terms of the point and paragraph referred to above and sub point (v), the excluded liabilities also include *"any liabilities or contingencies, namely those resulting from fraud or the violation of regulatory, penal or administrative offense provisions or regulations".*

On 29 December 2015, Banco de Portugal adopted a new deliberation for the "*Clarification and retransmission of liabilities and contingencies defined as excluded liabilities in subparagraphs (v) through (vii) of paragraph (b) of no. 1 of Appendix 2 of the Deliberation of Banco de Portugal of 3 August 2014 (8 p.m.), with the wording given it by the Deliberation of Banco de Portugal of 11 August 2014 (5 p.m.)*". Through this deliberation, Banco de Portugal:

(i) Clarified the treatment as excluded liabilities of contingent and unknown liabilities of BES (including litigation liabilities related to pending litigation and liabilities or contingencies arising from fraud or violation of rules or regulatory, criminal or administrative offence decisions), regardless of their nature (tax, labor, civil or other) and whether or not these are recorded in the accounts of BES, in accordance with subparagraph (v) of paragraph (b) of no. 1 of Appendix 2 of the Deliberation of 3 August; and

(ii) Clarified that the following liabilities had not been transferred from BES to NOVO BANCO:
   a. All the liabilities relating to Preference Shares issued by vehicle companies established by BES and sold by BES;
   b. All liabilities, damages and expenses related to real estate assets that were transferred to NOVO BANCO;
   c. All indemnities related to breach of contracts (purchase and sale of real estate assets and others) signed and celebrated before 8 p.m. on 3 August 2014;
   d. All indemnities related to life insurance contracts, in which the insurer was BES - Companhia de Seguros de Vida, S.A.;
   e. All liabilities and indemnities related to the alleged annulment of certain clauses in loan agreements in which BES was the lender;
   f. All the indemnities and liabilities arising from the cancellation of operations carried out by BES whilst financial and investment service provider; and
   g. Any liability that is the object of any of the processes described in Appendix I of said deliberation.

(iii) To the extent that, despite the clarifications made above, it is found that there has been an effective transfer of any liabilities from BES to NOVO BANCO which, in terms of any of those paragraphs and the Deliberation of 3 August, should have remained in BES's legal sphere, said liabilities will be retransmitted from NOVO BANCO to BES, with effect as at 20 hours of 3 August 2014.

In the preparation of its separate financial statements related to the 2015 financial year, NOVO BANCO incorporated the decisions resulting from the referred resolution measure regarding the transfer of the assets, liabilities, off-balance sheet elements and assets under management of BES, as well as from the deliberation of 29 December 2015 of Banco de Portugal, in particular, as regards the clarification of the non-transmission to NOVO BANCO of contingent and unknown liabilities as well as the clarifications relating to the liabilities listed in paragraph (ii) above, herein also including the lawsuits listed in said deliberation.

In addition, also by deliberation of Banco de Portugal of 29 December 2015, it was decided that it is the responsibility of Fundo de Resolução to neutralize, at the NOVO BANCO level, the effects of decisions that are legally binding, beyond the control of NOVO BANCO and to which it did not contribute and that, simultaneously, translate into the materialization of liabilities and contingencies which, according to the transfer perimeter to NOVO BANCO as defined by Banco de Portugal, should remain in BES's scope or give rise to the setting of indemnities in the scope of the implementation of court sentences annulling decisions adopted by Banco de Portugal.

Considering that the establishment of the Bank results from the application of a resolution measure to BES, which had a significant impact on the net worth of third parties, and notwithstanding the deliberations of Banco de Portugal of 29 December 2015, there are still relevant litigation risks (especially considering the number of actions lodged), albeit mitigated, namely in respect of the various disputes relating to the loan made by Oak Finance to BES and in respect of the senior bond issues retransmitted to BES, as well as the risk of the non-recognition and/or non-implementation of the various decisions of Banco de Portugal by Portuguese or foreign courts (as is the case of the courts in Spain) in disputes related to the perimeter of the assets, liabilities, off-balance sheet elements and assets under management transferred to NOVO BANCO.

In the preparation of the separate and consolidated financial statements of the Bank as at 31 December 2017 and 2016, the Executive Board of Directors reflected the Resolution Deliberation and related decisions made by Banco de Portugal, in particular the decisions of 29 December 2015, especially as regards the clarification of contingent liabilities. In this context, the present financial statements, namely as regards the provisions for contingencies arising from lawsuits, reflect the exact perimeter of the assets, liabilities, off-balance sheet elements and assets under management transferred from BES to NOVO BANCO, as determined by Banco de Portugal and taking as reference the current legal bases and the information available at the present date.

As part of the sale of NOVO BANCO, SA, completed on 18 October 2017, the respective contractual documents include specific provisions that produce effects equivalent to the aforementioned resolution from Banco de Portugal Board of Directors, dated 29 December 2015, although, now, with contractual origin, for which it maintains, therefore, the framework of contingent liabilities of the Resolution Fund.

Significant lawsuits

For the purpose of determining the contingent liabilities, and without prejudice to the information contained in these notes to the accounts, namely with regard to the conformity of the policy for the constitution of provisions with the resolution measure and subsequent decisions of Banco de Portugal (and criteria for the allocation of responsibilities and contingencies arising therefrom), it is also necessary to identify the following disputes which effects or impacts on the financial statements of NOVO BANCO are, on this date, not susceptible of determination or quantification:

(i) Lawsuit brought by Partran, SGPS, S.A., Massa Insolvente da Espírito Santo Financial Group, S.A. and Massa Insolvente da Espírito Santo Financial (Portugal), S.A. against NOVO BANCO and Calm Eagle Holdings, S.A.R.L. through which it is intended that the pledge of the shares of Companhia de Seguros Tranquilidade, S.A. be declared invalid and, secondarily, that said pledge be annulled or declared ineffective.

(ii) Lawsuit brought by NOVO BANCO, S.A. challenging the resolution decided in favor of the insolvent estate in respect of the acts of the constitution and subsequent execution of the pledge on the shares of the company Companhia de Seguros Tranquilidade, S.A., declared by the insolvency administrator of Partran, SGPS, S.A., due to considering that there are no grounds for the resolution of these acts, as well as demanding the reimbursement of the amount received by way of price (Euros 25 000 000, susceptible of a positive adjustment) on the sale of the shares of Companhia de Seguros Tranquilidade, S.A.. NOVO BANCO judicially challenged the resolution act, with this process running its course appended to the insolvency proceedings of Partran, SGPS, S.A.

At the end of January 2016, NOVO BANCO became aware of two lawsuits lodged with the Supremo Tribunal de Justiça da Venezuela (Supreme Court) by Banco de Desarrollo Económico y Social de Venezuela and by Fondo de Desarrollo Nacional. These lawsuits were brought against BES and NOVO BANCO relating to the sale of debt instruments issued by entities held by the Espírito Santo Group in the amounts of USD 37 million and USD 335 million, respectively, and in which they seek the reimbursement of the amount invested plus interest, compensation for the inflation and court costs. Under the resolution measure, these responsibilities have not been transferred to NOVO BANCO, with the main lawsuits and precautionary measure procedures still pending in the Venezuelan Supreme Court of Justice.

In addition, following the conclusion of the agreement on the sale of NOVO BANCO's share capital, signed between the Resolution Fund and Lone Star on 31 March 2017, certain legal suits have been lodged, including of a precautionary nature, related to the conditions of the sale.

Fundo de Resolução

Fundo de Resolução is a public legal entity with administrative and financial autonomy, created by Decree-Law no. 31-A/2012, of 10 February, which is governed by the General Law on Credit Institutions and Financial Companies (“RGICSF”) and by its internal regulation, having as its mission to provide financial support for the resolution measures implemented by Banco de Portugal, whilst national resolution authority, and to carry out all the other functions conferred by law in the scope of the execution of such measures.

The Bank, as with the generality of the financial institutions operating in Portugal, is one of the institutions participating in Fundo de Resolução, making contributions that result from the application of a rate defined annually by Banco de Portugal, based, essentially, on the amount of its liabilities. In 2017, the periodic contribution made by the Bank amounted to Euros 7 673 thousand (31 December 2016: Euros 6 599 thousand).

As part of its responsibility as the supervisory and resolution authority, Banco de Portugal decided to apply, on 3 August 2014, a resolution measure to BES, under no. 5 of article 145-G of the General Law on Credit Institutions and Financial Companies (RGICSF), which consisted of the transfer of most of its activity to a transition bank, called NOVO BANCO, S.A., created specifically for this purpose. According to Community legislation, the capitalization of NOVO BANCO was assured by Fundo de Resolução, created by Decree-Law no. 31-A/2012, of 10 February.

To realize the share capital of NOVO BANCO, Fundo de Resolução made available Euros 4 900 million, of which Euros 365 million corresponded to its own funds. A loan was also granted by a banking syndicate to Fundo de Resolução, amounting to Euros 635 million, with the participation of each credit institution being weighted by various factors, including their respective size. The remaining amount (Euros 3 900 million) had as its origin a reimbursable loan granted by the Portuguese Republic.

In December 2015, the national authorities decided to sell most of the assets and liabilities associated with the activity of Banif - Banco Internacional do Funchal, SA ("Banif") to Banco Santander Totta, S.A. (“Santander Totta”), for Euros 150 million, also in the scope of the application of a resolution measure. This operation involved an estimated Euros 2 255 million of public funding, aimed at covering future contingencies, financed in Euros 489 million by Fundo de Resolução and in Euros 1 766 million directly by the Portuguese Republic. In the context of this resolution measure, the assets of Banif identified as problematic were transferred to an asset management vehicle, created for the purpose – Oitante, S.A., with Fundo de Resolução being its sole shareholder, through the issue of debt securities of that vehicle, in the amount of Euros 746 million, guaranteed by Fundo de Resolução and counter-guaranteed by the Portuguese Republic.

The serious financial imbalance which led to the resolution measures applied in 2014 to BES and in 2015 to Banif created uncertainties related to the risk of litigation involving Fundo de Resolução, which is significant, as well as the risk of an insufficiency of funds to ensure its compliance with its responsibilities, namely the short-term repayment of the loans contracted.

It was in this context that, in the second half of 2016, the Portuguese Government reached an agreement with the European Commission to change the terms of the financing granted by the Portuguese Republic and by the banks participating in Fundo de Resolução in order to preserve its financial stability, through the promotion of conditions that endow predictability and stability of the contributory efforts to Fundo de Resolução. To this end, an addendum to the financing agreements with Fundo de Resolução was formalised, which introduced a number of changes to the repayment schedule, remuneration rates and other terms and conditions associated with said loans such that these are adjusted to Fundo de Resolução’s ability to fully meet its obligations based on its regular revenues, that is, without the need to charge the banks participating in Fundo de Resolução for special contributions or any other extraordinary contribution.

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

Also on 31 March 2017, Banco de Portugal announced that it had selected Lone Star Funds for the acquisition of NOVO BANCO, which was completed on 18 October 2017, through the injection, by the new shareholder, of Euros 750 million, followed by a new capital injection of Euros 250 million, made on 21 December 2017. Lone Star Funds came to hold 75% the share capital of NOVO BANCO and Fundo de Resolução the remaining 25%. In addition, the conditions approved include:

- a contingent capitalization mechanism, under which Fundo de Resolução, whilst shareholder, may be called upon to make payments in the event of the materialization of certain cumulative conditions, related to: i) the performance of a restricted set of assets of NOVO BANCO and ii) the evolution of the Bank’s capitalization levels, The possible capital injections to be realised under this contingent mechanism are subject to an absolute maximum limit of Euros 3 890 million;

- a mechanism to indemnify NOVO BANCO if, subject to certain conditions, it comes to be condemned in the payment of any liability, by a final court decision that does not recognize or is contrary to the resolution measure applied by Banco de Portugal, or the perimeter of assets and liabilities of NOVO BANCO determined by the resolution measure and subsequent decisions of Banco de Portugal (as part of the sale of NOVO BANCO, SA, completed on 18 October 2017, the respective contractual documents include specific provisions that produce effects equivalent to the aforementioned resolution from Banco de Portugal Board of Directors, dated 29 December 2015, although, now, with contractual origin, for which it maintains, therefore, the framework of contingent liabilities of the Resolution Fund).

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

NOTE 39 – RELATED PARTY TRANSACTIONS

The group of entities considered to be related parties by NOVO BANCO in accordance with the IAS 24 definitions, are (i) key management personnel; (ii) persons or entities with a family, legal or business relationship with key management personnel members; (iii) shareholders holding direct or indirect stakes equal to or exceeding 2% of the share capital or of the voting rights of NOVO BANCO; (iv) subsidiaries consolidated for accounting purposes under the full consolidation method; (v) associated companies, that is, companies over which the NOVO BANCO Group holds the power to significantly influence their financial and operational polices, despite not having control over same; and (vi) entities under joint control of NOVO BANCO (joint ventures).

The amounts of the transactions between the Bank and its related parties as at 31 December 2017 and 2016, are summarised as follows:

(in thousands of Euros)

	31.12.2017					31.12.2016				
	Assets	Liabilities	Guarantees	Income	Expenses	Assets	Liabilities	Guarantees	Income	Expenses
Shareholder										
NANI HOLDINGS	-	-	-	-	-	-	-	-	-	-
FUNDO DE RESOLUÇÃO	791 695	-	-	791 695	7 673	-	-	-	-	6 599
Subsidiaries										
GNB RECUPERAÇÃO DE CRÉDITO	-	293	-	46	3 046	-	298	-	109	3 937
GNB CONCESSÕES	5 727	37 699	9 421	92	31	105 821	433	9 422	1 364	-
GNB ACE	-	530	-	23	3 795	-	627	-	156	4 364
GNB GA	2 117	45 332	4 026	8 514	308	2 782	37 749	4 026	4 924	19
NOVO ACTIVOS FINANCIEROS	-	-	-	-	-	-	-	-	2 230	185
NOVO BANCO SERVICIOS	48 513	6	-	846	2 621	60 413	22	-	988	2 626
BES GMBH	-	3 973	-	-	-	-	4 481	-	-	-
BESIL	-	115 780	-	153	1 225	-	95 015	-	123	127
BANCO WELL LINK	-	-	-	15	16	4 293	60 064	531	18	381
ES Plc	451 318	1 079	-	20 135	17 971	585 659	1 177	28 460	105 087	82 884
ES TECH VENTURES	46 732	39 588	-	-	19	46 732	31 845	-	-	55
BEST	1 491	323 318	-	1 035	5 252	780	328 532	-	476	3 953
NB AÇORES	150 895	116 268	1 414	3 131	4 274	254 291	224 738	1 456	3 942	4 467
QUINTA DOS CONEGOS	-	2 058	-	24	-	1 002	-	-	35	-
BIBL	-	-	-	-	-	-	-	-	5 828	6 022
FCR PME	-	855	-	-	1	-	2 579	-	-	-
GNB SISTEMAS DE INFORMAÇÃO	-	-	-	41	2 303	-	680	-	152	5 241
FT LPF1	8 312	39 027	-	-	-	10 770	6 370	-	1 134	-
SPE-LM6	305 915	6 377	-	800	-	245 337	8 123	-	472	-
SPE-LM7	867 606	11 373	-	-	-	979 978	12 477	-	141	-
PRAÇA DO MARQUES	-	-	-	-	454	-	1 811	-	-	681
FCR BES GROWTH	15 414	1 480	-	-	-	15 414	872	-	-	-
OBLOG	-	-	-	-	-	-	1 170	-	12	1
NB ÁFRICA	-	10 622	-	-	8	-	10 650	-	-	12
BANCO INTERNACIONAL DE CABO VERDE	-	61 179	-	-	729	-	64 866	-	-	414
GNB Vida	13 496	243 108	-	28 631	20 239	21 224	351 749	-	21 744	7 392
NOVO VANGUARDA	264	72	-	-	2 110	467	1	-	-	2 077
FLITPTREL VIII	15 149	8	-	-	-	15 149	46	-	-	-
FUNGEPI	-	34 564	2 218	33	27	-	21 270	2 217	46	76
FUNGEPI_II	-	29 682	41	40	34	-	26 745	96	50	60
FUNGERE	-	11 378	60	32	8	-	10 067	60	33	26
IMOINVESTIMENTO	-	1 406	-	68	-	-	1 702	-	62	-
PREDILOC	-	484	-	-	-	-	240	-	-	-
IMOGESTÃO	-	1 636	436	15	-	-	-	883	15	-
ARRABIDA	-	226	-	-	1	-	866	-	-	3
INVESFUNDO VII	-	579	-	9	1	-	345	-	16	-
BES VÉNÉTIE	33 182	40 179	300 285	2 105	128	358 309	720	325 506	15 457	334
NB LOGÍSTICA	-	4 419	-	-	1	-	3 878	-	-	-
NB PATRIMÓNIO	-	7 811	648	151	5 848	20 926	-	648	1 209	7 130
FUNDES	-	16 269	-	-	11	-	5 324	-	-	58
AMOREIRAS	-	6 929	8 147	-	-	-	1 819	15 671	-	-
FIMES ORIENTE	207	5 613	5 513	-	5	219	74	114	64	-
NB ARRENDAMENTO	-	2 240	-	-	1	-	1 187	-	-	6
NB FINANCE	-	267 078	257 574	5 633	86 803	94 862	391 767	483 125	32 855	25 813
ASAS INVEST	-	76	880	-	-	18	3	-	-	-
FEBAGRI	-	653	-	-	-	-	356	-	-	-
AUTODRIL	-	37	-	-	-	-	98	-	-	-
JCN	17 920	87	-	-	-	17 938	114	-	-	-
PORTUCALE	-	23	1 127	-	-	-	80	1 127	-	-
GREENWOODS	-	123	4 797	-	-	-	26	4 797	-	-
QUINTA D. MANUEL I	-	22	-	-	-	-	2	-	-	-
QUINTA DA AREIA	-	41	-	-	-	-	56	-	-	-
VÁRZEA DA LAGOA	-	30	-	-	-	-	-	-	-	-
PROMOTUR	-	28	-	-	-	-	24	-	-	-
HERDADE DA BOINA	-	7	-	-	-	-	10	-	-	-
RIBAGOLFE	-	4	-	-	-	-	11	-	-	-
BENAGIL	-	258	-	-	-	-	225	-	-	-
IMOASCAY	-	649	-	-	-	-	661	-	-	-
PALEXPO	18	1 347	-	-	-	142	30	-	-	-
HERDADE PINHEIRINHO	24 194	292	470	-	-	-	-	-	-	-
HERDADE PINHEIRINHO II	73 230	79	4 227	-	-	-	-	-	-	-
QUINTA DA RIBEIRA	-	19	-	-	-	-	-	-	-	-
PROMOÇÃO E TURISMO	-	1 115	-	-	-	-	-	-	-	-
	2 873 395	**1 495 408**	**601 284**	**863 267**	**164 943**	**2 842 526**	**1 714 075**	**878 139**	**198 742**	**164 943**
Associated companies										
LINEAS	208 013	44 660	3 844	11 593	3	272 326	899	3 844	13 694	10
LOCARENT	56 615	836	-	1 777	5 570	100 898	678	-	2 960	5 713
NANIUM	-	-	-	107	-	26 244	1 411	150	338	-
ASCENDI PINHAL INTERIOR	102 259	48 311	7 639	12 529	18 012	150 884	35 661	7 639	15 142	17 545
GNB SEGUROS	-	13 667	-	2	5	-	14 290	-	3	5
ESEGUR	5 958	1 185	909	-	-	5 985	1 363	928	1	1
UNICRE	-	8	-	-	-	-	74	-	-	1
MULTIPESSOAL	5 512	49	251	95	-	8 023	13	258	187	-
Other	933	42 433	70	994 #	146	171 965	54 511	1 609	5 003	410
	379 290	**151 149**	**12 713**	**27 097**	**23 736**	**736 325**	**108 900**	**14 428**	**37 328**	**23 685**
Other (*)	**-**	**-**	**-**	**-**	**-**	**3**	**1 695**	**-**	**-**	**-**

(*) Companies controlled directly or indirectly by members of the corporate bodies

The asset balances relating to associated companies included in the above table relate mainly to loans and advances and shareholder loans granted or debt securities acquired in the scope of the Bank’s activity. The liabilities relate mainly to bank deposits taken.

The transactions referred to above were carried out at arm's length, on similar terms and conditions, when compared with others entered into with unrelated parties.

All the loans granted to related parties are included in the impairment model, being subject to the determination of impairment in like manner to that of the loans and advances granted by the Bank.

Assets placed with related parties earn interest at between 0% and 8.63% (the rates correspond to the rates applied according to the original currency of the asset).

At 31 December 2017, loans granted to members of the Key Management Personnel of NOVO BANCO were as follows: (i) members of the Executive Board of Directors and their immediate family members, the amount of Euros 101 thousand; and (i) members of the General and Supervisory Council and their immediate family members, had no loans granted to them.

The costs with remuneration and other benefits attributed to Key Management Personnel of NOVO BANCO, in 2017, are presented as follows:

(in thousands of Euros)

	Executive Board of Directors	General and Supervisory Board	Total
31 December 2017			
Short-term employment benefits	2 207	340	2 547
Post-employment benefits	2	-	2
Other long-term benefits	-	5	5
Employment termination benefits	-	-	-
Share-based payments	-	-	-
	2 209	**346**	**2 554**

As at 31 December 2016 (in accordance with the scope defined in IAS 24) loans granted to members of the Key Management Personnel of NOVO BANCO were as follows: (i) members of the Board of Directors and their immediate families, the amount of Euros 96 thousand; (ii) the members of the Supervisory Board and their immediate families ,had no loans granted to them; and (iii) and the amount of loans granted to Other Key Management Personnel (General Managers and Advisors to the Board of Directors) amounted to Euros 858 thousand.

The costs with remuneration and other benefits attributed to Key Management Personnel of NOVO BANCO, in 2016, are presented as follows:

(in thousands of Euros)

	Board of Directors	Statutory Supervisory Board	Other key management personnel	Total
31 December 2016				
Short-term employment benefits	1 696	255	1 741	3 692
Post-employment benefits	2	-	15	17
Other long-term benefits	-	-	-	-
Employment termination benefits	-	-	-	-
Share-based payments	-	-	-	-
	1 698	**255**	**1 756**	**3 709**

NOTE 40 – SECURITIZATION OF ASSETS

As at 31 December 2017 and 2016, the outstanding securitization transactions realised by NOVO BANCO were as follows:

(in thousands of Euros)

Issue	Start date	Original amount	Current amount		Asset securitized
			31.12.2017	31.12.2016	
Lusitano Mortgages No.1 plc	December 2002	1 000 000	210 905	240 096	Mortgage loans (subsidized regime)
Lusitano Mortgages No.2 plc	November 2003	1 000 000	213 871	242 285	Mortgage loans (general and subsidized regime)
Lusitano Mortgages No.3 plc	November 2004	1 200 000	328 966	370 284	Mortgage loans (general regime)
Lusitano Mortgages No.4 plc	September 2005	1 200 000	396 244	437 689	Mortgage loans (general regime)
Lusitano Mortgages No.5 plc	September 2006	1 400 000	569 453	623 232	Mortgage loans (general regime)
Lusitano SME No.1 plc	October 2006	862 607	-	95 276	Loans to small- and medium-sized companies
Lusitano Mortgages No.6 plc	July 2007	1 100 000	554 890	612 683	Mortgage loans (general regime)
Lusitano Project Finance No.1, FTC	December 2007	1 079 100	9 300	56 266	Project Finance
Lusitano Mortgages No.7 plc	September 2008	1 900 000	1 352 403	1 482 197	Mortgage loans (general regime)
Lusitano Finance No.3	November 2011	657 981	50 049	82 661	Consumer loans
Lusitano SME No.3	November 2016	630 385	353 038	558 478	Loans to small- and medium-sized companies

Additionally, as at 31 December 2017 and 2016, the following synthetic securitization operations were in progress:

(in thousands of Euros)

Issue	Start date	Initial amount of CDS	Current amount of CDS		Asset securitized
			31.12.2017	31.12.2016	
Lusitano Synthetic Limited	December 2012	1 000 000	509 323	719 219	Medium/Long-term financing of SME's
Lusitano Synthetic II Ltd.	December 2013	2 000 000	1 453 640	1 592 605	Current accounts

At the end of financial year 2017, the securitization operation Lusitano SME No.1 plc was redeemed. In financial year 2016, a securitization operation involving loans and advances to small- and medium-sised companies was realised (Lusitano SME No.3).

The loans and advances to customers covered by the securitization operations Lusitano Finance No.3 and Lusitano SME No.3 were not derecognised from the balance sheet since the Bank substantially retained all the risks and rewards of ownership associated with the securitised assets. The remaining securitization operations were derecognised as the Bank substantially transferred all the risks and rewards of ownership.

Lusitano Synthetic Limited and Lusitano Synthetic II Limited are synthetic loan securitization operations, involving the contracting by the Bank of a credit default swap (CDS) for each operation with the objective of eliminating the credit risk associated with a portfolio of loans granted to companies. The loans relating to this portfolio continue to be recognised in the Bank's balance sheet under the caption Loans and advances to customers. As at 31 December 2017, the fair value of the CDS of these transactions is positive in Euros 103 779 thousand (31 December 2016: positive fair value of Euros 105 570 thousand).

