2015
ANNUAL REPORT

NOVO BANCO

This report is a free translation into English of the original Portuguese version. In case of doubt or misinterpretation the Portuguese version will prevail.

I. MANAGEMENT REPORT

Main Indicators

	04-Aug-14 pro-forma [(a)(b)]	31-Dec-14	31-Dec-15
ACTIVITY (million of Euros)			
Total Assets	72 383	65 417	57 529
Gross Loans	41 663	40 060	37 417
Customer Deposits	24 617	26 626	27 364
Total Equity	6 100	5 410	5 947
SOLVENCY [(1)]			
Common Equity Tier I / Risk Weighted Assets	-	9.5%	13.5%
Tier I / Risk Weighted Assets	-	9.5%	13.5%
Total Own Funds / Risk Weighted Assets	-	9.5%	13.5%
LIQUIDITY (million of Euros)			
ECB funds (net) [(2)]	8 768	7 812	7 040
Elegible Assets for Repo Operations (ECB and other)	15 892	14 171	12 740
(Total Credit - Credit Provisions) / Customer Deposits [(1)]	140%	126%	113%
Liquidity Coverage Ratio (LCR)	14%	53%	77%
Net Stable Funding Ratio (NSFR)	74%	83%	87%
ASSET QUALITY			
Overdue loans > 90 days / Gross loans	7.7%	8.7%	14.5%
Overdue and Doubtful Loans / Gross Loans [(1)]	9.2%	9.9%	15.8%
Overdue and Doubtful Loans net of Impairments / Total Net Loans [(1)]	-3.0%	-3.4%	0.2%
Credit at Risk / Gross Loans [(1)]	13.5%	16.5%	22.8%
Credit at Risk, net / Net Loans [(1)]	1.8%	4.2%	8.6%
Credit Provisions / Overdue loans > 90 days	153.7%	147.9%	107.8%
Credit Provisions / Gross Loans	11.9%	12.8%	15.6%
Cost of Risk	-	2.27%	1.98%
PROFITABILITY			
Net Income (million of Euros)	-	-497.6	-980.6
Income before Taxes and Non-controlling Interests / Average Net Assets [(1)]	-	-1.0%	-1.6%
Banking Income / Average Net Assets [(1)]	-	2.8%	1.4%
Income Before Taxes and Non-controlling Interests / Average Equity [(1)]	-	-11.3%	-17.4%
EFFICIENCY			
General Admin Costs + Depreciation / Banking Income [(1)]	-	45.4%	85.8%
Staff Costs / Banking Income [(1)]	-	22.7%	45.2%
EMPLOYEES (n.)			
Total	7 887	7 722	7 311
- Domestic	6 950	6 832	6 571
- International	937	890	740
BRANCH NETWORK (n.)			
Total	674	675	635
- Domestic	631	631	596
- International	43	44	39

(a) Information considering the Opening Balance Sheet after the resolutions of 22 December 2014 and 11 February 2015

(b) Information considering the classification of Banco Espírito Santo de Investimento as a unit being discontinued under IFRS 5

(1) According to Banco de Portugal instruction no 16/2004 in its current version

(2) Includes funds from and placements with the ESCB; positive represents net borrowing; negative represents net lending

Message of the Chairman of the Board of Directors

The year 2015, the first full year for NOVO BANCO, although strife with challenges, ended with what may be called a return to 'normality'.

Deposits increased by EUR 2.3 billion, mainly driven by the growth of retail deposits; the solutions proposed by the Bank to solve problems with clients holding BES debt had a rate of success of around 90%; mortgage loans and loans to individuals and SMEs once again accelerated; and the loan to deposit ratio decreased to 113% at the end of the year (which compares with 155% in September 2014).

As a result of Banco de Portugal's decision of 29 December 2015 NOVO BANCO's capital position was reinforced, with the phased-in CET1 ratio standing at 13.5%.

Despite having returned to positive operating results amounting to EUR 125 million, NOVO BANCO's profitability is lower than the competition's, in part due to the excessive weight of the non-productive assets in total assets and of a burdensome legacy in terms of provisions for credit, securities and real estate.

Considering the above-mentioned, reinforcing the commercial franchise, boosting profitability and divesting from non-core areas are absolute priorities for 2016.

The trajectory of reducing operating costs started in 2015 with a 12.7% reduction and will be intensified, alongside a continuous effort for simplification and improvement of processes and efficiency levels.

We are certain that by maintaining the trust of our clients, as we have achieved so far, together with the effort and quality of our strongly execution-driven teams, we will meet the targets we have set to achieve in 2016.

Eduardo Stock da Cunha

Chairman of the Board of Directors

1. NOVO BANCO

Origin

NOVO BANCO, S.A. was incorporated by resolution of the Board of Directors of Banco de Portugal of 3 August 2014 under the terms of number 5 of article 145-G/ of the Regime Geral das Instituições de Crédito e Sociedades Financeiras – RGICSF (the Portuguese General Law on Credit Institutions and Financial Companies), approved by Decree-Law no. 298/92, of 31 December, following the resolution measure applied to Banco Espírito Santo, S.A. (BES) under the terms of numbers 1 and 3, item c) of article 145-C of the RGICSF.

As determined in point two of the resolution of the Board of Directors of Banco de Portugal of 3 August 2014, drafted according to this Board of Directors' resolution of 11 August, under the terms and for the purposes of number 1 of article 145-H of the RGICSF, the majority of the assets, liabilities, off-balance-sheet items and assets under management of Banco Espírito Santo were transferred to NOVO BANCO, as per the criteria established in Annex 2 to said resolution.

Under Article 153-B of the RGICSF, the Resolution Fund is the sole holder of the share capital of NOVO BANCO, which is represented by 4,900 million registered shares with nominal value of EUR 1 per share, totalling 4 900 million of Euros.

As a transition bank, NOVO BANCO has a limited duration of two years, renewable for periods of one year on reasonable grounds of public interest, up to a maximum of five years, as set out in article 145-G, number 12 of the RGICSF. Nevertheless, according to the commitments undertaken by the Portuguese State before the European Commission, the sale of NOVO BANCO must occur within a maximum period of two years from its incorporation (however this period was extended by decision of the European Commission announced on 21 December 2015).

The opening balance sheet of NOVO BANCO, published on 3 December 2014, includes the result of the confirmation performed by PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda (PwC), as determined by Banco de Portugal under the terms set out in the first part of number 4 of article 145-H of the RGICSF, of the assets, liabilities, off balance sheet items and assets under management selected by Banco de Portugal to be transferred from BES to NOVO BANCO, and notified by Banco de Portugal in accordance with article 11, number 7, of Banco de Portugal's Notice 13/2012.

After publication of the opening balance sheet on 3 December 2014 the following changes have occurred that are relevant to the equity position of NOVO BANCO:

- By a resolution of the Board of Directors of Banco de Portugal's of 22 December 2014 it was determined that the liability of Banco Espírito Santo to Oak Finance Luxembourg was not transferred to NOVO BANCO. This decision implied the correction of the original reserves of NOVO BANCO, leading to a positive change of EUR 548.3 million;

- On 11 February 2015, the Board of Directors of Banco de Portugal, in accordance with the provisions of number 1 of article 145-G and number 2 - a) and b) of article 145-H of the RGICSF, determined the following:

  "a) For purposes of executing Banco de Portugal's resolution, it is hereby clarified that the liabilities of Banco Espírito Santo not transferred to NOVO BANCO under the terms of sub-paragraph i) of paragraph b) of Point 1 of Annex 2 to the resolution of Banco de Portugal's Board of Directors of 3 August 2014 (20:00 hours), drafted according to this Board of Directors' resolution of 11 August 2014 (17:00 hours), include Banco Espírito Santo's liabilities for the retirement and survivors' pensions and complementary retirement and survivors' pension benefits of the members of the Board of Directors of Banco Espírito Santo who were members of its Executive Committee and fall under Point 1 - b)-i) of Annex 2 of said resolution, as defined by the Corporate Bylaws of Banco Espírito Santo and the Regulations of the General Meeting of Banco Espírito Santo, to which the bylaws refer back to, and therefore were not transferred to NOVO BANCO, without prejudice to the liabilities arising exclusively from employment contracts with Banco Espírito Santo.

  b) NOVO BANCO and Banco Espírito Santo shall adjust their accounting records to the present resolution, taking the execution measures required for its proper application."

Developments

Developments in 2015

- on 10 March Banco de Portugal appointed two new members to the Board of Directors of NOVO BANCO;
- on 17 April Banco de Portugal announced the completion of the second phase of the NOVO BANCO sale process, informing that it had invited five selected entities to submit binding offers for the acquisition of NOVO BANCO;
- on 30 June Banco de Portugal informed it had received three offers for the acquisition of NOVO BANCO;
- on 1 September Banco de Portugal informed it had not been possible to reach an agreement with the prospective purchaser that had been previously selected and that it had invited the prospective purchaser whose offer had ranked second for negotiations;
- on 7 September NOVO BANCO informed about the completion of the sale of the entire share capital of BESI to Haitong International Holdings Limited, a Hong Kong based company, for EUR 379 million;
- on 15 September Banco de Portugal informed it had decided to interrupt the sale process of NOVO BANCO as it considered that the binding offers submitted were unsatisfactory;

- on 1 October NOVO BANCO informed that 80% of clients holding preferred shares in the Poupança Plus, Top Renda and EuroAforro vehicles had accepted the commercial solution proposed by the Bank;
- on 14 November Banco de Portugal announced the results of the Comprehensive Assessment exercise performed by the European Central Bank, where NOVO BANCO surpassed the minimum threshold of 8% for the Common Equity Tier 1 ratio in every year of the test in the baseline scenario. Likewise, NOVO BANCO surpassed the 5.5% threshold for the CET 1 ratio in the first two years under the adverse scenario, falling short in the third year of the exercise;
- on 21 December the European Commission announced the prolongation of the Portuguese State guarantee on bonds in the nominal amount of EUR 3.5 billion issued by NOVO BANCO;
- on the same date the European Commission announced an extension of the initial deadline for the sale of NOVO BANCO;
- on 29 December 2015, the Board of Directors of Banco de Portugal, acting as the Resolution Authority, approved decisions that completed the resolution measure applied to Banco Espírito Santo (BES), including the re-transfer to BES of the responsibility for certain non-subordinated bonds issued by BES and intended for institutional investors. In addition, the entire stake held by NOVO BANCO in BES Finance Ltd. was also re-transferred to BES. According to Banco de Portugal's resolution, these decisions are the final and definitive adjustment of the perimeter of the assets, liabilities, off-balance-sheet items and assets under management transferred to NOVO BANCO, and therefore no other transfer or re-transfer of any other items between the balance sheets of NOVO BANCO and BES shall henceforth be possible under the resolution power.

Developments in 2016

- On 15 January 2016 Banco de Portugal announced the re-launch of the sale process of the Resolution Fund's holding in NOVO BANCO.

Corporate Bodies

NOVO BANCO's corporate bodies are appointed by Banco de Portugal, upon on a proposal from the Management Committee of the Resolution Fund (articles145 – F, number 2 and G of the RGICSF and article 8 of Notice no. 13/2012 of Banco de Portugal). Accordingly, NOVO BANCO's corporate bodies are the General Meeting, the Board of Directors and the Statutory Supervisory Board.

Board of Directors

The management of NOVO BANCO is entrusted to a Board of Directors responsible for running the Bank's activity, in accordance with the objectives established in article 3 of Notice no. 13/2012 of Banco de Portugal and in Banco de Portugal's resolution on the incorporation of NOVO BANCO, S.A.

Besides the normal management powers granted by law and the Bank's by-laws, and taking in consideration the limitations arising from its status of transition bank, the Board of Directors of NOVO BANCO is in particular responsible for driving the operational activity aiming the preservation of the business value, selling certain assets, taking into account the main activity guidelines and market circumstances, and complying with all guidelines and recommendations issued by the Banco de Portugal, namely:

- drawing up business plans to be submitted to the Banco de Portugal on a half-yearly basis;
- managing and maximising the value of the assets received by the Bank, in order to allow their disposal; and
- to support the total or partial sale of the Bank's share capital or of its assets.

Considering the resignation of the initial members of NOVO BANCO's Board of Directors, at its ordinary meeting of 16 September 2014 Banco de Portugal, under article 145-G number 11 of the RGICSF and upon a proposal of the Management Committee of the Resolution Fund, appointed a new Board of Directors for NOVO BANCO, with effects as from 17 September 2014, with the following members:

- Chairman: Eduardo José Stock da Cunha
- Member: Jorge Telmo Maria Freire Cardoso
- Member: Vítor Manuel Lopes Fernandes
- Member: José João Guilherme

Subsequently, upon a proposal from the Management Committee of the Resolution Fund and a recommendation of the Board of Directors of NOVO BANCO, Banco de Portugal appointed Francisco Ravara Cary and Francisco Marques da Cruz Vieira da Cruz as members of the Board of Directors of NOVO BANCO. These members took office on 12 March 2015.

The Board of Directors of NOVO BANCO usually meets once a week and extraordinary whenever convened by its Chairman or two members.

Detailed information about the powers and duties of the Board of Directors is described in Point 7. Corporate Governance.

The composition of the Corporate Bodies of NOVO BANCO as at 31 December 2015 is as follows:

Board of the General Meeting

- Chairman: José Gabriel Queiró
- Vice-Chairman: João Alexandre Marques
- Secretary: Eugénio Fernando Quintais Lopes

Board of Directors

- Eduardo Stock da Cunha – Chairman
- Jorge Telmo Maria Freire Cardoso – Member
- Vítor Manuel Lopes Fernandes – Member
- José João Guilherme – Member
- Francisco Ravara Cary – Member
- Francisco Marques da Cruz Vieira da Cruz - Member

Statutory Supervisory Board

- Chairman: José Manuel de Oliveira Vitorino
- Member: José António Noivo Alves da Fonseca
- Member: José Francisco Claro

Statutory External Auditors

- PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, LDA., represented by José Manuel Henriques Bernardo or Aurélio Adriano Rangel Amado

Company Secretary

- Eugénio Fernando Quintais Lopes
- Artur Miguel Marques da Rocha Gouveia (Alternate Secretary)

2. NOVO BANCO Group

NOVO BANCO Group's activity covers all client segments – individual, corporate and institutional. The Group's market approach is developed through a multi-specialist model. NOVO BANCO's range of products and services include deposits, loans, investment fund management, brokerage and custodian services, and also the sale of life and non-life insurance products.

The Group's know-how in corporate banking and private banking in the domestic market allows it to export its skills and expertise to serve both local customers and those who engage in cross-border business, namely by supporting the internationalisation of Portuguese companies. In this regard, the main focus has been to facilitate clients' access to strategic markets offering business opportunities.

Mission

The main purpose of NOVO BANCO's activity is to create value for its shareholder while simultaneously seeking to meet the needs of its clients. Its mission is to align a strategy of sustained reinforcement of its competitive position in the market with full respect for the interests and welfare of its clients.

Strategy

NOVO BANCO Group's main pillar for development and strategic differentiation lies on service excellence and a permanent focus on the needs of each client, whether individual, corporate or institutional.

NB Group offers a wide range of financial solutions and services aiming to satisfy each client's needs, through differentiated approaches and value propositions.

NB Group will act upon the following guiding principles:

- **Leadership**, with full focus on commercial banking, to reach a Top 3 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 the selective divestment from assets;
- **Simplicity**, in processes and through an efficient customer service.

Commercial and Business Activity

NOVO BANCO Group develops its activity supported by a set of value propositions aimed at meeting the needs of its diverse client base: companies, institutions and individual clients.

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

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

• Domestic Commercial Banking

In Portugal, NB Group operates through a single-brand network of 596 branches, 23 Corporate Centres and 16 Private Banking Centres. Given the environment surrounding the creation of NOVO BANCO Group, the commercial dynamism of its employees was key to the resilience of the Bank's competitive positioning, in extremely adverse market conditions.

The Group has a reference positioning in Private Banking and Corporate Banking, also offering asset management services through GNB Gestão de Ativos and bancassurance services through GNB Vida and GNB Seguros.

Retail and Private Banking

NOVO BANCO's segmented approach to the market permits to offer a wide range of financial products and services addressing the needs of each client segment. NB Group's approach to the retail clients relies on differentiated value propositions:

- The BES 360° service is a reference proposition in financial counselling and customer monitoring for the affluent segment, through a specialised account manager.
- The Small Businesses segment elected as a priority to offer innovative cash management and payment and collection solutions which allow the clients to manage their working capital requirements more effectively, streamlining costs and the need to resort to bank credit.
- In the mass market segment, the Bank further reinforced its offer of savings products, credit cards, and other everyday insurance products.

The main objective of the private banking area has been to consolidate the monitoring of the high net worth clients, namely with the support of investment experts, thus permitting an asset allocation adjusted to the risk profile of each client.

In 2015 the commercial efforts to capture deposits in retail and private banking in Portugal (+EUR 2.3 billion, contributing to lower the loan to deposit ratio by 13 pp) allowed NOVO BANCO Group to reinforce its liquidity position. The expressive results achieved in deposit taking in both retail banking (+21.3%) and private banking (+17.5%), which are illustrative of the confidence placed by the clients in the Bank, permitted to reach a combined market share of 11.3% in the Deposits from Retail and Private Banking segment. Moreover, deposit growth was obtained alongside a significant reduction in the interest rate on the retail and private banking deposits (-71 bps comparing with the end of 2014), thus contributing to the improvement in the cost of funding.

Regarding other customer funds, it should be stressed the recognition enjoyed by the Structured Products offer, which earned NOVO BANCO the prize for 'Best Performance Distributor' - Portugal in the European Structured Products & Derivatives Awards (Euromoney Group).

The Retail segment also saw a sharp acceleration in the pace of new residential mortgage loans production (+204.4% year-on-year - YoY), with average spreads above 2.50%, which in the medium term should help boost the portfolio's margin. Likewise, new consumer loans production registered an expressive increase of 113.6% YoY. During 2015 NOVO BANCO emphasised the new production of credit cards, with the number of American Express cards placed with clients increasing by more than 200,000.

The Retail and Private Banking segment was also marked in 2015 by the launch of the new mobile banking application 'NB Smart App', which in December had surpassed 100,000 users (an increase of more than 30% in three months). The latest Marktest indicators (November 2015) confirm the leadership of NOVO BANCO in mobile banking, in terms of both use and satisfaction levels. The 'NB Smart App' was ranked the best financial app in Portugal, by both the App Store (Apple) and Google Play.

Finally, the Retail and Private Banking areas underwent a significant reorganisation involving the simplification of the support structures and the merger of Regional Divisions and Private Banking Centres, which permitted to increase the efficiency of the commercial networks without undermining customer service.

Specialised Offer

NOVO BANCO strives for the permanent adjustment of its offer to the clients' needs, favouring and reinforcing the social and financial inclusion of people and organisations through the offer of specialised products and services, namely:

· Saving products;
· Microcredit;
· Senior Citizens;
· New Residents;
· Universities;
. Minimum banking services account; and
· Environmental Products and Services (Account NB 18.31).

Saving Products

The current socioeconomic context stresses the need to adjust saving solutions to family budgets and the concerns of the Portuguese population. Ever attentive to the needs of its clients, NOVO BANCO offers a pack of saving solutions that takes that context into consideration.

The Planned Saving (*Poupança Programada*), Micro Saving (*Micro Poupança*) and Impulse Saving (*Poupança por Impulso*) solutions continued to be strongly promoted by the commercial network during 2015, allowing the bank to assist its customers hoard savings amounting to *circa* 985 million Euros. This amount represents approximately 12% of the total term deposits and savings accounts held by the Bank's retail clients.

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 the revenues and expenses, identifying expenditure that could be reduced and thus facilitating the creation of savings.

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.	349 000 clients **941 million Euros in savings**
Micro Saving	The Micro Saving solution allows any client to start saving small amounts through the rounding up of the day-to-day expense charges (such as from mortgage loan or personal loan repayments, insurance premiums, or direct debits), which is transferred to a savings account.	Used by ca. 41 thousand clients **15.1 million Euros in savings**
Impulse Saving	The Impulse Saving is innovative as it allows clients who have the "Poupe" (save) application for smartphones to bolster their saving with small amounts at a time (between 5 and 50 Euros). All they have to do is open the app and hit the button. This triggers a transfer from the account selected as origin account to the new account created upon subscription, named "Impulse Saving".	4 000 clients **28.8 million Euros in savings**
Micro Donate	The Micro Donate service facilitates Private Social Solidarity Institutions' (IPSS) access to clients' donations. Using the same concept as Micro Saving, this service allows the client to decide to round up some or all of his debits, with the rounding up amount being transferred to the savings account of the institution selected by the client. In addition to the rounding up amount, for every customer that subscribes to the Micro Donate service, NOVO BANCO donates 10 euros to an IPSS chosen by the client.	14 private social solidarity institutions (IPSS) received donations from 150 clients.

Microcredit

In line with NOVO BANCO's 10 Commandments - a set of principles and values that govern the Bank's support to those who add value to the national economy - Microcredit loans remain one of the instruments used to foster self-employment and the creation of micro-businesses.

1st COMMANDMENT

THE CLIENT

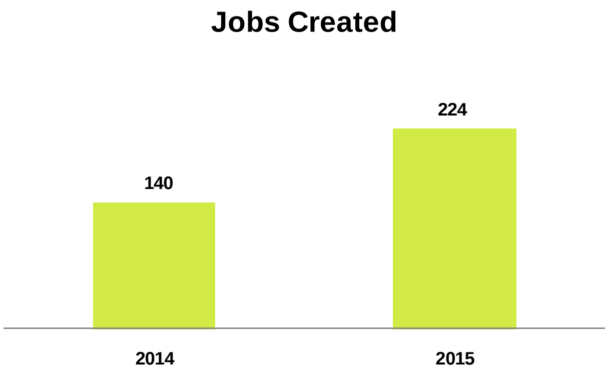
- ✓ **The Client always comes first and is the centre of gravity of all we do.**
- ✓ **We do not sell products, we provide solutions tailored to our clients.**

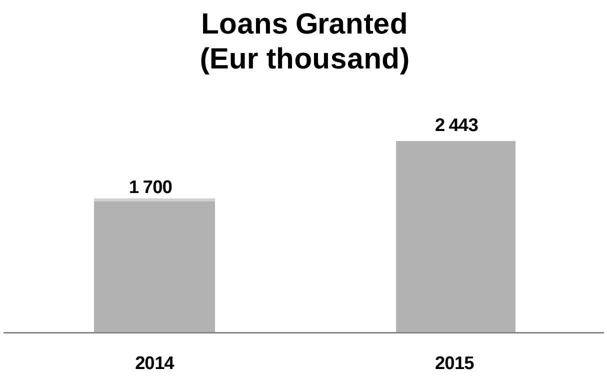
Addressing the current socioeconomic context and in line with its strategy for entrepreneurship, NOVO BANCO Group offers Microcredit in its branch network. This product aims to assist people who are unemployed and thus incapable of otherwise obtaining credit from credit institutions due to their low creditworthiness, which in turn makes it difficult for them to re-enter the labour market.

Through the microcredit solution, which includes two financing mechanisms - the NOVO BANCO Group'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 2015 the Group financed **141 projects**, corresponding to a total amount of credit of *circa* **2.4 million Euros**, which allowed the creation of **224 jobs**.

Beneficiaries of Microcredit:

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

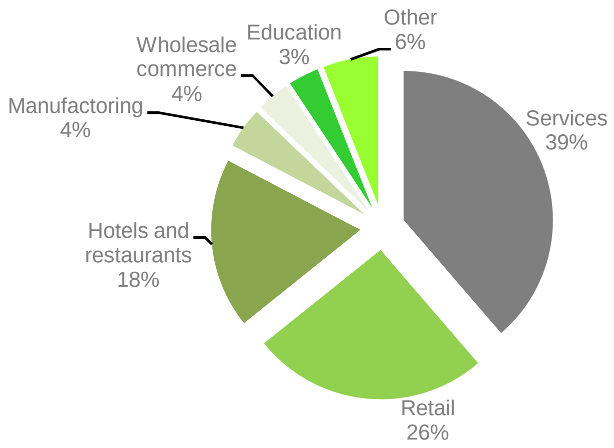




Currently, NOVO BANCO Group's Microcredit portfolio holds 1 150 financed projects, corresponding to total loans of 19.9 million Euros (of which 15% were granted under the *Microcrédito* NB solution) that permitted the creation of more than 1 880 jobs. The average per loan is 8 thousand Euros, for an investment of 10 thousand Euros.

The breakdown of these loans by industry sector shows that the most sought after businesses are in the services sector (around 39%), followed by retail (26%).

Financing / Activity Sector



Roughly 58% of the projects financed are individual initiatives, with 42% taking a corporate form. The Microcredit and Entrepreneurship clients are evenly split between men and women, 66% of them are below 40 years old and 39% hold qualifications at secondary education level.

Senior Citizens

The general ageing of the Portuguese population means that every year the number of senior citizens in Portugal increases. With a view to promoting a better quality of life for its senior citizen clients, NOVO BANCO offers a range of products and services adapted to the needs of this segment and easing their integration in the financial system.