The main characteristics of these operations, as at 31 December 2017 and 2016, may be analysed as follows:

(in thousands of Euros)

31.12.2017														
Issue	Bonds issued	Initial nominal value	Current nominal value	Interest held by Bank (Nominal value)	Interest held by Bank (Book value)	Maturity date	Initial rating of the bonds				Current rating of the bonds			
							Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Lusitano Mortgages No.1 plc	Class A	915 000	114 821	-	-	December 2035	AAA	Aaa	AAA	-	A+	A1	AA-	-
	Class B	32 500	32 500	-	-	December 2035	AA	Aa3	AA	-	A+	A1	A	-
	Class C	25 000	25 000	-	-	December 2035	A	A2	A	-	A+	A1	BBB-	-
	Class D	22 500	22 500	-	-	December 2035	BBB	Baa2	BBB	-	A+	Ba1	BB+	-
	Class E	5 000	5 000	-	-	December 2035	BB	Ba1	BB	-	A	Caa1	B-	-
	Class F	10 000	10 000	-	-	December 2035	-	-	-	-	-	-	-	-
Lusitano Mortgages No.2 plc	Class A	920 000	127 091	-	-	December 2036	AAA	Aaa	AAA	-	A+	A1	AA-	-
	Class B	30 000	30 000	-	-	December 2046	AA	Aa3	AA	-	A+	A1	A	-
	Class C	28 000	28 000	-	-	December 2046	A	A3	A	-	A+	A1	BBB-	-
	Class D	16 000	16 000	-	-	December 2046	BBB	Baa3	BBB	-	BBB+	Baa3	BB	-
	Class E	6 000	6 000	-	-	December 2046	BBB-	Ba1	BB	-	BB	B3	B-	-
	Class F	9 000	9 000	-	-	December 2046	-	-	-	-	-	-	-	-
Lusitano Mortgages No.3 plc	Class A	1 140 000	285 314	-	-	December 2047	AAA	Aaa	AAA	-	A-	A1	A-	-
	Class B	27 000	11 196	-	-	December 2047	AA	Aa2	AA	-	BBB	Ba1	BB-	-
	Class C	18 600	7 713	-	-	December 2047	A	A2	A	-	BB	Ba3	B	-
	Class D	14 400	5 971	-	-	December 2047	BBB	Baa2	BBB	-	B	B3	B-	-
	Class E	10 800	5 583	-	-	December 2047	-	-	-	-	-	-	-	-
Lusitano Mortgages No.4 plc	Class A	1 134 000	308 280	-	-	December 2048	AAA	Aaa	AAA	-	BB	A1	A	-
	Class B	22 800	20 406	-	-	December 2048	AA	Aa2	AA	-	BB	Baa2	BBB-	-
	Class C	19 200	17 184	-	-	December 2048	A+	A1	A+	-	BB	Ba3	BB-	-
	Class D	24 000	21 480	-	-	December 2048	BBB+	Baa1	BBB-	-	CCC	Caa3	B-	-
	Class E	10 200	8 490	-	-	December 2048	N/A	-	N/A	-	-	-	-	-
Lusitano Mortgages No.5 plc	Class A	1 323 000	465 410	-	-	December 2059	AAA	Aaa	AAA	-	BB	A2	BBB+	-
	Class B	26 600	25 494	-	-	December 2059	AA	Aa2	AA	-	BB-	B2	BB+	-
	Class C	22 400	21 469	-	-	December 2059	A	A1	A	-	CCC	Caa3	BB-	-
	Class D	28 000	26 836	-	-	December 2059	BBB+	Baa2	BBB	-	CC	Ca	CCC	-
	Class E	11 900	11 900	-	-	December 2059	N/A	-	N/A	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943 250	371 205	149 589	140 174	March 2060	AAA	Aaa	AAA	-	BBB	A1	BBB+	-
	Class B	65 450	65 450	63 950	35 235	March 2060	AA	Aa3	AA	-	BB-	Baa1	BBB-	-
	Class C	41 800	41 800	41 800	30 964	March 2060	A	A3	A	-	B-	Ba3	BB	-
	Class D	17 600	17 600	17 600	11 846	March 2060	BBB	Baa3	BBB	-	CCC	Caa3	CCC	-
	Class E	31 900	31 900	31 900	16 010	March 2060	BB	-	BB	-	CC	-	D	-
	Class F	22 000	22 000	-	-	March 2060	-	-	-	-	-	-	-	-
Lusitano Project Finance No.1 FTC		198 101	47 817	8 231	7 117	March 2025	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1 425 000	867 606	867 606	784 883	October 2064	-	-	AAA	AAA	-	-	AA-	AAH
	Class B	294 500	294 500	-	-	October 2064	-	-	BBB-	-	-	-	BBB-	-
	Class C	180 500	180 500	-	-	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	57 000	-	-	October 2064	-	-	-	-	-	-	-	-
Lusitano Finance No.3	Class A	450 700	-	-	-	December 2029	-	-	-	-	-	-	-	-
	Class B	207 200	48 913	48 913	45 541	December 2029	-	-	-	-	-	-	-	-
	Class C	24 800	10 000	10 000	9 134	December 2029	-	-	-	-	-	-	-	-
Lusitano SME No.3	Class A	385 600	129 276	-	-	December 2037	-	A3	-	AA	-	A1	-	AAL
	Class B	62 700	62 700	62 700	60 464	December 2037	-	Baa3	-	BBB	-	A3	-	BBBH
	Class C	62 700	62 700	62 700	59 432	December 2037	-	B1	-	B	-	Ba1	-	BH
	Class D	116 000	116 000	116 000	81 654	December 2037	-	-	-	-	-	-	-	-
	Class E	9 500	6 201	6 201	5 298	December 2037	-	-	-	-	-	-	-	-
	Class S	88 771	6 160	6 160	2 905	December 2037	-	-	-	-	-	-	-	-
Lusitano Synthetic Limited	Senior	900 000	425 460	425 460	-	April 2034	-	-	-	-	-	-	-	-
	Mezzanine	80 000	79 382	-	-	April 2034	-	-	-	-	-	-	-	-
	Junior	20 000	-	-	-	April 2034	-	-	-	-	-	-	-	-
Lusitano Synthetic II Ltd.	Senior	1 800 000	1 289 247	1 289 247	-	November 2023	-	-	-	-	-	-	-	-
	Mezzanine	180 000	56 141	-	-	November 2023	-	-	-	-	-	-	-	-
	Junior	20 000	-	-	-	November 2023	-	-	-	-	-	-	-	-

(in thousands of Euros)

31.12.2016														
Issue	Bonds issued	Initial nominal value	Current nominal value	Interest held by Bank (Nominal value)	Interest held by Bank (Book value)	Maturity date	Initial rating of the bonds				Current rating of the bonds			
							Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Lusitano Mortgages No.1 plc	Class A	915 000	143 629	-	-	December 2035	AAA	Aaa	AAA	-	A+	A1	A+	-
	Class B	32 500	32 500	-	-	December 2035	AA	Aa3	AA	-	A+	A1	A-	-
	Class C	25 000	25 000	-	-	December 2035	A	A2	A	-	A+	A1	BB-	-
	Class D	22 500	22 500	-	-	December 2035	BBB	Baa2	BBB	-	A+	Ba2	B+	-
	Class E	5 000	5 000	-	-	December 2035	BB	Ba1	BB	-	A	Caa1	B-	-
	Class F	10 000	10 000	-	-	December 2035	-	-	-	-	-	-	-	-
Lusitano Mortgages No.2 plc	Class A	920 000	156 202	-	-	December 2036	AAA	Aaa	AAA	-	A+	A1	A-	-
	Class B	30 000	30 000	-	-	December 2046	AA	Aa3	AA	-	A+	A1	BB+	-
	Class C	28 000	28 000	-	-	December 2046	A	A3	A	-	A+	A2	B+	-
	Class D	16 000	16 000	-	-	December 2046	BBB	Baa3	BBB	-	BBB+	Ba1	B	-
	Class E	6 000	6 000	-	-	December 2046	BBB-	Ba1	BB	-	BB	B3	B-	-
	Class F	9 000	9 000	-	-	December 2046	-	-	-	-	-	-	-	-
Lusitano Mortgages No.3 plc	Class A	1 140 000	321 423	-	-	December 2047	AAA	Aaa	AAA	-	A-	A2	A-	-
	Class B	27 000	12 613	-	-	December 2047	AA	Aa2	AA	-	BBB	Ba2	B+	-
	Class C	18 600	8 689	-	-	December 2047	A	A2	A	-	BB	B1	B	-
	Class D	14 400	6 727	-	-	December 2047	BBB	Baa2	BBB	-	B	B3	B-	-
	Class E	10 800	6 290	-	-	December 2047	-	-	-	-	-	-	-	-
Lusitano Mortgages No.4 plc	Class A	1 134 000	345 890	-	-	December 2048	AAA	Aaa	AAA	-	BB	A1	A-	-
	Class B	22 800	21 553	-	-	December 2048	AA	Aa2	AA	-	BB	Baa3	BB	-
	Class C	19 200	18 150	-	-	December 2048	A+	A1	A+	-	BB	B2	B	-
	Class D	24 000	22 687	-	-	December 2048	BBB+	Baa1	BBB-	-	CCC	Caa3	B-	-
	Class E	10 200	10 200	-	-	December 2048	N/A	-	N/A	-	-	-	-	-
Lusitano Mortgages No.5 plc	Class A	1 323 000	522 040	-	-	December 2059	AAA	Aaa	AAA	-	BB	Baa1	BB+	-
	Class B	26 600	25 494	-	-	December 2059	AA	Aa2	AA	-	BB-	B3	B	-
	Class C	22 400	21 469	-	-	December 2059	A	A1	A	-	CCC	Caa3	B-	-
	Class D	28 000	26 836	-	-	December 2059	BBB+	Baa2	BBB	-	CC	Ca	CCC	-
	Class E	11 900	11 900	-	-	December 2059	N/A	-	N/A	-	-	-	-	-
Lusitano SME No.1 plc	Class A	759 525	-	-	-	December 2028	A+	-	A-	-	-	-	-	-
	Class B	40 974	2 917	-	-	December 2028	AAA	-	AAA	-	AAA	-	AAA	-
	Class C	34 073	16 235	-	-	December 2028	CCC	-	B	-	B-	-	BBB+	-
	Class D	28 035	13 358	-	-	December 2028	-	-	-	-	-	-	-	-
	Class E	8 626	4 313	-	-	December 2028	-	-	-	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943 250	418 516	90 053	79 031	March 2060	AAA	Aaa	AAA	-	BBB	A1	BBB+	-
	Class B	65 450	65 450	63 950	41 630	March 2060	AA	Aa3	AA	-	BB-	Baa3	BB+	-
	Class C	41 800	41 800	41 800	23 488	March 2060	A	A3	A	-	B-	B3	B	-
	Class D	17 600	17 600	17 600	8 824	March 2060	BBB	Baa3	BBB	-	CCC	Caa3	CCC	-
	Class E	31 900	31 900	31 900	10 804	March 2060	BB	-	BB	-	CC	-	D	-
	Class F	22 000	22 000	-	-	March 2060	-	-	-	-	-	-	-	-
Lusitano Project Finance No.1 FTC		198 101	87 740	15 103	15 414	March 2025	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1 425 000	979 978	979 973	857 143	October 2064	-	-	AAA	AAA	-	-	A-	AAH
	Class B	294 500	294 500	-	-	October 2064	-	-	BBB-	-	-	-	BB-	-
	Class C	180 500	180 500	-	-	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	57 000	-	-	October 2064	-	-	-	-	-	-	-	-
Lusitano Finance No.3	Class A	450 700	-	-	-	November 2029	-	-	-	-	-	-	-	-
	Class B	207 200	78 683	78 683	68 327	November 2029	-	-	-	-	-	-	-	-
	Class C	24 800	10 000	10 000	8 079	November 2029	-	-	-	-	-	-	-	-
Lusitano SME No.3	Class A	385 600	335 018	-	-	December 2037	-	A3	-	AA	-	A3	-	AA
	Class B	62 700	62 700	62 700	62 700	December 2037	-	Baa3	-	BBB	-	Baa3	-	BBB
	Class C	62 700	62 700	62 700	62 700	December 2037	-	B1	-	B	-	B1	-	B
	Class D	116 000	116 000	116 000	116 000	December 2037	-	-	-	-	-	-	-	-
	Class E	9 500	9 500	9 500	9 500	December 2037	-	-	-	-	-	-	-	-
	Class S	88 771	56 766	56 766	56 766	December 2037	-	-	-	-	-	-	-	-
Lusitano Synthetic Limited	Senior	900 000	664 581	664 581	-	April 2034	-	-	-	-	-	-	-	-
	Mezzanine	80 000	80 000	-	-	April 2034	-	-	-	-	-	-	-	-
	Junior	20 000	8 074	6 459	-	April 2034	-	-	-	-	-	-	-	-
Lusitano Synthetic II Ltd.	Senior	1 800 000	1 365 888	1 365 888	-	November 2023	-	-	-	-	-	-	-	-
	Mezzanine	180 000	85 007	-	-	November 2023	-	-	-	-	-	-	-	-
	Junior	20 000	-	-	-	November 2023	-	-	-	-	-	-	-	-

The synthetic securitization operations referred to above imply the recording of financial liabilities associated with the assets transferred, which are detailed as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Lusitano Finance No. 3	50 059	82 661
Lusitano SME No. 3	353 038	558 476
FLITPTREL (1)	44 451	44 451
	447 548	**685 588**

(1) Asset transfer operation, with the Bank holding in its securities portfolio equity instruments of the vehicle

NOTE 41 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The governance model of the valuation of the Bank's financial instruments is defined in internal regulations, which establishes the policies and procedures to be followed in the identification and valuation of financial instruments, the control procedures and the definition of the responsibilities of the parties involved in this process.

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

Quoted market prices (level 1)

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

The priority in terms of which price is used is given to those observed on official markets; where there is more than one official market the choice falls on the main market on which those instruments are traded.

The Bank considers market prices those disclosed by independent entities, assuming that these act for their own economic benefit and that such prices are representative of the active market, using, whenever possible, prices supplied by more than one entity (for a specific asset and/or liability). For the process of re-evaluating financial instruments, the Bank analyses the various prices in order to select the one it considers most representative for the instrument under analysis. Additionally, when they exist, prices relating to recent transactions with similar financial instruments are used as inputs, being subsequently compared to those supplied by said entities to better justify the option taken by the Bank in favor of a specific price.

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

(i) Derivatives traded on an organised market;
(ii) Shares quoted on a stock exchange;
(iii) Open investment funds (securities) quoted on a stock exchange;
(iv) Closed investment funds whose subjacent assets are solely financial instruments listed on a stock exchange;
(v) Bonds with more than one provider and for which the instruments are quoted on a stock exchange;
(vi) Financial instruments with market offers even if these are not available at the normal information sources (e.g. securities traded based on recovery rate);

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

In this category, the financial instruments are valued using internal valuation techniques, namely discounted cash flow models and option pricing models which imply the use of estimates and require judgments that vary in accordance with the complexity of the financial instruments. Notwithstanding, the Bank uses as inputs in its models, observable market data such as interest rate curves, credit spreads, volatility and market indexes. This category also includes instruments with dealer price quotations but which markets have a lower liquidity. Additionally, the Bank also uses as observable market variables, those that result from transactions with similar instruments and that are observed with a certain regularity on the market.

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

i) Unquoted bonds; and

ii) OTC (over-the-counter) derivatives.

Valuation models based on unobservable market parameters (level 3)

This level uses models relying on internal valuation techniques or quotations provided by third parties but which imply the use of non-observable market information. The bases and assumptions for the calculation of fair value are in accordance with IFRS 13.

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

(i) Debt securities valued using non-observable market inputs;

(ii) Unquoted shares;

(iii) Closed real estate funds;

(iv) Hedge funds;

(v) Private equities;

(vi) Restructuring funds; and

(vii) Over the counter (OTC) derivatives with valuations provided by third parties.

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

<u>Money market operations and loans and advances to customers</u>: fair value is determined by the discounted cash flows method, with future cash flow being discounted considering the currency yield curve plus the credit risk of the entity contractually liquidating that flow.

<u>Commercial paper</u>: its fair value is determined by discounting future cash flows considering the currency yield curve plus the credit risk of the issuer determined in the issuance program.

Debt instruments (bonds) with liquidity: the selective independent valuation methodology is used based on observations available on Bloomberg, designated as 'Best Price', where all the valuations available are requested, but only previously validated sources considered as input, with the model excluding prices due to seniority and outlier prices. In the specific case of the Portuguese sovereign debt, and due to the market making activity and the materiality of the Bank's positions, the CBBT source valuations are always considered (the CBBT is a composite of valuations prepared by Bloomberg, which considers the average of executable prices with high liquidity).

Debt instruments (bonds) with reduced liquidity: the models considered for the valuation of low liquidity bonds without observable market valuations are determined taking into account the information available on the issuer and the instrument, with the following models being considered: (i) discounted cash flows - cash flows are discounted considering the interest rate risk, credit risk of the issuer and any other risks subjacent to the instrument; or (ii) valuations made available by external counterparties, when it is impossible to determine the fair value of the instrument, with the selection always falling on reliable sources with reputed credibility in the market and impartiality in the valuation of the instruments being analysed.

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

Shares and quoted funds: for quoted market products, the quotation on the respective stock exchange is considered.

Unquoted Shares: the valuation is carried out using external valuations made of the companies in which the shareholding is held. In the event the request for an external valuation is not justified due to the immateriality of this position in the balance sheet, the position is revalued considering the book value of the entity, or is maintained at the acquisition cost with the respective analysis of impairment.

Unquoted funds: the valuation considered is that provided by the fund's management company. In the event there are calls for capital after the reference date of the last available valuation, the valuation is recalculated considering the capital calls subsequent to the reference date at the amount at which these were made, until a new valuation is made available by the management company, already considering the capital calls realised. It should be pointed out that, although it accepts the valuations provided by the management companies, when applicable in accordance with the funds' regulations, the Bank requests the legal certification of accounts issued by independent auditors in order to obtain additional assurance about the information provided by the management company.

Derivative instruments: if these are traded on organised markets, the valuations are observable in the market, otherwise these are valued using standard models and relying on observable variables in the market, namely:

- Foreign currency options: are valued through the front office system, which considers models such as Garman-Kohlhagen, Binomial, Black & Scholes, Levy or Vanna-Volga.
- Interest rate swaps and foreign currency swaps: the valuation of these instruments is done through the front office system, where the fixed leg cash flows of the instrument are discounted based on the yield curve of the respective currency, and the cash flows of the variable leg are projected considering the forward curve and discounted, also considering discount factors and forward rates based on the yield curve of the respective currency.
- Credit Default Swaps: both legs of the CDS are composed of cash flows contingent on the credit risk of the underlying asset and are therefore valued using market credit spreads.
- Futures and Options: the Bank trades these products on an organised market, but also has the possibility to trade them on the OTC market. For futures and options traded on an organised market, the valuations are observable in the market, with the valuation being received daily through the broker selected for these products. For futures and options traded on the OTC market, and depending on the type of product and the underlying asset type, discrete time (binominal) or continuous time (Black & Scholes) models may be used.

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

(in thousands of Euros)

	At fair value			Total Fair Value
	Quoted Market Prices (Level 1)	Valuation models based on observable market information (Level 2)	Valuation models based on unobservable market information (Level 3)	
31 December 2017				
Financial assets held for trading	-	582 425	529	582 954
Securities				
Bonds issued by other entities	-	-	2	2
Shares	-	-	79	79
Derivatives				
Exchange rate contracts	-	33 995	-	33 995
Interest rate contracts	-	502 337	448	502 785
Credit default contracts	-	15	-	15
Other	-	46 078	-	46 078
Other financial assets at fair value through profit or loss	-	-	3 973	3 973
Shares and other variable income securities	-	-	3 973	3 973
Available-for-sale financial assets	5 593 676	662 642	4 597 158	10 853 476
Bonds issued by government and public entities	5 370 610	519 128	-	5 889 738
Bonds issued by other entities	142 766	143 514	1 928 416	2 214 696
Shares	80 300	-	607 272	687 572
Other variable income securities	-	-	2 061 470	2 061 470
Loans and advances to customers	-	1 195 823	-	1 195 823
Derivatives held for risk management purposes	-	67 306	103 779	171 085
Exchange rate contracts	-	67 306	-	67 306
Credit default contracts	-	-	103 779	103 779
Financial assets at fair value	**5 593 676**	**2 508 196**	**4 705 439**	**12 807 311**
Financial liabilities held for trading	-	558 206	2 440	560 646
Derivatives				
Exchange rate contracts	-	34 396	-	34 396
Interest rate contracts	-	505 360	2 440	507 800
Credit default contracts	-	113	-	113
Other	-	18 337	-	18 337
Deposits from banks	-	152 219	-	152 219
Financial liabilities associated with assets transferred	-	447 548	-	447 548
Derivatives held for risk management purposes	-	76 210	-	76 210
Interest rate contracts	-	76 210	-	76 210
Financial liabilities at fair value	**-**	**1 234 183**	**2 440**	**1 236 623**

(in thousands of Euros)

	At fair value			
	Quoted Market Prices (Level 1)	Valuation models based on observable market information (Level 2)	Valuation models based on unobservable market information (Level 3)	Total Fair Value
31 December 2016				
Financial assets held for trading	139	663 051	2 174	665 364
Securities				
Bonds issued by other entities	-	-	1	1
Shares	139	-	76	215
Derivatives				
Exchange rate contracts	-	40 939	-	40 939
Interest rate contracts	-	599 946	2 097	602 043
Credit default contracts	-	18 927	-	18 927
Other	-	3 239	-	3 239
Other financial assets at fair value through profit or loss	4 350	-	526	4 876
Bonds issued by other entities	1 414	-	-	1 414
Shares and other variable income securities	2 936	-	526	3 462
Available-for-sale financial assets	4 483 129	627 670	4 806 148	9 916 947
Bonds issued by government and public entities	4 255 874	479 690	2 433	4 737 997
Bonds issued by other entities	164 174	147 980	1 990 784	2 302 938
Shares	63 081	-	762 376	825 457
Other variable income securities	-	-	2 050 555	2 050 555
Loans and advances to customers	-	657 093	-	657 093
Derivatives held for risk management purposes	-	118 014	105 569	223 583
Exchange rate contracts	-	118 014	-	118 014
Credit default contracts	-	-	105 569	105 569
Financial assets at fair value	**4 487 618**	**2 065 828**	**4 914 417**	**11 467 863**
Financial liabilities held for trading	-	642 943	2 416	645 359
Derivatives				
Exchange rate contracts	-	39 106	-	39 106
Interest rate contracts	-	576 273	2 416	578 689
Credit default contracts	-	13 615	-	13 615
Other	-	13 949	-	13 949
Deposits from banks	-	243 822	-	243 822
Due to customers	-	264 723	-	264 723
Debt securities issued	-	42 010	-	42 010
Financial liabilities associated with assets transferred	-	685 588	-	685 588
Derivatives held for risk management purposes	-	108 263	-	108 263
Interest rate contracts	-	108 263	-	108 263
Financial liabilities at fair value	**-**	**1 987 349**	**2 416**	**1 989 765**

The movement in financial assets and liabilities valued based on non-observable market information (level 3 of the fair value hierarchy) during financial years 2017 and 2016, may be analysed as follows:

(in thousands of Euros)

	31.12.2017						
	Financial assets held for trading - derivatives	Financial assets held for trading - securities	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Derivatives for risk management	Total Assets	Financial liabilities held for trading - derivatives
Balance at the beginning of the period	**2 097**	**77**	**526**	**4 806 148**	**105 569**	**4 914 417**	**2 416**
Acquisitions	-	-	3 477	5 325 190	-	5 328 667	-
Attainment of maturity	-	-	(27)	(179 579)	-	(179 606)	-
Liquidation	-	-	-	(5 214 403)	-	(5 214 403)	(1 156)
Changes in value	(1 649)	4	(3)	(140 198)	(1 790)	(143 636)	1 180
Balance at the end of the period	**448**	**81**	**3 973**	**4 597 158**	**103 779**	**4 705 439**	**2 440**

(in thousands of Euros)

31.12.2016							
	Financial assets held for trading - derivatives	Financial assets held for trading - securities	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Derivatives for risk management	Total assets	Financial liabilities held for trading - derivatives
Balance at the beginning of the perioc	**-**	**14 281**	**219 725**	**5 069 801**	**-**	**5 303 807**	**-**
Acquisitions	-	(3)	309 143	6 225 629	-	6 534 769	-
Attainment of maturity	-	-	(142)	(4 480 755)	-	(4 480 897)	-
Liquidation	-	(15 209)	(422 846)	(1 804 177)	-	(2 242 232)	-
Transfers in	2 341	-	-	625	102 796	105 762	2 416
Transfers out	-	-	-	(2 758)	-	(2 758)	
Changes in value	(244)	1 008	(105 354)	(202 217)	2 773	(304 034)	-
Balance at the end of the period	**2 097**	**77**	**526**	**4 806 148**	**105 569**	**4 914 417**	**2 416**

The transfers in that occurred in financial year 2016 were mainly related to the end of observable market parameters.

Potential gains and losses on financial instruments and investment properties classified in level 3 of the fair value hierarchy are recorded in the income statement or revaluation reserves, in accordance with the respective assets' accounting policy. The following amounts were determined in financial year 2017:

(in thousands of Euros)

	31.12.2017			31.12.2016		
	Recognized in Reserves	Recognized in the Income statement	Total	Recognized in Reserves	Recognized in the Income statement	Total
Financial assets held for trading - derivatives	-	(1 649)	(1 649)	-	(244)	(244)
Financial assets held for trading - securities	-	38	38	-	1 008	1 008
Financial assets at fair value through profit or loss	-	(7 349)	(7 349)	-	(105 354)	(105 354)
Available-for-sale financial assets	(740)	-	(740)	(165 066)	-	(165 066)
Derivatives for risk management purposes	-	(1 790)	(1 790)	-	2 773	2 773
	(740)	(10 750)	(11 490)	(165 066)	(101 817)	(266 883)

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

(in millions of Euros)

Assets classified under Level 3	31.12.2017						
	Valuation model	Variable analyzed	Carrying book value	Unfavorable scenario		Favorable scenario	
				Change	Impact	Change	Impact
Financial assets held for trading			**0,5**		**-**		**-**
Bonds issued by other entities			*0,0*		-		-
Shares	*Other*	*(a)*	*0,1*		-		-
Derivatives	*Other*	*(a)*	*0,4*				
Financial assets at fair value through profit or loss			**4,0**		**-**		**-**
Shares and other variable income securities			*4,0*		-		-
	Valuation of management company	*Net assets value (b)*	*0,2*		-		-
	(a)	*(a)*	*3,7*		-		-
Available-for-sale financial assets			**4 597,2**		**(104,8)**		**110,3**
Bonds issued by other entities			*1 928,4*		(86,4)		81,1
	Discounted cash flow model	*Discount rate*	*1 335,7*	*(-) 100 bps*	*(66,3)*	*(+) 100 bps*	*70,9*
	Discounted cash flow model	*Probability of default*	*2,9*	*-50%*	*(1,4)*	*+50%*	*4,9*
	Discounted cash flow model	*Probability of default*	*579,3*	*2 levels*	*(20,8)*	*2 levels*	*7,4*
	Discounted cash flow model	*Probability of default*	*10,5*	*-25%*	*2,1*	*+25%*	*(2,1)*
Shares			*607,3*		(18,5)		29,2
	Discounted cash flow model	*Discount rate*	*91,2*	*-50%*	*(17,4)*	*+50%*	*28,1*
	Valuation of management company	*Net assets value (b)*	*490,2*		-		-
	Market multiples		*10,6*	*(-) outliers*	*(1,1)*	*(+) outliers*	*1,1*
	Other	*(a)*	*15,2*				
Other variable income securities			*2 061,5*		-		-
	Valuation of management company	*Net assets value (b)*	*2 061,5*		-		-
Derivatives held for risk management purposes	***(c)***	***(c)***	**103,8**		**-**		**-**
Total			**4 705,4**		**(104,8)**		**110,3**

(a) No sensitivity analysis was carried out for these categories as these include financial assets of an individually immaterial value

(b) In the specific case of participation units valued in accordance with quotations provided by the respective management company, it is not reasonable to carry out an analysis of the impact of changes of the variables subjacent to the determination of the quotation by the entity

(c) In the specific case of derivatives valued according to the information provided by an external entity, it is not reasonable to analyze the impact of the change in the variables underlying the fair value determination by these entities.

(in millions of Euros)

Assets classified under Level 3	31.12.2016						
	Valuation model	Variable analyzed	Carrying book value	Unfavorable scenario		Favorable scenario	
				Change	Impact	Change	Impact
Financial assets held for trading			**2,2**		**-**		**-**
Shares	*Other*	*(a)*	*0,1*		-		-
Derivatives	*Other*	*(a)*	*2,1*				
Financial assets at fair value through profit or loss			**0,5**		**-**		**-**
Shares and other variable income securities			*0,5*		-		-
	Valuation of management company	*Net assets value (b)*	*0,2*		-		-
	(a)	*(a)*	*0,3*		-		-
Available-for-sale financial assets			**4 806,1**		**(155,1)**		**191,9**
Bonds issued by government and public entities	*Discounted cash flow model*	*Discount rate*	*2,4*	(-) 100 bps	(0,1)	(+) 100 bps	0,1
Bonds issued by other entities			*1 990,8*		(92,9)		110,5
	Discounted cash flow model	*Discount rate*	*1 506,4*	*(-) 100 bps*	*(74,7)*	*(+) 100 bps*	*104,4*
	Discounted cash flow model	*Probability of default*	*10,0*	*-50%*	*(1,6)*	*+50%*	*0,8*
	Discounted cash flow model	*Probability of default*	*463,4*	*2 levels*	*(18,8)*	*2 levels*	*7,4*
	Discounted cash flow model	*Probability of default*	*11,0*	*-25%*	*(2,2)*	*+25%*	*2,2*
Shares			*762,4*		(62,1)		81,3
	Discounted cash flow model	*Discount rate*	*158,9*	*-50%*	*(62,0)*	*+50%*	*81,3*
	Valuation of management company	*Net assets value (b)*	*578,3*		-		-
	Market multiples		*0,3*	*(-) outliers*	*(0,0)*	*(+) outliers*	*0,0*
	Other	*(a)*	*24,9*				
Other variable income securities			*2 050,6*		-		-
	Valuation of management company	*Net assets value (b)*	*2 050,6*		-		-
Derivatives held for risk management purposes	***(c)***	***(c)***	**105,6**		**-**		**-**
Total			**4 914,4**		**(155,1)**		**191,9**

(a) No sensitivity analysis was carried out for these categories as these include financial assets of an individually immaterial value

(b) In the specific case of participation units valued in accordance with quotations provided by the respective management company, it is not reasonable to carry out an analysis of the impact of changes of the variables subjacent to the determination of the quotation by the entity

(c) In the specific case of derivatives valued according to the information provided by an external entity, it is not reasonable to analyze the impact of the change in the variables underlying the fair value determination by these entities.

The main parameters used in the valuation models as at 31 December 2017 and 2016 are as follows:

Interest rate curves

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

(%)

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

Credit spreads

The credit spreads used by the Bank in the valuation of credit derivatives are those disclosed on a daily basis by Markit, representing observations of 85 renowned international financial entities. The evolution of the main indexes, understood as being representative of the credit spread behavior in the market during the year, is presented as follows:

(basis points)

Index	Series	1 year	3 years	5 years	7 years	10 years
31 December 2017						
CDX USD Main	**29**	-	24.26	49.09	72.34	90.66
iTraxx Eur Main	**28**	**-**	21.51	45.12	65.34	84.28
iTraxx Eur Senior Financial	**28**	**-**	0.00	43.94	0.00	72.75
31 December 2016						
CDX USD Main	**24**	-	35.25	67.77	94.99	112.67
iTraxx Eur Main	**23**	**-**	43.65	72.13	94.18	110.47
iTraxx Eur Senior Financial	**23**	**-**	-	93.43	-	124.98

Interest rate volatility

The values presented below represent the implicit volatilities (at the money) used for the valuation of interest rate options:

	31.12.2017			31.12.2016		(%)
	EUR	USD	GBP	EUR	USD	GBP
1 year	12.26	15.31	52.35	14.14	24.43	80.81
3 years	31.32	22.10	-	31.24	37.50	-
5 years	46.25	28.62	58.67	47.41	40.88	97.10
7 years	54.61	30.07	63.27	58.53	39.98	90.36
10 years	61.27	28.18	-	66.68	37.66	-
15 years	64.25	0.00	-	69.39	-	-

Foreign exchange rates and volatility

Presented below, are the foreign exchange rates (European Central Bank) at the balance sheet date and the implicit volatilities (at the money) for the main currencies used in the derivatives' valuation:

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

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

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

Equity indexes

Presented in the table below, is the evolution of the main market equity indexes and their respective volatilities, used in the valuation of equity derivatives:

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

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

(in thousands of Euros)

	Assets / Liabilities recorded at amortized cost	Fair value			
		Quoted Market Prices (Level 1)	Valuation models based on observable market information (Level 2)	Valuation models based on unobservable market information (Level 3)	Total fair value
31 December 2017					
Cash and deposits with Central Banks	3 782 902	-	3 782 902	-	3 782 902
Deposits with banks	189 725	-	189 725	-	189 725
Available-for-sale financial assets (shares) a)	48 811	-	-	48 811	48 811
Loans and advances to banks	752 892	-	752 892	-	752 892
Loans and advances to customers	22 297 082	-	-	22 048 466	22 048 466
Financial assets	**27 071 412**	**-**	**4 725 519**	**22 097 277**	**26 822 796**
Deposits from Central Banks	6 410 123	-	6 410 123	-	6 410 123
Deposits from banks	2 734 887	-	2 680 231	-	2 680 231
Due to customers	29 961 813	-	-	29 961 813	29 961 813
Debt securities issued	617 861	886 440	-	-	886 440
Financial Liabilities	**39 724 684**	**886 440**	**9 090 354**	**29 961 813**	**39 938 607**

a) Assets at acquisition cost, net of impairment. These assets relate to equity instruments issued by unquoted entities, for which no recent transactions were identified on the market and for which it is not possible to reliably estimate their fair value

(in thousands of Euros)

	Assets / Liabilities recorded at amortized cost	Fair value			
		Quoted Market Prices (Level 1)	Valuation models based on observable market information (Level 2)	Valuation models based on unobservable market information (Level 3)	Total fair value
31 December 2016					
Cash and deposits with Central Banks	1 464 402	-	1 464 402	-	1 464 402
Deposits with banks	116 774	-	116 774	-	116 774
Available-for-sale financial assets (shares) a)	53 752	-	-	53 752	53 752
Loans and advances to banks	1 325 623	-	1 325 623	-	1 325 623
Loans and advances to customers	25 248 316	-	-	24 617 238	24 617 238
Financial assets	**28 208 867**	**-**	**2 906 799**	**24 670 990**	**27 577 789**
Deposits from Central Banks	6 410 033	-	6 410 033	-	6 410 033
Deposits from banks	4 450 431	-	4 227 288	-	4 227 288
Due to customers	25 335 234	-	-	25 335 234	25 335 234
Debt securities issued	2 983 493	2 447 464	100 750	-	2 548 214
Financial Liabilities	**39 179 191**	**2 447 464**	**10 738 071**	**25 335 234**	**38 520 769**

a) Assets at acquisition cost, net of impairment. These assets relate to equity instruments issued by unquoted entities, for which no recent transactions were identified on the market and for which it is not possible to reliably estimate their fair value

Cash and deposits with Central Banks, Deposits with banks and Loans and advances to credit institutions

Considering the short-term nature of these financial instruments, their carrying book value is a reasonable estimate of their fair value.

Loans and advances to customers

The fair value of loans and advances to customers is estimated based on the discounted expected future cash flows of capital and interest, assuming that the installments are paid on the dates contractually defined. The expected future cash flows from portfolios of loans with similar credit risk characteristics, such as home mortgages, are estimated collectively. The discount rates used by the Bank are the current interest rates used for loans with similar characteristics.

Deposits from Central Banks and Deposits from credit institutions

The fair value of these liabilities is estimated based on the discounted expected future cash flows of capital and interest.

Due to customers and other loans

The fair value of these financial instruments is estimated based on the discounted expected future cash flows of capital and interest. The discount rate used by the Bank is that which reflects the current interest rates applicable to deposits with similar characteristics at the balance sheet date. Given that the interest rates applicable to these instruments are renewed for periods under one year, the differences between their fair value and their book value are not significant.

Debt securities issued and Subordinated debt

The fair value is based on quoted market prices, when available. When not available, the Bank estimates their fair value by discounting their expected future cash flows of capital and interest.

NOTE 42 – RISK MANAGEMENT

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

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

Credit risk

Credit risk represents the potential financial loss arising from the failure of a borrower or counterparty to honour its contractual obligation established with the Group in the scope of its credit granting activity. Credit risk is essentially present in traditional banking products – loans, guarantees provided and other contingent liabilities. In credit default swaps (CDS), the net exposure between selling and buying positions in relation to each reference entity, is also considered a credit risk by NOVO BANCO Group. CDSs are accounted for at fair value in accordance with the accounting policy described in Note 2.3.

Credit portfolio management is an ongoing process that requires the interaction between the various teams responsible for risk management throughout the consecutive stages of the credit process. This approach is complemented by the continuous introduction of improvements in the valuation methodologies and tools used to evaluate and control risk, as well as in the procedures and decision making processes.

The risk profile of the Bank is monitored on a regular basis by the Risk Committee, especially regarding the evolution of the credit exposure and the monitoring of credit losses. Regular analyses of compliance with the approved credit limits and the correct operation of the mechanisms associated with the approval of credit lines within the scope of the current activity of the commercial areas are also carried out.

NOVO BANCO’s maximum credit risk exposure is analysed as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Deposits with and loans and advances to banks	942 617	1 444 287
Financial assets held for trading	582 875	665 149
Other financial assets at fair value through profit or loss	-	1 414
Available-for-sale financial assets	8 104 434	7 040 935
Loans and advances to customers	23 492 905	25 905 409
Derivatives held for risk management purposes	171 085	223 583
Other assets	537 257	577 924
Guarantees and standby letters provided	3 671 417	4 372 439
Documentary credits	756 055	1 040 679
Irrevocable commitments	1 060 606	1 618 561
Credit risk associated with the credit derivatives' reference entities	7 814	62 758
	39 327 065	**42 953 138**

For financial assets recognised in the balance sheet, the maximum exposure to credit risk is represented by the carrying book value net of impairment. For the off-balance sheet elements, the maximum exposure of the guarantees is the maximum amount that the Bank would have to pay if the guarantees were executed and for the loan commitments and other credit-related commitments of an irrevocable nature, is the total amount of the commitments assumed.

The Bank calculates impairment, on a collective or individual basis, for all its financial assets based on an initial classification of the respective level of risk - Low, High or customers in default.

The collective impairment assessment is applied to exposures with a lower materiality and individual analyses are carried out for the following groups of customers:

- for all loans in default or unrated with an exposure exceeding Euros 1 million,
- for all high-risk customers, with an exposure exceeding Euros 5 million,
- for all low-risk customers of the real estate development and financial holdings sectors with credit exposures exceeding Euros 5 million; and
- for all other low-risk customers with an exposure exceeding Euros 25 million.

If the value of the collateral after the application of haircuts (differentiated by collateral type) equals or exceeds the exposure, the individual impairment may be nil. Hence, the Bank does not have any past due financial assets for which it has not performed a review as to their recoverability and the subsequent recognition of the respective impairment, when necessary.

(in thousands of Euros)

	31.12.2017					
	Neither past due nor impaired	Past due but not impaired	Impaired	Total exposure	Impairment	Net exposure
Deposits with and loans and advances to banks	477 193	-	536 581	1 013 774	(71 157)	942 617
Financial assets held for trading -securities	2	-	-	2	-	2
Bonds issued by government and other public entities	-	-	-	-	-	-
Bonds issued by other entities	2	-	-	2	-	2
Other financial assets at fair value through profit or loss	-	-	-	-	-	-
Bonds issued by government and other public entities	-	-	-	-	-	-
Bonds issued by other entities	-	-	-	-	-	-
Available-for-sale financial assets	8 035 385	-	283 799	8 319 184	(214 750)	8 104 434
Bonds issued by government and other public entities	*5 889 738*	-	-	5 889 738	-	5 889 738
Bonds issued by other entities	*2 145 647*	-	*283 799*	2 429 446	*(214 750)*	2 214 696
Loans and advances to customers	19 978 741	3 828	9 204 194	29 186 763	(5 693 858)	23 492 905

(in thousands of Euros)

	31.12.2016					
	Neither past due nor impaired	Past due but not impaired	Impaired	Total exposure	Impairment	Net exposure
Deposits with and loans and advances to banks	915 935	-	1 000 766	1 916 701	(472 414)	1 444 287
Financial assets held for trading -securities	1	-	-	1	-	1
Bonds issued by government and other public entities	-	-	-	-	-	-
Bonds issued by other entities	1	-	-	1	-	1
Other financial assets at fair value through profit or loss	1 414	-	-	1 414	-	1 414
Bonds issued by government and other public entities	-	-	-	-	-	-
Bonds issued by other entities	1 414	-	-	1 414	-	1 414
Available-for-sale financial assets	6 996 853	-	253 314	7 250 167	(209 232)	7 040 935
Bonds issued by government and other public entities	*4 737 997*	-	-	4 737 997	-	4 737 997
Bonds issued by other entities	*2 258 856*	-	*253 314*	2 512 170	*(209 232)*	2 302 938
Loans and advances to customers	20 525 004	10 579	10 877 959	31 413 542	(5 508 133)	25 905 409

The following table presents the assets that are impaired or past due but not impaired, split by respective maturity or ageing (in the event of being past due):

(in thousands of Euros)

	31.12.2017					
	Available-for-sale financial assets - debt instruments		Deposits with and loans and advances to banks		Loans and advances to customers	
	Past due but not impaired	Impaired	Past due but not impaired	Impaired	Past due but not impaired	Impaired
Past due						
Up to 3 months	-	3 400	-	-	2 051	62 610
3 months to 1 year	-	68 559	-	-	683	315 034
1 to 3 years	-	171 847	-	-	541	2 245 967
3 to 5 years	-	15 251	-	-	346	1 442 253
More than 5 years	-	924	-	-	207	998 368
	-	**259 981**	**-**	**-**	**3 828**	**5 064 232**
Due						
Up to 3 months	-	-	-	-	-	296 819
3 months to 1 year	-	2 797	-	-	-	675 958
1 to 3 years	-	-	-	-	-	617 097
3 to 5 years	-	-	-	-	-	573 771
More than 5 years	-	21 021	-	536 581	-	1 976 317
	-	**23 818**	**-**	**536 581**	**-**	**4 139 962**
	-	**283 799**	**-**	**536 581**	**3 828**	**9 204 194**

(in thousands of Euros)

	31.12.2016					
	Available-for-sale financial assets - debt instruments		Deposits with and loans and advances to banks		Loans and advances to customers	
	Past due but not impaired	Impaired	Past due but not impaired	Impaired	Past due but not impaired	Impaired
Past due						
Up to 3 months	-	-	-	-	5 576	141 019
3 months to 1 year	-	-	-	-	760	760 761
1 to 3 years	-	164 887	-	391 506	1 300	2 962 462
3 to 5 years	-	15 251	-	-	1 171	1 181 275
More than 5 years	-	924	-	-	1 772	654 523
	-	**181 062**	**-**	**391 506**	**10 579**	**5 700 040**
Due						
Up to 3 months	-	-	-	-	-	319 699
3 months to 1 year	-	29 557	-	-	-	789 643
1 to 3 years	-	2 702	-	-	-	1 358 099
3 to 5 years	-	15 417	-	-	-	1 025 922
More than 5 years	-	24 576	-	609 260	-	1 684 556
	-	**72 252**	**-**	**609 260**	**-**	**5 177 919**
	-	**253 314**	**-**	**1 000 766**	**10 579**	**10 877 959**

In relation to assets that are not past due or impaired, the distribution by rating level is presented below. For debt instruments the rating assigned by the Rating Agencies is considered; for the loans and advances to customers and cash and deposits with banks the rating and scoring models for the attribution of a credit rating are used, with these being reviewed periodically. For the purpose of presenting the information, the ratings were aggregated into five large risk groups, with the last group including unrated exposures.

(in thousands of Euros)

	31.12.2017					
	Prime + High grade	Upper Medium grade	Lower Medium grade	Non-investment Grade Speculative + Highly speculative	Remaining	Total
Deposits with and loans and advances to banks	-	63 607	974	37 944	374 668	477 193
Financial assets held for trading - securities	-	-	-	-	2	2
Bonds issued by government and other public entities	-	-	-	-	-	-
Bonds issued by other entities	-	-	-	-	2	2
Other financial assets at fair value through profit or loss	-	-	-	-	-	-
Bonds issued by government and other public entities	-	-	-	-	-	-
Bonds issued by other entities	-	-	-	-	-	-
Available-for-sale financial assets	287 657	14 501	5 125 575	549 064	2 058 589	8 035 386
Bonds issued by government and other public entities	284 867	-	5 085 743	519 128	-	5 889 738
Bonds issued by other entities	2 790	14 501	39 832	29 936	2 058 589	2 145 648
Loans and advances to customers	2 020 700	6 478 379	2 821 798	6 166 955	2 490 909	19 978 741

(in thousands of Euros)

	31.12.2016					
	Prime + High grade	Upper Medium grade	Lower Medium grade	Non-investment Grade Speculative + Highly speculative	Remaining	Total
Deposits with and loans and advances to banks	-	64 024	42 569	50 418	758 924	915 935
Financial assets held for trading - securities	-	-	-	-	1	1
Bonds issued by government and other public entities	-	-	-	-	-	-
Bonds issued by other entities	-	-	-	-	1	1
Other financial assets at fair value through profit or loss	-	-	-	1 414	-	1 414
Bonds issued by government and other public entities	-	-	-	-	-	-
Bonds issued by other entities	-	-	-	1 414	-	1 414
Available-for-sale financial assets	-	7 443	2 562 946	2 228 688	2 197 776	6 996 853
Bonds issued by government and other public entities	-	-	2 531 312	2 204 252	2 433	4 737 997
Bonds issued by other entities	-	7 443	31 634	24 436	2 195 343	2 258 856
Loans and advances to customers	1 853 831	6 026 170	2 738 654	6 557 804	3 348 545	20 525 004

Loans with impairment triggers correspond to loans with objective evidence of loss (Loans in Default) and to loans classified as "Higher Risk Loans". The objective evidence of loss exists when there is a default event, i.e. from the moment there is a significant change in the lender-borrower relationship that subjects the lender to a monetary loss. The "Higher Risk Loans" correspond to loans without objective evidence of loss, but with risk indicators (e.g. customers with loans past due more than 30 days but less than 90 days; customers under litigation in the Central Credit Register (Central de Responsabilidades de Crédito); customers with higher risk rating / scoring; customers allocated to the Departamento de Seguimento e Acompanhamento de Empresas (Department for Monitoring and Accompanying Companies); and loans restructured due to financial difficulties of the debtor that are not in default).

Loans without impairment triggers relate to "Low Risk Loans". All exposures that do not show any of the above Higher Risk indicators and the exposures for which the impairment loss determined is equal to or less than 0.05%, are classified as "Low Risk Loans". These situations correspond to loans for which the impairment determined is immaterial due to the existence of guarantees / collateral, permitting their classification as "Low Risk Loans", regardless of their original classification.

As at 31 December 2017 and 2016, the analysis of the gross loans and advances to customers' exposure and impairment constituted, by segment, is presented as follows:

(in thousands of Euros)

Segment	31.12.2017													
	Loans and advances not at risk						Loans and advances at risk (a)						Total Loans and advances	
	Without impairment triggers		With impairment triggers		Total		Days past due				Total			
							<= 90 days (b)		>90 days					
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	7 697 850	40 275	6 115 900	927 376	13 813 750	967 651	992 607	670 399	5 330 979	3 726 158	6 323 586	4 396 557	20 137 336	5 364 208
Mortgage loans	6 380 481	2 848	745 011	5 903	7 125 492	8 751	35 244	2 850	464 591	113 957	499 835	116 807	7 625 327	125 558
Consumer and other loans	1 015 160	4 339	127 985	31 266	1 143 145	35 605	9 331	4 584	271 624	163 903	280 955	168 487	1 424 100	204 092
Total	**15 093 491**	**47 462**	**6 988 896**	**964 545**	**22 082 387**	**1 012 007**	**1 037 182**	**677 833**	**6 067 194**	**4 004 018**	**7 104 376**	**4 681 851**	**29 186 763**	**5 693 858**

(a) Loans and advances at risk correspond to the definition contained in Instruction no. 23/2011 of Banco de Portugal

(b) Loans and advances with principal and/or interest past due under 90 days, but for which there are indications that justify their classification as loans and advances at risk, the bankruptcy or liquidation of the debtor amongst these

(in thousands of Euros)

Segment	31.12.2016													
	Loans and advances not at risk						Loans and advances at risk (a)						Total Loans and advances	
	Without impairment triggers		With impairment triggers		Total		Days past due				Total			
							<= 90 days (b)		>90 days					
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	7 367 001	42 873	7 905 990	806 025	15 272 991	848 898	1 344 680	613 687	5 941 147	3 667 426	7 285 827	4 281 113	22 558 818	5 130 011
Mortgage loans	6 152 862	7 528	691 509	11 418	6 844 371	18 946	45 642	3 307	521 782	118 200	567 424	121 507	7 411 795	140 453
Consumer and other loans	928 212	6 168	135 654	28 392	1 063 866	34 560	22 755	6 312	356 308	196 797	379 063	203 109	1 442 929	237 669
Total	**14 448 075**	**56 569**	**8 733 153**	**845 835**	**23 181 228**	**902 404**	**1 413 077**	**623 306**	**6 819 237**	**3 982 423**	**8 232 314**	**4 605 729**	**31 413 542**	**5 508 133**

(a) Loans and advances at risk correspond to the definition contained in Instruction no. 23/2011 of Banco de Portugal

(b) Loans and advances with principal and/or interest past due under 90 days, but for which there are indications that justify their classification as loans and advances at risk, the bankruptcy or liquidation of the debtor amongst these

As at 31 December 2017 and 2016, the analysis of the Loans and advances to customers' portfolio, by segment and by year of reference, is presented as follows:

(in thousands of Euros)

Year of production	31.12.2017											
	Corporate			Mortgage loans			Consumer and other loans			Total		
	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2004 and prior	23 234	784 328	302 354	48 900	1 275 062	33 923	147 895	101 939	8 780	220 029	2 161 329	345 057
2005	3 789	199 509	58 688	6 522	292 924	8 548	27 553	29 901	2 773	37 864	522 334	70 009
2006	4 722	684 468	245 519	9 534	463 030	10 292	33 980	37 541	4 462	48 236	1 185 039	260 273
2007	12 622	670 765	171 888	16 082	694 235	16 704	45 216	47 376	9 232	73 920	1 412 376	197 824
2008	4 579	1 290 878	379 354	14 997	784 508	12 479	44 198	49 719	7 281	63 774	2 125 105	399 114
2009	3 695	926 288	269 659	12 327	661 548	12 874	32 678	63 223	15 657	48 700	1 651 059	298 190
2010	13 998	955 716	401 274	11 627	705 227	11 190	32 884	62 777	11 526	58 509	1 723 720	423 990
2011	6 039	1 007 978	263 548	6 948	334 088	7 752	29 427	71 343	21 421	42 414	1 413 409	292 721
2012	6 507	1 455 800	589 046	4 256	166 471	4 641	33 719	64 089	21 949	44 482	1 686 360	615 636
2013	25 696	1 948 127	653 113	4 854	238 816	3 554	31 494	110 689	43 574	62 044	2 297 632	700 241
2014	9 959	1 633 883	603 966	3 227	186 839	1 087	29 751	64 145	9 703	42 937	1 884 867	614 756
2015	30 880	2 399 178	439 403	4 225	275 909	938	37 101	122 828	17 514	72 206	2 797 915	457 855
2016	30 725	2 779 116	679 204	8 251	585 508	874	51 329	227 785	25 098	90 305	3 592 409	705 176
2017	35 002	3 401 302	307 192	11 442	961 162	702	53 899	370 745	5 122	100 343	4 733 209	313 016
Total	**211 447**	**20 137 336**	**5 364 208**	**163 192**	**7 625 327**	**125 558**	**631 124**	**1 424 100**	**204 092**	**1 005 763**	**29 186 763**	**5 693 858**

(in thousands of Euros)

Year of production	31.12.2016											
	Corporate			Mortgage loans			Consumer and other loans			Total		
	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2004 and prior	28 926	1 104 476	446 626	52 394	1 452 062	43 936	173 484	116 997	9 619	254 804	2 673 535	500 181
2005	4 658	308 515	82 116	6 888	329 483	9 886	31 540	49 320	13 840	43 086	687 318	105 842
2006	5 899	777 645	234 468	10 017	515 719	11 074	38 145	54 919	9 387	54 061	1 348 283	254 929
2007	12 683	786 225	222 796	17 023	768 187	18 257	55 453	68 382	16 866	85 159	1 622 794	257 919
2008	6 705	1 385 755	289 938	15 765	859 242	13 829	49 947	71 041	14 306	72 417	2 316 038	318 073
2009	6 449	1 259 643	365 123	13 030	726 403	14 164	37 968	86 176	22 123	57 447	2 072 222	401 410
2010	16 775	1 408 734	394 813	12 314	778 420	11 982	39 426	134 787	28 901	68 515	2 321 941	435 696
2011	9 262	1 271 877	371 297	7 468	377 501	6 499	34 904	124 662	25 657	51 634	1 774 040	403 453
2012	9 254	1 828 360	621 367	4 616	191 134	3 699	40 856	90 900	23 485	54 726	2 110 394	648 551
2013	29 795	2 507 611	680 860	5 255	270 645	3 302	38 376	139 966	43 172	73 426	2 918 222	727 334
2014	15 694	2 587 595	646 018	3 487	224 838	1 685	36 494	121 522	16 476	55 675	2 933 955	664 179
2015	36 969	3 378 501	414 935	4 537	306 651	1 086	43 121	150 686	9 985	84 627	3 835 838	426 006
2016	47 714	3 953 881	359 654	8 377	611 510	1 054	50 270	233 571	3 852	106 361	4 798 962	364 560
Total	**230 783**	**22 558 818**	**5 130 011**	**161 171**	**7 411 795**	**140 453**	**669 984**	**1 442 929**	**237 669**	**1 061 938**	**31 413 542**	**5 508 133**

The values presented include all the new operations of the reference year, renewals, interventions and restructured operations originated in previous years, including the ones from the period before NOVO BANCO constitution.