Pensioners who receive pensions over 250 Euros at a NOVO BANCO account are exempt from fees on the 'NB 100% 55+' account, a current account adapted to the needs of the senior population in Portugal, with the following associated advantages:

- Medical assistance at home – NOVO BANCO has doctors available round the clock to pay visits to its senior clients at home, who pay the medical fees only, while the travel expense is paid by NOVO BANCO;

- Technical assistance at home – NOVO BANCO provides qualified technicians (plumbers, electricians, locksmiths, carpenters, glaziers, painters, bricklayers, amongst others), round the clock. The travel expense is paid by NOVO BANCO;

- Authorised Overdraft – possibility of using an overdraft, the limit being set in accordance with the pension received through NOVO BANCO and subject to commercial approval; APRC of 17.7%, ANR (annual nominal rate) of 16.0% for a credit limit of 1 500 Euros and 3-month maturity, renewable, assuming full drawing of the credit limit for 3 months;

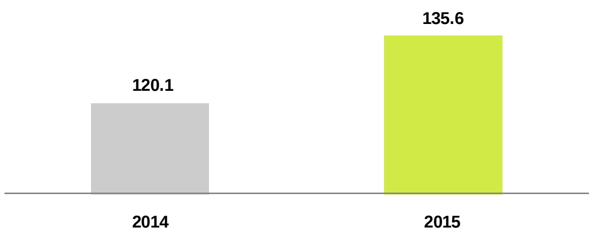
• Protection Pack Service – in case of loss or theft of debit cards, NOVO BANCO allows cash advances abroad up to the credit limit established for the 'Authorised Overdraft'.

In December 2015, customer funds in Senior Citizen accounts totalled *circa* 897 million Euros and their loan portfolio amounted to *circa* 337million Euros.

New Residents

Despite the socioeconomic context, which motivated the exit of immigrants, in December 2015 total customer funds of this segment reached 135.6 million Euros, and the loan portfolio amounted to 320 million Euros.

Customer Funds
(Eur millions)



NOVO BANCO's service to this segment emphasises non-discrimination, the Bank assuming an intervening role in the new residents' social integration process. The Bank has thus developed a specialised offer of financial products and services adapted to the needs and integration cycles of the immigrant communities in Portugal, designed to facilitate their integration. This offer covers the entire process, from welcome to full integration, comprising credit and small business solutions fitting the profile of this segment.

In 2015 the Bank continued to offer the *FamilyLinks* card, with which family members of foreign residents in Portugal may access their bank account and withdraw cash from any ATM, anywhere in the world.

The purpose behind the Bank's solutions targeting these specific socioeconomic groups is to contribute towards a wealthier and more stable society and to promote social peace and its positive impact on the Portuguese economy.

Universities - Presence in Higher Education

NOVO BANCO 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.

Within the scope of these partnerships, which seek to ensure it a relevant and differentiated presence within this market and its public - students, lecturers, researchers and universities' staff - the Bank has developed multiple initiatives, including:

- **Patronage and Sponsorships**: granting of a number of donations and sponsorships that allow for the implementation of important activities in education, research and innovation, such as the acquisition of equipment, the implementation of campus management systems or the organisation of congresses, amongst others;
- **Internships**: various internships for university students were offered in 2015 – curricular, introduction to working life and summer internships -, giving them a meaningful experience during their higher education period;
- **Grants and merit awards**: within the scope of the existing partnerships with higher education institutions, in 2015 NOVO BANCO awarded 85 grants and merit awards to students who distinguished themselves through the excellence of their results;
- **NOVO BANCO National Innovation Awards**: the purpose of this initiative is to reward excellence in research, contribute towards a more competitive economy and promote and stimulate an innovation-driven entrepreneurial culture. The main higher and polytechnic education institutions are represented in the composition of the jury of the awards.

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

Minimum banking services account

The minimum banking services account is a current account with an associated debit card, at an annual cost corresponding to 1% of the national minimum wage. 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, reinforcing 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.

NB 18.31 Account – carbon neutral

Specifically designed to have a low environmental impact, the NB 18.31 Account is carbon neutral, as it is an online account. Hence this account has reduced carbon emissions (except for its opening), that can be neutralised.

In partnership with the consulting firm e)mission, NOVO BANCO quantified the CO2 emissions associated with the NB 18.31 Account namely resulting from the use of computers, 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 1.6 kg CO2eq/year, which is 20% less than a conventional account.

At 31 December 2015, NOVO BANCO had 103 092 NB 18.31 Accounts with offset emissions.

In 2015 the carbon emissions were offset through the support provided to the Velotex Project, a fuel replacement project at ceramic mills in the State of Rio de Janeiro, Brazil.

More information on this project may be found in the Bank's website.

https://www.novobanco.pt/site/cms.aspx?plg=5d947921-aeac-4103-a7c2-ea3003bad382

NOVO BANCO dos Açores

Through several commercial actions to increase funding and signing protocols with companies, the deposits portfolio of NOVO BANCO dos Açores grew by 14.9%. The credit portfolio contracted by 3.3%, leading to a loan to deposit ratio of 103%.

Banco Best

In 2015 Banco Best pursued its strategy of innovation in the offering of financial products and services in Portugal. This included the launch of the first Touch ID App for mobile banking in Portugal, which allows clients to log-in using their fingerprint, the new version of the Best Mobile App, with a renovated design and improved performance, and the Portfolio Selector, an interactive tool that helps clients selecting investment funds. Assets under management increased by 6.1%, to 2,507 million Euros, and the number of clients grew to 85 thousand. Banco Best reported strong solvency and profitability in 2015, namely a solvency ratio of 36%, a loan to deposit ratio of 45%, and a net income for the year of 4.4 million Euros.

Corporate Banking

In Corporate Banking NOVO BANCO also has a segmented approach to *circa* 21,000 corporate clients:

- For the Medium-Sized Companies, a dedicated team operating through 22 Corporate Centres serves more than 15 thousand clients responsible for *circa* 6 billion Euros of financial flow in December 2015.
- The remaining corporate clients are monitored by commercial teams specialised by industry sector-specific clusters, based in Lisbon and Oporto.

The specialised relationship banking service provided in the corporate banking segment allows the Group to maintain a leading position in the segment. To uphold this leading role, the offer of products and services must be permanently adjusted to the clients' needs, giving particular attention to the solutions that support internationalisation, innovation and the financing of the Portuguese economy.

Corporate deposits in Portugal remained stable in 2015 (+0.4% YoY), while the corporate loan book shrank by EUR 4.3 billion, contributing to a more balanced loan to deposit ratio.

Despite the contraction in the corporate loan book, which is in line with the trend in the Portuguese banking sector, NOVO BANCO maintained its role of supporting the development of the economic activity in Portugal, focusing its activity on companies with a good risk profile, innovative characteristics and a focus on exports.

To this end we stress the efforts made to support companies' investment and reinforce their permanent capital, namely within the *PME Crescimento 2015* credit line, under which the Group approved 382 million Euros of new loans between April and December (17.3% market share), and the launch of new credit lines agreed with the European Investment Bank and the European Investment Fund, for an overall amount of 500 million Euros. Within the implementation of the Portugal 2020 programme, these financing instruments will help to develop relevant investment projects and to support the additional working capital requirements.

On the other hand, the Bank also kept an active role in supporting the exporting and internationalisation efforts of the Portuguese companies, which in January 2016 earned it the award for 'Best Trade Finance Bank in Portugal' from the Global Finance Magazine, and maintains a significant 22% market share in trade finance - exports and imports.

NOVO BANCO also maintained a dynamic contribution to strengthen the national economic activity, namely through its solutions in factoring, management of payments to suppliers and NB Express Bill, with the portfolio of these credit products increasing by 16% in the second half of the year.

Business innovation and entrepreneurship are a key factors for economic growth.

For that reason NOVO BANCO promotes the National Innovation Award in order to contribute to the development of the Portuguese productive sector. In the 2015 edition of NOVO BANCO’s National Innovation Award, 75 projects competed, in the areas of 'Ocean Economy', 'Health', and 'Textile, Design and Fashion Industry', with a total of 110 thousand Euros in prizes being attributed.

NOVO BANCO Group also promotes investment in technology-based companies and innovative business projects with high-growth potential, original business products and concepts targeting the international market. This investment is made by Espírito Santo Ventures, through venture capital funds.

ES Ventures has around 250 million Euros in assets under management, invested in 46 companies that are developing world leading products and services in the areas of Clean Tech, Health Care & Wellbeing and IT.

In 2015 the company invested in a new subsidiary, FastInov SA, and increased the capital of 12 companies in the portfolio. Total investment in the year was above 6 million Euros.

It is worth noting that Feedzai and OutSystems, two subsidiaries of the funds managed by ES Ventures, are amongst the Portuguese technology firms in which top-tier North-American funds have recently invested.

The importance that the Social Economy has been gaining in Portugal over the last decades, in terms of assistance to the social policies, the provision of social services and job creation, has deserved keen attention from NOVO BANCO, which entered partnerships under protocols with the following main institutions:

- UDIPSS - União Distrital da IPSS de Lisboa (Union of the Private Institutions of Social Solidarity in the Lisbon District)
- União das Misericórdias Portuguesas (Union of Portuguese Charity Institutions)
- Liga de Bombeiros Portugueses (League of the Portuguese Fire-fighters).

The protocols defined valuable commercial conditions for these institutions, their associates and employees. In 2015 the financial flow associated with the social economy totalled 228.9 million Euros, which is 6% more than in 2014.

Aware that the social economy organisations are represented locally across the entire Portuguese territory, NOVO BANCO finances these organisations' needs concerning the development of social equipment projects, complementing its lending activity with an offer of financial products and services adapted to their specific characteristics. NOVO BANCO's consistent investment in this segment, which has an important weight in the Portuguese economy, makes the Bank a reference partner for the sector, shown by its loan book of 83.4 million Euros.

• International Commercial Banking

In 2015 NOVO BANCO Group's international activity was marked by the recovery of the commercial activity, and by the restructuring of the Group's international portfolio. This restructuring involved the closing of the New York and Nassau branches and the Cape Verde off-shore branch, resulting in annual cost savings in excess of 6 million Euros.

The performance in **Spain** was shaped by the implementation of a restructuring plan that entailed the revision of the commercial, operational and corporate governance models. While keeping a special focus on supporting the Iberian companies as well as the top affluent and private banking segment, the unit's commercial restructuring also entailed the re-launch of a set of commercial activities and the improvement of its cost structure (leading to a 15% YoY reduction in operating costs). With net loans decreasing by 14%, to 2.2 billion Euros, and customer deposits by only 7%, to 2.8 billion Euros, the branch's loan to deposit ratio improved to 78%.

The activity in **London (United Kingdom)** continued the deleveraging of the loan book and the restructuring of the unit, which remains focused on wholesale banking. Even taking into account the sharp devaluation of the euro against the pound sterling in 2015, total assets decreased by 11% to 4.1 billion Euros at the end of the year, with total loans declining by 5%. Banking income reached 23.8 million Euros, and operating costs were reduced by 13.5%.

In **Luxembourg** the branch continued to focus its activity on the Portuguese emigrant community in the country as well as in neighbouring countries in central Europe. Total deposits increased by 53%, to 475 million Euros at year-end, while the number of clients more than doubled, reaching approximately 5 700.

The universal commercial banking activity developed in **Venezuela** continued to focus on the Portuguese resident community and on local large companies and institutions, showing at year-end total net assets of 16.4 million Euros (as at December 2015 the Group started to use the Simadi foreign exchange rate published by the Central Bank of Venezuela in order to convert the financial statements of the Venezuela Branch, according to IAS 21). However, the unit's performance was strongly constrained by the economic and social context in the country, which was strongly impacted by falling oil prices, inflation levels at historical peaks, and sharp currency devaluations.

In **Macau**, the unit's performance was impacted by a relatively adverse context and was also marked by the strong deceleration of Macau's economy due to the cooling down of the gambling/entertainment and tourism industry sectors. Under these circumstances, the priorities set for 2015 were the consolidation of the Bank's image and the recovery of customer deposits. The corporate banking and trade finance business harnessing the local trade and the trade flows between the People's Republic of China, Macau, Portugal and the Portuguese-speaking countries remained a strong pillar for the activity in Macau. Total assets remained at the 2014 level, at approximately 121 million Euros. Banking Income reached 4.9 million Euros and the net profit for the year was 0.5 million Euros.

In Mozambique, Moza Banco, in which NOVO BANCO Group holds a 49% stake, continued to develop its expansion strategy, opening 14 new branches that increased the network to a total of 45 units at year-end. Despite some economic deceleration in Mozambique, Moza Banco continued to display strong growth, with assets rising by 36%, to 608 million Euros, and remained as the 4th largest bank in the country. Net operating income reached 9.4 million Euros, representing a year-on- year increase of 24%.

• Asset Management

This segment includes all the asset management activities of the Group, essentially conducted by ESAF - Espírito Santo Activos Financeiros SGPS, SA in Portugal and abroad (Spain, Luxembourg and Angola), through specialised companies within Portugal and abroad. Asset Management's product range covers mutual funds, real estate funds and pension funds, besides providing discretionary and wealth management services.

At the end of 2015 the global volume of assets under management reached 14.1 billion Euros. On a consolidated basis, by business area, the negative trend in volumes under management of Mutual Funds and Real Estate Investment Funds (-36% and -15%, respectively) contrasts with the sharp increase in Discretionary Management volumes, which were up by +145%. Pension Funds volume remained relatively stable (-1.1%).

Mutual Funds

Total volume under management in mutual funds reached over 1.7 billion Euros at the end of 2015. The reduction in the volume under management of national mutual funds resulted from a general contraction in funds' volumes and from the liquidation of several limited duration funds. Hence we note the liquidation of the *NB Rendimento Fixo Funds* (IV, VII and IX) and the *Sporting Portugal Fund*, which had reached maturity, and the volume contraction of three funds - *NB Liquidez, NB Plano Dinâmico and NB Tesouraria Ativa*, which on the whole accounted for around 78% of the total volume reduction in 2015. In addition, the *NB Premium Fund* was also liquidated.

In Luxembourg, NOVO BANCO Group has several funds under management, targeting customers with a wide range of risk profiles, with a total volume of approximately 530 million Euros. Hence, in addition to the NB Fund, which comprises various compartments (shares and bonds funds), with a total of 466 million Euros under management, there are also several SICAV funds, which together represent a total of 64 million Euros.

The volume of Mutual Funds under management in Spain totalled 848 million Euros.

Real Estate Investment Funds

Total volume under management in real estate funds reached 2.1 billion euros at 31 December 2015. In domestic real estate funds, volume under management dropped by 18% year-on-year, to 1.3 billion Euros on 31 December 2015. This reduction was due, among others, to the level of redemptions in the *NB Património* and *NB Logística Funds* (-35% and -34%, respectively). In addition to these two open-end funds, the company managed another three funds in the same segment - the *Fungepi, Fungepi II* and *Fungere* Funds -, which at the end of the year represented a total net volume of 613 million Euros. Volume under management of open-end real estate funds registered a contraction of around 28% in 2015.

As to closed-end real-estate funds, the Asset Manager managed 27 funds, which target clients seeking to invest in real estate funds for a predetermined period of time. On 28 September 2015 the *Fundes – Fundo Especial de Investimento Imobiliário Fechado* fund, previously managed by Fimoges - Sociedade Gestora de Fundos de Investimento Imobiliário, S.A., was transferred to the company. On 31 December 2015 the net volume of this fund was approximately 154 million Euros. Volumes under management of closed-end real estate funds increased by around 25% in 2015.

Pension Funds

In Pension Funds, assets under management reached *circa* 2.2 billion Euros.

Volumes under management of the domestic pension funds decreased by 0.8% year-on-year, to 2.1 billion Euros. This reduction chiefly reflects the transfer to other entities outside NOVO BANCO Group of three closed-end pension funds and collective and/or individual subscription pension plans, although this was offset through contributions to finance the funds under management.

In Spain, assets under management of Pension Funds totalled 127 million Euros.

Discretionary Management

Discretionary management includes the provision of asset management services to individual and institutional customers, at both domestic and international level, namely the financial management of insurers', pension funds' and other entities' assets. At the end of 2015, Discretionary Management global volume of assets under management was 7.6 billion Euros. In Portugal this business area registered sharp growth, with the global volume of assets under management soaring by 175%, to 7.6 billion Euros. However, it should be noted that this growth essentially resulted from the transfer to the company of the management of several portfolios of GNB Seguros Vida (some of which had already been managed by GNB GP up to mid-2014), which accounted for 75% of volume under management at the end of 2015. In the individual clients segment, the volume of assets under management remained relatively stable (-3.6% YoY).

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 with a diversified investment strategy and geographic allocation. In 2015 client subscriptions of Banco Best's range of 126 responsible investment funds totalled approximately 5.7 million Euros.

The list of funds offered is available in the corporate website:
www.novobanco.pt/institucional, in the Climate Change pages, under the Environment and Climate Change area.

- **Life Insurance**

The activity of GNB Seguros Vida slowed down in 2015, leading to a 19.6% reduction in the volume of liabilities under its management.

Turnover of GNB Seguros Vida was 466 million Euros in 2015, which represents a 65.9% contraction relative to the previous year.

In terms of operating costs, it should be stressed that the streamlining and rationalisation effort made during the year resulted in a 17.2% reduction compared to the previous year.

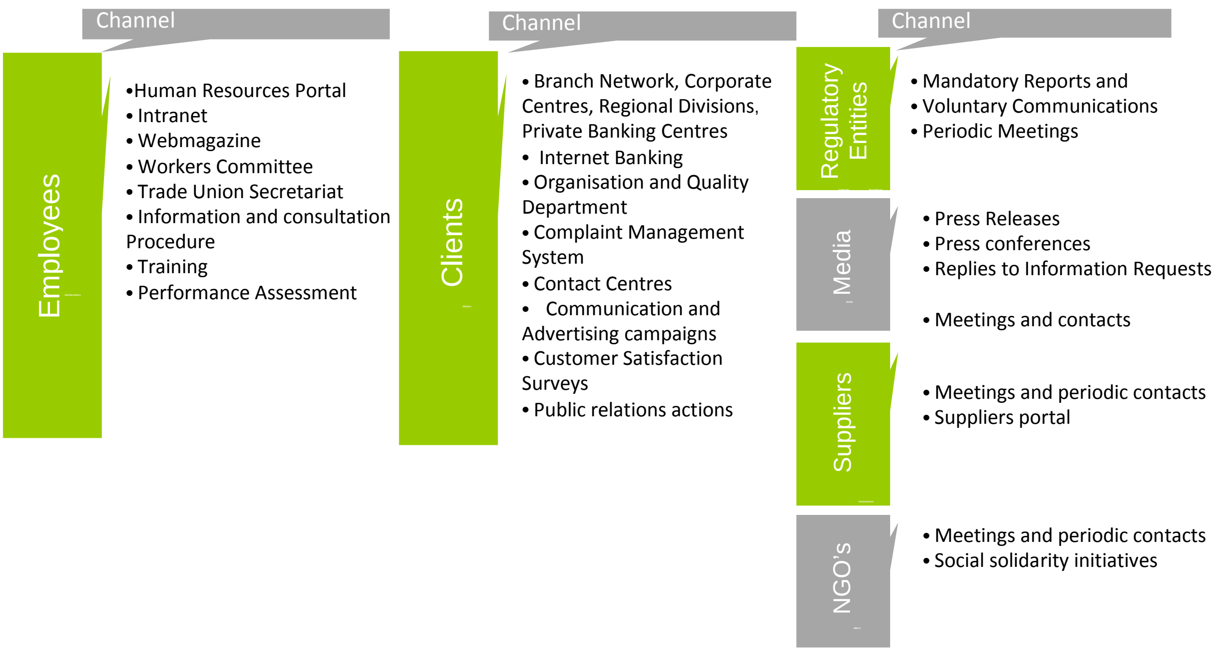
Despite the portfolio's contraction, GNB Seguros Vida posted a net profit for the year of 96.5 million Euros, which is 104.5 million Euros more than in 2014. This was mainly underpinned by the financial performance achieved during the year, which was not impacted as in 2014 by the recognition of impairments at year-end.

Corporate Responsibility

An effective involvement with its stakeholders is one of the major challenges faced by NOVO BANCO Group, in so far as this will define how many of its business issues are dealt will and thus greatly contribute to the definition of policies, principles, strategies and other emerging issues.

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, suppliers and of the communities where it is present.

Main communication channels with the stakeholders



Employees

The employees are considered by NOVO BANCO Group to be one of the key drivers to achieve its objective of regaining a leading position in the Portuguese financial sector, increasing turnover and creating value. NOVO BANCO Group has a well-structured human capital, with management focusing on performance, quality and the continuous improvement of its Employees.

3rd COMMANDMENT
THE TEAM

- ✓ The Employees are our main asset and the only one that truly ensures sustainable competitive advantages.
- ✓ Team results are always greater than the sum of individual results.

NOVO BANCO Group believes that motivated and well-informed Employees provide a better service to clients, and actively contribute to its success. To this end, the Human Resources Management is based on three pillars:

- Merit-driven approach: this stimulates professional development on the basis of honesty, commitment, professionalism, ability, dedication and performance.
- Sense of belonging: the set of benefits provided to the employees tightens and humanises their bond to the company.
- Relationship and Communication: each Employee is guaranteed access to a dedicated manager, and all relevant human resources information is available to him in an area specifically created for the purpose in the Group's intranet.

The human resources policies implemented by NOVO BANCO Group value the key principle of promotion of human capital. To this end, Human Resources defines and formally supervises the implementation of policies and practices in all the geographies and companies of the Group. This approach not only ensures respect for all general principles of Human Rights, and compliance with the regulations on equal rights and non-discrimination, but also provides for organisation of training, healthcare, mobility and internal social responsibility programmes, amongst others.
NOVO BANCO Group ensures a comprehensive, uniform and transparent implementation of its human resources management practices.

Human Capital

NOVO BANCO Group is aware that its Employees, through their skills, attitudes and innovation and problem-solving skills, are a critical factor for the success which the current context demands.

As at 31 December 2015 NOVO BANCO Group had 7 311 employees, of whom 6 573 in Portugal.

Distribution of Employees by region / country

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

Human Capital at NOVO BANCO

	December 2015
Gender	
Men	51%
Women	49%
Employment contract	
Permanent - Men	95.2%
Permanent - Women	97.7%
Average Hours of Training per employee	21
Absenteeism rate (excluding parental leave)	2.3%

NOVO BANCO Group incorporates in its strategic goals the motivation, development and retention of talent, having to that end established the following management bases:

- **Training** - to give all employees access to training that contributes to the development of their skills, enhancing the performance of their functions.
- **Performance** - to ensure that the performance of the employees is managed with fairness and impartiality, at both individual and collective level, ensuring that the team work and the work of each employee are in perfect consonance with the 10 Commandments of NOVO BANCO.
- **Talent Management** – to develop a model permitting to identify and retain talent.
- **Benefits** - to provide a set of benefits that motivate the Employees.
- **Internal Social Responsibility** - to support each Employee in unforeseen situations throughout his life, namely through financial and non-financial social support.
- **Health and Safety in the Workplace** - to ensure compliance with the regulatory rules 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.

Training

In the Human Resources development policy, the focus on Employee training is fundamental for the development of skills and careers in this stakeholder group.

Knowledge is increasingly a differentiating factor in the retention and training of human resources, so NOVO BANCO Group has dedicated special attention to this issue, namely through the following training programmes:

1. NOVO BANCO Attitude Programme

This is a training project with two complementary aspects:

- Alignment of leadership culture and team management;

- Development of behavioural and technical skills viewing the continuous improvement of customer service quality.

This training programme is available to all employees of the domestic retail network and also to those working in the Corporate and Private Banking areas and in the Central Departments.

The content developed for this training programme incorporates the results of a survey for training needs made on a regular basis, and includes issues related with employee motivation, customer service quality and strategic guidelines. The programme uses methodologies that ensure that the knowledge gained is put into practice and the results monitored. With the objective of aligning the Bank's culture, consolidating knowledge and sharing good practices NOVO BANCO developed a permanent and consistent communication policy through the regular issue of Newsletters for the commercial areas and the central departments.

2. School Branch

The School Branch is a project that centred its activity on reinforcing the skills of the employees of the Retail Network. This training methodology also covers the employees of the Commercial and Central Departments. To complement the training programmes on commercial, operational, procedural and product matters provided to the employees of the retail network, other programmes were developed for the Central Departments. The objective is to demonstrate how the branch employees interact with the clients, stressing the importance of the support and contribution of all to the development of the commercial activity and to the quality of customer service. This training methodology also involved the creation of mechanisms that permit to assess training needs, post-training gains, and where possible, to measure the results obtained from the training. This work was carried out by the 34 School Branches spread through the various Regional Divisions, with the cooperation of the Human Resources Department's training team.

3. NOVO BANCO Corporate University

Within the scope of its strategy of promoting, developing and retaining employees, NOVO BANCO makes it possible for its employees to attend its Corporate University, a project based on partnerships with renowned universities and higher education institutes that relies on a significant number of Bank employees to design and execute the programmes.