As at 31 December 2017 and 2016, the analysis of the gross loans and advances to customers' exposure and impairment assessed individually and collectively, by segment, is presented as follows:

(in thousands of Euros)

	31.12.2017					
	Individual Assessment[1]		Collective Assessment [2]		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	8 631 362	5 070 085	11 505 974	294 123	20 137 336	5 364 208
Mortgage loans	87 456	32 507	7 537 871	93 051	7 625 327	125 558
Consumer and other loans	287 241	160 495	1 136 859	43 597	1 424 100	204 092
Total	**9 006 059**	**5 263 087**	**20 180 704**	**430 771**	**29 186 763**	**5 693 858**

[1] Loans and advances for which the final impairment was determined and approved by the Impairment Committee
[2] Loans and advances for which the final impairment was determined automatically by the Impairment model

(in thousands of Euros)

	31.12.2016					
	Individual Assessment[1]		Collective Assessment [2]		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	9 161 163	4 469 781	13 397 655	660 230	22 558 818	5 130 011
Mortgage loans	37 370	9 213	7 374 425	131 240	7 411 795	140 453
Consumer and other loans	310 306	109 770	1 132 623	127 899	1 442 929	237 669
Total	**9 508 839**	**4 588 764**	**21 904 703**	**919 369**	**31 413 542**	**5 508 133**

[1] Loans and advances for which the final impairment was determined and approved by the Impairment Committee
[2] Loans and advances for which the final impairment was determined automatically by the Impairment model

The loans and advances analysed by the Impairment Committee for which the impairment assessed automatically by the Impairment model was not changed, are included and presented in the "Collective assessment".

In order to mitigate credit risk, credit operations are collateralised, namely with mortgages or pledges. The fair value of those guarantees is determined on the date of the loan disbursement, being revalued periodically. The gross amount of the loans to customers and respective fair value of the collateral, limited to the amount of the associated loans, are as follows:

(in thousands of Euros)

	31.12.2017		31.12.2016	
	Amount of loans	Fair value of collateral	Amount of loans	Fair value of collateral
Individuals - Mortgage				
Mortgages	7 391 770	7 364 939	7 155 397	7 130 817
Pledges	54 072	53 753	60 021	59 707
Not collateralized	179 485	-	196 377	-
	7 625 327	7 418 692	7 411 795	7 190 524
Individuals - Other				
Mortgages	293 412	270 455	290 582	276 925
Pledges	342 076	201 619	372 659	255 813
Not collateralized	788 612	-	779 688	-
	1 424 100	472 074	1 442 929	532 738
Corporate				
Mortgages	4 372 560	3 901 463	4 356 955	3 898 137
Pledges	5 076 316	2 404 380	6 031 551	3 137 647
Not collateralized	10 688 460	-	12 170 312	-
	20 137 336	6 305 843	22 558 818	7 035 784
Total	**29 186 763**	**14 196 609**	**31 413 542**	**14 759 046**

The differential between the amount of the loans and advances to customers and the fair value of the collateral represents the total loans' exposure that exceeds the value of the collateral, with this value not being affected by collateral with a fair value in excess of the loan to which it is associated.

The details of the collateral – mortgages is presented as follows:

(in thousands of Euros)

	31.12.2017							
	Individuals - Mortgage loans		Individuals - Other loans		Corporate loans		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
<0.5M€	150 595	7 226 365	5 134	221 252	17 127	585 655	172 856	8 033 272
>= 0.5M€ and <1.0M€	181	106 580	67	24 427	2 836	336 102	3 084	467 109
>= 1.0M€ and <5.0M€	33	31 994	94	24 776	7 408	953 441	7 535	1 010 211
>= 5.0M€ and <10.0M€	-	-	-	-	2 339	536 044	2 339	536 044
>= 10.0M€ and <20.0M€	-	-	-	-	4 997	518 316	4 997	518 316
>= 20.0M€ and <50.0M€	-	-	-	-	3 078	685 888	3 078	685 888
>=50M€	-	-	-	-	1 582	286 017	1 582	286 017
	150 809	**7 364 939**	**5 295**	**270 455**	**39 367**	**3 901 463**	**195 471**	**11 536 857**

(in thousands of Euros)

	31.12.2016							
	Individuals - Mortgage loans		Individuals - Other loans		Corporate loans		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
<0.5M€	147 850	7 003 232	4 796	223 364	17 052	617 428	169 698	7 844 024
>= 0.5M€ and <1.0M€	164	95 867	59	25 888	2 287	381 377	2 510	503 132
>= 1.0M€ and <5.0M€	34	31 718	96	27 673	5 458	1 068 582	5 588	1 127 973
>= 5.0M€ and <10.0M€	-	-	-	-	1 478	552 871	1 478	552 871
>= 10.0M€ and <20.0M€	-	-	-	-	151	553 818	151	553 818
>= 20.0M€ and <50.0M€	-	-	-	-	1 255	485 664	1 255	485 664
>=50M€	-	-	-	-	1 581	238 397	1 581	238 397
	148 048	**7 130 817**	**4 951**	**276 925**	**29 262**	**3 898 137**	**182 261**	**11 305 879**

The amounts of the collateral – mortgages, presented above, represent the maximum coverage value of the assets collateralised, i.e. which are considered up to the gross amount of the individual loans collateralised.

In assessing the risk of an operation or set of operations the Bank takes into account the associated credit risk mitigation elements, according to the internal rules and procedures.

Relevant collaterals are essentially the following:

- Real estate properties, where the value considered is that which corresponds to the latest available valuation;
- Financial pledges, where the value considered corresponds to the quotation on the last day of the month - in the case of a quoted security - or to the value of the pledge - in the case of cash.

The acceptance of collateral as a guarantee for loans and advances to customers leads to the need to define and implement risk mitigation techniques in respect of the exposures of said collateral. Thus, and as an approach to this matter, the Bank stipulated a number of procedures applicable to collateral (namely the financial and real estate properties collateral), covering amongst others, the volatility of the value of the collateral, its liquidity as well as an indication as to the recovery rates associated with each type of collateral.

Therefore, the internal rules governing the credit granting powers have a specific chapter on this point, "Acceptance of collateral - Risk mitigation techniques in respect of the exposures of said collateral, namely the risks of liquidity and volatility."

The real estate properties revaluation process is conducted by valuation experts registered with CMVM, and is based on the valuation methods described in Note 2.11.

The analysis of risk exposure by sector of activity, as at 31 December 2017 and 2016, is presented as follows:

(in thousands of Euros)

31.12.2017	Loans and advances to customers		Financial assets held for trading	Other financial assets at fair value through profit or loss	Derivatives held for risk management purposes	Available-for-sale financial assets		Guarantees and endorsements provided	
	Gross amount	Impairment [a]				Gross amount	Impairment	Gross amount	Impairment
Agriculture, Forestry and Fishery	392 740	(206 154)	113	-	-	10 870	-	13 618	(7 265)
Mining	116 440	(14 845)	302	-	-	1 484	(1 378)	5 531	(77)
Food, Beverages and Tobacco	753 469	(61 082)	2 170	-	-	29 735	(2 636)	74 435	(683)
Textiles and Clothing	323 094	(47 484)	190	-	-	23 223	(3 606)	12 454	(2 365)
Leather and Shoes	76 986	(9 685)	16	-	-	499	(499)	1 521	(103)
Wood and Cork	123 873	(33 461)	497	-	-	2 754	(1 251)	5 451	(46)
Paper and Printing Industry	234 165	(55 741)	-	-	-	28 319	(25 319)	8 359	(47)
Refining of Petroleum	5 267	(874)	-	-	-	-	-	12 530	(1)
Chemicals and Rubber	370 221	(23 635)	2 684	-	-	6 990	(5)	50 776	(210)
Non-metallic Minerals	205 155	(54 695)	-	-	-	28 433	(3 432)	13 680	(525)
Metallurgical Industries and Metallic Products	454 502	(95 596)	325	-	-	3 864	(3 218)	38 583	(433)
Production of Machinery, Equipment and Electrical De	172 400	(21 604)	269	-	-	3 589	(596)	81 086	(356)
Production of Transport Material	68 662	(3 657)	-	-	-	9 006	(31)	13 944	(55)
Other Transforming Industries	203 048	(46 513)	-	-	-	1 520	(242)	32 807	(533)
Electricity, Gas and Water	449 640	(16 611)	43 613	-	-	194 602	-	101 184	(278)
Construction and Public Works	1 837 756	(597 264)	61 737	-	-	191 795	(555)	989 447	(61 886)
Wholesale and Retail Trade	1 801 260	(477 608)	3 605	-	-	43 558	(20 433)	295 618	(4 087)
Tourism	1 021 270	(77 521)	707	-	-	8 196	(8 015)	72 738	(4 938)
Transport and Communication	1 220 561	(144 694)	106 906	-	-	42 089	(5 693)	586 699	(1 932)
Financial Activities	1 692 082	(664 476)	334 762	523	171 085	4 906 810	(884 445)	431 372	(1 368)
Real Estate Activities	2 632 538	(690 401)	7 320	3 450	-	189 043	(80 479)	206 350	(4 808)
Services Provided to Companies	3 585 332	(1 357 765)	22 006	-	-	778 668	(537 060)	587 535	(7 341)
Public Administration and Services	793 078	(49 937)	1 822	-	-	5 889 738	-	24 302	(6 919)
Other activities of collective services	1 569 916	(612 369)	4 257	-	-	150 912	(64 517)	133 344	(39 522)
Mortgage Loans	7 625 327	(125 558)	-	-	-	-	-	64	-
Consumers Loans	1 424 100	(204 092)	-	-	-	-	-	4 326	(19)
Other	33 881	(536)	(10 347)	-	-	8 171	(8 171)	19 847	(387)
TOTAL	**29 186 763**	**(5 693 858)**	**582 954**	**3 973**	**171 085**	**12 553 868**	**(1 651 581)**	**3 817 601**	**(146 184)**

(in thousands of Euros)

31.12.2016	Loans and advances to customers		Financial assets held for trading	Other financial assets at fair value through profit or loss	Derivatives held for risk management purposes	Available-for-sale financial assets		Guarantees and endorsements provided	
	Gross amount	Impairment [a]				Gross amount	Impairment	Gross amount	Impairment
Agriculture, Forestry and Fishery	389 199	(58 654)	1 540	-	-	10 870	-	22 339	(1 457)
Mining	136 919	(12 060)	598	-	-	2 641	(2 502)	6 269	(103)
Food, Beverages and Tobacco	704 833	(48 007)	2 281	-	-	23 913	(566)	59 689	(1 685)
Textiles and Clothing	291 554	(40 371)	176	-	-	35 946	(2 105)	8 869	(1 236)
Leather and Shoes	76 499	(10 193)	46	-	-	499	(499)	1 643	(111)
Wood and Cork	122 467	(30 884)	578	-	-	1 251	(1 251)	5 047	(72)
Paper and Printing Industry	259 328	(22 906)	75	-	-	28 617	(25 617)	10 026	(1 043)
Refining of Petroleum	5 027	(148)	52	-	-	-	-	20 693	(11)
Chemicals and Rubber	348 482	(20 717)	3 268	-	-	18 746	(10 759)	59 585	(3 052)
Non-metallic Minerals	194 301	(52 012)	51	-	-	3 952	(3 952)	14 158	(550)
Metallurgical Industries and Metallic Products	987 233	(276 733)	235	-	-	3 864	(3 218)	43 280	(2 517)
Production of Machinery, Equipment and Electrical De	186 226	(15 890)	446	-	-	596	(596)	95 433	(1 173)
Production of Transport Material	66 157	(3 258)	-	-	-	31	(31)	15 425	(206)
Other Transforming Industries	225 495	(30 546)	-	-	-	1 520	(52)	28 986	(737)
Electricity, Gas and Water	574 171	(10 621)	56 144	-	-	161 533	-	119 353	(428)
Construction and Public Works	2 005 446	(547 931)	73 216	-	-	195 310	(555)	1 091 583	(54 320)
Wholesale and Retail Trade	1 954 255	(577 917)	823	-	-	58 036	(19 103)	299 962	(8 302)
Tourism	1 103 282	(89 488)	1 876	-	-	8 203	(8 018)	80 444	(3 055)
Transport and Communication	1 326 061	(76 409)	127 645	-	-	30 634	(344)	651 459	(3 391)
Financial Activities	1 882 312	(474 685)	332 501	1 939	223 583	5 058 573	(796 183)	711 320	(5 169)
Real Estate Activities	2 940 723	(710 748)	10 521	2 937	-	198 572	(61 455)	209 981	(12 513)
Services Provided to Companies	3 747 603	(1 226 879)	30 448	-	-	755 745	(494 307)	693 925	(6 737)
Public Administration and Services	818 172	(32 343)	2 334	-	-	4 735 564	-	29 416	(1 231)
Other activities of collective services	2 139 834	(760 406)	5 612	-	-	133 338	(68 579)	173 496	(3 117)
Mortgage Loans	7 411 795	(140 453)	-	-	-	-	-	131	-
Consumers Loans	1 442 929	(237 669)	-	-	-	-	-	5 007	(38)
Other	73 239	(205)	14 898	-	-	11 697	(9 260)	27 510	(335)
TOTAL	**31 413 542**	**(5 508 133)**	**665 364**	**4 876**	**223 583**	**11 479 651**	**(1 508 952)**	**4 485 029**	**(112 590)**

According to Banco de Portugal Instruction no. 32/2013, the Bank identifies and marks loan agreements restructured due to financial difficulties of the customer whenever there are changes to the terms and conditions of an agreement in respect of which the customer defaulted, or it is foreseeable that this will come to happen, in respect of a financial obligation. A change to the terms and conditions of the agreement is deemed to exist when (i) there are contractual changes to the customer's benefit, such as extension of the contract period, introduction of grace periods, reduction of rate or partial pardon of debt; (ii) a new loan operation is contracted to settle existing debt (total or partial); or (iii) the new terms of the agreement are more favorable than those applied to other customers with the same risk profile.

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

The amounts of the loans restructured due to financial difficulties of the customer as at 31 December 2017 and 2016, are as follows:

(in thousands of Euros)

	31.12.2017	31.12.2016
Corporate	6 302 765	7 234 369
Mortgage loans	230 583	250 190
Consumer and other loans	332 685	350 357
Total	**6 866 033**	**7 834 916**

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

(in thousands of Euros)

Measure	31.12.2017								
	Loans and advances not at risk			Loans and advances at risk [(a)]			Total		
	No. transactions	Exposure	Impairment	No. transactions	Exposure	Impairment	No. transactions	Exposure	Impairment
Pardon of principal or interest	48	67 844	4 955	305	442 350	322 127	353	510 194	327 082
Assets received in partial settlement of loan	14	1 633	1 532	3	1 353	639	17	2 986	2 171
Capitalization of interest	46	234 258	54 384	308	225 740	160 153	354	459 998	214 537
New loan in total or partial payment of existing loan	2 936	458 570	108 029	1 363	950 218	730 371	4 299	1 408 788	838 400
Extension of repayment period	1 743	1 393 535	289 366	1 648	834 848	497 226	3 391	2 228 383	786 592
Introduction of a grace period of principal or interest	1 157	443 143	60 707	309	292 924	182 409	1 466	736 067	243 116
Decrease in the interest rates	256	384 060	62 676	63	256 087	170 458	319	640 147	233 134
Change of the lease payment plan	245	151 742	5 299	89	29 820	13 944	334	181 562	19 243
Change in the interest payment periods	20	7 641	89	29	251 359	147 808	49	259 000	147 897
Other	5 524	160 518	5 674	4 403	278 390	168 247	9 927	438 908	173 921
Total	**11 989**	**3 302 944**	**592 711**	**8 520**	**3 563 089**	**2 393 382**	**20 509**	**6 866 033**	**2 986 093**

[(a)] Loans and advances at risk correspond to the definition contained in Instruction no. 23/2011 of Banco de Portugal

(in thousands of Euros)

Measure	31.12.2016								
	Loans and advances not at risk			Loans and advances at risk [(a)]			Total		
	No. transactions	Exposure	Impairment	No. transactions	Exposure	Impairment	No. transactions	Exposure	Impairment
Pardon of principal or interest	23	66 864	3 469	231	299 585	189 668	254	366 449	193 137
Assets received in partial settlement of loan	2	28	1	1	10	2	3	38	3
Capitalization of interest	46	468 953	75 165	214	184 573	125 719	260	653 526	200 884
New loan in total or partial payment of existing loan	3 174	414 105	47 522	1 262	987 110	610 354	4 436	1 401 215	657 876
Extension of repayment period	1 817	1 716 494	254 192	1 340	837 146	371 480	3 157	2 553 640	625 672
Introduction of a grace period of principal or interest	1 275	479 744	49 394	327	366 442	191 271	1 602	846 186	240 665
Decrease in the interest rates	225	322 580	44 974	90	436 747	295 768	315	759 327	340 742
Change of the lease payment plan	230	123 359	5 633	83	40 688	17 126	313	164 047	22 759
Change in the interest payment periods	19	13 227	413	35	395 288	136 403	54	408 515	136 816
Other	7 037	268 013	25 328	7 037	413 960	206 970	14 074	681 973	232 298
Total	**13 848**	**3 873 367**	**506 091**	**10 620**	**3 961 549**	**2 144 761**	**24 468**	**7 834 916**	**2 650 852**

[(a)] Loans and advances at risk correspond to the definition contained in Instruction no. 23/2011 of Banco de Portugal

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, share prices, commodity prices, volatility and credit spread.

Market risk management is integrated with the balance sheet management through the CALCO Capital (Asset and Liability Committee) structure, constituted at the entity’s top level. CALCO is responsible for defining the policies governing the composition and structure of the balance sheet as well as for controlling exposure to the interest rate, currency and liquidity risks.

The main measurement of market risk is the assessment of unrealised losses under adverse market conditions, for which the Value at Risk (VaR) methodology is used. The Bank’s VaR model uses the Monte Carlo simulation, based on a confidence level of 99% and an investment period of 10 days. Volatilities and correlations are historical, based on an observation period of one year. As a complement to VaR, stress testing scenarios have been developed, which allow for the evaluation of the impact of losses potentially higher than those considered by the VaR measurement.

(in thousands of Euros)

	31.12.2017				31.12.2016			
	December	Annual average	Maximum	Minimum	December	Annual average	Maximum	Minimum
Exchange risk	1 359	2 166	3 137	1 733	1 070	5 776	15 184	1 070
Interest rate risk	5 232	2 179	5 829	548	1 222	785	1 273	519
Shares and commodities	869	1 046	638	491	2 611	1 989	3 309	721
Volatility	90	158	282	255	83	195	399	72
Credit spread	33	663	53	361	475	1 176	2 533	475
Diversification effect	(2 374)	(2 469)	(3 832)	(1 530)	(2 028)	(3 181)	(2 067)	(5 166)
Total	**5 208**	**3 744**	**6 107**	**1 858**	**3 433**	**6 741**	**20 631**	**(2 309)**

NOVO BANCO has a VaR at risk of approximately Euros 5 208 thousand (31 December 2016: Euros 3 433 thousand) in respect of its trading positions.

Following the issue of the recommendations of Basel II (Pillar 2) and Instruction no. 19/2005 of Banco de Portugal, the Bank calculates the exposure to its balance sheet interest rate risk based on the methodology of the Bank of International Settlement (BIS), classifying all balance and off-balance sheet captions which are not part of the trading portfolio, by re-pricing intervals.

(in thousands of Euros)

	31.12.2017						
	Eligible amounts	Not sensitive	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years
Loans to and deposits with banks	4 789 651	230 266	3 815 205	148 976	203 515	4 468	387 221
Loans and advances to customers	29 147 557	70 663	15 216 454	4 547 850	2 359 536	5 830 314	1 122 740
Securities	11 551 073	3 520 293	1 996 212	960 343	795 615	3 455 100	823 510
Total			**21 027 871**	**5 657 169**	**3 358 666**	**9 289 882**	**2 333 471**
Deposits from banks	9 289 666	-	1 934 402	89 708	394 714	6 809 579	61 263
Due to customers	29 570 597	-	10 182 761	3 798 504	5 642 679	9 708 620	238 033
Debt securities issued	603 143	-	-	-	-	-	603 143
Total			**12 117 163**	**3 888 212**	**6 037 393**	**16 518 199**	**902 439**
Balance sheet GAP (Assets - Liabilities)	2 203 653		8 910 708	1 768 957	(2 678 727)	(7 228 317)	1 431 032
Off-Balance sheet	-		487 923	359 589	2 000	(224 355)	(625 157)
Structural GAP	**2 203 653**		**9 398 631**	**2 128 546**	**(2 676 727)**	**(7 452 672)**	**805 875**
Accumulated GAP			**9 398 631**	**11 527 177**	**8 850 450**	**1 397 778**	**2 203 653**

(in thousands of Euros)

	31.12.2016						
	Eligible amounts	Not sensitive	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years
Loans to and deposits with banks	2 979 384	235 609	1 808 599	12 077	211 968	273 155	437 976
Loans and advances to customers	31 385 720	-	15 951 376	5 891 702	2 182 169	6 159 781	1 200 692
Securities	11 114 465	4 100 883	2 437 886	716 935	1 636 654	1 738 442	483 665
Total			**20 197 861**	**6 620 714**	**4 030 791**	**8 171 378**	**2 122 333**
Deposits from banks	11 082 664	-	3 456 801	325 697	206 023	6 885 565	208 578
Due to customers	25 336 504	-	9 027 266	4 261 605	4 714 123	7 108 278	225 232
Debt securities issued	2 912 016	-	323 120	20 932	-	1 471 222	1 096 742
Total			**12 807 187**	**4 608 234**	**4 920 146**	**15 465 065**	**1 530 552**
Balance sheet GAP (Assets - Liabilities)	1 811 893		7 390 674	2 012 480	(889 355)	(7 293 687)	591 781
Off-Balance sheet	-		139 374	358 763	67 080	(202 000)	(363 217)
Structural GAP	**1 811 893**		**7 530 048**	**2 371 243**	**(822 275)**	**(7 495 687)**	**228 564**
Accumulated GAP			**7 530 048**	**9 901 291**	**9 079 016**	**1 583 329**	**1 811 893**

Sensitivity analyses of the interest rate risk of the Bank's portfolios are performed, based on an approximation of the duration model approach, considering several scenarios of yield curve shifts at all interest rate levels.

(in thousands of Euros)

	31.12.2017				31.12.2016			
	Parallel increase of 100 bp	Parallel decrease of 100 bp	Increase after 1 year of 50 bp	Decrease after 1 year of 50 bp	Parallel increase of 100 bp	Parallel decrease of 100 bp	Increase after 1 year of 50 bp	Decrease after 1 year of 50 bp
Sensitivity to interest rate risk	(5 173)	5 173	(3 420)	3 420	61 659	(61 659)	36 484	(36 484)

The following table presents the average balances, interest for the period and average interest rates relating to the Bank's major financial asset and liability categories, for the financial years ended on 31 December 2017 and 2016:

(in thousands of Euros)

	31.12.2017			31.12.2016		
	Average balance of the period	**Interest of the period**	**Average interest rate**	**Average balance of the period**	**Interest of the period**	**Average interest rate**
Monetary assets	1 464 885	34 087	2.30%	2 241 427	76 762	3.37%
Loans and advances to customers	29 726 366	622 578	2.07%	32 023 499	769 673	2.36%
Securities and other	7 581 319	91 756	1.19%	7 228 597	87 404	1.19%
Differential applications	-	-	-	-	-	-
Financial assets and differentials	**38 772 570**	**748 421**	**1.90%**	**41 493 523**	**933 839**	**2.21%**
Monetary Liabilities	9 950 117	63 446	0.63%	12 930 641	71 247	0.54%
Due to customers	27 822 400	403 816	1.43%	27 596 748	487 758	1.74%
Differential liabilities	1 000 053	-	-	966 134	-	-
Financial liabilities and differentials	**38 772 570**	**467 262**	**1.19%**	**41 493 523**	**559 005**	**1.33%**
Net interest income		**281 159**	**0.72%**		**374 834**	**0.88%**

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

(in thousands of Euros)

		31.12.2017				31.12.2016			
		Spot	**Forward**	**Other elements**	**Net exposure**	**Spot**	**Forward**	**Other elements**	**Net exposure**
USD	UNITED STATES DOLLAR	(1 242 529)	1 201 842	9 115	(31 572)	(530 081)	486 850	(4 815)	(48 046)
GBP	GREAT BRITISH POUND	33 128	(29 233)	(1 215)	2 680	449 089	(465 513)	(4 656)	(21 080)
BRL	BRAZILIAN REAL	912	-	-	912	1 438	(2)	-	1 436
DKK	DANISH KRONE	2 355	(1 535)	-	820	2 586	(2 609)	-	(23)
JPY	JAPANESE YEN	100	56	(998)	(842)	(494)	490	-	(4)
CHF	SWISS FRANC	(8 438)	12 167	-	3 729	5 196	(1 415)	-	3 781
SEK	SWEDISH KRONE	137	(239)	(760)	(862)	(2 013)	2 442	-	429
NOK	NORWEGIAN KRONE	(27 106)	27 519	919	1 332	(13 572)	13 867	-	295
CAD	CANADIAN DOLLAR	(59 721)	61 111	(2 294)	(904)	(51 714)	53 108	-	1 394
ZAR	SOUTH AFRICAN RAND	(569)	419	-	(150)	(1 540)	961	(36)	(615)
AUD	AUSTRALIAN DOLLAR	(10 922)	11 078	-	156	(16 461)	17 128	-	667
VEB	VENEZUELAN BOLIVAR	43 744	-	-	43 744	39 886	-	-	39 886
MOP	MACAO PATACA	5 144	(5 402)	-	(258)	23 411	(23 538)	-	(127)
MAD	MOROCCAN DIRHAM	(2 726)	2 938	-	212	20	(9)	-	11
MXN	MEXICAN PESO	1 010	(590)	-	420	7 813	(341)	-	7 472
AOA	ANGOLAN KWANZA	30 203	-	-	30 203	34 151	-	-	34 151
	OTHER	18 563	(7 415)	3 003	14 151	(15 873)	26 776	6 118	17 021
		(1 216 715)	**1 272 716**	**7 770**	**63 771**	**(68 158)**	**108 195**	**(3 389)**	**36 648**

Note: asset / (liability)

Exposure to "peripheral" Eurozone countries' sovereign debt

As at 31 December 2017 and 2016, the Bank's exposure to sovereign debt of "peripheral" Eurozone countries, is presented as follows:

(in thousands of Euros)

31.12.2017					
	Loans and advances to customers	Financial assets held for trading and at Fair value	Derivative instruments [1]	Available-for-sale financial assets	Total
Portugal	744 560	-	(98)	3 777 118	4 521 580
Spain	44 335	-	-	1 491 633	1 535 968
Italy	-	-	-	336 120	336 120
	788 895	**-**	**(98)**	**5 604 871**	**6 393 668**

[1] Net values: receivable / (payable)

(in thousands of Euros)

31.12.2016					
	Loans and advances to customers	Financial assets held for trading and at Fair value	Derivative instruments [1]	Available-for-sale financial assets	Total
Portugal	762 940	-	5 169	2 204 252	2 972 361
Spain	44 136	-	-	1 015 464	1 059 600
Italy	-	-	-	1 515 848	1 515 848
	807 076	**-**	**5 169**	**4 735 564**	**5 547 809**

[1] Net values: receivable / (payable)

All the exposures presented above, except those relating to loans and advances to customers, are recorded in the Bank's balance sheet at fair value, which is based on market quotations or, in relation to derivatives, based on valuation techniques using observable market parameters / prices.