NOVO BANCO University is open to young graduates with high potential and also to employees that while not being graduates have significant professional experience. Hence, two distinct programmes have been developed:

- Executive Master in Management & Banking, in partnership with *Universidade Católica Portuguesa*;
- Support for the Degree in Bank Management.

In 2015 the Bank invested 921 thousand Euros in training programmes for its employees, including those provided by the NOVO BANCO Corporate University, having achieved a total of 123 555 hours of training.

Management of Talent

To identify and manage high-performance employees is essential to achieve the objective of Human Resources management of conciliating employees' ambitions and expectations with the needs of the business. Hence a Management of Talent area has been created to develop this work of talent identification and employee development and retention.

By creating this area we have started the development of a model that permits to identify the employees with higher potential to progress in the career, taking on functions of greater complexity and/or higher responsibility.

This model allows us to recognise the employees with higher performance levels and those with greater potential to evolve, as well as to assess the level of development of their skills and spot those that need to be further improved. Finally, because it ensures a more comprehensive knowledge about the employees and their expectations as a whole, the model permits to provide a better response for internal mobility requests.

Performance

NOVO BANCO Group's performance assessment system is fundamental to building a culture based on merit (4th Commandment) whilst fostering the engagement of all through targets set for each function and team. This assessment also permits to identify potential talents and is a factor taken into account in the attribution of benefits and in career management.

In 2015 the Bank made the following promotions:

- 314 due to merit;
- 8 due to change of function;
- 192 based on length of service.

Benefits and Internal Social Responsibility

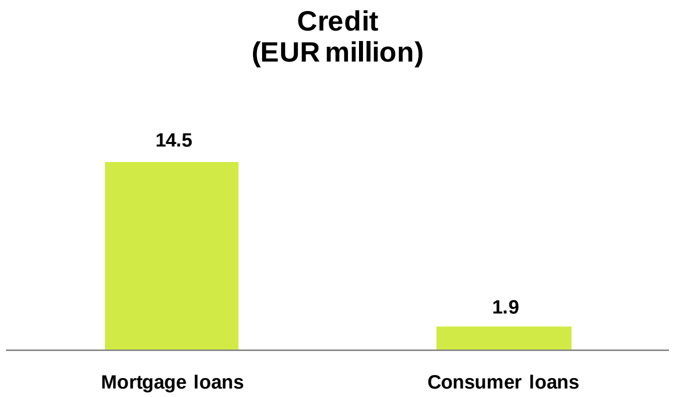
The Bank provides a set of benefits to its employees that contribute to their well-being and to a balance between personal and professional life and which, whilst not having a salary nature, have a positive impact in terms of personal savings and motivation.

Among these, we stress the seven canteens and seven bars located in the areas of greater concentration of employees, which provide nutritionally balanced meals at a low cost - in fact the Group was the first entity in Portugal to adopt the concept of 'nutrition traffic light'.

Having a holistic view of its employees, the Bank seeks to give them the conditions to enjoy special personal dates, for instance granting them leaves of absence on their birthday or that of their children, or on their children's first day at school In addition, every year NOVO BANCO offers a Christmas present to all its employees' children aged 12 or less.

The employees may also enjoy from special conditions in the Bank's commercial offer.

In 2015 the Bank granted mortgage and consumer loans to its employees for a total of 16.4 million Euros, at reduced interest rates. The accumulated value of these loans reached approximately 382.8 million Euros in 2015.



NOVO BANCO has a policy concerning the attribution of allowances and assistance under its Internal Social Responsibility Programme that covers the following areas:

Allowances	Performance in 2015
Education Support	
Attribution of child benefits, school grants, scholarships and support to children and youths with special needs.	✓ 315 child benefits worth 512 400 Euros; ✓ 157 scholarships worth 164 100 Euros; ✓ 226 school grants worth 37 500 Euros; ✓ 64 special needs allowances worth 90 000 Euros.
Senior Support	
Co-payment of expenses with senior residences, day-centres, home support, medicines and other staple goods.	✓ 47 allowances worth 126 900 Euros;

Health and Safety in the Workplace

Each of the employees of NOVO BANCO is a fundamental element for the creation of value, so the implementation, within the scope of the human resources policy, of an integrated management system for health and safety in the workplace takes into consideration the improvement of well-being, environmental conditions, and employee satisfaction and motivation levels.

In order to reinforce its policy on safety, health and well-being in the workplace, NOVO BANCO Group undertakes to:

- Exercise its activity within a balanced framework of sustainable development, client satisfaction and enhancement of human capital;
- 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;
- Define medical exams differentiated by gender, age and function;
- Assess function-related risks;
- Assess work conditions related risks;
- 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 the safety standards;
- Ensure the safety of employees, clients and visitors;
- Inform and publicise this policy of health and safety in the workplace, in a responsible and transparent manner, to all stakeholders.

This strategic orientation goes beyond mere compliance with legal obligations since NOVO BANCO Group provides all its employees and Group companies with its own healthcare services through existing clinical services in Lisbon, Oporto and Oeiras (Tagus Park). The clinical services available include occupational and curative medicine and nursing. In 2015, 3 755 occupational medical exams (entrance and regular exams), 28 808 medical procedures (appointments and prescriptions) and 5 066 nursing acts were carried out.

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

	Cardio-vascular screenings	Cancer screenings		Eye tests	Executive Check-ups
		Mammography	PSA		
NOVO BANCO	2 431	364	837	3 414	311
NB Açores	39	6	21	64	1
Banco BEST	31	7	1	90	7
GNB G. Ativos	27	6	2	53	14

As regards curative medicine, several specialised medical appointments are available, namely the following in 2015:

- General Practice - 11 122 appointments
- Mental Health (psychiatry and psychology) - 794 psychiatric and 358 psychological appointments.
- Smoking Cessation - 21 appointments
- Nutrition - 575 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 to the location and environment of the workplace:

- 303 safety audits of the facilities
- 38 ergonomic evaluations of workstations
- 118 identification of hazards and assessments of the activity’s risks (HAAR)
- 253 assessments of thermal conditions
- 254 assessments of light conditions

Diversity 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 Human Rights Policy, 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 of the Main Conventions of the International Labour Organisation (ILO). This legislation covers topics such as respect for freedom of association, the rejection of forced and child labour and discrimination, amongst other aspects related to Human Rights.

Approximately 89% of NOVO BANCO Group's employees are unionised and covered by collective bargaining agreements.

Ethics and integrity in relations with stakeholders

Business ethics is a key element for NOVO BANCO Group and of extreme importance to provide guidance to its professionals on how to act according to the Bank's basic principles. Taking into account the risks entailed by non-ethical behaviours in the day-to-day running of the Bank, all employees must be aware and committed to these issues:	**2nd COMMANDMENT ETHICS AND TRANSPARENCY** ✓ We must ensure maximum honesty and ethical conduct in business .. ✓ ... and set an example in the compliance with laws, internal rules and codes of conduct, to ensure the transparency of management and the absence of conflicts of interest.

Human Capital Principles and Policies

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. To this effect the Group issued its 10 commandments in 2014 and a Code of Conduct in 2015.

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 directors, and to all entities integrating the Group, and reflects the set of best practices to be followed by the employees in their relationship with clients and the Bank itself.

NOVO BANCO Group’s Code of Conduct aims to:

a) Disseminate the principles by which the NOVO BANCO Group companies should steer their activities;

b) Promote the ethical conduct of all Employees, aligned with the NB Group's values;

c) Promote respect for and compliance with all applicable laws and regulations;

d) Create a transparent system of relations between employees and third parties.

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

By December 2015 several notifications and questions related to the internal regulations had been received, mainly concerning conflicts of interest and professional secrecy issues. 42 violations of the Bank's internal regulations were detected, which resulted in the following sanctions:

- 18 dismissals without any indemnity or compensation;
- 7 temporary suspensions with loss of pay and seniority;
- 15 disciplinary warnings;
- 2 other sanctions

In addition to the Code of Conduct, the NOVO BANCO Group has established other principles, policies and procedures to effectively prevent bribery, fraud and corruption, namely:

- Policy for Prevention and Detection of Money Laundering;
- Implemented a Monitoring Unit of Subsidiaries and Branches, which monitors the Compliance function at both national and international level.

Prevention of money laundering and terrorism financing

The ability to detect and prevent activities capable of constituting money laundering stems directly from the knowledge from banks of certain key elements relating to their counterparts and respective transactions.

The NOVO BANCO Group, through its Compliance Department, has established the procedures required to set the conditions in place in the Bank to detect and prevent the possibility of it being used as a vehicle for money laundering or terrorism 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 money laundering and terrorism 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:

1. Opening of contract or change of the party in an existing contract, which is referenced through KYC (*Know Your Customer*) - the identity of contract parties, representatives and beneficiaries must be effectively established;
2. Monitoring the contract's transactions - KYT (*Know Your Transactions*), spotting unusual situations, either beforehand or 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 valuation 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 terrorism financing for all its employees (commercial and central departments, including senior management). Training can be online or in person, 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 2015, the Group provided 2 828 hours of online training (including 2 587 hours for senior management) and 266 hours of classroom training (including 230 hours for senior management), making a total of 3 094 hours of training in money laundering and terrorism financing prevention.

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

In 2015 the NOVO BANCO Group examined 5 346 new contracts (of which 59 were rejected) and 2 268 contracts whose ownership was changed, and analysed 16 652 transactions. This resulted in 638 reports to the competent authorities.

The prevention of money laundering and terrorism financing is one of the foundations of confidence in the financial system and as such this issue will continue to receive the ongoing attention of NOVO BANCO Group.

Monitoring of Branches and Subsidiaries

Through its Monitoring Unit of Subsidiaries and Branches, NOVO BANCO monitors the Compliance function by its subsidiaries and branches located both in Portugal and abroad. In 2015 this Unit maintained its mission of addressing the increasingly complex challenges faced by the Compliance function regarding the development of the international activity and extended its scope of action to the Group's national entities. It promotes the implementation and supervision of the Compliance function in all the countries and jurisdictions in which the Group operates, and coordinates and/or monitors global common projects of the various subsidiaries and branches and their interactions on regulatory issues. It is also important to stress the reinforcement and standardisation of principles, policies and procedures across all the Group's units.

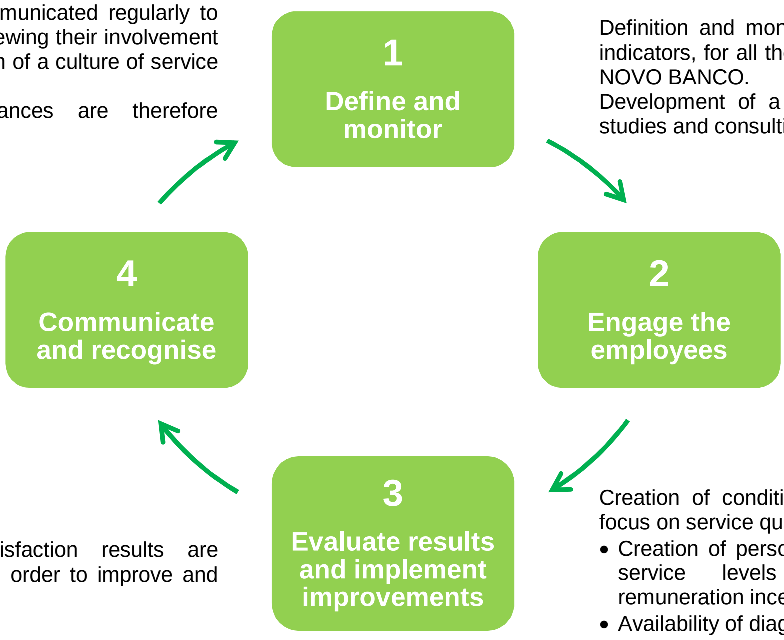
Clients

The focus of NOVO BANCO's business model is the satisfaction of the client's needs. In order to live up to clients' expectations and considering that clients 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 continuous stages:

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.

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.



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

Creation of conditions that allow employees to focus on service quality, namely:
- Creation of personal objectives for quality and service levels correlated to variable remuneration incentives;
- Availability of diagnosis information;
- Training

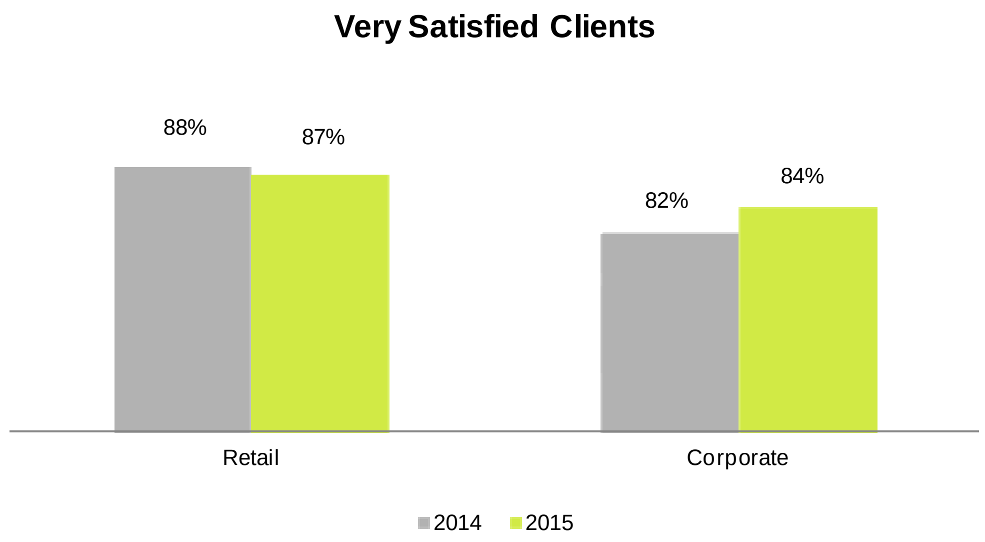
Through these mechanisms, NOVO BANCO obtains the contributions needed to develop appropriate services to provide to the clients - one of its most important assets -, continuously improving processes and service levels by monitoring indicators that track the Bank's progress.

Aware of the importance of the feedback from clients regarding the activity performed, in 2015 NOVO BANCO carried out the following service quality surveys:

Mystery Client	Assessment of customer service quality in the commercial network	*2 283 Visits*
Customer satisfaction surveys	Evaluation of customer service quality in the various segments of the bank	*87 624 customer surveys*
Internal customer survey	Assessment of the quality of the central services	*81 536 surveys*

Source: Surveys carried out by NOVO BANCO's Organisation and Quality Department

According to the satisfaction surveys carried out in 2015 to the clients of the Bank's various segments to assess service quality, 8.4 in every 10 corporate clients are very satisfied, which is an improvement relative to the previous year, while in the retail segment 8.7 in every 10 clients are very satisfied, which is broadly in line with the results in 2014.



Source: Satisfaction surveys carried out by NOVO BANCO's Organisation and Quality Department.

The management of complaints, which had an important contribution to these results, involves the following steps: analysis of the causes originating the complaint, quantification of the losses resulting from the complaint and implementing the corrective and preventive measures, to avoid the recurrence of the complaint. In 2015, the rate of complaints per 1 000 active clients was 1.

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

• NB Net;

• NB Direto – + 351 707 24 7 365;

• NOVO BANCO Branches, Corporate Centres and Private Banking Centres

• E-mail: satisfacao@novobanco.pt

Suppliers

NOVO BANCO Group views the engagement with its suppliers - more than 9000 with invoices in 2015 - as a factor of extreme importance, since more than trading partners they are also active agents in the dissemination of good practices. These are laid out in the NOVO BANCO Group Suppliers' Relationship Principles, available for consultation in the Sustainability area of the Bank's website, link: www.novobanco.pt/suppliers

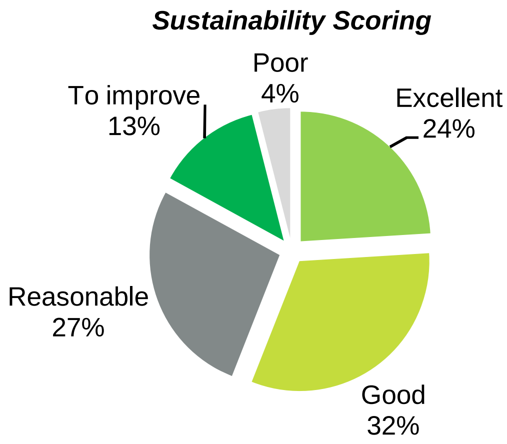
NOVO BANCO Group Suppliers' Relationship Principles

As part of a responsible and consistent attitude in selecting its suppliers, NOVO BANCO Group has developed the GNB Supplier Platform (https://fornecedores.novobanco.pt/), where all regular suppliers (with a business volume over 10 000 Euros/year) must be registered. Potential suppliers should also register in this website to be included in new consultation processes.

On 31 December 2015 there were 3 422 entities registered in the Supplier Platform, of which 575 are regular suppliers with a business volume with the Bank above 10 000 Euros. The degree of suppliers' coverage, in terms of invoicing, that had completed their registration or were in the process of registering (pre-registered) in the Supplier Platform was 95.6%.

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 56% of NOVO BANCO Group's suppliers registered in the Platform have a score of excellent/good and 83% have a positive score cumulatively.



Supplier payment period

NOVO BANCO’s payment policy is based on the following forms of responsible action:

- 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 Supplier Platform (via internet).

In 2015, the "average supplier payment period" was 18 days.

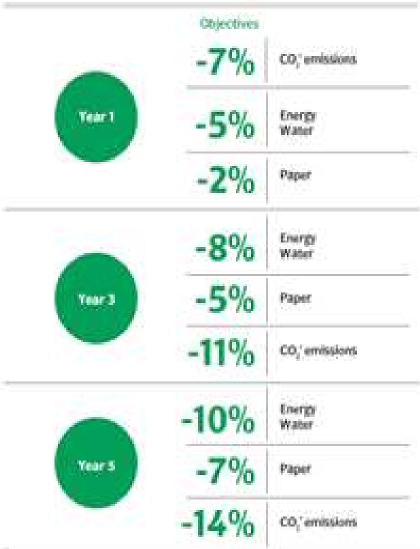
Environmental Footprint

The financial sector is a key driver of the economy, playing a key role in the access to capital from the various sectors, and therefore has an important role to play in sustainable development and in the climate change discussion, one of today's main issues.

Environmental Targets

NOVO BANCO Group has assumed environmental targets that aim to consolidate its responsible management, reducing the environmental footprint of its activity. In order to achieve the defined targets, the Group defined measures and actions for implementation, as well as a half-yearly monitoring of their results.

Taking as a basis the year 2014, the reduction targets for energy consumption, CO2 emissions, paper consumption and water consumption, established for the coming years (2014-2018), show NOVO BANCO Group's degree of commitment and the consequent involvement and motivation of all the stakeholders within the organisation to achieve greater environmental efficiency.



* Electricity consumption in kWh per employee

Energy Consumption

To reduce its electricity consumption, the Bank has implemented, over the years, several initiatives, including:

- Reduction of the number of consumption locations;
- 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.

NOVO BANCO uses an energy management software application, an innovative solution that combines the energy and environmental monitoring equipment in order to improve the supervision and reduction of energy consumption. NOVO BANCO is able to monitor in real time the energy consumption of about 50% of its branches and 16 central buildings. This solution allows for the centralisation of information, the analysis of consumption and trends, the detection of energy saving opportunities, the determination of energy waste, and the evaluation of compliance with the defined targets. In addition to implementing automatic savings mechanisms, the energy management software also includes training and awareness programmes for employees.

In 2015 NOVO BANCO Group consumed about 41 649 568 kWh of electricity, of which 10 397 699 kWh relating to the electricity consumed by the data centre. Consumption per employee stood at 7 595 kWh, in 2015.

To encourage its employees to achieve the established targets, in November 2015 NOVO BANCO launched a pilot campaign to raise awareness among the central services employees to the issue of consumption reduction. During the first half of 2016 this campaign will be extended to the Bank's other buildings.

Water Consumption

NOVO BANCO Group has implemented various measures to reduce water consumption, namely replacing traditional taps for taps with timers and raising the awareness of employees to the importance of reporting any detected anomalies.

In 2015 water consumption totalled 82 705 cubic metres, *circa* 15.1 cubic metres per employee.

Paper Consumption

The rationalisation of paper is a structural commitment that was assumed by NOVO BANCO Group in its two usage aspects: internal and external. This commitment mainly implies raising awareness and changing employee and client’s habits, with the main aim being to sensitise these stakeholder groups to the efficient use of printed paper.

Internal paper consumption values in 2015 were as follows:

- White paper for internal use - 351 tonnes;
- Finishing forms and account statements – 147 tonnes;
- Recycled paper for internal use – 1.17 tonnes;

In 2015, each employee consumed *circa* 64 kilograms of paper.

About 61% of the paper consumed by NOVO BANCO is low g.m^2 (75 gsm) FSC certified paper, and recycled paper, which shows the Bank's willingness and commitment to the application of good environmental practices.

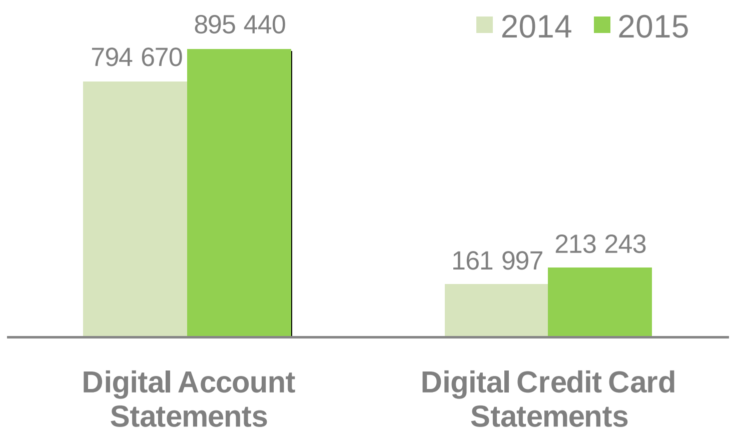
Taking into account the reduction and reuse of its waste, in 2015 NOVO BANCO sent some 156 tonnes of paper (*circa*15% of all paper consumed) and 93.7 tonnes of cardboard for recycling.

Under its commitment to reduce paper consumption, NOVO BANCO continued to promote the dematerialisation of communications sent to customers, providing the respective documents online.

In 2015 about 895 440 account statements and 213 243 card statements were already issued in digital format. Compared to 2014 this represents a net increase of over 100 000 account statements and over 51 000 card statements (+13% and +32%, respectively).

In April 2015 NOVO BANCO started the dematerialisation of sundry notices, having sent more than 568 000 such notices in digital form.

Digital Statements



Social Responsibility Architecture

NOVO BANCO develops a model of social responsibility with the intention of helping to create solutions for important issues in the communities in which it carries out its activity, namely:

- Cultural Patronage
- Financial Inclusion
- Science & Innovation
- Solidarity

Cultural Patronage - Support the activities of institutions that promote the Country's cultural progress and access to the Portuguese cultural heritage

Through its cultural patronage policy, NOVO BANCO promotes public access to national culture, with a focus on Contemporary Photography.

• **NOVO BANCO Photo** – the most important contemporary art award attributed in Portugal, for artistic production developed by photographers from Portuguese-speaking countries, this is a joint initiative with the Museu Coleção Berardo (Berardo Collection Museum).

• **NOVO BANCO REVELAÇÂO** – an initiative intended to stimulate the production and artistic creation of young Portuguese talent, which focuses on the disclosure, launch and support of all photographic artists. Conducted in partnership with the Fundação Serralves.

• **REFLEX CAIS/NOVO BANCO** – Award dedicated to the development of photography in Portugal, held in partnership with CAIS. This award strengthens and amplifies the positive effects of a national artistic initiative, combining photography with socially relevant themes.

• **Espaço NOVO BANCO** – a public space located in Lisbon's financial district, where, among other cultural initiatives, the Bank exhibits and promotes its contemporary photography collection.

• **Contemporary Photo Collection of NOVO BANCO** – consisting of about 1 000 works by over 280 artists of 38 nationalities, it is one of the largest private collections of its kind in Iberia and one of the best 100 corporate art collections in the world, featuring in 2015 in the Global Corporate Collections' catalogue.

NOVO BANCO's cultural patronage strategy still includes:

• **NOVO BANCO Numismatics Collection** – the best and most comprehensive collection in the world of coins from Portugal and its former colonies, it holds about 13 500 pieces, some of which are unique or very rare.

• **Biblioteca Pina Martins (Pina Martins Library)** – comprising over 7 000 volumes, it is one of the most important library collections existing in the Country and one of the most important private libraries on humanistic studies in Europe. It includes incunabula, special editions and other rare publications from the 15th and 16th centuries.

Science & Innovation - Identify and encourage innovative solutions, promoting new businesses and new entrepreneurs

• **National Innovation Awards** - initiative which promotes and rewards research projects applied to industry sectors that are critical for the future of the Portuguese economy. This initiative was born of a desire to contribute effectively to the spread of a culture of innovation in Portugal.

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

With its Financial Literacy programme, NOVO BANCO aims to contribute to the education of a generation of financial services consumers that is increasingly better informed and has a greater analysis and decision making capacity.