The details of the exposure regarding the securities registered as Available-for-sale financial assets and as Financial assets held for trading, is as follows:

(in thousands of Euros)

31.12.2017						
	Nominal Amount	**Market quotation**	**Accrued interest**	**Carrying book value**	**Impairment**	**Fair value reserves**
Available-for-sale financial assets						
Portugal	**3 422 883**	**3 733 511**	**43 607**	**3 777 118**	**-**	**109 006**
Maturity up to 1 year	1 178 870	1 181 159	71	1 181 230	-	(1)
Maturity exceeding 1 year	2 244 013	2 552 352	43 536	2 595 888	-	109 007
Spain	**1 350 122**	**1 465 829**	**25 804**	**1 491 633**	**-**	**5 733**
Maturity exceeding 1 year	1 350 122	1 465 829	25 804	1 491 633	-	5 733
Italy	**330 000**	**335 937**	**183**	**336 120**	**-**	**2 577**
Maturity exceeding 1 year	330 000	335 937	183	336 120	-	2 577
	5 103 005	**5 535 277**	**69 594**	**5 604 871**	**-**	**117 316**

(in thousands of Euros)

	31.12.2016					
	Nominal Amount	Market quotation	Accrued interest	Carrying book value	Impairment	Fair value reserves
Available-for-sale financial assets						
Portugal	**2 135 348**	**2 195 636**	**8 616**	**2 204 252**	**-**	**39 824**
Maturity up to 1 year	1 417 558	1 418 665	209	1 418 874	-	409
Maturity exceeding 1 year	717 790	776 971	8 407	785 378	-	39 415
Spain	**925 122**	**1 000 583**	**14 881**	**1 015 464**	**-**	**3 394**
Maturity up to 1 year	200 000	200 402	-	200 402	-	(16)
Maturity exceeding 1 year	725 122	800 181	14 881	815 062	-	3 410
Italy	**1 495 000**	**1 514 753**	**1 095**	**1 515 848**	**-**	**323**
Maturity up to 1 year	645 000	645 497	-	645 497	-	485
Maturity exceeding 1 year	850 000	869 256	1 095	870 351	-	(162)
	4 555 470	**4 710 972**	**24 592**	**4 735 564**	**-**	**43 541**

Liquidity risk

Liquidity risk derives from the potential inability, current or future, of an institution satisfying its commitments as they mature, without incurring excessive losses.

Liquidity risk can be divided into two types:

- 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;
- 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 asset, even if incurring in significant losses. The risk of (re)financing should be reduced through an adequate diversification of funding sources and maturities.

Banks are subject to liquidity risk as an inherent consequence of the business of transforming maturities (long-term borrowers and short-term depositors), with the prudent management of liquidity risk being therefore crucial.

With the objective of evaluating the global exposure to liquidity risk, reports are prepared which permit not only the identification of negative mismatches, but also the realization of a dynamic coverage of these situations.

(in millions of Euros)

	31.12.2017						
	Eligible amounts	Up to 7 days	7 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	More than 1 year
ASSETS							
Cash	230	230	-	-	-	-	-
Deposits with and loans and advances to banks and Central Banks	4 559	3 763	17	35	149	198	398
Loans and advances to customers **(1)**	21 107	175	220	435	547	853	18 877
Securities **(2)**	17 713	36	82	402	475	1 984	14 733
Other net assets	702	75	8	1	1	1	617
Off-balance sheet (Commitments and Derivatives) **(4)**	103	2	2	15	44	40	-
Total		**4 281**	**329**	**888**	**1 216**	**3 076**	**34 625**
LIABILITIES							
Deposits from banks, Central Banks and Other loans	9 290	1 053	156	167	90	480	7 344
Due to customers	29 571	868	1 079	365	202	300	26 755
Debt securities issued **(3)**	603	-	-	-	-	-	603
Other short-term liabilities	1 653	1 112	2	13	-	-	525
Off-balance sheet (Commitments and Derivatives) **(4)**	1 187	21	34	44	99	98	891
Total		**3 054**	**1 271**	**589**	**391**	**878**	**36 118**
GAP (Assets - Liabilities)		**1 228**	**(942)**	**298**	**825**	**2 197**	
Accumulated GAP		**1 228**	**286**	**584**	**1 409**	**3 607**	
Net Assets Buffer > 12 months							**3 539**

(1) This caption does not include the loans capable of being used for the obtaining of liquidity from the ECB
(2) This caption includes the securities and loans capable of being used for the obtaining of liquidity from the ECB. The securities capable of being used for ECB purposes are net of haircuts
(3) The amounts are stated at the nominal amount up to one year and at the carrying book value for longer periods
(4) The derivatives are considered at their Cash Flows for linear products and at NPV for non-linear products

(in millions of Euros)

	31.12.2016						
	Eligible amounts	Up to 7 days	7 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	More than 1 year
ASSETS							
Cash	236	236	-	-	-	-	-
Deposits with and loans and advances to banks and Central Banks	2 744	1 413	31	364	12	206	717
Loans and advances to customers **(1)**	22 175	75	421	392	442	745	20 100
Securities **(2)**	17 952	57	129	747	316	1 692	15 011
Other net assets	746	54	-	-	5	7	680
Off-balance sheet (Commitments and Derivatives) **(4)**	144	4	14	22	42	62	-
Total		**1 839**	**595**	**1 525**	**817**	**2 712**	**36 508**
LIABILITIES							
Deposits from banks, Central Banks and Other loans	11 083	988	469	868	926	206	7 625
Due to customers	25 337	512	106	126	349	141	24 102
Debt securities issued (3)	2 913	100	40	183	22	-	2 568
Other short-term liabilities	1 631	826	3	2	2	-	798
Off-balance sheet (Commitments and Derivatives) (4)	1 762	35	62	51	116	105	1 392
Total		**2 461**	**680**	**1 230**	**1 415**	**452**	**36 485**
GAP (Assets - Liabilities)		**(624)**	**(85)**	**296**	**(597)**	**2 259**	
Accumulated GAP		**(624)**	**(709)**	**(414)**	**(1 011)**	**1 248**	
Net Assets Buffer > 12 months							**3 059**

(1) This caption does not include the loans capable of being used for the obtaining of liquidity from the ECB
(2) This caption includes the securities and loans capable of being used for the obtaining of liquidity from the ECB. The securities capable of being used for ECB purposes are net of haircuts
(3) The amounts are stated at the nominal amount up to one year and at the carrying book value for longer periods
(4) The derivatives are considered at their Cash Flows for linear products and at NPV for non-linear products

The one-year cumulative liquidity gap moved from Euros 1 248 million on 31 December 2016 to Euros 3 607 million on 31 December 2017, with the net assets buffer over 12 months attaining Euros 3 539 million (31 December 2016: Euros 3 059 million).

In order to try to anticipate possible constraints, internal stress scenarios in terms of liquidity are carried out that are representative of the types of crises that can occur, based on idiosyncratic scenarios (characterised by a loss of confidence in the Bank, and that can also include a rating downgrade) and market scenarios (similar to those experienced during the 2011 sovereign crisis).

Additionally, and given the importance of liquidity risk management, the regulatory legislation includes a liquidity coverage ratio (LCR) and a net stable funding ratio (NSFR). The LCR aims to promote the resilience of banks to short-term liquidity risk by ensuring that these hold liquid assets of a high quality, in sufficient value to survive a severe stress scenario over a period of 30 days, whilst the NSFR aims to ensure that banks maintain a stable funding for their off-balance sheet assets and operations, for a period of one year. These ratios were adopted by the European Union, and the LCR has a limit of 80% since 1 January 2017, with this figure having to converge during the year so that the limit of 100% is attained as from 1 January 2018.

Operational risk

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

To manage operational risk, a system was developed that standardizes, systematizes and regulates the frequency of actions undertaken with the objective of identifying, monitoring, controlling and mitigating this risk. This system is supported by an organizational structure, integrated within the Global Risk Department, exclusively dedicated to this task, as well as by Operational Risk Management Representatives designated by each of the relevant departments, branches and subsidiaries, whose responsibility it is to comply with the procedures in place and the daily management of this risk in their areas of competence.

Capital Management and Solvency Ratio

The main objective of the Bank's capital management is to ensure compliance with the Bank's strategic objectives in terms of capital adequacy, respecting and enforcing the minimum capital requirements set by the supervisory entities.

The definition of the strategy for capital adequacy management rests with the Executive Board of Directors and is integrated in the global definition of the Bank objectives.

The Bank is subject to prudential supervision by the European Central Bank, working in close cooperation with Banco de Portugal. In accordance with the Capital Adequacy Directive of the EU, the supervisory body establishes the prudential rules to be observed by the institutions under its supervision. These rules determine the minimum ratio of Own funds to Capital requirements for the risks assumed that the institutions are obliged to fulfil.

Until August 2017, as a result of the evolution of one more year in the transitory adjustment period (“phase-in”) of the common equity tier 1 and of the worsening of the regulatory capital requirements inherent in the capital conservation reserve from 0.625% to 1.25%, the Bank complied with the minimum capital requirements provided for in Regulation (EU) no. 575/2013 in all capital typologies with, however, in those months not fully complying with the regulatory capital in so far as the solvency ratio is concerned in the component related to the capital conservation reserve. In the remaining months of the year, the Bank complied with all the minimum requirements and capital reserves, of note being the contribution of the capital increases occurring in the scope of the sale process of the institution, in the amounts of Euros 750 million in October 2017 and Euros 250 million in December 2017.

The Bank is authorised to apply the approach based on the use of internal models for credit risk (Internal Ratings-Based Approach (IRB)) and the standardised method (The Standardised Approach “TSA”) for operational risk. Specifically, the IRB method for the calculation of the credit risk-weighted assets can be applied to the exposure classes of institutions, corporate and retail of both NOVO BANCO Portugal and NOVO BANCO’s Branch in London. The shares’ risk classes and the positions taken in the form of securitization are always handled by the IRB method regardless of the Bank entities in which the respective exposures are recorded.

The European Parliament and Council approved, on 26 June 2013, Directive 2013/36/EU and Regulation (EU) no. 575/2013 that regulate, in the European Union, the access to the credit institution and investment company activity and determine the prudential requirements to be observed by those same entities as from 1 January 2014. This legislation transposes into the European legal order the recommendations of the Basel Committee, normally designated Basel III.

Regulation (EU) no. 2016/445 regulates the transitory regime foreseen in Regulation (EU) no. 575/2013 regarding own funds.

The capital adequacy calculations of NOVO BANCO as at 31 December 2017 and 2016, based on the information available, the European Regulatory Framework in force and considering the transitory period foreseen in the Regulation referred to above, may be presented as follows:

(in millions of Euros)

		31.12.2017	31.12.2016
Realized ordinary capital		5 900	4 900
Reserves and Retained earnings		85	860
Net income / (loss) for the period		(1 253)	(745)
Revaluation reserves		(272)	(341)
A - Accounting Equity		**4 460**	**4 674**
Revaluation reserves		(27)	(17)
B - Prudential adjustments to Equity		**(27)**	**(17)**
Goodwill and other intangibles		(8)	(42)
Deferred taxes		(658)	(874)
Shareholdings in financial companies		(13)	(125)
Other		(103)	(148)
C - Prudential deductions		**(782)**	**(1 189)**
D - Common Equity Tier I (A+B+C)		**3 651**	**3 468**
Eligible instruments for Tier I		-	-
Deductions from Tier I		-	-
E - Tier I		**3 651**	**3 468**
Eligible instruments for Tier II		150	150
Deductions from Tier II		(82)	(150)
F - Tier II		**68**	**-**
G - Eligible Own Funds		**3 719**	**3 468**
H - Risk Weighted Assets		**33 231**	**36 570**
Prudential ratios			
Common Equity Tier I	**(D / H)**	**11.0%**	**9.5%**
Tier I	**(E / H)**	**11.0%**	**9.5%**
Solvency	**(G / H)**	**11.2%**	**9.5%**

NOTE 43 – RENDERING OF INSURANCE AND RE-INSURANCE BROKERING SERVICES

At 31 December 2017 and 2016, services provided with insurance and re-insurance brokerage have the following composition:

(thousands of Euros)

	31.12.2017	31.12.2016
Life insurance		
Unit Link	131	139
Credit protection insurance (life part)	1 255	662
Traditional products	14 908	12 313
	16 294	**13 115**
Non-life insurance		
Insurance for individuals	7 743	6 356
Insurance for companies	798	607
Credit protection insurance (non-life part)	1 825	819
	10 366	**7 782**
	26 660	**20 896**

The Bank does not collect insurance premiums on behalf of the Insurance companies, nor does it undertake the movement of funds relating to insurance contracts. In this manner, there are no other assets, liabilities, income or expenses to report, relating to the insurance brokering activity carried out by the Bank, other than those already disclosed.

NOTE 44 – CONTRACTUAL COMMITMENTS

Credit Support Annex (CSA)

NOVO BANCO has a number of contracts negotiated with counterparts with which it trades derivatives on the Over-the-counter market. The CSAs take the form of collateral agreements established between two parties negotiating over-the-counter derivatives with each other, with the main objective of providing protection against credit risk, defining for that purpose a number of rules regarding collateral. Derivative transactions are regulated by the International Swaps and Derivatives Association (ISDA) and have minimum risk margin that may change according to the ratings of the parties.

NOTE 45 – MERGER OF BIC INTERNATIONAL BANK

As at 30 December 2016, the merger by incorporation of BIC International Bank (BIBL) into NOVO BANCO, S.A. was realised.

The captions related to other reserves and retained earnings of BIBL were added to the respective captions of the equity of NOVO BANCO, with the net result for the period ended on 30 December 2016 being added to the caption of retained earnings. The difference between the value of the stake of NOVO BANCO and the equity of BIBL, in the amount of Euros 1.3 million, was reflected as a merger reserve and added to the equity of NOVO BANCO.

The balance sheet of BIBL as at the date of the merger may be analysed as follows:

BIBL

BALANCE SHEET AT DATE OF MERGER

(thousands of Euros)	30.12.2016
Assets	
Deposits with banks	1 346
Total Assets	**1 346**
Liabilities	
Deposits from banks	90 527
Subordinated debt	20 151
Total Liabilities	**110 678**
Equity	
Share capital	10 200
Shares premiums	209 800
Reserves, Retained earnings and Other comprehensive income	(328 232)
Profit / (loss) for the period	(1 100)
Total Equity	**(109 332)**
Total Equity and Liabilities	**1 346**

NOTE 46 – RECENTLY ISSUED ACCOUNTING STANDARDS AND INTERPRETATIONS

The standards presented below became effective on 1 January 2017.There was no materially relevant impact in the Bank accounts regarding these standards which were taken into consideration in the Bank accounts with reference to 31 December 2017.

IAS 7 (amendment), **'Revision of disclosures'**. (to be applied in the periods starting on or after 1 January 2017) This amendment introduces an additional disclosure about variations in financing liabilities, broken down between the transactions that gave rise to cash movements and those that did not, and how this information reconciles with the cash flows from financing activities in the Statement of Cash Flows.

IAS 12 (amendment), '**Income tax** – Recognition of deferred tax assets on unrealised losses'. (to be applied in the periods starting on or after 1 January 2017) This standard is still subject to endorsement by the European Union. This amendment clarifies how to account for deferred tax assets related to assets measured at fair value, how to estimate future taxable profits when there are deductible timing differences and how to evaluate the recoverability of deferred tax assets when there are restrictions in the tax legislation.

The standards (new and amendments) presented below were already published, endorsed by the European Union and its implementation is mandatory for the annual periods starting in or after 1 January 2018. However, none of these standards presented below were adopted beforehand.

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

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

IFRS 16 (new), **'Leases'** (to be applied as from the annual periods beginning on or after 1 January 2019). This standard is still subject to endorsement by the European Union. This new standard replaces IAS 17, with a significant impact on the accounting by lessees that are now obliged to recognize future lease liabilities reflecting lease payments and an asset for "right of use" for all leases, except certain short-term and low-value asset leases. The definition of a lease was also changed, being now based on the "right to control the use of an identified asset".

IFRS 4 (amendment), **'Insurance contracts** (application of IFRS 4 with IFRS 9)'. (to be applied as from the annual periods beginning on or after 1 January 2018) This amendment is still subject to endorsement by the European Union. This amendment gives the entities that negotiate insurance contracts the option to recognize in Other comprehensive income, instead of recognizing in the Income statement, the volatility that may result from the application of IFRS 9 before the new insurance contract standard is published. In addition, a temporary exemption is granted in respect of the application of IFRS 9 until 2021 to entities which predominant activity is that of being an insurer. This exemption is optional and does not apply to consolidated financial statements that include an insurer entity.

Amendments on IFRS 15, **'Revenue from contracts with customers'.** (to be applied as from the annual periods beginning on or after 1 January 2018). These changes refer to the additional steps to be follow to determine the performance obligations of a contract, at the time of the revenue recognition of an intellectual property license, the review of the indicators for the classification of the principal versus agent relationship, and the new regimes foreseen to simplify the transition.

Standards (new and amendments) and interpretations already published which are presented below are mandatory for annual periods that begin on or after 1 January 2018. However, these standard were not yet endorsed by the European Union. The future implementation of these standards is not expected to have a materially relevant impact.

Standards

Annual Improvements 2014 - 2016, (generally effective for annual periods beginning on or after 1 January 2017). This cycle of improvements impact the following standards: IFRS 1, IFRS 12 and IAS 28.

IAS 40 (amendment), **'Transfer of investment properties'.** (to be applied for annual periods beginning on or after 1 January 2018). This amendment is still subject to endorsement by the European Union. This amendment clarifies that assets can only be transferred to and from the investment property category when there is evidence of change in use. The change of management's intention alone is not sufficient to effect the transfer.

IFRS 2 (amendment), 'Classification and measurement of share-based payment transactions' (effective for annual periods beginning on or after 1 January 2018). This amendment is still subject to endorsement by the European Union. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications to a share-based payment plan that change the classification an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

IFRS 9 (amendment), 'Prepayment features with negative compensation' (effective for annual periods beginning on or after 1 January 2019). This amendment is still subject to endorsement by the European Union. The amendment introduces the possibility to classify certain financial assets with negative compensation features at amortised cost, provided that specific conditions are fulfilled, instead of being classified at fair value through profit or loss.

IAS 28 (amendment), 'Long-term interests in Associates and Joint Ventures' (effective for annual periods beginning on or after 1 January 2019). This amendment is still subject to endorsement by the European Union. The amendment clarifies that long-term investments in associates and joint ventures (components of an entity's investments in associates and joint ventures), that are not being measured through the equity method, are to be measured in accordance with IFRS 9, being subject to impairment expected credit loss model, prior to any impairment test of the investment as a whole.

Annual Improvements 2015 - 2017, (generally effective for annual periods beginning on or after 1 January 2019). These improvements are still subject to endorsement by the European Union. The 2015-2017 annual improvements impact: IAS 23, IAS 12, IFRS 3 and IFRS 11.

IFRS 17 (new), **'Insurance contracts'** (to be applied for annual periods beginning on or after 1 January 2021). This standard is still subject to endorsement by the European Union. This new standard replaces IFRS 4 and applies to all entities that issue insurance contracts, reinsurance contracts and investment contracts with discretionary participation features. IFRS 17 is based on the actual measurement of technical liabilities at each reporting date. The actual measurement can be based on a complete "building block approach" or a simplified "premium allocation approach". The recognition of the technical margin is different depending on whether it is positive or negative. IFRS 17 is of retrospective application.

Interpretations

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

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

International Financial Reporting Standard 9 – Financial Instruments

On 24 July 2014, in response to the challenge proposed by the G20 following the global financial crisis, the International Accounting Standards Board ("IASB") issued the final version of IFRS 9 - Financial Instruments ("IFRS 9"). This new standard will be effective for years beginning on or after January 1, 2018, which will replace IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39"). As permitted by the transitional provisions of IFRS 9, the Bank will not restate the comparative values in its financial statements arising from the application of IFRS 9. The impacts on the consolidated financial statements of the Bank will be recognised in retained earnings and, therefore, in the capital regulatory reported.

IFRS 9 incorporates significant changes to IAS 39 essentially at three levels: (i) new rules for the classification, recognition and measurement of financial assets in accordance with the business model of the Bank and the characteristics of the contractual cash flows of these assets; (ii) new concepts in the methodology and measurement of impairment of financial assets, calculated on an expected loss basis ("ECL" – Expected Credit Loss); and (iii) new hedge accounting requirements more aligned with entities' risk management practices.

The impacts on the Bank´s financial statements resulting from the adoption of this new standard are estimated by reference at 1 January 2018, having the available information to that date, and the assumption of a bundle of assumptions. Bearing in mind these estimates, it is expectable that IFRS 9 adoption results in a decrease of the total equity of the Bank as at 1 January 2018, of approximately Euros -374 million.

The tax treatment of the impacts that come to be from the IFRS 9 adoption, mainly from credit impairment, is dependent on the tax legislation that comes to be approved in 2018.

During the financial year 2018 the Bank will keep on reviewing, improving and validating developed methodologies to execute the new requisites from IFRS 9 and will monitor eventual guidance from national and international regulators to what this standard is concerned.

a) Classification and measurement of financial assets and liabilities

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

- Amortised cost: a debt financial instrument that (i) is managed under a business model whose goal is the keep financial assets in the portfolio, and receive all their contractual cash flows and (ii) has contractual cash flows in specific dates that match exclusively with principal and interest payments over the principal outstanding;
- Fair value of recognised variations in other comprehensive income: a debt financial instrument that (i) is managed under a business model whose goal is achieved either by receiving all the contractual cash flows or by selling the financial assets and (ii) has contractual cash flows in specific dates that match exclusively with principal and interest payments over the principal outstanding;

- Fair value of recognised variations in the income statement: all other debt financial instruments must be measured at their fair value through profit and losss.

Regarding other financial instruments, namely equity and derivative instruments, these are, by definition, classified at fair value through profit or loss. As aforementioned, for equity instruments, there is an irrevocable option to designate that all fair value changes be recognised in other comprehensive income. This irrevocable classification will imply that, upon the disinvestment / realisation of these financial assets, the amounts recognised in equity are not recycled to the income statement for the year.

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

(i) most of the loans and balances receivable from banks and customers will continue to be measured at amortised cost.

(ii) debt instruments classified as available-for-sale will mostly be measured at fair value with changes recognised in other comprehensive income, with some of these instruments having been reclassified to amortised cost, which impact is estimated at Euros -94 million in the equity of the Bank and others were reclassified as fair value through profit or loss, which impact is estimated to be *circa* Euros 54 million in the equity of the Bank.

(iii) equity instruments will be classified and measured at fair value through profit or loss, unless the Bank irrevocably decides, for non-trading assets, to classify these assets at fair value with changes recognised in other comprehensive income. The reclassification of available-for-sale equity instruments to fair value through profit or loss had no impact in the equity of the Bank, while the fair value classification with recognised variations in other comprehensive income had an impact of approximately Euro 7 million in the equity of the Bank.

In summary, by reference to 1 January 2018, the impacts on the consolidated Bank’s equity of the new IFRS 9 requirements for the classification and measurement of financial assets amount to Euros -84 million, including impairments.

The classification and measurement of financial liabilities under IAS 39 remains substantially the same under IFRS 9. However, it should be noted that, in most situations, changes in the fair value of financial liabilities designated at fair value through profit or loss, arising from the entity's own credit risk, will be recognised in equity (other comprehensive income) instead of in the income statement as required by IAS 39, unless this accounting treatment generates accounting mismatch. Subsequent reclassifications of these changes to the income statement are not permitted, not even on the repurchase of these liabilities.

b) Expected Credit Impairment Loss Model

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

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

“Stage 1”: financial assets are classified in *stage* 1 whenever there is no significant increase in credit risk as from the date of their initial recognition. For these assets, the expected credit impairment loss resulting from the probability of occurrence of events of default during the 12 months subsequent to the reporting date, or until the estimated residual maturity, if it is less than 12 months after the reporting date, should be recognized in the income statement for the year. It is estimated that 53% of the Bank´s loan portfolio is classified as “Stage 1”;

“Stage 2”: financial assets for which there has been a significant increase in credit risk as from the date of their initial recognition are classified in *stage* 2. For these financial assets, expected credit impairment losses are recognised over the assets’ lifetime. However, interest will continue to be calculated on the gross amount of the asset. It is estimated that approximately 18% of the Bank´s loan portfolio is classified as “Stage 2”; and

“Stage 3”: assets classified in this stage present objective evidence of impairment, on the reporting date, as a result of one or more events that have already occurred and that have resulted in a loss. In this case, the expected credit impairment loss for the expected residual life of the financial assets will be recognised in the income statement for the year. Interest is calculated on the net book value of the assets. It is estimated that approximately 29% of the Bank´s loan portfolio is classified as “Stage 3”

Measurement

Generally, impairment losses of assets classified in stages 1 and 2 largely replace the impairment recognised from a collective assessment perspective of financial assets as foreseen in IAS 39. In turn, the impairment losses determined of assets classified in stage 3, to a certain extent replace the impairment recognised from an individual and collective assessment perspective of financial assets already impaired as provided for in IAS 39.

The provision for expected credit losses in accordance with IFRS 9 is affected by a number of risk factors, such as, amongst others, the probability of default ("PD"), loss given default ("LGD"), exposure at default ("EAD"), as well as the expected life of the financial asset.

PD represents the probability that a loan will not be repaid and will default, within the 12-month horizon for *stage* 1 or during its expected lifetime, in the case it is less than 12 months and during its expected lifetime, for *stage* 2. The PD models are based on historical information incorporating information on current market conditions and reasonable and supportable information on future economic conditions.

LGD is the estimated value to be recovered in the event of default and is also modeled on historical data and reasonable and supportable information on future and current economic conditions, where appropriate. LGD methodologies take into account the value of the collateral received.

The EAD represents an estimate of the amount of credit at the time the default event might occur. For off-balance sheet exposures and unused commitments, the EAD includes an estimate of additional amounts to be used up to the moment of default.

Transition between *stages*

The transition of financial assets from *stage* 1 to *stage* 2 occurs at the moment their credit risk increases significantly when compared to their credit risk on the date of their initial recognition. The determination of a significant increase in credit risk is based on the analysis of quantitative and/or qualitative internal and external indicators used by the Bank in the normal management of credit risk, thereby imposing a greater linkage of the accounting requirements with the credit risk management policies established by the Bank.

Specifically, the Bank established thresholds for significant increases in credit risk of an absolute and relative nature in the PD for the remaining life compared with at the initial recognition.

Generally, the transitions of financial assets from stage 2 to stage 3 occur when these assets default, that is, if: (i) they find material default for more than 90 consecutive days; and / or (ii) there are indicators that show that the contractual obligations associated with such assets are unlikely to be met - "unlikeliness to pay". This definition of default is consistent with the definition used in the Bank's current credit risk management policies.

Forward looking information

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

For the more material portfolios, the Bank will adopt sophisticated credit risk modeling approaches to measure expected credit losses, leveraging, where possible, existing AIRB (Advanced Internal Rating Based) models. For the remaining portfolios, and according to the materiality of each one, the Bank will develop new models or use simplified approaches.

In summary, by reference to 1 January 2018, the impacts on equity of the new requirements of IFRS 9 of impairment amount to Euros -270 million.

Impacts on the control system and on the internal governance structure

In order to ensure that appropriate controls and validations are carried out in measurement the ECL, the Bank considered the existing internal governance framework. However, as part of the implementation process, it is expected that the internal control structure will be revised, inter alia, by the implementation of new controls, when necessary, in the main areas impacted by IFRS 9, such as the development and weighting of macroeconomic scenarios, the determination of significant increase in credit risk and the credit risk data and systems.

c) Hedge accounting

The new hedge accounting model of IFRS 9 aims not only to simplify the process of creating and maintaining hedge relationships, but also to align the accounting of these relationships with the risk management activities of each institution, to extend the eligibility of a larger number hedged instruments and hedging, but also types of risk.

IFRS 9 includes new requirements for hedge accounting that have two main objectives: (i) the simplification of current needs and (ii) the alignment of hedge accounting with entity risk management. The Bank have not yet implemented the IFRS 9 in its hedging accounting, in accordance with the possibility provided for in the standard.

Estimated impacts on equity

The adoption of IFRS 9 will also have an impact at the Bank capital level particularly because of the anticipated increase in the stock of impairment provisions under the new expected credit losses model in comparison with the current approach of losses incurred present in IAS 39 and consequent accounting referential.

On 12 December 2017, the European Union, through Regulation (EU) no. 2017/2395 of the European Parliament, that amended Regulation (EU) no. 575/2013, introduced a transitory regime with the aim of reducing the impact of the adoption of IFRS 9 on the own funds of financial institutions. The abovementioned Regulation allows financial institutions to derogate from this transitory regime, with the Bank deciding on implementing the referred transitional regime.

The Bank estimated a CET 1 ratio impact of approximately -40 bp

Bank Implementation Strategy

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

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

NOTE 47- SUBSEQUENT EVENTS

- On 1 March 2018, the sale to BANCAMIGA Banco Universal, CA, of Venezuela of the assets and liabilities of the NOVO BANCO Branch in this country was announced to the market. With the materialization of this transaction NOVO BANCO ceased to have any activity in Venezuela.

Translation Note: This document is a free translation of the original issued in the Portuguese language. In the event of discrepancies the original version prevails.

Statutory Audit Report and Auditors' Report

(Free translation from the original in Portuguese)
Report on the audit of the consolidated financial statements

Opinion

We have audited accompanying the consolidated financial statements of Novo Banco, S.A. ("Novo Banco" or "Bank"), which comprise the consolidated balance sheet as at December 31, 2017 (which shows total assets of Euro 52,054,849 thousand and total shareholders' equity of Euro 4,832,175 thousand, including non-controlling interest of Euro 79,212 thousand and a net loss of Euro 1.395,447 thousand), the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly in all material respects, the consolidated financial position of Novo Banco, S.A. as at 31 December 2017, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Our responsibilities under those standards are described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section below. In accordance with the law we are independent of the entities that are included in the Bank and we have fulfilled our other ethical responsibilities in accordance with the ethics code of the Institute of Statutory Auditors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	*Summary of the audit approach*
Impairment losses of loans and advances to customers	
Measurement and disclosure related to impairment losses of loans and advances to customers presented in the notes 2.5, 25 and 50 of the consolidated financial statements The significance of the loans and advances to customers' caption as well as of the associated impairment losses, which calculation requires the application of a set of complex assumptions and judgments by the Bank's Board of Directors regarding both the identification of the moment of the recognition as well as the corresponding amount, justify that this has constituted a key matter for the purposes of our audit. As at 31 December 2017, the gross amount of loans and advances to customers amounts to Euros 31.422.441 thousand and the associated impairment losses amounts to Euros 5.631.498 thousand. Impairment losses on loans and advances to customers are determined by the Bank on an individual basis, through a case-by-case analysis of a significant component of the total loans and advances portfolio, while for the remaining portfolio, impairment is determined on a collective analysis. This calculation is carried out as follows: • The Bank undertakes an exercise of individual analysis for the customers which have more significant exposures, evaluated in terms of the amount of their responsibilities and the observation of indications of default. The impairment amount is calculated through a detailed analysis of the economic and financial position of each individual customer, with reference to (i) the estimation of the cash flows that may be generated in the future to fulfil its responsibilities or (ii) the valuation of the collaterals received in connection with the granting of the loan, whenever its recovery is	The audit procedures performed included the identification and review of the controls established by the Bank in relation to the approval, recording and monitoring of loans and advances to customers, as well as the review of the methodologies, data and assumptions adopted by the Board of Directors in calculating the corresponding impairment losses. These procedures covered, amongst others, the detailed testing of the key controls and the credit risk management procedures implemented by the Bank, with particular emphasis on the internal controls underlying the timely identification, recording and accurate measurement of impairment losses. In this context, we tested the design and operational effectiveness of the key controls implemented by the Bank to identify customers presenting impairment triggers or in default and to determinate the corresponding impairment losses, namely those related to: (i) the timely identification of customers with impairment triggers or in default; (ii) the data conversion from the main IT systems to the models used to calculate impairment and of the results thereof to the financial statements of the Bank; (iii) the actual calculations itself of the impairment model defined by the Bank, including the inputs and assumptions of Management; (iv) the estimation of the recoverable value of the collateral; and (v) the internal governance associated with the process of calculating and approving impairment losses. Additionally, on a sample basis, we analysed a number of customers (including some that were not identified by the Board of Directors as presenting impairment triggers or in default), so as to obtain our own judgment regarding the existence of impairment triggers, and to assess how the impairment losses were timely identified, measured and recognised by Management.

Key audit matters	*Summary of the audit approach*
expected to require the foreclosure/execution and/or sale of those collaterals, less the costs inherent to its recovery and sale. • For the exposures not covered by the individual analysis, as well as for those in respect of which no objective evidence of impairment was identified, the Bank developed and applies a collective analysis model to calculate the impairment losses. When a group of financial assets is measured on a collective basis, the future cash flows of this group are estimated based on the contractual flows of those assets and the historical data related to losses on assets with similar credit risk characteristics. Whenever the Bank considers necessary, the historical information is updated based on observable current data, so as to reflect the effects of the current conditions. For loans and advances which the observation of defaults criteria occurred before the financial year end but which had not yet been identified by the Bank ("Incurred but not reported" - IBNR), impairment losses are recognised based on probability of default and loss models, considering an emergence period of 12 months between the date of occurrence of the default event and its identification in the individual or collective analysis. Due to the upcoming implementation of IFRS 9 – Financial instruments ("IFRS 9") on 1 January 2018, the Bank has initiated during 2017 a detailed implementation plan for transitioning to this new standard, which should be retrospectively applied from that date, even though their comparative balances are not required to be restated. The IFRS 9 implementation introduces a set of new requirements with impact in the measurement of the loan-loss impairment on financial assets which will follow a different basis (an expected loan loss model rather than the IAS 39 incurred loan loss model).	With regards to the customers individually analysed by the Bank, for a representative sample of the loans and advances to customers portfolio as at 31 December 2017, the procedures carried out consisted of: (i) reviewing the documentation associated with the loans and advances granting process; (ii) analysing the contractual support and the main relevant collaterals and confirming the registration of referred collaterals in favour of the Bank; (iii) reviewing the valuations of the available collaterals; (iv) analysing the evolution of the exposures; and (v) understanding the view of those responsible for the Bank regarding the economic and financial situation of the customers, as to the predictability of the cash flows expected from their respective businesses, as well as their view regarding the collectability of the loans and advances. Whenever we concluded necessary to revise some of the assumptions used by Management, we recalculated the estimated amount of the impairment and compared the results obtained with those determined by the Bank in order to assess the existence of possible divergences. For the portfolio which impairment is calculated using the collective analysis model, we tested a sample of inputs from the model defined by the Bank and evaluated the calculation methodology itself. For this purpose, we undertook a specific set of procedures with the objective of evaluating how the assumptions considered by the Bank's Management incorporate all the risk's variables, by comparison to the history of the performance and recovery of the loans and advances to customers portfolio. In this context, we undertook the following procedures: (i) we analysed the information contained in the loans and advances to customers portfolio at December 31, 2017 and the historical data considered in the model; (ii) we reviewed and tested the segmentation and classification of the loans and advances as regards the existence of impairment triggers or default; (iii) we reviewed and tested the risk

Key audit matters	*Summary of the audit approach*
	parameters used in the impairment calculation estimated by the Bank for each segment; (iv) we analysed, on a sample basis, the main assumptions and sources of information used for the future recoveries incorporated in the calculation of the risk parameters; (v) we reviewed and tested the historical recoveries incorporated in the determination of the risk parameters (by sampling); and (vi) we analysed the adequacy of the results of the calibration tests performed by the Bank. Our audit procedures also included a review of the disclosures relating to loans and advances to customers and related impairment losses, as well as regarding the implementation of IFRS 9 in the explanatory Notes, taking into account the applicable accounting standards.
Contingent Capital Agreement	
Measurement and disclosure related with the Contingent Capital Agreement presented in notes 1, 14 and 33 of the consolidated financial statements Under the terms of the purchase and sale agreement of the majority share capital of Novo Banco, entered into between Nani Holdings, SGPS, SA (Lone Star) and the Fundo de Resolução, a Contingent Capital Agreement ("CCA") was established, which allows Novo Banco to be compensated, up to a cap of 3.890 million euros, for (i) losses that may be recognized with certain assets, which an initial net book value (calculated with reference to 30 June 2016) of approximately Euros 7.837 million; (ii) certain costs related to the Bank's financing structure; and (iii) lower profitability associated with the assets covered by the CCA. Payments shall be made by Fundo de Resolução in each year up to the amount necessary to comply with a Common Equity Tier 1 ("CET1") ratio, as defined in the CCA clauses. As of 31 December 2017, the amount recorded in the captions Other assets and Other operating	The audit procedures performed included the identification and review of the procedures established by the Bank to determine the CCA losses for each type of asset included in the CCA perimeter as well as, the methodologies that were implemented to assess their calculation and their compliance with the CCA requirements. We have reviewed Management proposal for the amount to be claimed from Fundo de Resolução this year in accordance with IFRS as adopted in the European Union. We recalculated the amount of the CCA losses by reconciling the value of the assets included in the CCA perimeter with their net book value as of 30 June 2016 and 31 December 2017. Our audit procedures also included the review of the disclosures on the Contingent Capital Agreement presented in the explanatory notes, taking into account the applicable accounting standards.

Key audit matters	*Summary of the audit approach*
income to be claimed as a result of the contingent capital mechanism is Euros 791,695 thousand. Due to its relevance to the financial statements and the judgments involved, since the calculation of the CCA amount takes into consideration complex assumptions adopted by the Bank's Board of Directors and by Lone Star, this was considered a key matter for the purposes of our audit.	
Deferred tax assets originated by tax losses	
Measurement and disclosure related to deferred tax assets originated by tax losses presented in notes 2.17 and 40 of the consolidated financial statements In the consolidated balance sheet of the Bank as at 31 December 2017, deferred tax assets amount to Euros 1.964.017 thousand, of which Euros 390.053 thousand were originated by tax losses generated in 2014, 2015 and 2016, which recoverability depends on obtaining future taxable income within a maximum period of 12 years. According to IAS 12 - Income taxes, the recognition of deferred tax assets is only made on the extent that the existence of future taxable income is probable, therefore allowing their recoverability. The estimation of the recoverability of the aforementioned deferred tax assets was carried out by the Bank's Management based on a business plan covering the years 2018 through 2028, which assumes a recurrent level of results from 2022 onwards. This estimation required the application of a complex set of judgments by Management, considering the uncertainties regarding the future strategy of the Bank and of the markets in which it operates, as well as the potential impact of the entry of the new shareholder. The main judgments assumed by	The audit procedures undertaken included a detailed analysis of the Bank's business plan, taking into account the main assumptions considered in its preparation and which enable the Board of Directors to estimate the future generation of taxable income to absorb the estimated tax losses. We met with the Board of Directors to discuss and evaluate all the assumptions considered relevant to the preparation of the business plan and, in addition, we performed sensitivity analyses of those we considered critical, in order to assess the extent of the risk of significant deviation in the estimated results and in the future recoverability of deferred tax assets originated by tax losses. The reasonableness of the projections was analysed based on, namely, the future views of the Board of Directors, the requirements and restrictions to the Bank's activity agreed between the Portuguese Government and the European Commission in accordance with the decision communicated to the Bank at the end of 2017 and the performance of the banking sector and in particular of Novo Banco, in recent years. Our audit procedures also included the review of the deferred tax disclosures presented in the

Key audit matters	*Summary of the audit approach*
Management include the estimation of future taxable income, the long-term growth rates, the investments' rates of return and the discount rates. The business plan also considered the commitments assumed by the Portuguese Government towards the European Commission regarding Novo Banco, which were made known to the Bank at the end of 2017. Potential changes in the assumptions used in the estimation of future results or in the interpretation of tax legislation may have a material impact on the recoverability of deferred tax assets originated by tax losses. Therefore, considering (i) its materiality to the Bank's consolidated financial statements, (ii) the fact that adjustments were introduced in the business plan after the sale of the Bank that led to the derecognition in 2017 of deferred tax assets in the amount of 520.000 thousand euros generated from tax losses carryforward and (iii) the need to prepare revised projections to assess whether such recoverability remains probable occur within the defined reporting period, this was considered a key matter for the purposes of our audit.	explanatory Notes, taking into account the applicable accounting standards.
Non-current assets held for sale and discontinued operations	
Measurement and disclosure related to Non-current assets held for sale and discontinued operations presented in notes 2.12, and 53 of the consolidated financial statements In accordance with IFRS 5, non-current assets held for sale and discontinued operations, a group of assets is classified in this category if its net book value is recoverable through a sale transaction rather than its continuing use and the assets are available for immediate sale. Due to its relevance to the Bank's consolidated financial statements, particularly in the current financial year, and the high degree of judgment inherent to the definition of the fair value of the assets and liabilities of the Bank's subsidiaries	The audit procedures undertaken included the analysis of the procedures implemented by the Bank for the classification and measurement of discontinued operations. In addition, we confirmed that the requirements to be classified as discontinued operations were met during 2017 for all the new entries. We obtained an understanding of the selling process of BESV and GNB Vida through formal meetings with Management where we discuss either the proposals received either the economic interest underlying each of them. We have also analysed the relevant documentation provided by the Bank. Based on this understanding, we have reviewed the Bank's analysis on the fair value adjustment

Key audit matters	*Summary of the audit approach*
classified as discontinued operations, this was considered a key matter for purposes of our audit. At 31 December 2017, the gross balance sheet amount of subsidiaries and associates classified as discontinued operations amount to Euros 5.527.102 thousand assets and Euros 5.525.962 thousand as liabilities. Impairment losses recognised in the balance sheet on those investments amount to Euros 396,146 thousand. The most significant contributions to the assets and liabilities of discontinued operations are BES Vénetie ("BESV") and GNB Vida - Companhia de Seguros Vida, SA ("GNB Vida"), with a total amount of impairment losses recognized during 2017 of Euros 103,454 thousand and Euros 287,438 thousand, respectively. The fair value of these entities was determined based on proposals for their acquisition received from independent entities and required complex analysis and judgments by the Bank's Executive Board of Directors, particularly in the case of GNB Vida.	for the assets and liabilities of these subsidiaries. In addition, our audit procedures included a review of the disclosures on Non-current assets held for sale and discontinued operations presented in the explanatory Notes, taking into account the applicable accounting standards.
Real estate properties received as recovery of loans and advances to customers ***Measurement and disclosure related to the valuation of real estate properties received as recovery of loans and advances to customers presented in notes 2.12, 28 and 33 of the consolidated financial statements*** Due to the significance of real estate properties received as recovery of loans and advances to customers in the Bank's consolidated balance sheet, which are reflected in the captions Other assets and Investment properties, and the fact that it was required the application of a set of assumptions and judgments by the Board of Directors as regards their valuation and the determination of both the recognition moment and the amount of the corresponding impairment	The audit procedures undertaken included the identification and review of the controls implemented by the Bank to ensure that the recording of the movements in the real estate properties portfolio are carried out in a correct and timely manner and that the real estate properties valuation process is adequate. For a sample of real estate properties, we reviewed their measurement and, where applicable, the respective impairment losses recorded, based on the valuations of expert appraisers. For that purpose, we analysed whether the approach followed by the appraiser was adequate for the determination of the book value to be recorded in the financial statements. Whenever necessary, we held meetings to

Key audit matters	*Summary of the audit approach*
losses, this was considered a key matter for the purposes of our audit. As at 31 December 2017, the gross amount of these real estate properties recorded in the captions Other assets and Investment properties amount to Euros 1.989.477 thousand and Euros 1.144.432 thousand, respectively, and the amount of impairment losses of the real estate properties included in the Other asset's caption amounts to Euros 643.294 thousand. According to the Bank's current policies, the real estate properties are subject to periodic valuations, carried out by expert appraisers registered with the CMVM. Whenever the value determined by such valuations is lower than the book value of the real estate properties analysed, impairment or capital losses are recorded, depending on whether these real estate properties are recognised in Other assets or in Investment properties.	challenge and understand the judgments and assumptions adopted in the valuation of the real estate properties under analysis. The qualifications of the expert appraisers were duly analysed, including the confirmation of their registration with the CMVM. For a sample of real estate properties sold during 2017, we compared their sale value with the last valuation obtained, in order to assess the reasonableness of the valuations obtained by the Bank. In the case of real estate properties indirectly held by the Bank, through Real Estate Investment Funds, we sent audit instructions to the auditors of such Funds when considered significant in the context of the Bank's consolidated financial statements and reviewed and challenged the conclusions presented. Whenever available, we have also analysed the Audit Reports relating to the financial statements of such Funds as at 31 December 2017. Finally, we selected a random sample of real estate properties for which we requested an independent evaluation from pre-selected appraisers in order to corroborate the valuations obtained by the Real estate investment funds. Our audit procedures also included a review of the disclosures on real estate properties received as recovery of loans and advances presented in the explanatory Notes, taking into account the applicable accounting standards.
Provisions and contingent liabilities	
Measurement and disclosure related with provisions and contingent liabilities presented in notes 1, 2.18, 39 and 45 of the consolidated financial statements As at 31 December 2017, the balance of the Provisions caption presented as a liability amounts to Euros 416.670 thousand, and is intended to face liabilities associated with: (i)	The audit procedures undertaken included the understanding and evaluation of the controls implemented by the Bank with regard to the approval, recording and monitoring of these matters, as well as the assessment of the methodologies, data and assumptions adopted by the Board of Directors in the analysis of these contingencies and in the potential recognition of provisions.

Key audit matters	*Summary of the audit approach*
ongoing restructuring plans; (ii) commercial offers to retail customers holding unsubordinated bonds of Novo Banco; (iii) contingencies associated with tax matters and lawsuits in progress; (iv) provisions for guarantees and commitments and (v) other risks specific to the normal activity of the Bank. Taking into account that the incorporation of Novo Banco results from the application of a resolution measure to BES, that originated relevant impacts on third parties, the number of existing claims and the risk of litigation involving Novo Banco are significant. Management is therefore requested to make complex judgments in the analysis of the probability of the materialisation and in the quantification of the amounts of possible liabilities arising from such claims, and for that reason this was considered a key matter for the purposes of our audit.	In this context, we tested the design and operational effectiveness of the key controls to ensure the proper identification, evaluation, provisioning and disclosure of these matters and, considering the relevance of the judgments required from the Board of Directors, we examined in detail the most significant lawsuits and provisions and, where necessary, we asked for additional audit evidence. We discussed the Bank's assessment of the nature and current status of the lawsuits in progress and the corresponding provisions, when applicable, and reviewed with its legal counsel and the Bank's Management the bases and grounds for the recording of the most significant provisions. For some of these situations, we confirmed the information obtained from the Bank with the external lawyers who accompany each of the lawsuits and for the lawsuits resulting from the resolution measure applied to BES, we confirmed that these were covered by the Resolution Deliberation and related decisions taken by Banco de Portugal. Our audit procedures also included the review of the disclosures on provisions and contingent liabilities, presented in the explanatory Notes, taking into account the applicable accounting standards.
Fair value of financial instruments not quoted on an active market ***Measurement and disclosure related to the fair value of financial instruments not quoted in an active market presented in notes 2.6, 2.8 and 49 of the consolidated financial statements*** Due to its to relevance the consolidated financial statements of the Bank and to the associated high degree of judgment, the fair value measurement of financial instruments not quoted in an active market was considered a key matter for the purposes of our audit.	 The audit procedures undertaken included the identification and appraisal of the controls implemented by the Bank in order to identify, measure and monitor market risk, as well as the assessment of the methodologies, data and assumptions used to determine the fair value of the financial instruments under analysis. In this context, the procedures and controls tested included the validation of: (i) the data interfaces from the main IT systems to the fair value measurement models and of their results to the

Key audit matters	*Summary of the audit approach*
These instruments include securities classified as financial assets at fair value through profit or loss and available-for-sale; derivatives classified as hedging and trading instruments; and assets subject to value adjustments through hedge accounting, namely for the loans and advances to customers portfolio. As at 31 December 2017 the balances in the balance sheet of financial instruments at fair value corresponding to levels 2 and 3 of the fair value hierarchy of IFRS 13 – Fair value, amounts to Euros 4.710.830 thousand in the assets and Euros 2,659,647 thousand in the liabilities, respectively. For financial instruments that are actively traded and for which quotations or other market indicators are available, the determination of fair value, based on their price or closing quotation at the balance sheet date, represents an objective exercise (level 1 of the fair value hierarchy). However, when such observable market data are not available, fair value is determined using estimates (levels 2 and 3 of the fair value hierarchy), namely through the use of valuation models based on discounted cash flow techniques, which usually involve a high degree of judgment by Management in the definition of the assumptions to be used. The Bank measures financial instruments classified in level 2 on the basis of observable market data and using internal measurement methodologies which are based on discounted cash flows for securities and on the Black-Scholes model for derivatives. For the measurement of financial instruments classified in level 3, essentially represented by securities not traded on active markets, indicative prices are provided by counterparties, determined based on parameters not observable in the market, as well as on extrapolations of market data.	financial statements of the Bank; and (ii) the operation itself of the fair value models adopted by the Bank, including the inputs and assumptions provided by the Board of Directors as well as the internal governance practices incorporated in the fair value determination and approval process. Regarding the models developed by the Bank, we evaluated their adequacy and data used. To this purpose, we compared the observable data against the market information obtained from external and independent sources, whenever available. For a sample of instruments which measurement consisted of substantially unobservable data, we evaluated the models and assumptions used and independently recalculated the measurement using alternative methodologies. We also evaluated the methodology and data used by Management to determine the counterparty risk adjustments recorded for uncollateralized derivative transactions and compared the amounts calculated with current market practices in light of our experience with similar entities. Our audit procedures also included the review of the financial instrument disclosures and, in particular, of the application of the fair value hierarchy, presented in the explanatory Notes, taking into account the applicable accounting standards.