The programme is based on 3 pillars:

- **Educational Process** – the Portuguese Mathematics Olympics, organised annually by Sociedade Portuguesa de Matemática (Portuguese Mathematics Society) is a math contest which aims to encourage and develop a liking for Mathematics, aimed at students of the 1st, 2nd and 3rd cycles of basic and secondary schooling, covering more than 60 000 pupils.
- **Personal Finance** – a programme targeting youngsters aged between 12 and 15. NOVO BANCO joined EPIS (Entrepreneurs for Social Inclusion) in support of the development of education programmes to combat school underachievement and early dropping out.
  In addition, NOVO BANCO also makes available to its clients a software application tool - the 'Family Budget' - that helps families manage their finances.
- **Commercial Offer -** see details on page 15 under the point on micro saving and microcredit.

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

In terms of solidarity NOVO BANCO developed its own actions as well as actions in partnership with social welfare institutions.

- **Own actions**

i) NOVO BANCO Crowdfunding - online platform to collect donations which in December 2015 had more than 6 250 donors and had raised over 220 000 Euros.

ii) Volunteering Programme - promotes the solidarity and participation of employees in different social responsibility initiatives. In 2015 there were eight volunteering actions, in which several of the Bank's employees took part.

iii) Christmas Hampers - To celebrate Christmas, NOVO BANCO delivers Christmas hampers with basic goods to families in need, identified by charity institutions in Portugal. In 2015, a total of 95 hampers have been offered, benefiting around 340 people, including 160 children.

iv) Donation campaigns - organisation of internal social solidarity campaigns to collect donations of money or goods, which are delivered, among others, to the *Banco de Bens Doados* (Donated Goods bank) or to specific projects of private social solidarity institutions.

- **Partnerships**

i) *Banco de Bens Doados* - project patron, delivering non-food goods and products donated by companies and entities to private social solidarity institutions and the needy;

ii) *Associação Novo Futuro* (New Future Association) - patron of the association, which focus its activity on providing shelter and support to children and young people deprived of a family environment;

iii) *Associação Acreditar* (Believe Association) - funding of two bedrooms in the Lisbon nursing home that welcomes children with cancer that require outpatient hospital treatment, and their families, in a cosy space adapted to their needs.

Outlook for NOVO BANCO
Main Risks and Uncertainties

The NOVO BANCO Group will develop its activity in 2016 focused on the objective of consolidating its position in commercial banking, maintaining adequate liquidity and solvency levels, improving profitability and efficiency levels, simplifying processes and streamlining the organisational and functional structure.

The objectives which NOVO BANCO Group has set out to achieve are ambitious. They aim to improve operating results, increase the stock of deposits and credit, by increasing residential mortgage loan production and loans to the SMEs, in particular the exporting ones, and to continue to post solvency levels permitting the sustained development of the business.

The attainment of these targets is conditioned, on the one hand, by the evolution of the Portuguese economy (Banco de Portugal estimates an improvement in GDP's growth rate from 1.5% in 2015 to 1.9% in 2016), and on the other hand, by the sale process of the Resolution Fund's holding in NOVO BANCO.

The Board of Directors of NOVO BANCO prepared a restructuring plan that was submitted to the European Commission at the end of 2015. This Plan was prepared in close cooperation with Banco de Portugal and it comprises a set of measures, highlighting the need to downsize both the workforce and operating costs, and also to focus in the domestic activities and divesting of non-strategic assets. This plan is currently being implemented.

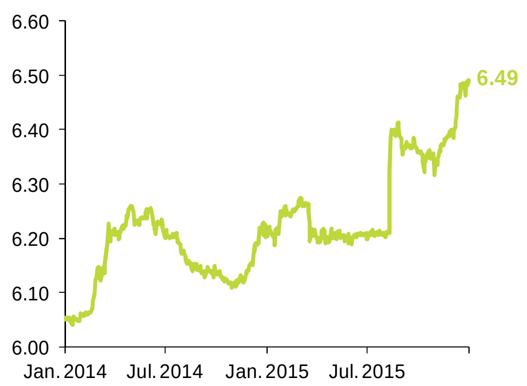
In this context, the activity to be developed in 2016 will be conditioned by the execution of the aforementioned Plan. The Board of Directors of NOVO BANCO is strongly committed to this process being conducted smoothly and by safeguarding the best interests of the NOVO BANCO Group, its employees and its clients.

The Board of Directors and the employees will continue to undertake all the efforts to recover NOVO BANCO’s image and credibility, increasing business levels and creating value for the shareholder(s) emerging from the ongoing sale process.

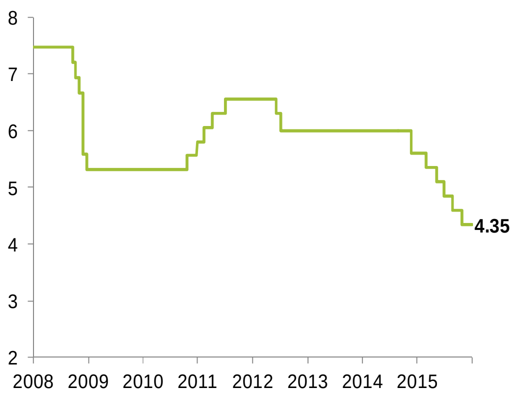
3. Economic Environment

2015 was marked by a slight deceleration of global economic activity, with GDP growth sliding from 3.4% to 3.1%. This was mainly due to the slackening pace of the emerging economies, notably China, but also several others in Asia and Latin America. In China, GDP growth slowed from 7.3% to 6.9%. This performance may be linked to an intended shift in the growth pattern of the last few years, with the Chinese authorities now discouraging credit and investment and promoting the reduction of indebtedness, and on the other hand with an increase in the contribution of private consumption to growth and a reduction of excess capacity in some sectors, including real estate. At the same time, the renminbi depreciated, losing around 4.4% against the USD to around USD/CNY 6.49 in 2015. The Central Bank (PBoC) made five cuts in the 1-Year Lending Rate, slashing it from 5.6% to 4.35%, and also lowered the reserve requirement ratio, from 20% to 17.5%. The contraction in Chinese demand directed at several emerging markets, together with the impacts of falling commodity prices, and in some cases, with the difficulties caused by macroeconomic imbalances (high inflation, large deficits, capital outflows) were some of the factors behind the emerging markets' poor performance.

USD/CNY Exchange rate



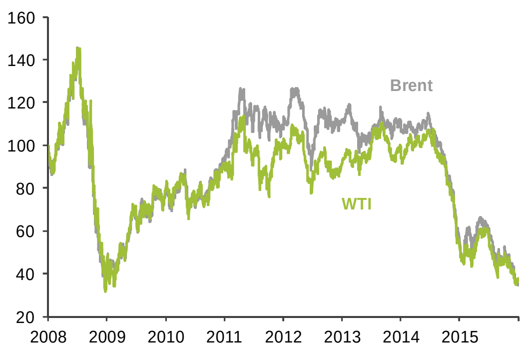
1-Year Lending Rate (%), China



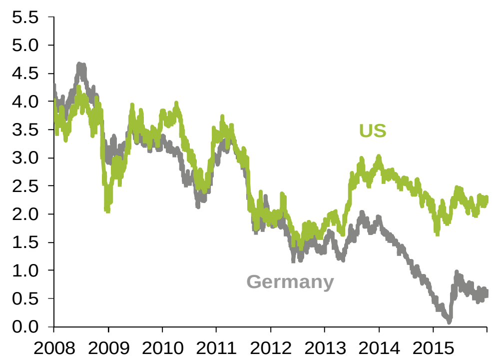
In the advanced economies, and in particular in the United States and the Eurozone, the cyclical recovery mainly relied on domestic demand, while also benefiting from falling oil prices, progress in balance sheet adjustments, improving financing conditions (linked to ever stronger monetary stimuli) and greater support from the fiscal policy. Supported by an expansionary monetary policy, a less restrictive fiscal policy and a sharp fall in the oil price, the US GDP growth was unchanged at 2.4%. In the Eurozone, GDP growth accelarated from 0.9% to around 1.5%, supported by the good performance of domestic demand, which made up for weaker external demand.

This was however insufficient to allay fears about deflationary pressures. In the United States inflation fell back from 1.6% to 0.1%. In Europe, inflation receded from 0.4% to 0%, forcing the European Central Bank (ECB) to announce new monetary stimuli. In order to promote the return of inflation to levels consistent with medium-term price stability, the ECB announced in December a further cut in the deposit facility rate (from -0.20% to -0.30%) and the extension of the asset purchase programme up to March 2017, raising its global amount to EUR 1.46 trillion. In addition, it decided to include in the public sector purchase programme debt instruments issued by regional and local governments and to reinvest the principal payments on the securities purchased under the asset purchase program as they mature.

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

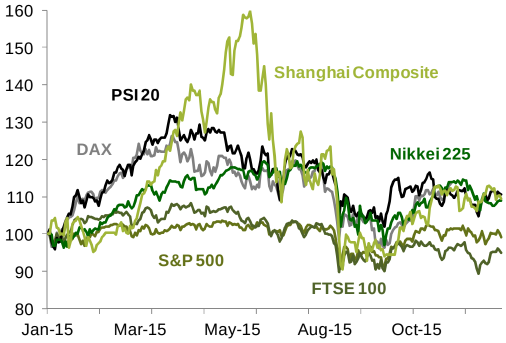


10-year Bunds and Treasuries yields (%)



Besides the low pressure of wages on prices, the behaviour of inflation in 2015 is also explained by the fall of nearly 36% in the price of oil (Brent), with the market for this commodity continuing to show excess supply. In this context, market interest rates remained very subdued. The yields on the 10-year Treasuries and *Bunds* rose from 2.17% to 2.27% and from 0.54% to 0.63%, respectively. In the Eurozone, where the ECB maintained an easing bias, the 3-month Euribor receded from 0.08% to -0.13%. On the other hand, in the US, where the Federal Reserve lifted the target fed funds rate for the first time in nearly nine years (by 25 basis points in December to a range of 0.25% to 0.5%), the 3-month USD Libor rate inched up from 0.26% to 0.61%. This divergent stance between the Fed and the ECB contributed to the appreciation of the US dollar (+11.4% vs. the euro, to around EUR/USD 1.09). This context, to which added political or geopolitical factors (e.g. Greek crisis, instability in the Middle East) fuelled spikes of volatility in financial markets. Despite periods of sharp falls, the Shanghai Composite index rose by 9.4% in the year. In the United States, the Nasdaq gained more than 5%, but the Dow Jones and S&P500 retreated by 2.2% and 0.7%, respectively. On the other hand, in the Eurozone and Japan the main stock market indices benefited from the expectation of new monetary stimuli (the DAX climbed by +9.6% and the Nikkei by +9.1%).

Selected stock market indices, January 2015=100

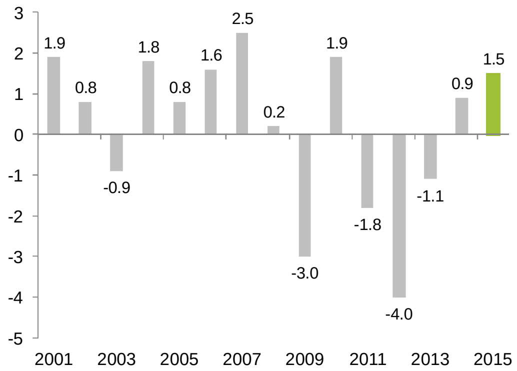


EUR/USD Exchange rate

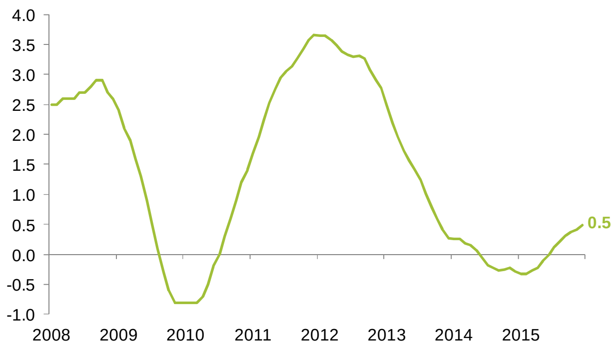
2014 was marked by tan acceleration of economic activity in Spain. GDP growth advanced from 1.4% in 2014 to 2.9% in 2015, propelled by domestic demand and in particular by investment and private consumption. This performance was supported by low inflation levels, subsiding unemployment rates (from 24.4% to 21.8% of the labour force), an increase in the real disposable income, the improvement of confidence levels and better conditions of access to credit by both individuals and businesses. The easing of fiscal policy and the expansionary monetary policy conducted by the ECB were further props to growth. Furthermore, the positive contribution from the rebound of the real estate market should also be noted, with house prices rising by 4.5%. The acceleration of exports, combined with a moderation in imports, allowed for an improvement in the current and capital account surplus, from 1% to 1.5% of GDP. The average rate of inflation retreated from -0.1% to -0.5%.

In Portugal, GDP growth increased from 0.9% to 1.5%, mainly on the back of stronger domestic demand (in particular through private consumption and investment). Growth was supported by the fall in oil prices, the low level of interest rates, the gradual improvement in financing conditions, a slightly expansionary fiscal policy and the good performance of exports to European markets. The labour market extended the recovery seen in the previous year, with the unemployment rate receding from 13.9% to 12.5% of the labour force. The average annual inflation rate was 0.5%, up from -0.3% in 2014.

Portugal - Annual GDP growth (%)

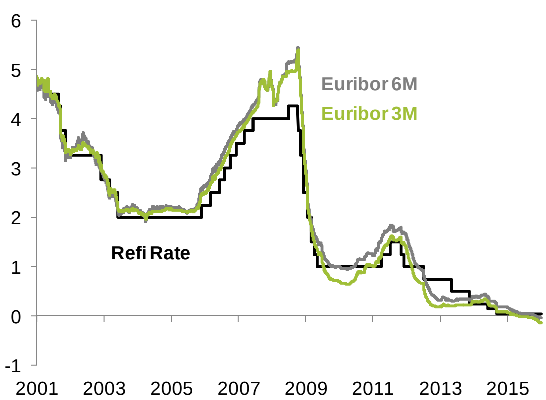


Portugal – average inflation rate (%)



The financial stabilisation trend, the rebound of economic activity and the positive impact of the measures taken by the ECB allowed for an improvement in the external perception about the Portuguese economy, in turn translating into an improvement in the conditions of access to long-term funding in the capital markets. Though tending to flatten out, the yield on the 10-year PGB extended the downward trend already seen in the previous year - dropping from 2.69% to 2.52% in the year -, narrowing the spread to the German Bund of the same maturity from 215 to 189 basis points. However, the end of 2015 and beginning of 2016 saw a slight widening of the sovereign spread, initially reflecting a context of political uncertainty and subsequently the impact of the resolution measures applied in December in the financial sector and the persistence of some uncertainty about the fiscal policy. The General Government deficit reached 4.2% of GDP in 2015, including the (non-recurrent) effects of the recapitalisation of Banif. Excluding this effect, the public deficit was 3% of GDP. Notwithstanding the recovery of domestic demand, the combined current and capital account also benefited from an improvement in the terms of trade, with the respective surplus expected to have risen from 1.9% to 2.2% of GDP.

ECB reference interest rate and 3 and 6 month Euribor (%)



2 and 10 year Treasury Bond Yelds (%)

4. Financial Management and Capital Markets

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

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

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

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

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

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

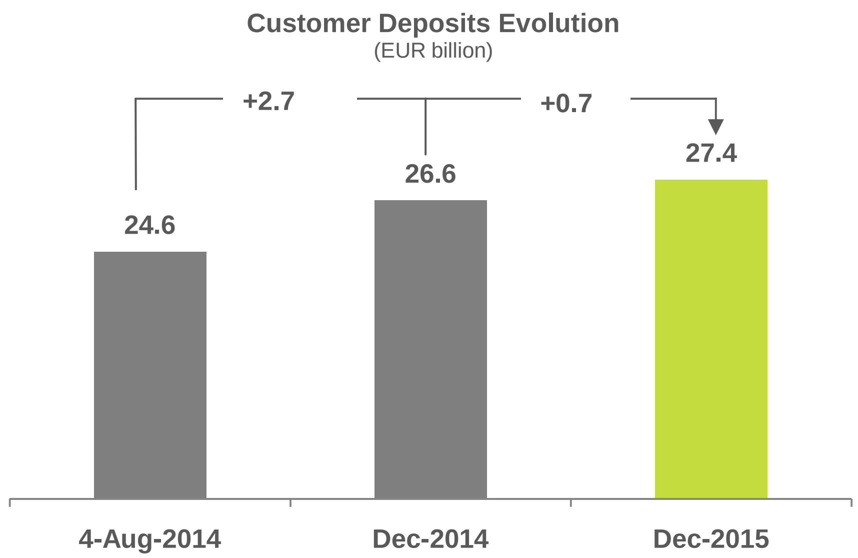
Moreover, the Capital, Asset and Liability Committee (CALCO), which meets monthly, also analyses the liquidity position of the Bank, namely the balance sheet evolution, broad analysis of the gaps and key indicators of the activity (liquidity and commercial gaps, deposit and credit rates). To sum up,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

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

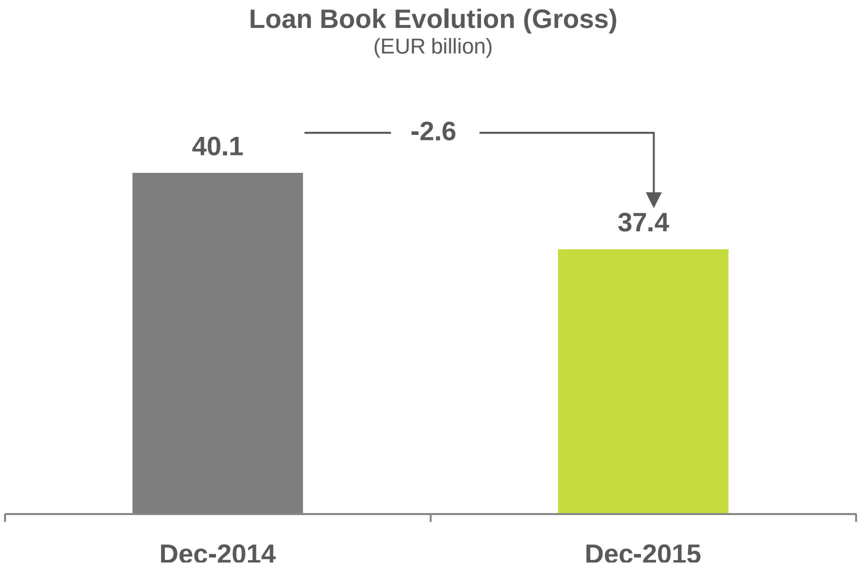
NOVO BANCO has thus implemented internal procedures to increase its resilience under stress situations. Besides measuring accurately the liquidity risks faced by the Bank, these procedures also take in consideration liquidity and funding shortages. The efficiency of NOVO BANCO policy regarding liquidity risk management enabled it to successfully endure the harshest period of the crisis that took place between early August and mid-October 2014.

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

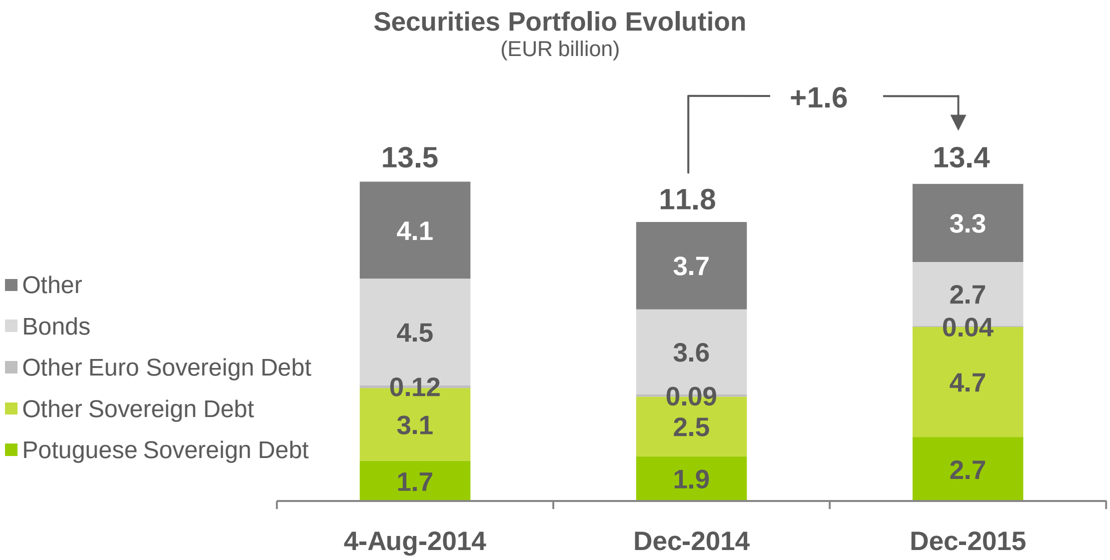
At the same time, NOVO BANCO pursued in 2015 a strategy of liquidity enhancement through the deleveraging of non-core assets. Moreover, following the entry into force of the new regulatory liquidity ratio (Liquidity Coverage Ratio), additional liquidity buffers were created during the year, leading to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



In line with the trend seen since the end of 2014 and as a result of the efforts undertaken, customer deposits increased significantly during the first half of the year. However, the interruption of NOVO BANCO's sale process at the end of September and then at the end of the year the Banco de Portugal's decision to re-transfer five senior bonds to BES had a negative impact on the perception of the Bank's risk, penalising the capture of customer funds. Even so, deposits increased by around 738 million euros in the year and by 2.7 billion Euros since the date NOVO BANCO was created. Compared to December 2014 retail customer funds grew by circa 10%.



The Group's liquidity position was also positively influenced by the continuing deleveraging process of non-core assets from both the loan portfolio (2.6 billion Euros reduction) and the securities portfolio, with the exception of the sovereign debt portfolio that increased by around 3 billion Euros in order to meet the aforementioned new liquidity requirements.



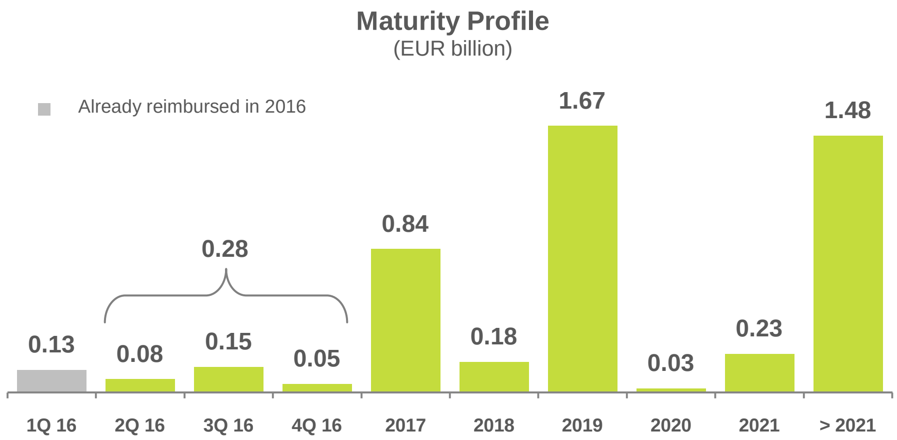
At the end of 2015 the breakdown of the securities portfolio showed a higher weight of *Eurozone* sovereign debt securities, reflecting a more conservative portfolio management approach based on lower-risk, high-liquid securities.

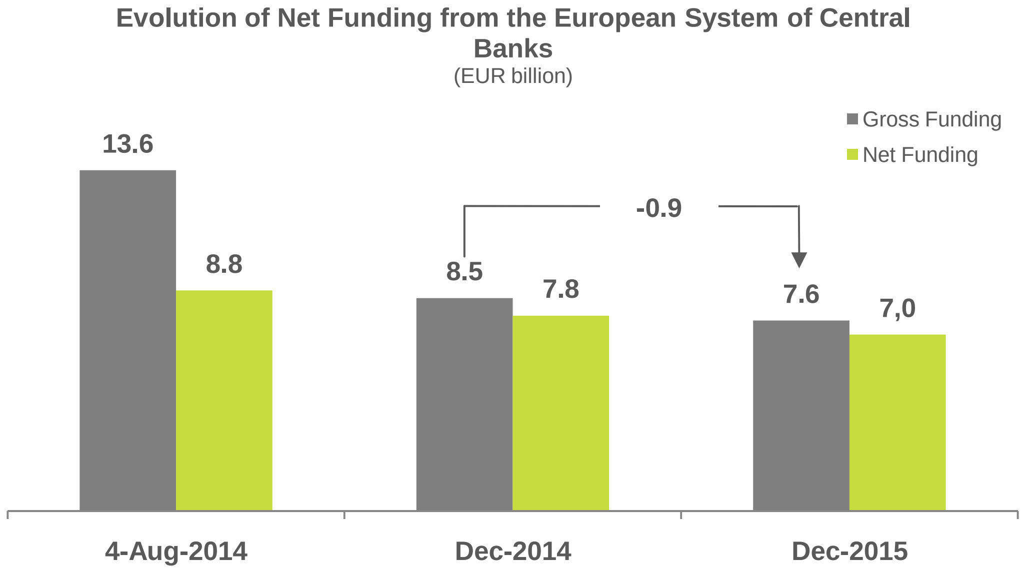
This diversification also allowed the Bank to reduce the concentration of eligible assets, which in 2014 were essentially pooled into Portuguese sovereign debt securities.