Key audit matters	*Summary of the audit approach*
The Bank also recognises adjustments for counterparty risk in the measurement of uncollateralized derivatives (CVA – Credit Value Adjustments), which are estimated based on the amount that would have been received or paid to settle the contract on the date under analysis, considering the existing market conditions, as well as the credit quality of the parties, which is estimated by the Bank through its loans and advances impairment model. In this context, changes in the assumptions incorporated in the measurement techniques used by Management may give rise to material impacts on the fair value measurement of unquoted financial instruments recognised in the consolidated financial statements of the Bank.	
Post-employment benefits of employees	
Measurement and disclosure of liabilities and disclosure related to post-employment benefits of employees presented in notes 2.16 and 16 of the consolidated financial statements As at 31 December 2017 Novo Banco's liabilities with the employees' post-employment benefits plan amounts to Euros 1.663.489 thousand, mainly covering benefits with retirement pensions, invalidity and survivors' retirement pensions, health-care and death benefits, namely those foreseen in the Collective Labour Agreement ("Acordo Coletivo de Trabalho" -"ACT") for the banking sector. These liabilities are estimated based on actuarial valuations carried out by actuaries certified by the "Autoridade de Supervisão de Seguros e Fundos de Pensões" ("ASF"). These valuations incorporate a set of financial and actuarial assumptions, namely the discount rate, the inflation rate, the mortality and disability tables, the growth rates of pensions and salaries, amongst others, defined by the Board of Directors considering the characteristics of the benefits attributed, the employees covered and the current and expected behaviour of these variables.	The audit procedures undertaken included the analysis of the controls implemented by the Bank for the purposes of determining the liabilities and the financing needs of the plan. In this context, we also tested the controls defined by the Bank to ensure the adequacy of the process to determine the fair value of the assets of the fund and of the actuarial assumptions used. Our work included meetings with the Board of Directors to identify the methodologies and options considered in defining the main financial and actuarial assumptions. Given the relevance of the judgments required of the Board of Directors, we assessed the reasonableness of the main assumptions, comparing them with the data that we were able to independently obtain. We also reviewed the adequacy of (i) the employee information, used for the calculation of liabilities; (ii) the recognition of costs related to past services and other changes in assumptions and estimates that occurred during the year; and (iii) the fair value of the assets of the fund, calculating it, whenever possible, in an independent manner for a sample of assets held.

Key audit matters	*Summary of the audit approach*
In the specific case of the discount rate used in the actuarial studies, it is determined on the basis of the market rates for high-quality corporate bonds in terms of credit risk, denominated in the currency in which the benefits will be paid (Euros) and with a maturity similar to the termination date of the payment of the benefits of the plan. In this context, future changes in the financial and actuarial assumptions used may give rise to material impacts on the net liabilities and on the assets associated with these benefits, and for that reason this area was considered a key matter for the purposes of our audit.	We have also read the actuarial report with reference to 31 December 2017 and discussed the main assumptions used. We also confirmed the registration with ASF of the actuary responsible and confirmed the existence of the actuary's declaration of independence regarding the study as at 31 December 2017. In addition, our audit procedures included reviewing the disclosure of the employees' post-employment benefits presented in the explanatory Notes, taking into account the applicable accounting standards.

Responsibilities of management and supervisory board for the consolidated financial statements

Management is responsible for:

a) the preparation of the consolidated financial statements, which present fairly the financial position, the financial performance and the cash flows of the Bank in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union;

b) the preparation of the Directors' Report, including the Corporate governance Report, in accordance with the applicable law and regulations;

c) the creation and maintenance of an appropriate system of internal control to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

d) the adoption of appropriate accounting policies and criteria; and

e) the assessment of the Bank's ability to continue as a going concern, disclosing, as applicable, events or conditions that may cast significant doubt on the Bank's ability to continue its activities.

The supervisory board is responsible for overseeing the process of preparation and disclosure of the Bank's financial information.

Auditor's responsibilities for the audit of the consolidated financial statements

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

a) identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;

e) evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

f) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Bank audit. We remain solely responsible for our audit opinion;

g) communicate with those charged with governance, including the supervisory board, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;

h) of the matters we have communicated to those charged with governance, including the General Supervisory Board, we determine which one's were the most important in the audit of the consolidated financial statements of the current year, these being the key audit matters. We describe these matters in our report, except when the law or regulation prohibits their public disclosure; and

i) confirm to the General Supervisory Board that we comply with the relevant ethical requirements regarding independence and communicate all relationships and other matters that may be perceived as threats to our independence and, where applicable, the respective safeguards.

Our responsibility also includes verifying that the information included in the Directors' report is consistent with the consolidated financial statements and the verification set forth in paragraphs 4 and 5 of article No. 451 of the Portuguese Company Law, and verifying that the non-financial statement was presented.

Report on other legal and regulatory requirements

Director's report

In compliance with paragraph 3 e) of article No. 451 of the Portuguese Company Law, it is our understanding that the Director's report has been prepared in accordance with applicable requirements of the law and regulation, that the information included in the Directors' report is consistent with the audited consolidated financial statements and, taking into account the knowledge and assessment about the Bank, no material misstatements were identified.

Non-financial statement set forth in article No. 66-B of the Portuguese Company Law

In compliance with paragraph 6 of article No. 451 of the Portuguese Company Law, we hereby inform that the Bank included in its Director's report the non-financial statement set forth in article No. 66-B of the Portuguese Company Law.

Corporate governance report

In compliance with paragraph 4 of article No. 451 of the Portuguese Company Law, it is our understanding that the Corporate governance report includes the information required under article No. 245-A of the Portuguese Securities Market Code, that no material misstatements were identified in the information disclosed in this report and that it complies with paragraphs c), d), f), h), i) and m) of that article.

Additional information required in article No. 10 of the Regulation (EU) 537/2014

In accordance with article No. 10 of Regulation (EU) 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters referred to above, we also provide the following information:

a) We were first appointed auditors of Novo Banco, S.A. in the Shareholders' General Meeting of 9 September 2014 for a mandate covering 2014 and 2015, having remained in functions until the current year. Our last appointment was in the Shareholders' General Meeting, through a written unanimous resolutions dated 21 December 2016 for a mandate covering 2016 and 2017.

b) The management has confirmed to us it has no knowledge of any allegation of fraud or suspicions of fraud with material effect in the financial statements. As part of the planning and execution of our audit in accordance with ISAs, we have maintained professional scepticism throughout the audit and determined overall responses to address the risk of material misstatement due to fraud in the consolidated financial statements. Based on the work performed, we have not identified any material misstatement in the consolidated financial statements due to fraud.

c) We confirm that our audit opinion is consistent with the additional report that was prepared by us and issued to the Bank's General Supervisory Board as of 19 April 2018.

d) We declare that we did not provide any prohibited non-audit services referred to in paragraph 8 of article No. 77 of the by-laws of the Institute of Statutory Auditors ("Estatuto da Ordem dos Revisores Oficiais de Contas") and that we remain independent of the Bank in conducting our audit.

19 April 2018

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represented by:

José Manuel Henriques Bernardo, R.O.C.

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Statutory Audit Report and Auditors' Report

(Free translation from the original in Portuguese)
Report on the audit of the financial statements

Opinion

We have audited accompanying the financial statements of Novo Banco, S.A. ("Novo Banco" or "Bank"), which comprise the balance sheet as at December 31, 2017 (which shows total assets of Euro 46.477.141 thousand and total shareholders' equity of Euro 4.459.812 thousand, including a net loss of Euro 1.253.046 thousand), the statement of income, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly in all material respects, the financial position of Novo Banco, S.A. as at 31 December 2017, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Our responsibilities under those standards are described in the "Auditor's responsibilities for the audit of the financial statements" section below. In accordance with the law we are independent of the entities that are included in the Bank and we have fulfilled our other ethical responsibilities in accordance with the ethics code of the Institute of Statutory Auditors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key audit matters	*Summary of the audit approach*
Impairment losses of loans and advances to customers	
Measurement and disclosure related to impairment losses of loans and advances to customers presented in the notes 2.4, 22 and 42 of the financial statements The significance of the loans and advances to customers' caption as well as of the associated impairment losses, which calculation requires the application of a set of complex assumptions and judgments by the Bank's Board of Directors regarding both the identification of the moment of the recognition as well as the corresponding amount, justify that this has constituted a key matter for the purposes of our audit. As at 31 December 2017, the gross amount of loans and advances to customers amounts to Euros 29.186.763 thousand and the associated impairment losses amounts to Euros 5.693.858 thousand. Impairment losses on loans and advances to customers are determined by the Bank on an individual basis, through a case-by-case analysis of a significant component of the total loans and advances portfolio, while for the remaining portfolio, impairment is determined on a collective analysis. This calculation is carried out as follows: • The Bank undertakes an exercise of individual analysis for the customers which have more significant exposures, evaluated in terms of the amount of their responsibilities and the observation of indications of default. The impairment amount is calculated through a detailed analysis of the economic and financial position of each individual customer, with reference to (i) the estimation of the cash flows that may be generated in the future to fulfil its responsibilities or (ii) the valuation of the collaterals received in connection with the granting of the loan, whenever its recovery is expected to require the foreclosure/execution	The audit procedures performed included the identification and review of the controls established by the Bank in relation to the approval, recording and monitoring of loans and advances to customers, as well as the review of the methodologies, data and assumptions adopted by the Board of Directors in calculating the corresponding impairment losses. These procedures covered, amongst others, the detailed testing of the key controls and the credit risk management procedures implemented by the Bank, with particular emphasis on the internal controls underlying the timely identification, recording and accurate measurement of impairment losses. In this context, we tested the design and operational effectiveness of the key controls implemented by the Bank to identify customers presenting impairment triggers or in default and to determinate the corresponding impairment losses, namely those related to: (i) the timely identification of customers with impairment triggers or in default; (ii) the data conversion from the main IT systems to the models used to calculate impairment and of the results thereof to the financial statements of the Bank; (iii) the actual calculations itself of the impairment model defined by the Bank, including the inputs and assumptions of Management; (iv) the estimation of the recoverable value of the collateral; and (v) the internal governance associated with the process of calculating and approving impairment losses. Additionally, on a sample basis, we analysed a number of customers (including some that were not identified by the Board of Directors as presenting impairment triggers or in default), so as to obtain our own judgment regarding the existence of impairment triggers, and to assess how the impairment losses were timely identified, measured and recognised by Management.

Key audit matters	*Summary of the audit approach*
and/or sale of those collaterals, less the costs inherent to its recovery and sale. • For the exposures not covered by the individual analysis, as well as for those in respect of which no objective evidence of impairment was identified, the Bank developed and applies a collective analysis model to calculate the impairment losses. When a group of financial assets is measured on a collective basis, the future cash flows of this group are estimated based on the contractual flows of those assets and the historical data related to losses on assets with similar credit risk characteristics. Whenever the Bank considers necessary, the historical information is updated based on observable current data, so as to reflect the effects of the current conditions. For loans and advances which the observation of defaults criteria occurred before the financial year end but which had not yet been identified by the Bank ("Incurred but not reported" - IBNR), impairment losses are recognised based on probability of default and loss models, considering an emergence period of 12 months between the date of occurrence of the default event and its identification in the individual or collective analysis. Due to the upcoming implementation of IFRS 9 – Financial instruments ("IFRS 9") on 1 January 2018, the Bank has initiated during 2017 a detailed implementation plan for transitioning to this new standard, which should be retrospectively applied from that date, even though their comparative balances are not required to be restated. The IFRS 9 implementation introduces a set of new requirements with impact in the measurement of the loan-loss impairment on financial assets which will follow a different basis (an expected loan loss model rather than the IAS 39 incurred loan loss model).	With regards to the customers individually analysed by the Bank, for a representative sample of the loans and advances to customers portfolio as at 31 December 2017, the procedures carried out consisted of: (i) reviewing the documentation associated with the loans and advances granting process; (ii) analysing the contractual support and the main relevant collaterals and confirming the registration of referred collaterals in favour of the Bank; (iii) reviewing the valuations of the available collaterals; (iv) analysing the evolution of the exposures; and (v) understanding the view of those responsible for the Bank regarding the economic and financial situation of the customers, as to the predictability of the cash flows expected from their respective businesses, as well as their view regarding the collectability of the loans and advances. Whenever we concluded necessary to revise some of the assumptions used by Management, we recalculated the estimated amount of the impairment and compared the results obtained with those determined by the Bank in order to assess the existence of possible divergences. For the portfolio which impairment is calculated using the collective analysis model, we tested a sample of inputs from the model defined by the Bank and evaluated the calculation methodology itself. For this purpose, we undertook a specific set of procedures with the objective of evaluating how the assumptions considered by the Bank's Management incorporate all the risk's variables, by comparison to the history of the performance and recovery of the loans and advances to customers portfolio. In this context, we undertook the following procedures: (i) we analysed the information contained in the loans and advances to customers portfolio at December 31, 2017 and the historical data considered in the model; (ii) we reviewed and tested the segmentation and classification of the loans and advances as regards the existence of impairment triggers or default; (iii) we reviewed and tested the risk parameters used in the impairment calculation

Key audit matters	*Summary of the audit approach*
	estimated by the Bank for each segment; (iv) we analysed, on a sample basis, the main assumptions and sources of information used for the future recoveries incorporated in the calculation of the risk parameters; (v) we reviewed and tested the historical recoveries incorporated in the determination of the risk parameters (by sampling); and (vi) we analysed the adequacy of the results of the calibration tests performed by the Bank. Our audit procedures also included a review of the disclosures relating to loans and advances to customers and related impairment losses, as well as regarding the implementation of IFRS 9 in the explanatory Notes, taking into account the applicable accounting standards.
Contingent Capital Agreement	
Measurement and disclosure related with the Contingent Capital Agreement presented in notes 1, 11 and 28 of the financial statements Under the terms of the purchase and sale agreement of the majority share capital of Novo Banco, entered into between Nani Holdings, SGPS, SA (Lone Star) and the Fundo de Resolução, a Contingent Capital Agreement ("CCA") was established, which allows Novo Banco to be compensated, up to a cap of 3.890 million euros, for (i) losses that may be recognized with certain assets, which an initial net book value (calculated with reference to 30 June 2016) of approximately Euros 7.837 million; (ii) certain costs related to the Bank's financing structure; and (iii) lower profitability associated with the assets covered by the CCA. Payments shall be made by Fundo de Resolução in each year up to the amount necessary to comply with a Common Equity Tier 1 ("CET1") ratio, as defined in the CCA clauses. As of 31 December 2017, the amount recorded in the captions Other assets and Other operating income to be claimed as a result of the contingent capital mechanism is Euros 791,695 thousand.	The audit procedures performed included the identification and review of the procedures established by the Bank to determine the CCA losses for each type of asset included in the CCA perimeter as well as, the methodologies that were implemented to assess their calculation and their compliance with the CCA requirements. We have reviewed Management proposal for the amount to be claimed from Fundo de Resolução this year in accordance with IFRS as adopted in the European Union. We recalculated the amount of the CCA losses by reconciling the value of the assets included in the CCA perimeter with their net book value as of 30 June 2016 and 31 December 2017. Our audit procedures also included the review of the disclosures on the Contingent Capital Agreement presented in the explanatory notes, taking into account the applicable accounting standards.

Key audit matters	*Summary of the audit approach*
Due to its relevance to the financial statements and the judgments involved, since the calculation of the CCA amount takes into consideration complex assumptions adopted by the Bank's Board of Directors and by Lone Star, this was considered a key matter for the purposes of our audit.	
Deferred tax assets originated by tax losses	
Measurement and disclosure related to deferred tax assets originated by tax losses presented in notes 2.16 and 34 of the financial statements As at 31 December 2017 deferred tax assets amount to Euros 1.947.425 thousand, of which Euros 389.030 thousand were originated by tax losses generated in 2014, 2015 and 2016, which recoverability depends on obtaining future taxable income within a maximum period of 12 years. According to IAS 12 - Income taxes, the recognition of deferred tax assets is only made on the extent that the existence of future taxable income is probable, therefore allowing their recoverability. The estimation of the recoverability of the aforementioned deferred tax assets was carried out by the Bank's Management based on a business plan covering the years 2018 through 2028, which assumes a recurrent level of results from 2022 onwards. This estimation required the application of a complex set of judgments by Management, considering the uncertainties regarding the future strategy of the Bank and of the markets in which it operates, as well as the potential impact of the entry of the new shareholder. The main judgments assumed by Management include the estimation of future taxable income, the long-term growth rates, the investments' rates of return and the discount rates. The business plan also considered the	The audit procedures undertaken included a detailed analysis of the Bank's business plan, taking into account the main assumptions considered in its preparation and which enable the Board of Directors to estimate the future generation of taxable income to absorb the estimated tax losses. We met with the Board of Directors to discuss and evaluate all the assumptions considered relevant to the preparation of the business plan and, in addition, we performed sensitivity analyses of those we considered critical, in order to assess the extent of the risk of significant deviation in the estimated results and in the future recoverability of deferred tax assets originated by tax losses. The reasonableness of the projections was analysed based on, namely, the future views of the Board of Directors, the requirements and restrictions to the Bank's activity agreed between the Portuguese Government and the European Commission in accordance with the decision communicated to the Bank at the end of 2017 and the performance of the banking sector and in particular of Novo Banco, in recent years. Our audit procedures also included the review of the deferred tax disclosures presented in the explanatory Notes, taking into account the applicable accounting standards.

Key audit matters	*Summary of the audit approach*
commitments assumed by the Portuguese Government towards the European Commission regarding Novo Banco, which were made known to the Bank at the end of 2017. Potential changes in the assumptions used in the estimation of future results or in the interpretation of tax legislation may have a material impact on the recoverability of deferred tax assets originated by tax losses. Therefore, considering (i) its materiality to the Bank's financial statements, (ii) the fact that adjustments were introduced in the business plan after the sale of the Bank that led to the derecognition in 2017 of deferred tax assets in the amount of 520.000 thousand euros generated from tax losses carryforward and (iii) the need to prepare revised projections to assess whether such recoverability remains probable occur within the defined reporting period, this was considered a key matter for the purposes of our audit.	
Non-current assets held for sale ***Measurement and disclosure related to non-current assets held for sale presented in notes 2.11, and 24 of the financial statements*** In accordance with IFRS 5, non-current assets held for sale and discontinued operations, a group of assets is classified in this category if its net book value is recoverable through a sale transaction rather than its continuing use and the assets are available for immediate sale. Due to its relevance to the Bank's financial statements, particularly in the current financial year, and the high degree of judgment inherent to the definition of the fair value of the Bank's subsidiaries classified as non-current assets held for sale, this was considered a key matter for purposes of our audit. At 31 December 2017, the gross balance sheet amount of subsidiaries classified as non-current assets held for sale amount to Euros 714.011	The audit procedures undertaken included the analysis of the procedures implemented by the Bank for the classification and measurement of non-current assets held for sale. In addition, we confirmed that the requirements to be classified as non-current assets held for sale were met during 2017 for all the new entries. We obtained an understanding of the selling process of BESV and GNB Vida through formal meetings with Management where we discuss either the proposals received either the economic interest underlying each of them. We have also analysed the relevant documentation provided by the Bank. Based on this understanding, we have reviewed the Bank's analysis on the fair value adjustment to these subsidiaries. In addition, our audit procedures included a review of the disclosures on Non-current assets

Key audit matters	Summary of the audit approach
thousand. Impairment losses recognized in the balance sheet on those investments amount to Euros 468.194 thousand. The most significant contributions to the subsidiaries classified as Non-current assets held for sale are BES Vénetie ("BESV") and GNB Vida - Companhia de Seguros Vida, SA ("GNB Vida"), with a total amount of impairment losses recognized during 2017 of Euros 103,454 thousand and Euros 215.270 thousand, respectively. The fair value of these entities was determined based on proposals for their acquisition received from independent entities and required complex analysis and judgments by the Bank's Executive Board of Directors, particularly in the case of GNB Vida.	held for sale presented in the explanatory Notes, taking into account the applicable accounting standards.
Real estate properties received as recovery of loans and advances to customers	
Measurement and disclosure related to the valuation of real estate properties received as recovery of loans and advances to customers presented in notes 2.11 and 28 of the financial statements Due to the significance of real estate properties received as recovery of loans and advances to customers in the Bank's balance sheet, which are reflected in the caption Other assets, and the fact that it was required the application of a set of assumptions and judgments by the Board of Directors as regards their valuation and the determination of both the recognition moment and the amount of the corresponding impairment losses, this was considered a key matter for the purposes of our audit. As at 31 December 2017, the gross amount of these real estate properties recorded in Other assets amount to Euros 1.284.259 thousand and the impairment losses amount to Euros 318.733 thousand.	The audit procedures undertaken included the identification and review of the controls implemented by the Bank to ensure that the recording of the movements in the real estate properties portfolio are carried out in a correct and timely manner and that the real estate properties valuation process is adequate. For a sample of real estate properties, we reviewed their measurement and, where applicable, the respective impairment losses recorded, based on the valuations of expert appraisers. For that purpose, we analysed whether the approach followed by the appraiser was adequate for the determination of the book value to be recorded in the financial statements. Whenever necessary, we held meetings to challenge and understand the judgments and assumptions adopted in the valuation of the real estate properties under analysis. The qualifications of the expert appraisers were duly analysed, including the confirmation of their registration with the CMVM.

Key audit matters	*Summary of the audit approach*
According to the Bank's current policies, the real estate properties are subject to periodic valuations, carried out by expert appraisers registered with the CMVM. Impairment losses are recorded whenever the value determined by such valuations is lower than the book value of the real estate properties analysed.	For a sample of real estate properties sold during 2017, we compared their sale value with the last valuation obtained, in order to assess the reasonableness of the valuations obtained by the Bank. Our audit procedures also included a review of the disclosures on real estate properties received as recovery of loans and advances presented in the explanatory Notes, taking into account the applicable accounting standards.
Provisions and contingent liabilities	
Measurement and disclosure related with provisions and contingent liabilities presented in notes 1, 2.17, 33 and 38 of the financial statements As at 31 December 2017, the balance of the Provisions caption presented as a liability amount to Euros 413.996 thousand, and is intended to face liabilities associated with: (i) ongoing restructuring plans; (ii) commercial offers to retail customers holding unsubordinated bonds of Novo Banco; (iii) contingencies associated with tax matters and lawsuits in progress; (iv) provisions for guarantees and commitments and (v) other risks specific to the normal activity of the Bank. Taking into account that the incorporation of Novo Banco results from the application of a resolution measure to BES, that originated relevant impacts on third parties, the number of existing claims and the risk of litigation involving Novo Banco are significant. Management is therefore requested to make complex judgments in the analysis of the probability of the materialisation and in the quantification of the amounts of possible liabilities arising from such claims, and for that reason this was considered a key matter for the purposes of our audit.	The audit procedures undertaken included the understanding and evaluation of the controls implemented by the Bank with regard to the approval, recording and monitoring of these matters, as well as the assessment of the methodologies, data and assumptions adopted by the Board of Directors in the analysis of these contingencies and in the potential recognition of provisions. In this context, we tested the design and operational effectiveness of the key controls to ensure the proper identification, evaluation, provisioning and disclosure of these matters and, considering the relevance of the judgments required from the Board of Directors, we examined in detail the most significant lawsuits and provisions and, where necessary, we asked for additional audit evidence. We discussed the Bank's assessment of the nature and current status of the lawsuits in progress and the corresponding provisions, when applicable, and reviewed with its legal counsel and the Bank's Management the bases and grounds for the recording of the most significant provisions. For some of these situations, we confirmed the information obtained from the Bank with the external lawyers who accompany each of the lawsuits and for the lawsuits resulting from the resolution measure applied to BES, we confirmed that these were covered by the Resolution Deliberation and related decisions taken by Banco de Portugal.

Key audit matters	***Summary of the audit approach***
	Our audit procedures also included the review of the disclosures on provisions and contingent liabilities, presented in the explanatory Notes, taking into account the applicable accounting standards.
Fair value of financial instruments not quoted on an active market	
Measurement and disclosure related to the fair value of financial instruments not quoted in an active market presented in notes 2.5, 2.7 and 41 of the financial statements Due to its to relevance the financial statements of the Bank and to the associated high degree of judgment, the fair value measurement of financial instruments not quoted in an active market was considered a key matter for the purposes of our audit. These instruments include securities classified as financial assets at fair value through profit or loss and available-for-sale; derivatives classified as hedging and trading instruments; and assets subject to value adjustments through hedge accounting, namely for the loans and advances to customers portfolio. As at December 31, 2017 the balances in the balance sheet of financial instruments at fair value corresponding to levels 2 and 3 of the fair value hierarchy of IFRS 13 – Fair value, amounts to Euros 7.213.635 thousand in the assets and Euros 1.236.623 thousand in the liabilities, respectively. For financial instruments that are actively traded and for which quotations or other market indicators are available, the determination of fair value, based on their price or closing quotation at the balance sheet date, represents an objective exercise (level 1 of the fair value hierarchy). However, when such observable market data are not available, fair value is determined using estimates (levels 2 and 3 of the fair value	The audit procedures undertaken included the identification and appraisal of the controls implemented by the Bank in order to identify, measure and monitor market risk, as well as the assessment of the methodologies, data and assumptions used to determine the fair value of the financial instruments under analysis. In this context, the procedures and controls tested included the validation of: (i) the data interfaces from the main IT systems to the fair value measurement models and of their results to the financial statements of the Bank; and (ii) the operation itself of the fair value models adopted by the Bank, including the inputs and assumptions provided by the Board of Directors as well as the internal governance practices incorporated in the fair value determination and approval process. Regarding the models developed by the Bank, we evaluated their adequacy and data used. To this purpose, we compared the observable data against the market information obtained from external and independent sources, whenever available. For a sample of instruments which measurement consisted of substantially unobservable data, we evaluated the models and assumptions used and independently recalculated the measurement using alternative methodologies. We also evaluated the methodology and data used by Management to determine the counterparty risk adjustments recorded for uncollateralized derivative transactions and compared the amounts calculated with current market practices in light of our experience with similar entities.

Key audit matters	Summary of the audit approach
hierarchy), namely through the use of valuation models based on discounted cash flow techniques, which usually involve a high degree of judgment by Management in the definition of the assumptions to be used. The Bank measures financial instruments classified in level 2 on the basis of observable market data and using internal measurement methodologies which are based on discounted cash flows for securities and on the Black-Scholes model for derivatives. For the measurement of financial instruments classified in level 3, essentially represented by securities not traded on active markets, indicative prices are provided by counterparties, determined based on parameters not observable in the market, as well as on extrapolations of market data. The Bank also recognises adjustments for counterparty risk in the measurement of uncollateralized derivatives (CVA – Credit Valuation Adjustment), which are estimated based on the amount that would have been received or paid to settle the contract on the date under analysis, considering the existing market conditions, as well as the credit quality of the parties, which is estimated by the Bank through its loans and advances impairment model. In this context, changes in the assumptions incorporated in the measurement techniques used by Management may give rise to material impacts on the fair value measurement of unquoted financial instruments recognised in the financial statements of the Bank.	Our audit procedures also included the review of the financial instrument disclosures and, in particular, of the application of the fair value hierarchy, presented in the explanatory Notes, taking into account the applicable accounting standards.
Post-employment benefits of employees	
Measurement and disclosure of liabilities and disclosure related to post-employment benefit of employees presented in notes 2.15 and 13 of the financial statements As at 31 December 2017 Novo Banco's liabilities with the employees' post-employment benefits plan amounts to Euros 1.629.305 thousand,	The audit procedures undertaken included the analysis of the controls implemented by the Bank for the purposes of determining the liabilities and the financing needs of the plan. In this context, we also tested the controls defined by the Bank to ensure the adequacy of the process to determine the fair value of the assets

Key audit matters	*Summary of the audit approach*
mainly covering benefits with retirement pensions, invalidity and survivors' retirement pensions, health-care and death benefits, namely those foreseen in the Collective Labour Agreement ("Acordo Coletivo de Trabalho" -"ACT") for the banking sector. These liabilities are estimated based on actuarial valuations carried out by actuaries certified by the "Autoridade de Supervisão de Seguros e Fundos de Pensões" ("ASF"). These valuations incorporate a set of financial and actuarial assumptions, namely the discount rate, the inflation rate, the mortality and disability tables, the growth rates of pensions and salaries, amongst others, defined by the Board of Directors considering the characteristics of the benefits attributed, the employees covered and the current and expected behaviour of these variables. In the specific case of the discount rate used in the actuarial studies, it is determined on the basis of the market rates for high-quality corporate bonds in terms of credit risk, denominated in the currency in which the benefits will be paid (Euros) and with a maturity similar to the termination date of the payment of the benefits of the plan. In this context, future changes in the financial and actuarial assumptions used may give rise to material impacts on the net liabilities and on the assets associated with these benefits, and for that reason this area was considered a key matter for the purposes of our audit.	of the fund and of the actuarial assumptions used. Our work included meetings with the Board of Directors to identify the methodologies and options considered in defining the main financial and actuarial assumptions. Given the relevance of the judgments required of the Board of Directors, we assessed the reasonableness of the main assumptions, comparing them with the data that we were able to independently obtain. We also reviewed the adequacy of (i) the employee information, used for the calculation of liabilities; (ii) the recognition of costs related to past services and other changes in assumptions and estimates that occurred during the year; and (iii) the fair value of the assets of the fund, calculating it, whenever possible, in an independent manner for a sample of assets held. We have also read the actuarial report with reference to 31 December 2017 and discussed the main assumptions used. We also confirmed the registration with ASF of the actuary responsible and confirmed the existence of the actuary's declaration of independence regarding the study as at 31 December 2017. Our audit procedures included reviewing the disclosure of the employees' post-employment benefits presented in the explanatory Notes, taking into account the applicable accounting standards.

Responsibilities of management and supervisory board for the financial statements

Management is responsible for:

a) the preparation of the financial statements, which present fairly the financial position, the financial performance and the cash flows of the Bank in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union;

b) the preparation of the Directors' Report, including the Corporate governance Report, in accordance with the applicable law and regulations;

c) the creation and maintenance of an appropriate system of internal control to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

d) the adoption of appropriate accounting policies and criteria; and

e) the assessment of the Bank's ability to continue as a going concern, disclosing, as applicable, events or conditions that may cast significant doubt on the Bank's ability to continue its activities.

The supervisory board is responsible for overseeing the process of preparation and disclosure of the Bank's financial information.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

a) identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;

e) evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

f) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Bank audit. We remain solely responsible for our audit opinion;

g) communicate with those charged with governance, including the supervisory board, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;

h) of the matters we have communicated to those charged with governance, including the General Supervisory Board, we determine which one's were the most important in the audit of the financial statements of the current year, these being the key audit matters. We describe these matters in our report, except when the law or regulation prohibits their public disclosure; and

i) confirm to the General Supervisory Board that we comply with the relevant ethical requirements regarding independence and communicate all relationships and other matters that may be perceived as threats to our independence and, where applicable, the respective safeguards.

Our responsibility also includes verifying that the information included in the Directors' report is consistent with the financial statements and the verification set forth in paragraphs 4 and 5 of article No. 451 of the Portuguese Company Law, and verifying that the non-financial statement was presented.

Report on other legal and regulatory requirements

Director's report

In compliance with paragraph 3 e) of article No. 451 of the Portuguese Company Law, it is our understanding that the Director's report has been prepared in accordance with applicable requirements of the law and regulation, that the information included in the Directors' report is consistent with the audited financial statements and, taking into account the knowledge and assessment about the Bank, no material misstatements were identified.

Non-financial statement set forth in article No. 66-B of the Portuguese Company Law

In compliance with paragraph 6 of article No. 451 of the Portuguese Company Law, we hereby inform that the Bank included in its Director's report the non-financial statement set forth in article No. 66-B of the Portuguese Company Law.

Corporate governance report

In compliance with paragraph 4 of article No. 451 of the Portuguese Company Law, it is our understanding that the Corporate governance report includes the information required under article No. 245-A of the Portuguese Securities Market Code, that no material misstatements were identified in the information disclosed in this report and that it complies with paragraphs c), d), f), h), i) and m) of that article.

Additional information required in article No. 10 of the Regulation (EU) 537/2014

In accordance with article No. 10 of Regulation (EU) 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters referred to above, we also provide the following information:

a) We were first appointed auditors of Novo Banco, S.A. in the Shareholders' General Meeting of 9 September 2014 for a mandate covering 2014 and 2015, having remained in functions until the current year. Our last appointment was in the Shareholders' General Meeting, through a written unanimous resolutions dated 21 December 2016 for a mandate covering 2016 and 2017.

b) The management has confirmed to us it has no knowledge of any allegation of fraud or suspicions of fraud with material effect in the financial statements. As part of the planning and execution of our audit in accordance with ISAs, we have maintained professional scepticism throughout the audit and determined overall responses to address the risk of material misstatement due to fraud in the financial statements. Based on the work performed, we have not identified any material misstatement in the financial statements due to fraud.

c) We confirm that our audit opinion is consistent with the additional report that was prepared by us and issued to the Bank's General Supervisory Board as of 19 April 2018.

d) We declare that we did not provide any prohibited non-audit services referred to in paragraph 8 of article No. 77 of the by-laws of the Institute of Statutory Auditors ("Estatuto da Ordem dos Revisores Oficiais de Contas") and that we remain independent of the Bank in conducting our audit.

19 April 2018

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
Registered in Comissão do Mercado de Valores Mobiliários under n.º 20161485
represented by:

José Manuel Henriques Bernardo, R.O.C.

Report and Opinion of the General and Supervisory Board on the Management Report and the Separate and Consolidated Financial Statements for the financial year ended on 31 December 2017

Pursuant to the mandate granted to us and in compliance with the provisions of Article 441 (1) (h) and (q) of the Commercial Companies Code and Novo Banco, SA, we are required to issue the Annual Report on the activity carried out and to issue an Opinion on the Management Report and the individual and consolidated financial statements of Novo Banco, SA, which comprise the separate and Consolidated Income Statement, the separate and Consolidated Statement of Comprehensive Income, the separate and Consolidated Balance Sheets, the separate and consolidated Statement of changes in equity, the separate and consolidated Statement of cash flows and the respective Annexes comprising the Notes to the separate and Consolidated Financial Statements, as well as to the Proposal for the Application of Results, presented by the Executive Board of Directors of Novo Banco, SA, for the year ended 31 of December 2017Activity report of the General and Supervisory Board for the financial year 2017

1.1 Composition and scope

Under the applicable law, Novo Banco’s Bylaws and best practices in force, at the date of this Report and Accounts, five of the nine members of the General and Supervisory Board, including the Chairman, are independent. The General and Supervisory Board has the powers conferred by law and by the Bylaws, including the supervision of all matters related to risk management, compliance and internal audit.

Since our appointment, which took place on October 18, 2017, we have followed the activities of the Bank and its most significant subsidiaries. The activity of the Supervisory Board is directly supported by five (5) Committees, namely the Financial Affairs Committee, the Risk Committee, the Compliance Committee, the Nomination Committee and the Remuneration Committee, in accordance to Article 6 of Novo Banco’s Bylaws.

These Committees are chaired and composed of members of the General and Supervisory Board and may also count on the presence of the members of the Executive Board of Directors responsible for the areas covered by the activities of said

Committees. The number of members, procedures and responsibilities shall be those established in applicable laws and regulations and in the rules of procedure of the Committees, as approved by the General and Supervisory Board.

The General and Supervisory Board (GSB) meets monthly, having performed the functions assigned to it by law, by the Bylaws of the Bank and by its Rules of Procedure. The Executive Board of Directors (EBD) informs the GSB on all material matters in a comprehensive, written or verbal manner. The Chairman of the GSB and the Chairman of Novo Banco’s EBD maintain regular communication and dialogue between them at least once a week.

1.2. Activity carried out in 2017

General and Supervisory Board

Since its appointment, the General and Supervisory Board has held six meetings where several issues have been discussed, appreciated and approved, namely:

• the establishment and implementation of the new governance structure;

• the individual and consolidated financial statements of Novo Banco for the year ended December 31, 2017;

• the appointment of the new Statutory Auditor for the year 2018, in accordance with the normal rotation of the external auditor;

• the strategy and risk appetite, as well as the Bank's budget for 2018;

• the Human Resources planning for the coming years, in particular as regards plans for the development of talent, succession and career progression;

• all major M & A actions, including the divestments of GNB Vida and BESV (not yet completed), as well as the sale of the assets and liabilities of the Venezuelan Branch and respective closure.

In addition, in all meetings held, the General and Supervisory Board, in addition to analyzing the business evolution, also monitored:

• the evolution of legal and regulatory aspects specific to the financial sector, namely the Legal Framework of Credit Institutions (RGICSF), the regulations of the European Union and the notices and other instructions of the Bank of Portugal;

• the evolution of the main prudential ratios analyzed in the Executive Board of Directors and the presentation of management measures stemming from European banking regulations and the specific requirements defined by the European Central Bank (SREP);

• the liquidity position and respective regulatory ratios of the Bank, through information presented by the Executive Board of Directors.

In the scope and for the purpose of the analyzes and verifications carried out, the General and Supervisory Board requested and obtained documentation and clarification of the multiple issues raised.

Financial Affairs Committee

The Financial Affairs Committee focused its activity on the assessment of the Bank's financial statements and the Statutory Auditor's reports for the year 2017, also discussing and analyzing the update reports presented by Internal Audit. The Financial Affairs Committee also monitored, on an ongoing basis, the independence and work of the external auditor, including oversight and approval of the provision of additional services to the Novo Banco Group. The annual audit process for the 2017 financial year was discussed at Committee meetings. During the period, the Financial Affairs Committee also discussed the recommendation for the appointment of the new Statutory Auditor for 2018, in accordance with the normal rotation of the external auditor. The agenda of the meetings included a review of the regulatory aspects of the Bank's activity, including the implementation of IFRS 9 and the conclusions of the review and evaluation process for supervision purposes (SREP). The Statutory Auditor, as well as the Head of Internal Audit and the Chief Financial Officer (CFO) attended the meetings as guests, whenever necessary. In addition, the members of the Committee met separately with the Statutory Auditor and the Head of Internal Audit, without the presence of the members of the EBD.

Risk Committee

The Risk Committee in addition to the approval of loans to individual clients or groups of associated clients, in accordance with its Regulations also considered and discussed the risk appetite and strategy for 2018 in accordance with the budget for 2018. Other topics discussed by the Risk Committee included the main monthly risk indicators (credit, market and operational risks) and the provisions and impairment of credit included in the financial statements for the year 2017. The non-performing loan portfolio of the Bank (NPL) has also been revised and compared to the portfolio of similar institutions and benchmarks of the European Banking Authority (EBA). The risk governance model was also subject to review in the period. The agenda of the meetings included a summary of the regulatory aspects of the risks faced by the Bank, in particular under the TRIM (Targeted Review of Internal Models) exercise and the SREP conclusions. The calculation of the Bank's risk-taking capacity is a frequent issue at meetings of the Risk Committee. The Head of Risk and the Chief Risk Officer (CRO) participated in the meetings as guests, whenever necessary.

Compliance Committee

The Compliance Committee in its meetings discussed the governance, regulatory and legal context in which the Bank operates, analyzing and discussing the regulatory compliance issues of the Bank, including the implementation of MiFID2 and the Money Laundering Prevention Act, data protection legislation and other relevant legal and regulatory issues and projects. During the period, the Committee also reviewed and updated key Bank policy documents, including the Related Party Transactions Policy, the Conflict of Interests Policy and the Whistle-Blowing Policy.

Nomination Committee

The Nomination Committee held two meetings since October 2017. In order to support its work, the Committee set up an independent Fit & Proper office, chaired by the Head of the Human Capital Department. Evaluations (individual and collective) of the adequacy and suitability of the members of the EBD and the GSB were carried out, including the approval of a new GSB member. During the period, the Committee also elaborated two important policies, in particular the Policy for the Selection and Evaluation of the Management and Supervisory Bodies and the Policy on Succession Planning.

Remuneration Committee

The Remuneration Committee held one meeting since October 2017. At this meeting, the Committee analyzed, discussed and updated policies related to the Remuneration of Management and Supervisory Bodies, as well as the Remuneration of Bank employees. In addition, the Key Performance Indicators for the members of the EBD for the year 2018 were also established and approved at this meeting, based on the budget approved for this year.

Since the date of its appointment, the Financial Affairs Committee and the Compliance Committee, both support Committee for the General and Supervisory Board, have issued several opinions resulting from requests made by the Executive Board of Directors and the Head of Departments, relating in particular to the following situations:

• The independence of the Statutory Auditor with respect to the provision of additional services in addition to the statutory audit / review;

• The evaluation of the impact of the conflicts of interest regime established in article 85 of the RGICSF, in the context of credit operations, given that some members of the Executive Board of Directors of Novo Banco are also members of the management entities of entities owned by the Bank .

The General and Supervisory Board and the Financial Affairs Committee held working meetings throughout the year with the Statutory Auditor PricewaterhouseCoopers, SROC, Lda, both in the scope of the audit to the separate and consolidated financial statements for the year ended on December 31, 2017, as well as for regular follow-up and discussion of the most relevant aspects arising from the internal control evaluation.

Within the scope of the existing relationship with the Statutory Chartered Accountants, the General and Supervisory Board has obtained the necessary and sufficient clarification of the matters within the scope of its functions, and in particular:

• The conformity of the accounting records and documents that support them;

• The existence of assets or securities belonging to the Novo Banco Group or received by them in guarantee, deposit or other security; and

• If the accounting policies and valuation criteria adopted lead to an adequate representation of the assets and results of the Novo Banco Group.

The General and Supervisory Board reviewed all matters contained in the Legal Certifications of the Accounts and Audit Reports on the separate and consolidated financial statements issued by the Statutory Chartered Accountants for the year ended December 31, 2017 and obtained from this Company all the clarifications necessary for their understanding, in particular on the relevant audit matters included in them:

• Impairment losses on loans to customers;

• Contingent Capital Mechanism;

• Deferred tax assets arising from tax losses;

• Non-current assets held for sale and discontinued operations;

• Real estate received for credit recovery;

• Provisions and contingent liabilities;

• Fair value of financial instruments not quoted in an active market; and

• Post-employment benefits of employees.

All these matters have been, since our appointment, accompanied by the General and Supervisory Board, which has been kept up to date by the Executive Board of Directors, the relevant Departments and the Statutory Auditors.

As part of the process of closing the accounts for the year, the General and Supervisory Board reviewed the Management Report and other accounting documents presented by the Executive Board of Directors, and verified and obtained the clarifications it deemed appropriate, which satisfy the applicable legal requirements.

The accounting documents were audited by the Statutory Auditors PricewaterhouseCoopers, SROC, Lda. which issued the respective Legal Certification of Accounts and Auditor Report on the separate and consolidated financial information for the year ended December 31, 2017 on April 19, 2018, without qualifications, to which the General and Supervisory Board expresses its agreement.

The General and Supervisory Board also analyzed the Additional Report to the Supervisory Body issued by the Statutory Auditors on the same date, which corresponds essentially to the matters that were discussed with the Auditor throughout the year and from the date of our appointment, and for which we have obtained all the necessary clarifications.

2. Opinion of the General and Supervisory Board on the consolidated annual report and consolidated financial statements

In the scope of our tasks we have verified that:

(a) the Separate and Consolidated Balance Sheet, the Separate and Consolidated Income Statement, the Separate and Consolidated Statement of Comprehensive Income, the separate and consolidated Statement of changes in equity, the separate and consolidated Statement of cash flows and the corresponding Separate and consolidated annex, allow a proper understanding of the Separate and consolidated financial assets and liabilities of the Novo Banco, its separate and consolidated results, changes in separate and consolidated equity and separate and consolidated cash flows;

(b) the accounting policies and valuation criteria adopted are adequate;

(c) the Management Report provides sufficient clarification of the evolution of the business and the situation of the Bank and all the subsidiaries included in the consolidation, showing the most significant aspects and a description of the main risks and uncertainties that they face;

(d) the proposal for the application of results is not contrary to applicable legal and statutory provisions;

(e) in accordance with article 420, paragraph 5, of the Commercial Companies Code, corporate governance information includes the elements required under article 245-A of the Portuguese Securities Code.

Considering the above, we express our opinion that:

(a) The Management Report and remaining reporting documents relative to financial year 2017 presented by the Executive Board of Directors, taking into account the aspects highlighted in the Auditors' Reports issued by the Statutory Auditors, should be approved;

(b) The proposal for distribution of the Net Results presented by the Executive Board of Directors in the Management Report should be approved.

Finally, the General and Supervisory Board wishes to express its recognition to the Executive Board of Directors, the Managing Directors responsible for the Bank's Departments and all staff, as well as to the Statutory Auditors, for the cooperation and support given.

Lisbon, 24 April 2018

The General and Supervisory Board

Chairman: Byron James Macbean Haynes

Vice-Chairman: Karl-Gerhard Eick

Board Member: Mark Andrew Coker

Board Member: Benjamin Friedrich Dickgiesser

Board Member: John Herbert

Board Member: Kambiz Nourbakhsh

Board Member: Donald John Quintin

Board Member: Robert A. Sherman

ENGLISH VERSION

MINUTES NUMBER 21

On the 24th of April 2018, at 6:00 pm, at its registered office located at Avenida da Liberdade, no. 195, parish of Santo António, municipality of Lisbon, was held the General Shareholders' Meeting of **Novo Banco, S.A.**, corporate number (NIPC) 513204016, with the share capital of EUR 5,900,000,000.00 (five billions and nine hundred million euros) (the "Company"). _____

Being duly organized and signed the presence list, it was confirmed that the shareholders holding the entirety of the share capital of the Company were duly represented, as per the mandate letters filed with the Company, being the meeting chaired by the Chairman of the Board of the Shareholders' Meeting, assisted by the Secretary of the Board of the Shareholders' Meeting. ____

All the members of the Executive Board of Directors of the Company were present, namely the CEO, Mr. António Manuel Palma Ramalho, and the other members of the Executive Board of Directors, Mr. Vítor Manuel Lopes Fernandes, Mr. Jorge Telmo Maria Freire Cardoso, Ms. Luísa Marta Santos Soares da Silva Amaro de Matos, Mr. Rui Miguel Dias Ribeiro Fontes and Mr. José Eduardo Fragoso Tavares de Bettencourt, as well as the chairman and vice-chairman of the General and Supervisory Board of the Company, respectively Mr. Byron James Macbean Haynes and Mr. Karl-Gerhard Eick, as well as the members of the General and Supervisory Board, Mr. Kambiz Nourbakhsh, Mr. Benjamin Friedrich Dickgiesser, and Mr. Robert Alan Sherman. ______________________________

The Company's Statutory Auditor, PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda. was also present, represented by Mr. José Manuel Henriques Bernardo. ____

Since the shareholders holding the entirety of the share capital were duly represented, it was unanimously resolved to convene this annual shareholders' meeting, with no other formalities, as per article 54(1) of the Portuguese Companies Code, to discuss and resolve on the following Agenda: ____

ITEM ONE: Approval of the Management Report, the Governance Report included in the previous, the individual and consolidated accounts, and the additional accounting documents of the Company, for the fiscal year ending on December 31, 2017. ____________________

ITEM TWO: Approval of the allocation of the yearly results.________________________

ITEM THREE: General appreciation of the Company's Management and Supervision. ____

ITEM FOUR: Approval of the Report and Opinion of the General and Supervisory Board regarding the financial year of 2017. ____

(...)

The Chairman of Board of the Shareholders' Meeting declared the meeting to be opened, and invited the presents to, if willing, address the Shareholders' Meeting. __________________

The Chairman of the General and Supervisory Board, Mr. Byron Haynes took the floor and stressed this was the first annual meeting under the new shareholding and governance structures. He also mentioned that the Management Report was fully reviewed by the General and Supervisory Board, and recommended its approval by the shareholders. _____________

The CEO, Mr. António Ramalho, took the floor and made a short presentation to the Shareholders' Meeting of the content of the Management Report and accounts regarding the financial year of 2017, supported by the projection of data regarding the accounts of Novo Banco, which content is attached to this resolution. He further stressed that Novo Banco has maintained its relevance among SMEs, that the bank has been reducing its NPL's portfolio, which he recognizes as a challenge, and also indicated that there was an increase in the deposits (to which the LMEs have contributed), also mentioning the reduction of ECB's financing. He further concluded that this shall be a new beginning to Novo Banco. _________

Entering into **ITEM ONE** of the Agenda, the Chairman of the Board of the Shareholders' Meeting informed that the Board of the Shareholders' Meeting received the following resolution proposal from the Executive Board of Directors of the Company:_______________

– «Under the terms of article 65(1) of the Portuguese Companies Code, and for the purposes of article 11(a) of the Bylaws of Novo Banco, S.A., the Executive Board of Directors of Novo Banco proposes the approval by the General Meeting of the Management Report, the Governance Report included in the previous, the individual and consolidated accounts, and the additional accounting documents of the Company, for the fiscal year ending on December 31, 2017». ____________________________

The reading of the relevant documents was waived since they were all known, and in possession, to all present. The documents presented by the Executive Board of Directors were then submitted to a voting and it was resolved, under article 14(1) of the Articles of Association of the Company, with the approval of the shareholder Nani Holdings, SGPS, S.A. and the abstention of shareholder Resolution Fund, to approve the Management Report, the Governance Report included in the previous, the individual and consolidated accounts and the additional accounting documents of the Company, for the fiscal year ending on December 31, 2017. ____

On **ITEM TWO** of the Agenda, the Chairman of the Board of the Shareholders' Meeting informed that the Board of the Shareholders' Meeting received the following proposal of resolution from the Executive Board of Directors of the Company: ______________________

– «Under the terms of article 66(5)(f) of the Portuguese Companies Code and for the purposes of article 11(b) of the Bylaws of Novo Banco, S.A., the Executive Board of Directors proposes, for the approval of the Shareholders' Meeting, that the losses resulting from the individual accounts for the fiscal year of 2017, in the amount of 1,253,046,320.71 euros, to be allocated to the account of "Other Reserves and Results Carried Forward" of the balance sheet». _________________________________

The Chairman of the Board of the Shareholders' Meeting asked if someone wished to take the floor. ____

Since no one has expressed the wish to take the floor, it was resolved, under article 14(1) of the Articles of Association of the Company, with the approval of the shareholder Nani Holdings, SGPS, S.A. and the abstention of the shareholder Resolution Fund, to approve the proposal of resolution submitted by the Executive Board of Directors. ____________________

On **ITEM THREE** of the Agenda, the Chairman of the Board of the Shareholders' Meeting informed that the Board of the Shareholders' Meeting received the following proposal of resolution from the shareholder Nani Holdings: ____________________________________

- «Nani Holdings proposes that the General Shareholders' Meeting of Novo Banco, S.A. expresses a vote of trust and appraisal for the way that both the Executive Board of Directors and the General and Supervisory Board have conducted their activities during the fiscal year ending on December 31, 2017, being such vote extensible to all of their members. » ____

The Chairman of the Board of the Shareholders' Meeting asked if someone wished to take the floor. ____

Since no one has expressed the wish to take the floor, it was resolved, under article 14(1) of the Articles of Association of the Company, with the approval of the shareholder Nani Holdings, SGPS, S.A. and the abstention of the shareholder Resolution Fund, to approve the proposal of resolution submitted.____

The shareholder Resolution Fund has made a voting statement, as follows: ________________

- «Considering the limitations that prevent the exercise of its voting right in this Shareholders' Meeting, due to the undertakings assumed before the European Commission in the scope of the state aid, the Resolution Fund dictates to the minutes of meeting the following declaration: "The Resolution Fund congratulates the members of the corporate bodies of the Bank for the work undertaken in 2017 and expresses its full trust in the Institution, in particular as to the capabilities of its

Executive Board of Directors to conclude with global success its difficult mission that, in that way contributing to consolidate and reinforce the role of Novo Banco in the Portuguese banking system"». ______________________________________

Concerning **ITEM FOUR** of the Agenda, the Chairman of the Board of the Shareholders' Meeting informed that the Board of the Shareholders' Meeting received the following proposal of resolution from the General and Supervisory Board of the Company: __________

- «In the terms set forth on nr. 1 al. h) of art. ° 441.° of the Portuguese Companies Code and for the purposes of nr. 10 of art. ° 15 of Novo Banco Articles of Association, the General and Supervisory Board requests the approval by the General Meeting of Shareholders of its Report and Opinion regarding the year ended on 31 December 2017. » ____

The Chairman of the Board of the Shareholders' Meeting asked if someone wished to take the floor. ____

Since no one has expressed the wish to take the floor, the document submitted by the General and Supervisory Board was submitted to a vote and it was resolved, under article 14(1) of the Articles of Association of the Company, with the approval of the shareholder Nani Holdings, SGPS, S.A. and the abstention of the shareholder Resolution Fund, to approve the General and Supervisory Board's Annual Report for the year 2017. _____________________________

(...)

Before the meeting was closed, the CEO, Mr. António Ramalho, expressed his gratitude for the presence of all, also expressing his gratitude to the members of the Executive Board of Directors, extensible to Ms. Isabel Ferreira that has, in the meantime, resigned her position, and to the shareholders, for the support provided in the period of 2017. ___________________

The Chairman of the General and Supervisory Board, Mr. Byron Haynes, also declared that in year 2018, due to the legally imposed rotation, PricewaterhouseCoopers & Associados –

Sociedade de Revisores Oficiais de Contas, Lda., shall no longer be the company's Auditors, so he wanted to express his gratitude for the hard work undertaken in the last difficult years. _

As there were no additional matters subject to discuss or resolve, the meeting was closed and the present minutes drawn up which will be signed by the Chairman and the Secretary of the Board of the Shareholders' Meeting. ____

Nuno Azevedo Neves

Ana Isabel Vieira

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NOVO BANCO