This breakdown also shows a change in the composition of the remaining portfolio, with the share of other securities shrinking by 1.2 billion Euros, essentially through a 500 million Euros reduction in the commercial paper portfolio.

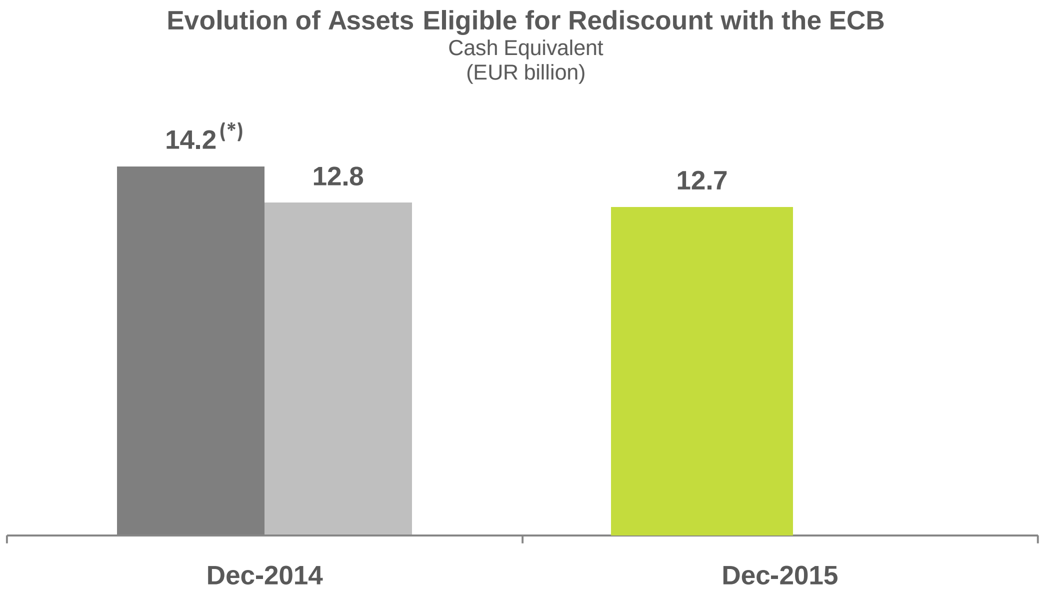
In 2015 the largest negative impact on liquidity resulted from the reimbursements of debt: approximately 2.9 billion Euros in medium/long-term issues placed with institutional investors, of which 1.5 billion Euros were reimbursed in the first half of the year and 1.4 billion Euros in the second half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

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





Hence in 2015 the profile of the Bank's funding shows an increase in the weight of customer deposits against a decrease in the weight of medium and long-term market funding. In addition, the treasury gap slightly deteriorated. This reflects the increase in net funding from central banks, to 7 billion Euros in December 2015, corresponding to a reduction of around 1 billion Euros in deposits with central banks relative to the end of 2014, and of nearly 1.4 billion Euros compared to 4 August 2014.



(*) Considering total liquid assets

On the other hand, the Bank kept the levels of its portfolio of securities eligible for rediscount with the ECB, at 12.7 billion Euros at the end of 2015. This figure included 5.2 billion Euros exposure to sovereign debt, of which 3.3 billion Euros in treasury bills (excluding GNB Vida's exposure). The sovereign debt portfolio was primarily concentrated in European countries, including 2.3 billion Euros of Portuguese sovereign debt, 1.9 billion Euros of Italian sovereign debt, and 0.9 billion Euros of Spanish sovereign debt (excluding GNB Vida's exposure).

In order to secure an additional liquidity buffer, NOVO BANCO extended the maturity of three bond issues guaranteed by the Portuguese Republic totalling 3.5 billion Euros.

5. 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 Board of Directors. The evolution of risk levels is reported to the Risk Committee, on a monthly basis.

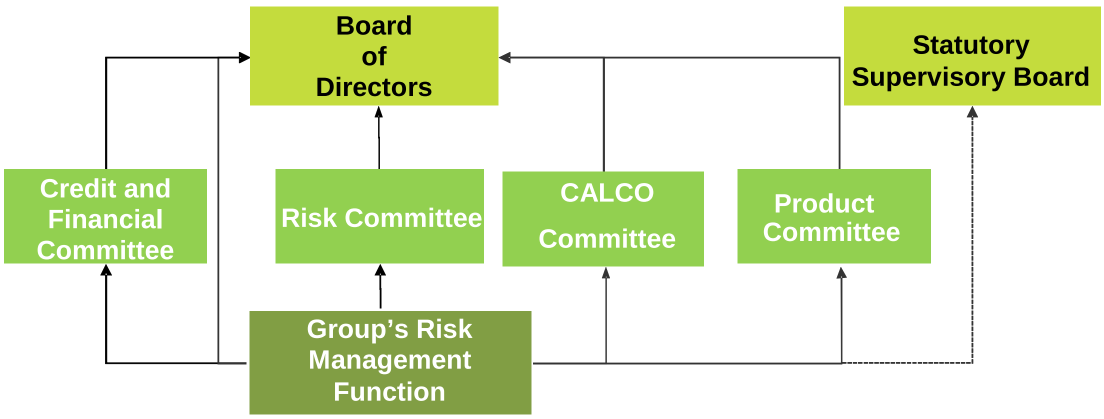
Organisation

At operational level, the Risk Management Function is centralised in the Global Risk Department (GRD), 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, 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 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 describes NOVO BANCO Group's structure of the relevant risk function committees:



Senior Governing Bodies	
Board of Directors	Responsible for defining the target risk profile, establishing global and specific limits. Its responsibility also includes establishing the general principles of risk management and risk control and ensuring that the Group has the necessary skills and resources for that purpose.
Supervisory Board	Responsible for assessing the functioning of the Internal Control System, e.g. the risk control, compliance and internal audit functions within this system, as well as for assessing whether the internal control system is adjusted to NOVO BANCO's needs.

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

Specialised Committees	
Risk Committee	Responsible for monitoring the evolution of the Group's integrated risk profile, and for analysing and proposing methodologies, policies, procedures and instruments to deal with all types of risk, namely credit and operational.
Financial and Credit Committee	Responsible for deciding the main credit operations in which the Group participates, in line with the risk policies defined for the Group.
Capital, Assets and Liabilities Committee – (CALCO)	Responsible for setting targets and monitoring performance for customer loans and customer funds, defining the funding strategy (mismatch balance sheet management) and price / margin startegy, as well as capital optimisation. It also approves the funding product offer and pricing.
Product Committee	Responsible for approving NOVO BANCO Group units and commercial structures' products and services, including asset and liability products.

Support Committees	
Credit Risk Monitoring Committee (CRMC)	Analysis and assessment of clients' creditworthiness, namely if it shows signs of deterioration. Definition of the strategic options for the commercial relationship and the level of active surveillance required by the specific characteristics of each case.
Risk Monitoring Group (RMG)	Monthly analysis of clients showing deterioration in the risk scores automatically given by the models.
Real Estate Risk Monitoring Group (RERMG)	Monitors clients of the real estate sector, considering the specific risk inherent to this industry sector.
IT Risk Committee	Monitors the implementation of the Bank's policies on the information systems risk management

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 its credit granting activity. Management and control of this type of risk are based on an internal system for risk identification, assessment and quantification.

• Organisational Adjustment

As referred in the 2014 Annual Report, in November 2014 NOVO BANCO created a Credit Department (CD). The mission of this new Department is to execute NOVO BANCO’s credit decision function. In 2015 the scope of action of the CD was extended. The CD currently decides on the credit operations of the majority of the Bank's commercial areas, namely retail and corporate loans, and transactions originated by NOVO BANCO Group's international units.

The CD established the segregation of functions between the management role and the commercial relationship with clients. The commercial relationship remains under the remit of the commercial departments of NOVO BANCO, while the decision-making function of credit operations is now of the Credit Department.

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

After 15 months since it started to operate, we may say that the activity of the CD and its alignment with the Group's governance model are perfectly stabilised.

The credit decision process maintains as key support elements the clients' credit risk scorings and ratings and the analyses and recommendations of the Global Risk Department (DRG). The current credit decision model includes a system of checks and balances that allocates the decision-making process on three distinctive areas with well-defined roles (commercial area, credit area and risk area).

The creation of the Credit Department had a vast impact in the credit and risk policies and processes, with the consequent structural implications. NOVO BANCO has been reducing its risk appetite, namely in sectors such as real estate development and construction, and in the concentration of its credit exposure per client. Clients' credit ratings are a key element supporting the decision-making process.

NOVO BANCO holds the IRB certification, using internally developed risk models that cover the main corporate and individual credit portfolios: Medium-sized Companies, Small Companies, Start-Ups, Entrepreneurs, Mortgage Loans, Consumer Credit and Credit Cards. In addition, the Bank uses the templates developed by *Risk Solutions*, customised to the Portuguese reality, to assign internal ratings to the Large Corporate, Municipalities, Financial Institutions, Project Finance and Acquisition Finance portfolios, among others.

Finally, NOVO BANCO also developed models of Loss Given Default (LGD) and Credit Conversion Factors (CCF) for the retail portfolios, based on internal data. The process to determine the Expected Loss Best Estimate (ELBE) was concluded in 2015.

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 transfer of this unit from the Global Risk Department to the Internal Audit Department followed a recommendation of Banco de Portugal. 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 models' validation occurs at least once a year.

In 2015, the Global Risk Department's team responsible for the *risk models* carried out the following main tasks: (i) recalibration of the Mortgage Loans, Consumer Credit and Credit Cards' scoring models, revising the internal definition of default in accordance with recommendations issued by Banco de Portugal, (ii) development of updated LGD estimates for the main retail and corporate clients' portfolios and (iii) development of ELBE estimates, as referred above, also to comply with regulatory requirements.

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.

The Client Credit Risk Monitoring function comprises the following processes:

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

Monitoring of Clients with warning signals (CRMC)

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

Main functions of the CRMC:

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

Risk Monitoring Group (RMG)

The Risk Monitoring Group (RMG) aims to further reinforce the credit risk analysis and control performed within the CRMC process. Given the particular risk presented by the real estate sector, a specific monitoring group was created to deal with clients of this industry sector - the Real Estate Risk Monitoring Group (RERMG).

In the RMG / RERMG process clients are daily classified into three risk categories - Pre-Watchlist, Watchlist and Recovery – according to certain pre-defined risk criteria.

For clients allocated to each of these risk categories, the actions to be executed are established based on standardised work tools (risk cause questionnaire, mitigating actions to develop or recovery plans).

When there is a deterioration of risk, based on the classifications automatically attributed by the model, clients that present the higher risk are analysed at the RMG / RERMG monthly meetings. The meetings analyses the clients' economic and financial characteristics, the mitigation actions under implementation and/or to be carried out, and decides on the risk classification to be attributed, the required future actions and also on the appropriate structure within the Bank to follow up on the new risk mitigation measures.

In 2015, at the meetings of the RMG / RERMG the Bank analysed 370 clients with debts exceeding 3.3 billion Euros.

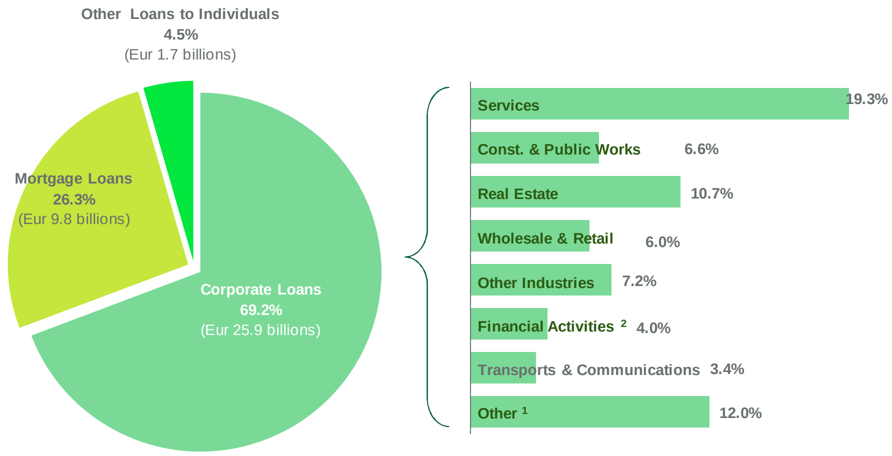
Global analysis of the credit portfolio risk profile

In NOVO BANCO Group, credit portfolio management is an ongoing process that requires interaction among the various teams involved in the risk management 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.

Total Loan Portfolio in December 2015 (Eur 37.4 billions, gross exposure)
(excluding securitized loans)



[1] Other sectors of the economy weighting under 3% each.
[2] Includes Investment Funds.

Credit Portfolio Geographic Breakdown

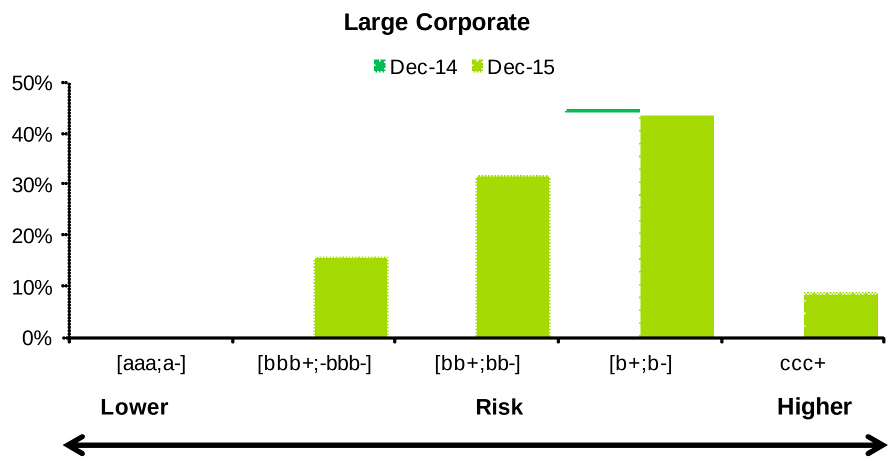
The international activity accounts for a 17.3% share of the loan portfolio, mainly consists in corporate credit.

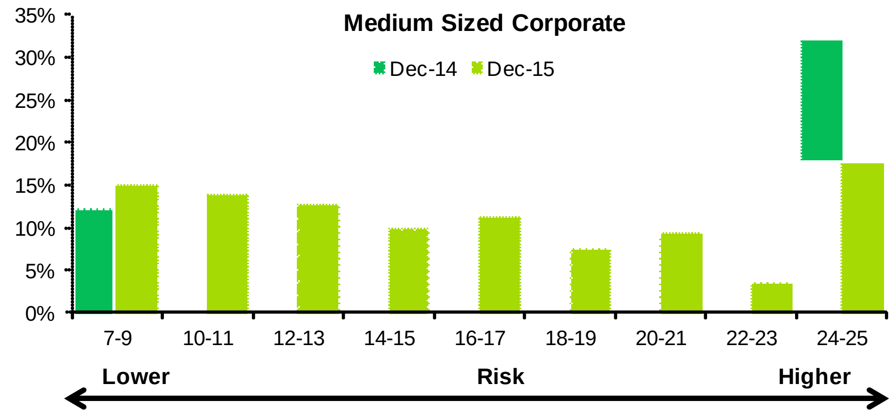
Eur million

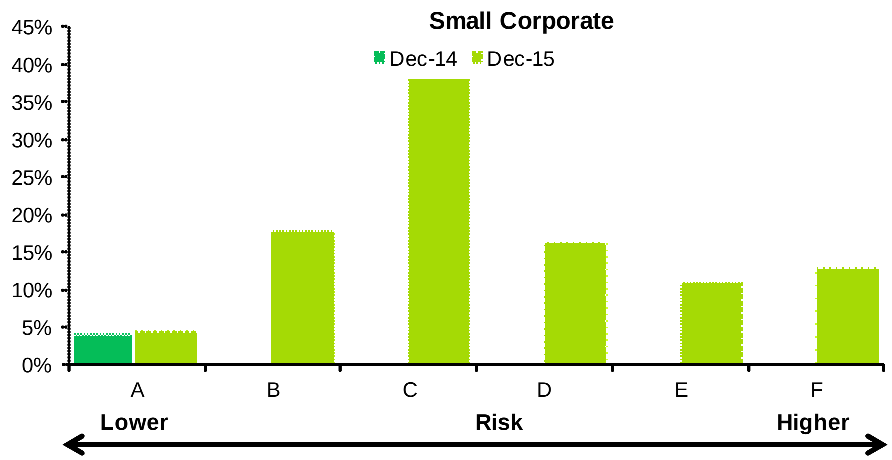
	Domestic Activity			International Activity			Total Grupo Novo Banco		
	Dec-14	Dec-15	weight to total	Dec-14	Dec-15	weight to total	Dec-14	Dec-15	weight to total
Mortgage	9 873	9 562	30.9%	357	280	4.3%	10 230	9 842	26.3%
Loans to Individual (Other)	1 506	1 347	4.4%	315	319	4.9%	1 821	1 667	4.5%
Subtotal	**11 379**	**10 910**	**35.3%**	**672**	**599**	**9.3%**	**12 051**	**11 509**	**30.8%**
Corporate	21 650	20 036	64.7%	6 359	5 872	90.7%	28 009	25 908	69.2%
Total Loans	**33 029**	**30 946**		**7 032**	**6 471**		**40 060**	**37 417**	

Credit Portfolio Breakdown by Rating

NOVO BANCO Group uses internal risk rating systems to support credit decisions and credit risk monitoring. The distribution of ratings in both the corporate and the retail segments reflects the economic activity environment.







Asset Quality

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

Credit Quality

EUR million

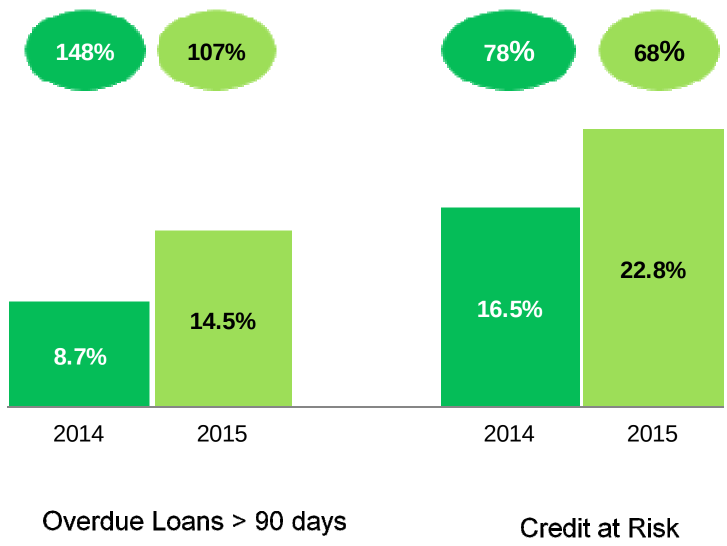
	DEC 2014	DEC 2015	Change	
			absolute	relative
(millions of Euros)				
Gross Loans	40 060	37 416	-2 644	-6.6%
Overdue Loans	3 917	5 791	1 874	47.8%
Overdue Loans > 90 days	3 468	5 412	1 944	56.0%
Credit at Risk [(1)]	6 593	8 547	1 954	29.6%
Restructured Credit [(2)]	5 893	6 634	741	12.6%
Restructured Credit not included in Credit as Risk [(2)]	4 145	3 927	- 218	-5.3%
Credit Provisions	5 131	5 833	702	13.7%
Additional Credit Provisions (accumulated)	378	739	361	95.5%
Indicators (%)				
Overdue Loans / Gross Loans	9.8%	15.5%	5.70	p.p.
Overdue Loans > 90 days / Gross Loans	8.7%	14.5%	5.80	p.p.
Credit at Risk [(1)] / Gross Loans	16.5%	22.8%	6.38	p.p.
Restructured Credit [(2)] / Gross Loans	14.7%	17.7%	3.02	p.p.
Restructured Credit not included in Credit at Risk [(2)]/ Gross Loans	10.3%	10.5%	0.15	p.p.
Coverage of Overdue Loans	131.0%	100.7%	-30.3	p.p.
Coverare of Overdue Loans > 90 days	147.9%	107.8%	-40.2	p.p.
Coverage of Credit at Risk [(1)]	77.8%	68.2%	-9.6	p.p.
Provisions for Credit / Gross Loans	12.81%	15.59%	2.78	p.p.
Cost of Risk	2.27%	1.98%	-0.29	p.p.
Provision Charge Net of Recoveries	2.22%	1.93%	-0.30	p.p.

[(1)] According to the definition included in Instruction no. 23/2011 of Banco de Portugal. Credit at Risk includes: a) total outstanding credit with overdue instalments of principal or interest for a period of more than 90 days; b) total value of outstanding of restructured credits in which payments of principal or interest have been capitalized, refinanced or rescheduled without adequate strengthening of collateral (which shall be sufficient to cover the full outstanding amount of principal and interest) or full repayment of overdue interest; and c) total outstanding credit with overdue instalments of principal or interest for a period of less than 90 days, but for which there is evidence of bankruptcy or liquidation of the debtor.

[(2)] According to the definition included in Instruction no. 32/2013 of Banco de Portugal.

The overdue loans >90 days / gross loans ratio increased to 14.5%, from 8.7% in December 2014. Though decreasing by -40.2 pp, the corresponding provision coverage ratio remains at a comfortable level of 107.8% (147.9% on 31 December 2014).

Non-performing Loans and Provisions Coverage

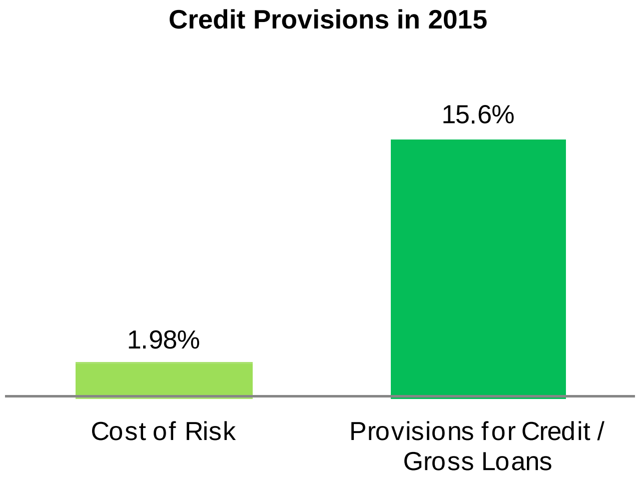


Reflecting the deterioration of the overdue loans ratio, the credit at risk ratio increased from 16.5% to 22.8% in December 2015. This increase was mainly driven by corporate overdue loans (where the ratio rose from 19.2% to 28.1%) due to the weight of this segment in the total portfolio.

Credit at Risk by Type of Credit

	Credit at Risk		Coverage		Balance Sheet Provisions	
	Dec-14	Dec-15	Dec-14	Dec-15	Dec-14	Dec-15
Total Loans	**16.5%**	**22.8%**	**77.8%**	**68.2%**	**12.8%**	**15.6%**
Corporate	19.2%	28.1%	87.5%	73.5%	16.8%	20.7%
Mortgage	7.5%	8.0%	24.9%	24.9%	1.9%	2.0%
loans to Individuals (other)	24.0%	28.3%	51.2%	58.8%	12.3%	16.6%

Credit provisions were reinforced by EUR 739 million. The provision charge net of recoveries was 1.93%.



Exposure to Emerging Markets

As of 31 December 2015, the exposure to emerging markets denominated in foreign currency, as determined under Banco de Portugal's country risk criteria was 1 513 million Euros, representing 2.6% of the consolidated assets.

Eur million

Countries	BdP Risk Weight	31-12-2015					
		Gross Exposure *		Guarantees and Deductions **	Net Exposure		
		Total	Fair Value Reserve		Total	in Foreign Currency	Structure (%)
Latin America		**286**	**0**	**102**	**184**	**83**	**39**
of which:							
Brazil	0%	155	0	12	143	42	30
Mexico	0%	29	0	1	27	27	6
Panama	0%	7	0	3	3	3	1
Venezuela	50%	88	0	84	3	3	1
Eastern-Europe		**38**	**0**	**6**	**32**	**32**	**7**
Asia-Pacific		**94**	**0**	**6**	**88**	**88**	**19**
of which:							
China	0%	18	0	2	16	16	3
Macau	0%	69	0	1	68	68	15
Africa		**1 095**	**0**	**932**	**163**	**151**	**35**
of which:							
Angola	10%	945	0	914	31	31	7
Cape Verde	10%	91	0		91	91	19
Total		1 513	0	1 046	468	355	100
% Net Assets		2.6%			0.8%	0.6%	

* Exposure net of provisions for country risk

** Includes Trade Finance < 1 year in the amount of Euros 14 million

Market Risk

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

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

GNB Vida's holdings are independently monitored by this company's risk area.

• Trading Book Risk

A. 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.

To calibrate the VaR assessment, daily back testing exercises are performed, allowing the comparison of losses foreseen by the VaR model with actual losses. These exercises allow the model to be fine-tuned and its predictive capacity improved. As a complement to the VAR model, stress testing is also carried out to assess the potential losses under extreme scenarios. These analyses are performed either based on a real stress period, by performing individual sensitivity analysis tests 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 the sovereign debt in the available-for-sale and fair value portfolios. The control of VaR and stop loss limits is made daily.

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

B. Market Risk Analysis

NOVO BANCO Group's value at risk (VaR) as at 31 December 2015 was 20.9 million Euros in its trading portfolio positions in equities, interest rate instruments, volatility and credit spreads, as well as in the commodities and FX global positions and in sovereign debt booked in the available-for-sale and fair value portfolios. This figure compares with 50.6 million Euros as at 31 December 2014, the decrease being mainly explained by the contraction of the price risk in the trading portfolio and the reduction of the sovereign debt exposure.

Eur million

Value at Risk 99% 10 days			
	31-12-2014	**31-12-2015**	**change**
FX	11.5	8.3	-3.2
Interest Rate	8.4	16.2	7.8
Equities and Commodities	33.9	0.8	-33.1
Credit Spreads	21.9	10.0	-11.9
Volatility	2.2	0.3	-1.9
Diversification Effects	-27.3	-14.7	12.6
Total	**50.6**	**20.9**	**-29.7**

The 20.9 million Euros total VaR essentially originated in interest rate and credit spread risks.

- **Banking Book Risks**

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

Interest Rate Risk

Interest Rate Risk 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 through changes in the underlying value of its assets, liabilities and off-balance sheet elements.

The banking book exposure to interest rate risk is calculated on the basis of the Bank for International Settlements (BIS) methodology, classifying all interest rate sensitive assets, liabilities and off balance sheet items, excluding those from trading, using repricing schedules.

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

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

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

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

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

Other Banking Book Risks

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 decrease in the value of positions in bonds due to changes in that spread.

The risk of Equity Holdings, the risk of Mutual Funds, the risk of Bearer Insurance Certificates (BICs) and the Real Estate Risk can be described as the probability of loss resulting from an adverse change in the market value of these financial instruments.

These risks are assessed in a situation of stress, calculating the 20-year historical VaR at 99.9% with a holding period of one year. In addition, the simulation of extreme scenarios is analysed.

- **Pension Fund Risk**

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

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

The estimated return on the fund's assets represents the maximum loss that the Fund may incur in a period of one year. This return is calculated based on the 20-year historical VaR of the Pension Fund's assets portfolio at the reference date, with a confidence level of 99%.

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

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

Operational Risk

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

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

A. 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, recognized 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 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 the Group's departments, branches and subsidiaries, and their teams, who must guarantee that the established procedures are implemented and are responsible for the day-to-day management of Operational Risk within their sphere of responsibility, is crucial.

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

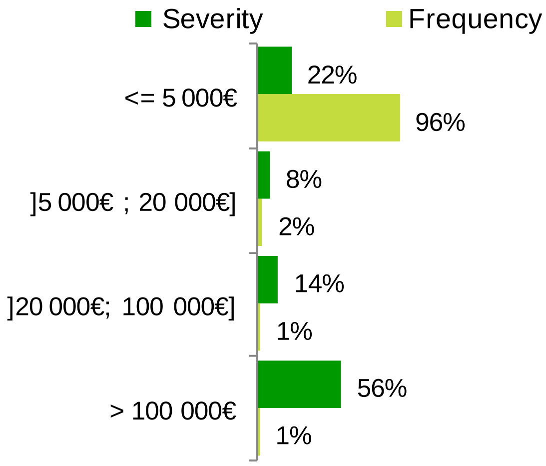
The Global Risk Department and the Operational Risk representatives appointed in each of NOVO BANCO Group's relevant financial institutions are responsible for implementing the operational risk management practices in accordance with the established methodologies, including the following:

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

B. Analysis of Operational Risk

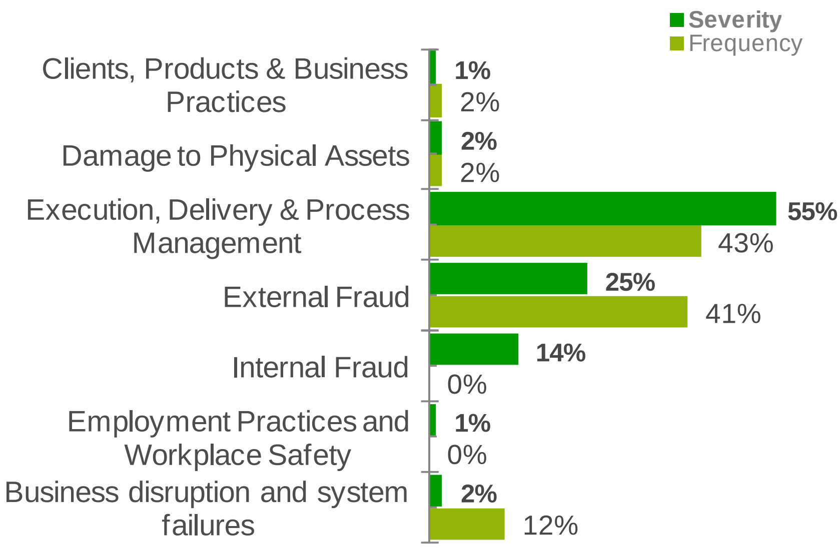
NOVO BANCO Group's operational risk profile shows a high frequency of incidents with low financial impact, and very few incidents with a material impact.

96% of the incidents had a net financial impact below 5 thousand Euros, representing 22% of the total reported losses related to operational risk. Incidents with an impact above 100 thousand Euros were few and represented 56% 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 defined in the Banco de Portugal's Risk Assessment Model, by business lines and Basel Risk types.

The Execution, Delivery and Process Management incidents registered the highest score in terms of frequency with 55% of the incidents representing 43% of the lost amount. Given the large number of transactions processed daily, incidents of this kind are frequent and usual in the banking system, but their impact is usually low since in most cases part or even the full amount of the values involved can be recovered.



Incidents of External Fraud, mostly involving credit cards, show significant frequency and severity rates (41% and 25%, respectively), which is in line with the trend in the financial system.

Liquidity Risk

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

Liquidity risk may 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 assets, even if incurring significant losses. The risk of (re)financing should be reduced through an adequate diversification of funding sources and maturities.

Banks are subject to liquidity risk due to their business of transformation of maturities and therefore a prudent management of liquidity risk is crucial.

A. Management Controls

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

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

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

B. Liquidity Risk Analysis

NOVO BANCO Group's liquidity risk improved in 2015, showing an increase in the portfolio of European sovereign debt net assets, while funding concentration risk was reduced.

Funding from the European Central Bank (ECB) decreased by 900 million Euros compared to the end of 2014, to 7.6 billion Euros. There was also a decrease in the loan to deposit ratio (ratio that measures the relationship between credit and deposits), from 126% in 2014 to 113% at the end of 2015.

At the end of 2015 the portfolio of assets eligible as collateral (after haircuts) for rediscounting operations with the ECB totalled 11.4 billion Eur.

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 Board of Directors as part of the 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 in Banco de Portugal's Notice 6/2013, which regulates the transitional (*phased-in*) arrangements for Own Funds, under said Regulation. 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 the standardised approach is used.

Under the terms of the above-mentioned rules, the capital ratios of NOVO BANCO Group, as of 31 December 2014 and 31 December 2015, were as follows:

Solvency

	31-Dec-14	31-Dec-15	
	Phased-in	*Phased-in*	*Fully implemented*
Common Equity Tier I Ratio	9.5%	13.5%	11.3%
Tier I Ratio	9.5%	13.5%	11.3%
Total Own Funds Ratio	9.5%	13.5%	11.6%

The phased-in Common Equity Tier 1 (CET1) ratio for 31 December 2015 was-13.5%. This is a very significant improvement compared to the CET1 ratio determined for 31 December 2014, that reflects, on the one hand, the strengthening of Own Funds through the decision by Banco de Portugal on 29 December 2015, which offset the erosion of the CET1 caused by the results for the year and the 2015 *phased-in* criteria, and on the other hand the effort to deleverage its activity, which enabled the reduction of risk weighted assets by 8.8 billion Euros during the year (this also includes the effect of the sale of the entire share capital of Banco

Espírito Santo de Investimento S.A. (BESI) to Haitong International Holdings Limited). The fully implemented CET1 ratio for 31 December 2015 was 11.3%.

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, Tier I, Tier II and 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:

Eur million

	Consolidated	
	31-Dec-14	**31-Dec-15**
Realised ordinary share capital	4 900	4 900
Reserves and retained earnings	948	2 293
Net income / (loss) for the period	(498)	(1 004)
Revaluation reserves	(70)	(197)
Non-controlling interests	212	(3)
A - Equity	**5 492**	**5 989**
Revaluation reserves	(214)	(79)
Non-controlling interests	(107)	8
B - Prudential adjustments to Equity	**(321)**	**(71)**
Goodwill and other intangibles	(423)	(293)
Deferred taxes	(277)	(473)
Equity participations in financial entities	(101)	(49)
Other	72	39
C - Prudential deductions	**(729)**	**(776)**
D - Common Equity Tier I (A+B+C)	**4 442**	**5 142**
Eligible instruments for Tier I	2	-
Deductions to Tier I	(2)	-
E - Tier I	**4 442**	**5 142**
Eligible instruments for Tier II	136	108
Deductions to Tier II	(136)	(108)
F - Tier II	**-**	**-**
G - Eligible Own Funds	**4 442**	**5 142**

Risk Weighted Assets

As at 31 December 2015, risk weighted assets totalled 38 168 million Euros, of which 36 469 million Euros (96% of the total) resulted from credit and counterparty risk, 526 million Euros from market risk and 1 173 million Euros from operational risk.

Credit and Counterparty Risk

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

As at 31 December 2015 the 'corporate' risk class was the main contributor to risk weighted assets (65% of the total).

Risk Weighted Assets as at 31 December 2015
By risk class

Eur million

	Risk Weighted Assets	Risk Weighting Factor [1]
Central Administrations or Central Banks	14	0%
Institutions	3 069	45%
Corporate	22 904	65%
Retail Portfolio	2 295	18%
Other	8 188	64%
Total	**36 469**	**50%**

[1] Risk Weighted Factor: Risk Weighted Assets / Position in Original Risk

Market Risk

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

As at 31 December 2015, market risk weighted assets amounted to 526 million Euros, with the main contributors being the interest rate / debt instruments risk (49% of the total) and FX risk (45% of the total).

Annual Change of Risk Weighted Assets

Eur million

		31-Dec-14	31-Dec-15	change
Debt Instruments	Specific Risk	47	0	-47
	General Risk	636	258	-378
	Non-Delta Risk*	0	0	0
	CIE**	0	0	0
Equity Instruments	Specific Risk	32	0	-31
	General Risk	85	4	-81
	Non-Delta Risk*	24	24	0
	CIE**	0	0	0
Commodity Risk	General Risk	1	1	1
	Non-Delta Risk*	0	1	1
Fx Risk	General Risk	337	231	-107
	Non-Delta Risk*	1	5	4
Total		**1 164**	**526**	**-638**

* 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 reduction in the general interest rate risk, with the general FX risk and general equity instruments risk also registering significant decreases.

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 2014 to December 2015, risk weighted assets were reduced by 551million Euros, mainly as a result of changes in the 'Trading and sales', ''Retail banking', 'Commercial Banking' and 'Corporate financing' segments.

Eur million

	31-Dec-14		31-Dec-15	
	Capital Requirements	Risk Weighted Assets	Capital Requirements	Risk Weighted Assets
NOVO BANCO Group	**138**	**1 724**	**94**	**1 173**
Corporate financing	7	94	0	0
Trading and sales	-65	-815	-80	-995
Retail brokerage	2	26	1	18
Commercial banking	131	1 638	122	1 521
Retail banking	53	661	43	534
Payment and settlement	0	0	0	0
Agency services	0	4	0	3
Asset management	9	116	7	91

6. Activity and Results

During 2015 NOVO BANCO Group focused its activity on recovering the confidence of its clients, deleveraging the balance sheet through the selective disposal of assets, and reducing funding from the European Central Bank (ECB), all under a very demanding environment of managing a transition bank. Amongst the main challenges faced by the Group, in terms of reach and relevance, the following should be highlighted:

- improving liquidity levels;
- reinforcing financial strength and achieving solvency levels capable of supporting the development of the Group's activity; and
- simplifying the Group's organisational structure and its balance sheet to promote sustainable profitability levels in the future.

6.1. Activity

Funding

The resumption of normal operating conditions and the consolidation of the relationship with the clients positively influenced the recovery of funding based on retail customer funds, resulting in a more balanced and stable funding structure.

Deposits totalled 27.4 billion Euros on 31 December 2015, increasing by 0.7 billion Euros year-on-year and by 2.7 billion Euros since NOVO BANCO was created.

CUSTOMER FUNDS

Eur million

	04-Aug-14 (1)	31-Dec-14	31-Dec-15	YoY Change	
				absolute	relative
Deposits	24 617	26 626	27 364	738	2.8%
Other Customer Funds (2)	1 538	1 313	218	-1 095	-83.4%
Debt Securities placed with Clients	2 030	1 861	1 331	- 530	-28.5%
Life Insurance Products	6 595	5 841	5 388	- 453	-7.8%
Off-Balance Sheet Funds	9 227	7 099	5 642	-1 457	-20.5%
Total Customer Funds	**44 007**	**42 740**	**39 943**	**-2 797**	**-6.5%**

(1) Information considering the classification of BESI as a unit being discontinued under IFRS 5

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

Customer Loans

NOVO BANCO conducted a very strict and selective lending policy, without ceasing to support the small and medium-sized enterprises, in particular the exporting companies.

CUSTOMER LOANS

Eur million

	04-Aug-14 (1)	31-Dec-14	31-Dec-15	YoY Change	
				absolute	relative
Corporate Lending	**29 308**	**28 009**	**25 908**	**-2 101**	**-7.5%**
Loans to Individuals	**12 354**	**12 051**	**11 509**	**- 542**	**-4.5%**
Mortgage	10 410	10 230	9 842	- 388	-3.8%
Other Loans	1 944	1 821	1 667	- 154	-8.5%
Customer Loans (Gross)	**41 662**	**40 060**	**37 417**	**-2 643**	**-6.6%**
Provisions	**4 945**	**5 131**	**5 833**	**702**	**13.7%**
Customer Loans (Net)	**36 717**	**34 929**	**31 584**	**-3 345**	**-9.6%**

(1) Information considering the classification of BESI as a unit being discontinued under IFRS 5

Net customer loans decreased by 3.3 billion Euros (-2.6 billion Euros in gross terms) in 2015 and by 5.1 billion Euros compared to the opening balance sheet. The contraction of gross customer loans occurred across all segments, namely in corporate loans, which decreased by 2.1 billion Euros (-7.5%), mainly through the reduction in large exposures, residential mortgage loans (-0.4 billion Euros or -3.8%), and other loans to individuals (-0.2 billion Euros or -8.5%).

Securities Portfolio

The securities portfolio, the main source of eligible assets for funding operations with the ECB, totalled 13.4 billion Euros on 31 December 2015 and represented 23.2% of total assets.

The breakdown of the securities portfolio shows a higher weight of Euro Zone sovereign debt securities, reflecting a more conservative portfolio management approach, based on securities with lower risk and higher liquidity. The bonds and other securities portfolio decreased by more than 1.2 billion Euros in 2015.

SECURITIES PORTFOLIO

Net of impairments					Eur million
	04-Aug-14 [1]	31-Dec-14	31-Dec-15	YoY Change	
				absolute	relative
Portuguese Sovereign Debt	1 670	1 948	2 685	737	37.8%
Other Sovereign Debt	3 175	2 600	4 689	2 089	80.3%
Bonds	4 509	3 558	2 671	- 887	-24.9%
Other	4 113	3 658	3 307	- 351	-9.6%
Total	**13 467**	**11 764**	**13 352**	**1 588**	**13.5%**

(1) Information considering the classification of BESI as a unit being discontinued under IFRS 5

Liquidity

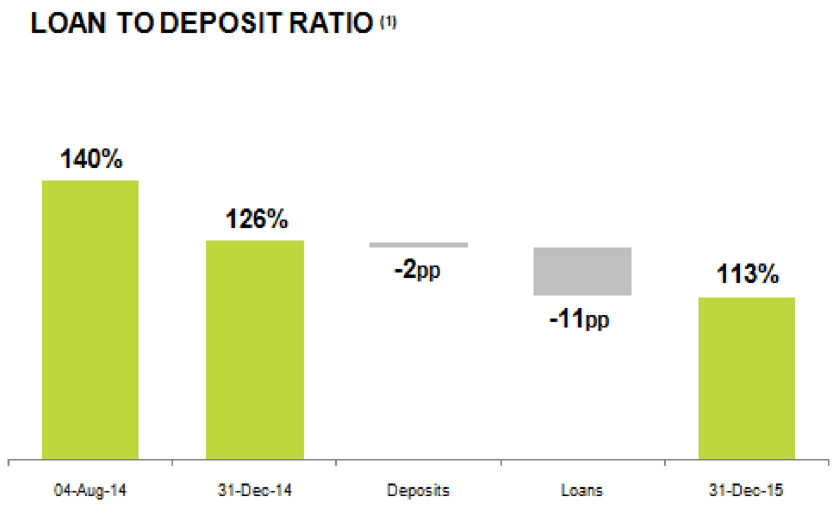
During the year the Group reimbursed approximately 2.9 billion Euros of medium long-term debt, of which 1.5 billion Euros in the first half of the year and 1.4 billion Euros in the second. In so far as access to the financial markets remained much constrained, these reimbursements were secured through strict balance sheet management.

Hence, in line with the trend seen since the end of 2014 and as a result of the efforts undertaken, customer deposits increased by more than 0.7 billion Euros.

The Group's liquidity position was also positively influenced by the continuing deleveraging process of non-core assets from the credit and the securities portfolios, with the exception of the securities sovereign debt portfolio that increased by 2.8 billion Euros in order to meet the aforementioned new liquidity requirements.

The Group kept the levels of its portfolio of securities eligible for rediscount with the ECB, at 12.7 billion Euros at the end of 2015. This figure included 5.2 billion Euros exposure to sovereign debt, of which 3.3 billion Euros in treasury bills (excluding GNB Vida's exposure).

The recovery of the deposits base and contraction of the loan book significantly improved the loans to deposits ratio, which decreased to 113% at the end of 2015, down by 13 p.p. on the end of 2014.

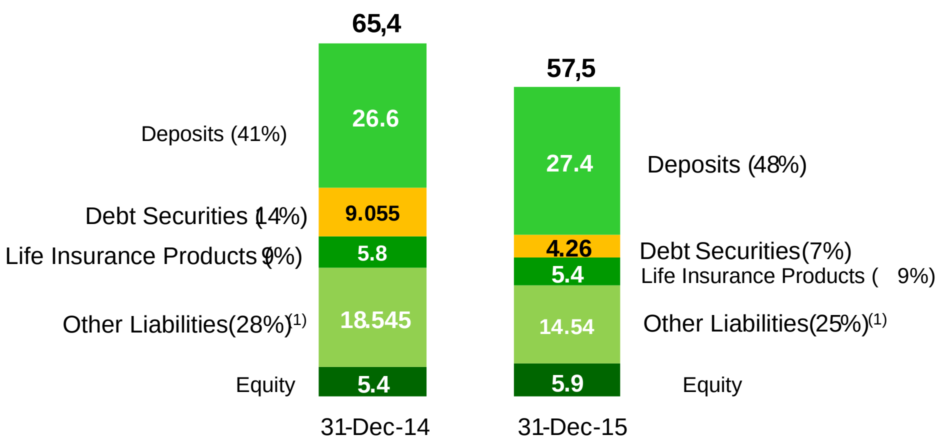


(1) Information considering the classification of BESI as a unit being discontinued under IFRS 5 on 4-Aug-14.

As at 31 December 2015 the funding structure improved, as there was an increase in the weight of customer deposits and a reduction in the reliance on the financial markets, making treasury management more autonomous and less dependent on cyclical fluctuations in debt capital markets.

FUNDING STRUCTURE

(figures in Eur billion)



(1) Includes ECB Funding

At the end of 2015 deposits was the main funding source (48%), while debt securities accounted for only 7% of total assets, in sharp contrast to the situation on 31 December 2014, when debt securities accounted for 14% and deposits for 41% of the funding sources.

Equity

The changes in equity in 2015 reflects, on the one hand, the impact of Banco de Portugal's decision of 29 December 2015, which determined the re-transfer to BES of a set of non-subordinated bonds originally issued by that entity, the impact of which was reflected in "other reserves", and on the other hand, the net loss recognised in the year and the negative value of the revaluation reserves (securities portfolio fair value reserves and actuarial deviations in the Pension Fund). On 31 December 2015 the Group's equity was approximately 5.9 billion Euros.

EQUITY

Eur million

	04-Aug-14 (1)	31-Dec-14	31-Dec-15	Absolute YoY Change
Share Capital	4 900	4 900	4 900	0
Revaluation Reserves	-	- 70	- 250	- 180
Other Reserves and Retained Earnings	1 066	948	2 221	1 272
of which:				
Impact of Banco de Portugal's decision (29-dec-15)	-	-	1 922	1 922
Incorporation of previous period net profit / ((loss)	-	-	- 498	- 498
Profit / (loss) for the period	-	- 498	- 981	- 483
Non-controlling Interest	134	129	57	- 72
Total	6 100	5 410	5 947	537

(1) Information considering the classification of BESI as a unit being discontinued under IFRS 5

The reduction in the revaluation reserves is related with gains / losses realised in sales in the available-for-sale securities portfolio and the recognition of 49.1 million euros negative actuarial deviations in the Pension Fund.

Special Regime for Deferred Tax Assets

Under the terms of Law no. 61/2014, of 26 August, NOVO BANCO adhered to the special regime applicable to deferred tax assets (DTAs) resulting from impairment losses in loans and employee benefits, which came into force on 1 January 2015. Under this regime, DTAs may be converted into tax credits when a taxable entity reports net losses or enters into liquidation proceedings through voluntary winding up, insolvency decreed by court ruling, or, where applicable, when its license is revoked by the competent supervision authority.

In this context, NOVO BANCO's individual loss for 2015, after approval by NOVO BANCO's corporate bodies, will imply the following in 2016:

- the conversion of eligible deferred tax assets into tax credits;
- the simultaneous creation of a special reserve and rights of conversion into shares attributable to the State.

The conversion of eligible deferred tax assets into tax credits as a result of the net loss determined in the 2015 accounts must be made in the same proportion as that between the amount of the loss and the total equity at individual level. The special reserve should be set up for the same amount of the tax credit determined plus 10%, and should be included in the share capital. The conversion rights are securities that entitle the State to demand from NOVO BANCO the corresponding capital increase through the incorporation of the amount of the special reserve and consequent issuance and allotment free of charge of ordinary shares. The Resolution Fund, as the sole shareholder of NOVO BANCO, has the potestative right to acquire the conversion rights from the State.

The amount of the deferred tax assets converted into tax credits, the creation of the special reserve and the issuance and allocation to the State of the conversion rights must be certified by a chartered accountant.

6.2 Results

The performance of NOVO BANCO Group in 2015 was conditioned by its exceptional circumstances as a transition bank, which impacted several of its areas of activity, and also by the unfavourable situation in Portugal, characterised by a still sluggish economic activity, high unemployment and interest rates at very low levels.

INCOME STATEMENT

Eur million

	2015
Net Interest Income	450.7
+ Fees and Commissions	355.6
= **Commercial Banking Income**	**806.2**
+ Capital Markets	117.9
+ Other Results	- 44.5
= **Banking Income**	**879.6**
- Operating Costs	754.7
= **Net Operating Income**	**125.0**
- **Net Provisions**	**1 057.9**
Credit	739.3
Securities	236.2
Other Assets and Contingencies	82.4
= **Income before Taxes**	**- 933.0**
- Corporate Income Tax	31.0
- Special Tax on Banks	31.4
= **Income after Taxes**	**- 995.4**
- Non-controlling Interests	- 14.8
= **Net Income**	**- 980.6**

NOVO BANCO posted a net loss for the year of 980.6 million Euros, where the following should be highlighted:

- net operating income (before provision and impairment) was positive, at 125.0 million Euros;
- banking income totalled 879.6 million Euros, with a 51% contribution from net interest income; capital markets results reached 117.9 million Euros; other results were negative in -44.5 million Euros and include significant costs such as the contributions to the European Single Resolution Fund (-25.3 million Euros) and to the Portuguese Resolution Fund (-6.7 million Euros);
- operating costs decreased by 12.7% YoY on a comparable basis, to 754.7 million Euros.
- a provision charge of 1,057.9 million Euros and the write-off of 2013 tax losses carry forward (-160.0 million Euros) determined a net loss for the year of 980.6 million Euros.

Net Interest Income

The performance of net interest income was impacted by the sustained decline of benchmark interest rates and the need to stabilise the customer funding, while simultaneously promoting the reduction of funding from the European System of Central Banks (ESCB).

In 2015 net interest income was negatively impacted by the accounting annulment of interest in the amount of 172.0 million Euros, of which a large part related to non-recurrent large transactions. In the last quarter of 2015 the annulment of overdue interest (18.7 million Euros) was significantly lower than in the previous quarters, pointing to the stabilisation of net interest income.

Net interest income totalled 450.7 million Euros, accounting for 51% of banking income. The net interest margin was 0.93%, underpinned by an average interest rate on financial assets of 2.85% (impacted by the annulment of interest) and an average rate on liabilities of 1.93%, strongly influenced by the decrease in the cost of deposits to 1.27% (Dec-14: 1.48%), which compare with an average 3-month Euribor in the year of -0.03%.

NET INTEREST INCOME AND NET INTEREST MARGIN

Eur million

	2015		
	Average Balance	Avg Rate (%)	NII
INTEREST EARNING ASSETS	48 694	2.85%	1 389
Customer Loans	38 829	2.80%	1 088
Money Market Placements	2 782	1.39%	39
Securities and Other Assets	7 083	3.71%	263
OTHER NON-INTEREST EARNING ASSETS	-	-	-
INTEREST EARNING ASSETS & OTHER	**48 694**	**2.85%**	**1 389**
INTEREST BEARING LIABILITIES	47 455	1.98%	938
Due to Customers	27 773	1.27%	352
Money Market Funding	9 864	0.81%	80
Other Liabilities	9 818	5.15%	506
OTHER NON-INTEREST BEARING LIABILITIES	1 239	-	-
INTEREST BEARING LIABILITIES & OTHER	**48 694**	**1.93%**	**938**
NIM/NII		**0.93%**	**451**

The average rate on customer loans, the main component of financial assets (79.7%), was 2.80%. As to customer funds, the average balance of deposits was 27.8 billion Euros (average interest rate of 1.27%).

The fact that benchmark interest rates remain close to zero or are even negative continues to pose an unprecedented challenge to the management of assets and liabilities and to profitability.

Fees and Commissions

Fees and commissions on banking services amounted to 355.6 million Euros, with the following breakdown:

FEES AND COMMISSIONS

Eur million

	2015
Collections	4.9
Securities	22.2
Guarantees issued	43.3
Account management	67.3
Commissions on loans and other [1]	63.8
Documentary credits	30.0
Asset management [2]	55.1
Cards	22.8
Bancassurance	24.4
Advising, Servicing and Other	56.3
Costs with State Guarantees	-34.4
TOTAL	**355.6**

[1] Includes commissions on loans, export financing and factoring
[2] Includes investment funds and portfolio management

In the activity of NOVO BANCO Group we stress the importance of the following:

- Support services to companies – including guarantees provided, documentary credits, and loan management and similar services (approximately 38.6% of the total);
- Commissions on payment services – cards (22.8 million Euros) and payment means (67.3 million Euros), namely cheques, transfers, payment orders, POS and ATMs, and also account management fees; and
- *Bancassurance* and asset management products, which accounted for approximately 22.4% of total fees and commissions.

Fees and commissions include the negative effect of 34.4 million Euros paid by NOVO BANCO in connection to debt securities issues guaranteed by the Portuguese State.

Capital Markets and Other Results

Capital market results of 117.9 million Euros were essentially driven by gains on the sovereign bond market.

The other operating results were a loss of 44.5 million Euros, underpinned by costs with the contributions to the European Single Resolution Fund (-25.2 million Euros) and to the Portuguese Resolution Fund (-6.8 million Euros).

Operating Costs

Reducing operating costs was one of the objectives pursued during the year, in order to improve NOVO BANCO Group's efficiency levels. To this end, significant steps were made towards the simplification / decrease of NOVO BANCO's organisational structure and processes, while also adjusting the distribution network to the new business reality.

Hence in 2015 NOVO BANCO closed the New York, Nassau and Cape Verde branches and reduced its domestic branch network by 35 units.

OPERATING COSTS

Eur million

	2015	Relative YoY Change (comparable basis)
Staff Costs	397.6	-8.2%
General and Administrative Costs	285.4	-15.9%
Depreciation	71.7	-22.3%
TOTAL	**754.7**	**-12.7%**

Staff costs, in the amount of 397.6 million Euros, include 22.8 million Euros in early retirement and redundancy costs (involving 147 employees).

In 2015 NOVO BANCO reduced its payroll by 277 employees on an individual basis and by 411 at group level. The reduction in its payroll since 4 August 2014 was 1 378 employees, of which 802 employees resulting from the sale of BESI.

Excluding non-recurrent costs, operating costs totalled 731.9 million Euros in 2015.

Provisions

In 2015 the NOVO BANCO Group reinforced provisions by 1,057.9 million Euros, the bulk of which was allocated to credit provisions.

PROVISIONS

	Eur million
	2015
Credit	739.3
Securities	236.2
Other Assets and Contingencies	82.4
TOTAL	**1 057.9**

The credit provision charge totalled 739.3 million Euros, improving the credit provisioning ratio to 15.6%, from 12.8% in December 2014. The provisions for securities include the devaluation of debt securities issued by clients (110.9 million Euros) and of the investments in Pharol and Oi (76.1 million Euros). Provisions for other assets and contingencies include 78.9 million Euros related with real estate assets.

6.3 NOVO BANCO Activity and Results

Activity

NOVO BANCO's activity in 2015 was developed under the same guidelines already referred to for the Group.

Despite the challenges brought by the resolution measure, its complexity and extraordinary status, NOVO BANCO was able to recover client confidence and stabilise its funding sources. Deposits stabilised at around 27 billion Euros, but increased by 970 billion Euros compared to 4 August 2014.

ACTIVITY INDICATORS

Eur million

	04-Aug-14	31-Dec-14	31-Dec-15	YoY Change	
				absolute	relative
Total Assets	**62 709**	**56 291**	**51 276**	**-5 015**	**-8.9%**
Gross Loans	**38 092**	**36 269**	**33 710**	**-2 559**	**-7.1%**
Loans to Individuals	9 590	9 344	8 917	- 427	-4.6%
- Mortgage	7 800	7 666	7 399	- 267	-3.5%
- Other Loans to Individuals	1 790	1 679	1 518	- 161	-9.6%
Corporate Loans	28 501	26 924	24 793	-2 131	-7.9%
On-Balance Sheet Customer Funds	**28 297**	**29 087**	**28 120**	**- 967**	**-3.3%**
- Deposits	26 059	26 982	27 030	48	0.2%
- Other Customer Funds (1)	788	857	208	- 649	-75.7%
- Debt Securities placed with Clients	1 450	1 248	882	- 366	-29.4%

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

The implementation of the deleveraging plan to reduce the balance sheet led to 8.9% year-on-year decrease in assets to 51.3 billion Euros at the end of 2015.

Regarding the loan portfolio a very strict and selective policy was implemented, without ceasing to support the small and medium-sized companies in general and the exporting companies in particular. Gross customer loans fell by 2.6 billion Euros, with reductions across all segments, and in particular in corporate loans, which contracted by 2.1 billion Euros.

The Overdue loans > 90 days / Gross loans ratio increased to 15.1%, with the corresponding coverage ratio standing at 112.1%. The Provisions for Credit / Gross Loans ratio improved, reaching 16.9% at the end of 2015 (a 240 basis points increase from 31 December 2014).

CREDIT QUALITY

	04-Aug-14	31-Dec-14	31-Dec-15	YoY Change absolute	YoY Change relative
millions of Euros					
Gross Loans	38 092	36 269	33 710	- 2 559	-7.1%
Overdue Loans	3 056	3 509	5 351	1 842	52.5%
Overdue Loans > 90 days	2 893	3 168	5 089	1 921	60.7%
Provisions for Credit	4 966	5 251	5 705	454	8.7%
(%)					
Overdue Loans / Gross Loans	8.0	9.7	15.9	6.2 p.p.	
Overdue Loans >90 days / Gross Loans	7.6	8.7	15.1	6.4 p.p.	
Coverage of Overdue Loans	162.5	149.7	106.6	-43.1 p.p.	
Coverage of Overdue Loans > 90 days	171.6	165.7	112.1	-53.5 p.p.	
Provisions for Credit / Gross Loans	13.0	14.5	16.9	2.4 p.p.	

Results

NOVO BANCO reported an accumulated net loss in 2015 of 1,115.7 million Euros, underpinned by provision charges (919.5 million Euros) and operating costs (664.8 million Euros) that together exceeded the year's banking income (496.8 million Euros).

INCOME STATEMENT

Eur million

	2015
Net Interest Income	**247.7**
+ Fees and Comissions	307.4
= Commercial Banking Income	**555.1**
+ Capital Markets and Other Results	-58.3
= Banking Income	**496.8**
- Operating Costs	664.8
= Net Operating Income	**-168.0**
- Net Provisions	919.5
Credit	411.4
Securities	213.6
Other	294.5
= Income before Taxes	**-1087.5**
- Corporate Income Tax	-3.0
- Special Tax on Banks	31.2
= Net Income	**-1115.7**

Banking income totalled 496.8 million Euros, with net interest income and fees and commissions weighting 50% and 62% of that figure, respectively. The fact that operating costs exceeded banking income impacted the efficiency indicators, which were higher than 100**%.** Staff costs, amounting to 333.6 million Euros account for 50% of operating costs and include 22.7 million Euros related to early retirements and redundancy payments.

Activity of the International Branches

NOVO BANCO's international branches support the Bank and the Group's international activity.

A brief description the activity of NOVO BANCO's international branches is presented in Chapter 2. International Commercial Banking.

7. 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 2015

Resolution Fund	Number of shares	% share capital with voting rights
Directly	4,900,000,000	100%
Total attributable	4,900,000,000	100%

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

There are no restrictions on voting rights or systems whereby the financial rights attaching to securities are separated from the holding of securities.

D - Appointment and replacement of members of the Board of Directors and changes in the Bank's Bylaws
Rules on the appointment and replacement of members of the Board of Directors and on changes in the Bank's Bylaws

The members of the Board of Directors and supervisory bodies are appointed by Banco de Portugal, based on a proposal by the Management Committee of the Resolution Fund ("*Comissão Diretiva do Fundo de Resolução*") (under article 145 – F number 2 and 145 - G of the RGISF – "*Regime Geral das Instituições de Crédito e Sociedades Financeiras"* (General Law on Credit Institutions and Financial Companies) and article 8 of Banco de Portugal's Notice number 13/2012).

Said members may, at any time, be removed from office by resolution of Banco de Portugal, and Banco de Portugal will appoint new members to replace them under a proposal by the Management Committee of the Resolution Fund,

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

Detailed information about the members of the Board of Directors and supervisory bodies is provided under point 1. NOVO BANCO.

E - Powers of the management body

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

The powers of the Board of Directors are defined by law and by the Bylaws of NOVO BANCO, with the limitations inherent to its status of transition bank and those resulting from the commitments assumed following the European Commission's decision regarding the resolution of Banco Espírito Santo, S.A..

Accordingly, in addition to normal management powers, under the Bylaws of NOVO BANCO and the provisions of Banco de Portugal's Notice number 13/2012, which regulates transition banks, the Board of Directors is specifically empowered to:

a) Prepare and present half-yearly activity plans, to be submitted to the Banco de Portugal and to the Resolution Fund;

b) Steer their actions towards maximising the value of the assets received so as to enhance their disposal under favourable terms;

c) Sell certain assets of NOVO BANCO, S.A., always taking into account the guiding principles for the activity and market conditions;

d) Boost the operational activity so as to preserve business value;

e) Comply with the guidelines and recommendations issued by the Banco de Portugal, under its legal powers;

f) Assist Banco de Portugal in preparing the sale, in total or in part, of the share capital of NOVO BANCO or of its assets.

The Board of Directors has no powers to decide on share capital increases, which are 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.

NOVO BANCO's Internal Control System (ICS) consists in the set of principles, strategies, policies, systems, processes, rules and procedures established in the Group with the objective of guaranteeing:

- the efficiency and profitability in 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 frauds;
- 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;

- the compliance with the applicable legal and regulatory provisions, including those concerning the prevention of money laundering and terrorism financing, as well as professional and ethical standards and practices, internal and statutory rules, rules on conduct and relationship with the clients, the guidelines from the corporate bodies and the recommendations of the Basel Committee on Banking Supervision and the European Banking Authority (EBA), so as to preserve the reputation of the institution.

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

Business and Operational Functions (First Line of Defense)

- Assumes risk within predefined limits;
- Are responsible for the continuous identification, assessment and control of the business risks and risks from the processes.

Control and Support Functions (Second Line of Defense: Risk Management, Compliance, Information Management, Capital Management, Financial Management, Accounting, Legal and Organisation)

- Defines risk management and control policies, methodologies and tools, exercising functional supervision to support and monitor the effectiveness of the First Line;
- Monitor and report on regulatory compliance;
- Responsible for information management and reporting to senior management.

Internal Audit (Third Line of Defense)

- Provide for the assessment of the appropriateness and effectiveness of the governance, risk management and internal control systems under the responsibility of the First and Second Lines of Defense;
- Focus in particular on the assessment of the effectiveness of the Second Line of Defense.

The Compliance Function, through its ICS Management area, centralises a set of additional responsibilities concerning the management of the internal control system, namely:

- to guarantee, together with the sponsors, that the Internal Control, Business and General Controls Manuals are up to date, drafting or revising them;

- To disseminate common guidelines on internal control management, as well as the parent company's methodological approach, within the NOVO BANCO Group, through in-class training and/or the delivery of training contents to the various entities of the Group responsible for Internal Control, so as to ensure coordination and the consistency of the ICS within the scope of consolidated supervision;
- To coordinate and ensure the consistency of the process of preparing the annual Internal Control Reports (ICRs), providing specific guidelines to the entities of the NOVO BANCO Group on the methodology and structure to be applied to the reports so as to ensure their harmonisation, subsequently validating them prior to reporting, and seeking to ensure the completeness and consistency of the legally required information.

During 2015 the NOVO BANCO Group's ICS was subject to an external assessment aimed at:

- obtaining a sustained understanding of the Internal Control System currently implemented,
- assessing the existing mismatch between the ICS's current level of development, the regulatory requirements and the internal expectations;
- identifying needs for intervention and opportunities for improvements to be implemented.

On the other hand, the Group is revising its internal control governance model, in order to guarantee:

- greater strength and specialisation in the internal control issues, allowing to the management and supervision bodies a more comprehensive view of the ICS;
- increase of the ICS's internal empowerment, reinforcing the Second Line of Defense;
- Elimination of conflicts of interest through the independence of the remaining control functions.

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

NOVO BANCO, S.A.
Art. 85/9 of RGICSF - Loans to members of the Corporate Bodies - Amount granted as at 31.12.2015*

Name / Denomination	Role	Amount (in Euros)
Eduardo José Stock da Cunha	Chairman of the Board of Directors	145.00
Jorge Telmo Maria Freire Cardoso	Member of the Board of Directors	28.35
Related companies		583.95
José João Guilherme	Member of the Board of Directors	66.93
Francisco Ravara Cary	Member of the Board of Directors	168,499.33
Closely related people		1,455.82
Related companies		1,408.77
Francisco Marques da Cruz Vieira da Cruz	Member of the Board of Directors	98,405.29

* The amount of loans granted to entities of the NOVO BANCO and related entities is detailed in Note 39 – Related Party Transactions of the Notes to the Separate Financial Statements.

Note: The amounts in the table above concern exclusively to Mortgage Loans and Credit Cards.

H – Remuneration of the Members of the Corporate Bodies

H 1 – Remuneration Policy:

NOVO BANCO does not have a defined Remuneration Policy for Members of the Corporate Bodies since they are appointed by Banco de Portugal, according to point D of 7. Corporate Governance.

H 2 – Remunerations in 2015:

Under the terms of Law 28/2009 of 19 June, credit institutions are forced to disclose in the annual financial statements the annual amount of the remunerations of Members of the Corporate Bodies, on an individual and aggregate basis. This obligation arises also from Notice number 10/2011 (article 17/2) of Banco de Portugal.

The annual amount of remuneration received, on an individual and aggregate basis, by the Members of the Corporate Bodies of NOVO BANCO in 2015 was the following:

(EUR)

Board of Directors	Role	Paid by NOVO BANCO	Paid by other Entities of NB Group	Total
Eduardo José Stock da Cunha	Chairman of the Board of Directors	384,701.33	-	384,701.33
Jorge Telmo Maria Freire Cardoso	Member of the Board of Directors	271,393.60	-	271,393.60
Vítor Manuel Lopes Fernandes	Member of the Board of Directors	271,393.60	-	271,393.60
José João Guilherme	Member of the Board of Directors	271,393.60	-	271,393.60
Francisco Ravara Cary	Member of the Board of Directors	255,207.55	3,000.00	258,207.55
Francisco Marques da Cruz Vieira da Cruz	Member of the Board of Directors	212,676.61	-	212,676.61
		1,666,766.29	**3,000.00**	**1,669,766.29**

Supervisory Board	Role	Paid by NOVO BANCO	Paid by other Entities of NB Group	Total
José Manuel de Oliveira Vitorino	Chairman of the Supervisory Board	101,027.24	-	101,027.24
José António Noivo Alves da Fonseca	Member of the Supervisory Board	71,836.90	-	71,836.90
José Francisco Claro	Member of the Supervisory Board	71,573.63	-	71,573.63
		244,437.77	**-**	**244,437.77**

Note: In 2015 the remuneration was only fixed remuneration. However the amounts for Mr. Francisco Cary includes the payment in May 2015 of a Premium related to length of service as established in the Collective Labour Agreement for the banking sector.

H 3 – Remuneration paid as participation in the profits and/or as payment of premiums:

Nothing to report

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

Nothing to report

H 5 – Indemnities paid or due to ex-Members of the Board of Directors related to the cessation of its functions during the period:

Nothing to report

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

Nothing to report

I – Bond securities held by Members of the Corporate Bodies

According to Article 447 of the Commercial Companies Code (Announcement of participations of Members of the Corporate Bodies), there is nothing to report by Members of the Board of Directors and by Members of the Statutory Supervisory Board of NOVO BANCO in what concerns situations defined in the Article namely as to the holding as at 31 December 2015 or transactions during 2015 of shares or bonds.

8. Financial Statements

8.1 Consolidated Financial Statements

NOVO BANCO, S.A.

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2015 AND 2014

Eur thousand

	31.12.2014	31.12.2015
ASSETS		
Cash and deposits with Central Banks	2 747 077	775 608
Deposits with banks	490 856	340 209
Financial assets held for trading	1 062 517	775 039
Other financial assets at fair value through profit or loss	2 230 388	1 526 193
Available-for-sale financial assets	9 478 469	11 810 712
Loans and advances to banks	1 044 286	1 690 628
Loans and advances to customers	34 929 314	31 583 759
Assets with Repurchase Agreement	-	-
Financial Assets held to maturity	-	-
Derivatives held for risk management purposes	404 582	318 596
Non-current assets held for sale	2 747 168	3 182 479
Assets from discontinued operations	4 209 800	40 327
Investment properties	297 133	54 625
Other tangible assets	397 088	312 437
Intangible assets	253 732	221 168
Investments in associated companies	402 289	405 486
Current tax assets	29 962	38 848
Deferred tax assets	2 505 608	2 535 423
Technical reserves of reinsurance ceded	8 038	7 696
Other assets	2 179 173	1 910 126
Debtors for direct and indirect insurance	1 263	3 019
Other assets	2 177 910	1 907 107
TOTAL ASSETS	**65 417 480**	**57 529 359**
LIABILITIES		
Deposits from central banks	8 611 709	7 632 794
Financial liabilities held for trading	1 045 648	743 860
Other financial liabilities at fair value through profit or loss	-	-
Due to banks	2 623 864	4 157 132
Due to customers	27 938 053	27 582 142
Debt securities issued	9 032 956	4 224 658
Financial liabilities related to transferred assets	-	-
Derivatives held for risk management purposes	104 140	77 846
Investment contracts	4 379 442	4 043 488
Non-current liabilities held for sale	330 903	162 709
Liabilities from discontinued operations	3 072 720	92 893
Provisions	409 723	465 114
Technical reserves	1 461 070	1 344 216
Current tax liabilities	34 273	38 643
Deferred tax liabilities	50 309	12 336
Equity Instruments	-	-
Other subordinated debt	54 794	56 260
Other liabilities	858 063	947 625
Creditors for direct and indirect insurance	10 132	17 301
Other liabilities	847 931	930 324
TOTAL LIABILITIES	**60 007 667**	**51 581 716**
EQUITY		
Share Capital	4 900 000	4 900 000
Share premium	-	-
Other equity instruments	-	-
Treasury stock	-	-
Revaluation Reserves	(70 255)	(249 748)
Other Reserves and Retained Earnings	948 267	2 221 368
Profit / (loss) for the period	(497 645)	(980 558)
Interim Dividends	-	-
Non-controlling Interest	129 446	56 581
TOTAL EQUITY	**5 409 813**	**5 947 643**
TOTAL LIABILITIES AND EQUITY	**65 417 480**	**57 529 359**

The Chief Accountant

The Board of Directors

NOVO BANCO, S.A.

CONSOLIDATED INCOME STATEMENT AS AT 31 DECEMBER 2015 (1)

Eur thousand

	31.12.2015
Interest and similar income	1 443 156
Interest expense and similar charges	992 504
Net Interest Income	**450 652**
Dividend income	11 531
Fee and Commission income	471 499
Fee and Commission expense	133 454
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	(84 161)
Net gains / (losses) from available-for-sale financial assets	230 761
Net gains / (losses) from foreign exchange revaluation	30 092
Net gains/ (losses) from the sale of other assets	(12 308)
Insurance earned premiums, net of reinsurance	38 326
Claims incurred, net of reinsurance	237 016
Change in technical reserves, net of reinsurance	166 092
Other operating income and expenses	(100 675)
Operating Income	**831 339**
Staff costs	397 564
General and administrative expenses	285 384
Depreciation and amortisation	71 713
Provisions, net of reversals	(54 512)
Impairment losses on loans, net of reversals and recoveries	739 323
Impairment losses on other financial assets, net of reversals and recoveries	313 049
Impairment losses on other assets, net of reversals and recoveries	60 072
Negative consolidation differences	222
Results from associated companies consolidated by the equity method	16 648
Profit / (loss) before income tax and non-controlling interests	**(964 384)**
Corporate Income tax	
Current tax	58 582
Deferred tax	(27 654)
Profit / (loss) after corporate income tax and before non-controlling interests	**(995 312)**
o.w. : Income after taxes from discontinued operations	(8 163)
Non-controlling interest	(14 754)
Net consolidated profit / (loss) for the period	**(980 558)**

(1) According to Instruction no. 18/2005 of Banco de Portugal

The Chief Accountant The Board of Directors

8.2 Separate Financial Statements

NOVO BANCO, S.A.

SEPARATE BALANCE SHEET AS AT 31 DECEMBER 2015

Eur thousand

	31 December 2015			31.12.2014
	Amount before provisions, impairment and depreciation	Provisions, impairment and depreciation	Net amount	
ASSETS				
Cash and deposits with Central Banks	738 360	-	738 360	2 724 884
Deposits with banks	132 753	-	132 753	214 258
Financial assets held for trading	787 083	-	787 083	1 295 491
Other financial assets at fair value through profit or loss	227 393	-	227 393	1 245 882
Available-for-sale financial assets	11 921 799	1 326 868	10 594 931	7 564 670
Loans and advances to banks	2 735 048	186 900	2 548 148	2 830 785
Loans and advances to customers	33 710 376	5 437 793	28 272 583	31 341 787
Financial Assets held to maturity	-	-	-	-
Assets with Repurchase Agreement	-	-	-	-
Derivatives held for risk management purposes	322 055	-	322 055	405 235
Non-current assets held for sale	1 681 269	429 219	1 252 050	1 713 729
Investment properties	-	-	-	-
Other tangible assets	959 323	729 763	229 560	304 889
Intangible assets	727 136	658 667	68 469	99 918
Investments in associated companies	1 752 613	336 850	1 415 763	1 382 675
Current tax assets	1 529	-	1 529	14 928
Deferred tax assets	2 566 944	-	2 566 944	2 532 431
Other assets	2 314 348	196 142	2 118 206	2 619 286
TOTAL ASSETS	**60 578 029**	**9 302 202**	**51 275 827**	**56 290 848**
LIABILITIES				
Deposits from central banks	7 485 794	-	7 485 794	8 471 659
Financial liabilities held for trading	758 446	-	758 446	1 078 260
Other financial liabilities at fair value through profit or loss	-	-	-	-
Due to banks	5 129 860	-	5 129 860	4 347 939
Due to customers	27 237 874	-	27 237 874	27 838 824
Debt securities issued	3 489 565	-	3 489 565	7 785 141
Financial liabilities related to transferred assets	168 565	-	168 565	230 555
Derivatives held for risk management purposes	77 846	-	77 846	104 669
Non-current liabilities held for sale	-	-	-	-
Provisions	689 352	-	689 352	825 947
Current tax liabilities	29 803	-	29 803	25 537
Deferred tax liabilities	78 956	-	78 956	77 096
Equity Instruments	-	-	-	-
Other subordinated debt	-	-	-	-
Other liabilities	618 018	-	618 018	687 540
TOTAL LIABILITIES	**45 764 079**	-	**45 764 079**	**51 473 167**
EQUITY				
Share Capital	4 900 000	-	4 900 000	4 900 000
Share premium	-	-	-	-
Other equity instruments	-	-	-	-
Treasury stock	-	-	-	-
Revaluation Reserves	(242 714)	-	(242 714)	(200 696)
Other Reserves and Retained Earnings	1 970 122	-	1 970 122	766 997
Profit / (loss) for the period	(1 115 660)	-	(1 115 660)	(648 620)
Interim Dividends	-	-	-	-
TOTAL EQUITY	**5 511 748**	-	**5 511 748**	**4 817 681**
TOTAL LIABILITIES AND EQUITY	**51 275 827**	**-**	**51 275 827**	**56 290 848**

The Chief Accountant

The Board of Directors

NOVO BANCO, S.A.

SEPARATE INCOME STATEMENT AS AT 31 DECEMBER 2015 (1)

Eur thousand

	31.12.2015
Interest and similar income	1 148 168
Interest expense and similar charges	900 486
Net interest income	**247 682**
Dividend income	50 832
Fee and commission income	392 745
Fee and commission expense	98 228
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	(55 961)
Net gains / (losses) from available-for-sale financial assets	(13 625)
Net gains / (losses) from foreign exchange revaluation	(7 445)
Net gains/ (losses) from the sale of other assets	10 030
Other operating income and expenses	(60 367)
Operating Income	**465 663**
Staff costs	333 650
General and administrative expenses	264 757
Depreciation and amortisation	66 404
Provisions, net of reversals	41 264
Impairment losses on loans and other debtors, net of reversals and recoveries	469 610
Impairment losses on other financial assets, net of reversals and recoveries	288 976
Impairment losses on other assets, net of reversals and recoveries	119 643
Net income before income tax	**(1 118 641)**
Corporate income tax	(2 981)
Current tax	12 178
Deferred tax	(15 159)
Net income for the period	**(1 115 660)**
o.w.: Income after taxes from discontinued operations	6 865

(1) According to Instruction no. 18/2005 of Banco de Portugal

The Chief Accountant — The Board of Directors

9. Final Notes

- **Declaration of Conformity with the Financial Information Reported**

In accordance with Article 245 number 1, item c) of the Portuguese Securities Code ("*Código dos Valores Mobiliários*"), the members of the Board of Directors of NOVO BANCO, S.A., named below, state that:

(i) the separate financial statements of NOVO BANCO, S.A., for the periods ended on 31 December 2014 and 31 December 2015, were prepared in accordance with the Adjusted Accounting Standards (AAS), as defined by Banco de Portugal's Notice number 1/2005, of 21 February 2005;

(ii) the consolidated financial statements of NOVO BANCO Group, for the periods ended on 31 December 2014 and 31 December 2015 were prepared in accordance with International Financial Reporting Standards (IFRS), adopted in the European Union and transposed into Portuguese law by Decree-Law number 35/2005, of 17 February;

(iii) to the best of their knowledge the financial statements referred to in (i) and (ii) above provide a true and fair view of the assets and liabilities, financial position and results of NOVO BANCO and of NOVO BANCO Group, in accordance with the referred Standards and were approved at the Board of Directors' meeting held on 30 March 2016;

(iv) the management report describes accurately the evolution of the businesses, the performance and financial position of NOVO BANCO and of NOVO BANCO Group in the year ended 31 December 2015, and includes a description of the main risks and uncertainties faced.

- **Proposal for the Distribution of NOVO BANCO Results**

Under the terms of Article 66 number 5 item f and for the purposes of Article 376 number 1 item b of the Commercial Companies Code ("*Código das Sociedades Comerciais*"), and pursuant to Article 11 number 2 item b of the Bank's bylaws, the 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 2015, in the amount of 1,115,660 060.27 Euros be allocated to the "Other Reserves and Retained Earnings" caption on the balance sheet.

Note of recognition

The Board of Directors of NOVO BANCO wishes to express its recognition for the trust of its Clients, the loyalty and dedication of its Employees and for the cooperation of the Governmental and Supervisory Authorities.

Lisbon, 30 March 2016

The Board of Directors

Eduardo José Stock da Cunha

Jorge Telmo Maria Freire Cardoso

Vítor Manuel Lopes Fernandes

José João Guilherme

Francisco Ravara Cary

Francisco Marques da Cruz Vieira da Cruz

Appendices: The Sustainability Accounts

• Reading Guide to the Sustainability Information

About this Report

The scope of the sustainability information reported covers the NOVO BANCO Group in Europe, namely NOVO BANCO, NOVO BANCO dos Açores, NOVO BANCO Espanha, ESAF and Banco Best but the environmental indicators refer only to NOVO BANCO as at 31 December 2015. For greater detail concerning the indicators see the "Sustainability Accounts" table.

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

This is the second sustainability report of NOVO BANCO, a transition bank created by a resolution measure by the Banco de Portugal on 3 August 2014.

NOVO BANCO Group aims to maintain its alignment with the best reporting practices. Therefore it was decided that the second 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 during 2015 to its business and stakeholders.

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..

Structure of the Sustainability Report

NOVO BANCO Group's sustainability information reporting structure was defined in accordance with the relevance of the various issues, based on a set of values announced by the Board of Directors that should guide NOVO BANCO - the 10 commandments. This report therefore addresses NOVO BANCO's treatment of all the issues considered material during the period. Information on all other subjects, considered non-material, is available in the Bank's corporate website, at www.novobanco.pt.

The following table indicates the chapter and 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	NOVO BANCO Commandment	Correspondence with GRI4 Material Issues	NOVO BANCO Report	Page
Customer Satisfaction	Commandments 1 and 8 The Client and Efficiency	• Labelling of Products and Services	Corporate Responsibility • Clients	39-41
Financial inclusion of people and companies	Commandments 1,5, 6 and 8 Clients, Leadership, Strength, Efficiency	• Indirect Economic Impacts • Portfolio of Products	• Saving Products • Microcredit • Environmental Products and Services	14-15 15-16 19-20
Human Capital development	Commandments 3 and 10 The Team, Pride and Belonging	• Employment • Training and Education • Diversity and Equal Opportunities	Corporate Responsibility • Employees	28-38
Ethics and integrity in relations with stakeholders	Commandment 2 Ethics and Transparency	• Ethics and Integrity • Involvement with Stakeholders • Non-discrimination • Fighting corruption	Corporate Responsibility • Involvement with Stakeholders • Employees • Suppliers • Code of Conduct and Money Laundering	28-42 28-38 41-42 36-38
Responsible management / monitoring of suppliers	Commandment 6 Strength	• Procurement Practices • Environmental Assessment of Suppliers • Assessment of Suppliers' Labour Practices • Suppliers' Human Rights Assessment • Assessment of Suppliers' Impacts on the Community	Corporate Responsibility • Suppliers	41-42
Products and services innovation	Commandments 1 and 8 The Client and Efficiency		• Support to Innovation	22 and 47
Eco-efficiency in the Bank's branches, buildings and operations	Commandment 7 Objectivity	• Materials • Energy • Water • Emissions • Effluents and Waste	Corporate Responsibility • Environmental Footprint	42-45
Corporative citizenship and philanthropy (Community Support)	Commandments 1 and 10 The Client, Pride and Belonging	• Local Communities • Portfolio of Products	• Social Responsibility	46-48

Contacts for additional information on Sustainability:

Sustainability Office:

Paulo Tomé (email: paulo.tome@novobanco.pt)

Cláudia Sousa (email: claudia.arenga.sousa@novobanco.pt)

Environmental Indicators

Environmental	2014	2015	Change 2014/2015
Energy [1] (G4-EN3, G4-EN5)			
Total electricity consumption (GJ)*	160,176	149,938	-6.4%
Total electricity consumption (kwh)*	44,493,607	41,649,568	-6.4%
Data Center electricity consumption (kwh)	11,378,869	10,397,699	-8.6%
Data Center electricity consumption (GJ)	40,964	37,432	-8.6%
Electricity consumption (kwh/employee)	7,714	7,595	-1.5%
Natural gas consumption (GJ)	593	466	-21.4%
Natural gas consumption (N.m^3)	15,432	12,113	-21.5%
Butane gas consumption (Kg)	2,160	1,980	-8.3%
Butane gas consumption (GJ)	106	96	-9.1%
Generator diesel consumption (Litres)	5,000	3,554	-28.9%
Generator diesel consumption (GJ)	177	126	-28.8%
Vehicle diesel consumption (Litres)	2,540,686	2,161,035	-14.9%
Vehicle diesel consumption (GJ)	90,104	76,640	-14.9%
Vehicle gasoline consumption (Litres)	12,631	7,263	-42.5%
Vehicle gasoline consumption (GJ)	415	239	-42.4%
Total energy consumption (GJ)	**251,570**	**227,505**	**-9.6%**
Number of vehicles	1,179	1,118	-5.2%
Number of flights	982	707	-28.0%
Water 3 (G4-EN8)			
Water consumption from public supply network (m^3)	80,542	82,705	2.7%
Water consumption per employee (m^3/employee)	14.0	15.1	8.0%
Consumption of materials (G4-EN1, G4-EN2)			
White paper for internal use (tonnes)	317	351	10.9%
White paper for internal use (ton/employee)	0.055	0.064	16.6%
Recycled paper for internal use (tonnes)	1	1	0.0%
FSC verified paper (%)	94%	61%	-35.1%
Forms – printing and finishing (tonnes)	192	147	-23.4%
Toner and inkjet cartridges (units)	346	303	-12.3%
Waste management (G4-EN23)			
Paper sent for recycling (tonnes)	187	156	-16.9%
Cardboard sent for recycling (tonnes)	113	94	-16.9%
Consumables collected (units)	10,109	12,523	23.9%

Scope NOVO BANCO

The figures for 2014 were calculated based on the monthly average, considering that the activity of NOVO BANCO in that year only included a time period of 5 months.

* includes the consumption of the Data Center

Social Indicators

Total Employees	2014	2015
Total Employees NB Group (*) 1	7 722	7 311
Total Employees (Human Resources information scope)	6 625	6 239
(*) employees with permanent and fixed-term employment contracts		
Employees by Gender	**2014**	**2015**
Men	3,498	3,207
Women	3,127	3,032
Employees by Region	**2014**	**2015**
Europe	8079	7 226
America	291	64
Africa	36	2
Asia	34	19

Distribution of employees by gender and age per professional category (%) (G4-LA12)	2014	2015
Management		
Men	69.7	68.9
Women	30.3	31.1
< 30 years old	0.50	0.20
30 to 50 years old	73	69.7
> 50 years old	25.5	30.1
Heads of Department		
Men	65.4	63.7
Women	34.6	36.3
< 30 years old	0.8	0.5
30 to 50 years old	80.7	79.6
> 50 years old	18.5	20.0
Specific		
Men	47.6	47.5
Women	52.4	52.5
< 30 years old	7.4	5.2
30 to 50 years old	78.9	79.6
> 50 years old	13.7	15.2
Administrative		
Men	49.6	47.3
Women	50.4	52.7
< 30 years old	7.4	6.4
30 to 50 years old	78.9	65.5
> 50 years old	13.7	28.0
Auxiliary		
Men	60	27.7
Women	40	72.3
< 30 years old	35.5	0.0
30 to 50 years old	6.7	21.3
> 50 years old	57.8	78.7

Employment Contract (G4-10)	NOVO BANCO Group 2014		NOVO BANCO Group 2015	
	Men	Women	Men	Women
Permanent	3,320	2,922	3,105	2,898
Fixed-term	102	135	82	113
Temporary	51	53	13	15
Internships	18	17	2	2

Staff Turnover (%) - NOVO BANCO Group (G4-LA1)	NOVO BANCO Group 2014	NOVO BANCO Group 2015
Gender		
Women	0.48	1.19
Men	0.47	2.05
Age bracket		
< 30 years old	0.72	1.07
30 to 50 years old	0.13	2.04
> 50 years old	0.01	0.13

The staff turnover rate was calculated taking into account the number of employees who voluntarily left the company and those dismissed, based on the following formula:

. number of employees who voluntarily left the company added to number of employees dismissed divided by the total number of employees as at 31 December 2015.

New admissions rate (%) - NOVO BANCO Group (G4-LA1)	NOVO BANCO Group 2014	NOVO BANCO Group 2015
Gender		
Women	0.48	0.99
Men	0.47	0.74
Age bracket		
< 30 years old	0.72	1.09
30 to 50 years old	0.21	0.59
> 50 years old	0.02	0.05

The formula used to calculate new admissions was the following: number of new employees hired divided by the total number of employees.

Parental Leave (G4-LA3)	2014		2015	
	Men	Women	Men	Women
Employees entitled to parental leave	6,625		6,239	
Employees who took parental leave	92	138	105	179
Employees who returned to work after parental leave ended	87	80	102	136
Return to work rate	96%	74%	97%	76%

Health and Safety (G4-LA6)	NOVO BANCO Group 2014		NOVO BANCO Group 2015	
	Men	Women	Men	Women
Work related accidents	11	16	23	29
Occupational diseases	0	0	0	0
Deaths	0	0	0	0
Accident rate	0.87	1.46	0.82	1.14
Lost days rate	0.03	0.13	0.05	0.06
Absenteeism rate (% excluding parental leave)	2	3	1.9	3.5

The Accident rate and the Lost days rate were calculated based on the following formulas:

. Accident rate = Number of work related accidents/number of hours worked*200 000

. Lost days rate = Number of lost days/number of hours worked*200 000

Health	2014	2015
Medical exams	1 556	3 755
Medical acts	11 799	28 808
Nursing acts	2 414	5 066
Total	15 769	37 629

Training hours by employee (G4-LA9)	Total Hours 2014	Hours/Employee 2014	Total Hours 2015	Hours/Employee 2015
Gender				
Women	12 874	4.1	64 036	21.1
Men	12 875	3.7	69 332	21.6
Professional Category				
Management	1 618	2.5	5 961	10.1
Managerial functions	6 299	7.4	23 964	29.7
Specific	9 936	3.7	61 303	23.7
Administrative	7 801	3.3	42 122	19.1
Support	5	0.1	18	0.4

Performance Appraisal (G4-LA11)	2014	2015
Number of employees promoted		
Change of functions	2	8
Merit	8	314
Seniority	33	192
Total of Employees Promoted	43	514

Loans Granted to Employees	NOVO BANCO 2014	NOVO BANCO 2015
Mortgages	4 819 099	14 525 579
Consumer loans - Consumer goods	358 944	1 861 668
Social Welfare	12 542	0

Scope

1 - NOVO BANCO Group
2 - Other indicators - NOVO BANCO Group scope = Portugal and Spain

Economic Indicators

Stakeholders - Creation of Value (millions of Euros)	2014	2015
Shareholders (dividends)	_____	_____
Employees (remuneration and training)	178.0	397.6
Customers (loans granted)	40 060	37 417
Suppliers (general and administrative expenses)	139.5	285.4
Community	1.03	1.05
State (taxes)	215.5	30.9

To the Board of Executive Directors of
NOVO BANCO, S.A.

Independent verification of the sustainability information included in the Annual Report 2015 of NOVO BANCO, SA
(Free translation from the original in Portuguese)

Introduction

In accordance with the request of the Board of Executive Directors of NOVO BANCO, S.A. ("NOVO BANCO"), we performed an independent limited assurance of the sustainability information included in the Annual Report 2015 (Report) of NOVO BANCO. The independent assurance was performed according to instructions and criteria established by NOVO BANCO, as referred in the Report, and according to the principles and extent described in the Scope below.

Responsibility

NOVO BANCO's Board of Executive Directors is responsible for all the information presented in the Report, as well as for the assessment criteria and for the systems and processes supporting information collection, consolidation, validation and reporting. Our responsibility is to conclude on the adequacy of the information, based upon our independent assurance standards and agreed reference terms. We do not assume any responsibility over any purpose, people or organization.

Scope

Our procedures were planned and executed using the International Standard on Assurance Engagements 3000 (ISAE 3000) and having the Global Reporting Initiative, version 4 (G4) as reference, in order to obtain a moderate level of assurance on both the performance information reported and the underlying processes and systems. The extent of our procedures, consisting of inquiries, analytical tests and some substantive work, was less significant than in a full audit. Therefore, the level of assurance provided is also lower.

The following procedures were performed:

(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) Identify the existence of internal management procedures leading to the implementation of economic, environmental and social policies;

(iii) Testing the efficiency of process and systems in place for collection, consolidation, validation and reporting of the performance information previously mentioned;

(iv) Confirming, through visits to sites, that operational units follow the instructions on collection, consolidation, validation and reporting of performance indicators;

PricewaterhouseCoopers & Associados - Sociedade de Revisores Oficiais de Contas, Lda.
Sede: Palácio Sottomayor, Rua Sousa Martins, 1 - 3º, 1069-316 Lisboa, Portugal
Tel +351 213 599 000, Fax +351 213 599 999, www.pwc.com/pt
Matriculada na Conservatória do Registo Comercial sob o NUPC 506 628 752, Capital Social Euros 314.000

(v) Executing substantive procedures, on a sampling basis, in order to collect sufficient evidence to validate reported information;

(vi) Comparing financial and economic data with those audited by the external auditor, to appraise the external validation of the reported information;

(vii) Analyze the process for defining the material issues included in the report, according to methodology described;

(viii) Verify the existence of data and information required to comply with the GRI G4 version, option 'In Accordance - Core'.

Confidentiality and Independence

Internally, PwC SROC is governed by ethical and deontological rules of confidentiality and independence quite rigid. Thus, in all aspects of our collaboration, the Firm and its employees maintain strict confidentiality of information obtained in the performance of their duties and complete independence regarding the interests of NOVO BANCO.

Additionally, we develop our work in line with standard ISAE 3000 independence requirements, including compliance with PwC's independence policies and code of ethics of the International Ethics Standards Board of Accountants (IESBA).

Conclusions

Based on our work described in this report, nothing has come to our attention that causes us to believe that internal control related to the collection, consolidation, validation and reporting of the performance information referred above is not effective, in all material respects.

Based on our verification of the Report and with the assumptions described in the Scope, we conclude that the Report includes the data and information required for option 'In Accordance – Core', according to GRI G4.

Lisbon, April 12th, 2016

PricewaterhouseCoopers & Associados, S.R.O.C., Lda.

Represented by

António Joaquim Brochado Correia, ROC

II. FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

1. CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOVO BANCO GROUP

CONSOLIDATED INCOME STATEMENT

FOR THE PERIODS 1 JANUARY TO 31 DECEMBER 2015 AND 4 AUGUST TO 31 DECEMBER 2014

(in thousands of Euros)

	Notes	31.12.2015	31.12.2014
Interest and similar income	5	1 443 156	781 667
Interest expense and similar charges	5	(992 504)	(516 207)
Net interest income		**450 652**	**265 460**
Dividend income		11 531	4 774
Fee and commission income	6	471 499	225 331
Fee and commission expenses	6	(133 454)	(56 423)
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	7	(84 161)	(21 207)
Net gains / (losses) from available-for-sale financial assets	8	230 761	34 213
Net gains / (losses) from foreign exchange differences	9	30 092	75 119
Net gains/ (losses) from the sale of other assets	10	(12 341)	5 642
Insurance earned premiums, net of reinsurance	11	38 326	17 799
Claims incurred, net of reinsurance	12	(237 016)	(273 706)
Change in technical reserves, net of reinsurance	13	166 092	239 264
Other operating income and expenses	14	(103 701)	295 246
Operating income		**828 280**	**811 512**
Staff costs	15	(397 564)	(178 055)
General and administrative expenses	17	(285 384)	(139 496)
Depreciation and amortisation	29 & 30	(71 713)	(37 850)
Provisions, net of reversals	39	54 512	35 163
Impairment losses on loans and advances, net of reversals and recoveries	25	(739 323)	(378 120)
Impairment losses on other financial assets, net of reversals and recoveries	23 & 24	(313 049)	(262 500)
Impairment losses on other assets, net of reversals and recoveries	27, 30, 31 & 33	(60 072)	(93 594)
Operating expenses		**(1 812 593)**	**(1 054 452)**
Disposal of subsidiaries and associated companies	1	33	-
Net (gains) / losses on step acquisitions of control over subsidiaries	1	222	-
Results from associated companies consolidated by the equity method	31	16 648	5 221
Profit / (loss) before income tax and non-controlling interests		**(967 410)**	**(237 719)**
Income tax			
Current tax	40	(58 582)	(28 885)
Deferred tax	40	27 654	(186 575)
		(30 928)	**(215 460)**
Profit / (loss) from continuing activities		**(998 338)**	**(453 179)**
Profit / (loss) from discontinued activities	27	(18 763)	143
Profit / (loss) from activities being discontinued	53	21 789	(46 612)
Net profit / (loss) for the period		**(995 312)**	**(499 648)**
Attributable to shareholders of the Bank		**(980 558)**	**(497 645)**
Attributable to non-controlling interests	44	**(14 754)**	**(2 003)**
		(995 312)	**(499 648)**
Basic earnings per share (in Euros)	18	(0.20)	(0.10)
Diluted earnings per share (in Euros)	18	(0.20)	(0.10)
Basic earnings per share of continuing activities (in Euros)	18	(0.20)	(0.09)
Diluted earnings per share of continuing activities (in Euros)	18	(0.20)	(0.09)

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

NOVO BANCO GROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIODS 1 JANUARY TO 31 DECEMBER 2015 AND 4 AUGUST TO 31 DECEMBER 2014

(in thousands of Euros)

	Notes	31.12.2015	31.12.2014
Net profit / (loss) for the period			
Attributable to equity holders of the Bank		(980 558)	(497 645)
Attributable to non-controlling interests	44	(14 754)	(2 003)
		(995 312)	**(499 648)**
Other comprehensive income / (loss) for the period			
Items that will not be reclassified to results			
Re-measurement of defined benefit plans	16	(49 095)	(249 552)
Tax on income from defined benefit plans	a)	191	156
		(48 904)	(249 396)
Items that may be reclassified to results			
Foreign exchange differences	a)	(145 373)	(7 564)
Taxes on foreign exchange differences	a)	21 576	(5 231)
Other comprehensive income appropriated from associated companies	a)	(3 655)	5
		(127 452)	(12 790)
Available-for-sale financial assets			
Potential gains and losses in the period	44	295 700	357 421
Gains and losses included in profit and loss for the period	44	(458 301)	(233 956)
Deferred taxes	44	32 013	(27 941)
		(130 588)	95 524
Total other comprehensive income / (loss) for the period		**(306 944)**	**(166 662)**
Total comprehensive income / (loss) for the period		**(1 302 256)**	**(666 310)**
Attributable to shareholders of the Bank		**(1 287 502)**	**(664 307)**
Attributable to non-controlling interests		**(14 754)**	**(2 003)**
		(1 302 256)	**(666 310)**

a) See Consolidated Statement of Changes in Equity

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

NOVO BANCO GROUP

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2015 AND 31 DECEMBER 2014

(in thousands of Euros)

	Notes	31.12.2015	31.12.2014
Assets			
Cash and deposits with Central Banks	19	775 608	2 747 077
Deposits with banks	20	340 209	490 856
Financial assets held for trading	21	775 039	1 062 517
Other financial assets at fair value through profit or loss	22	1 526 193	2 230 388
Available-for-sale financial assets	23	11 810 712	9 478 469
Loans and advances to banks	24	1 690 628	1 044 286
Loans and advances to customers	25	31 583 759	34 929 314
Derivatives held for risk management purposes	26	318 596	404 582
Non-current assets held for sale	27	3 182 479	2 747 168
Assets from discontinued operations	53	40 327	4 209 800
Investment properties	28	54 625	297 133
Other tangible assets	29	312 437	397 088
Intangible assets	30	221 168	253 732
Investments in associated companies	31	405 486	402 289
Current tax assets	40	38 848	29 962
Deferred tax assets	40	2 535 423	2 505 608
Technical reserves of reinsurance ceded	32	7 696	8 038
Other assets	33	1 910 126	2 179 173
Debtors for direct and indirect insurance		3 019	1 263
Other assets		1 907 107	2 177 910
Total Assets		**57 529 359**	**65 417 480**
Liabilities			
Deposits from Central Banks	34	7 632 794	8 611 709
Financial liabilities held for trading	21	743 860	1 045 648
Deposits from banks	35	4 157 132	2 623 864
Due to customers	36	27 582 142	27 938 053
Debt securities issued	37	4 224 658	9 032 956
Derivatives held for risk management purposes	26	77 846	104 140
Investment contracts	38	4 043 488	4 379 442
Non-current liabilities held for sale	27	162 709	330 903
Liabilities from discontinued operations	53	92 893	3 072 720
Provisions	39	465 114	409 723
Technical reserves	32	1 344 216	1 461 070
Current tax liabilities	40	38 643	34 273
Deferred tax liabilities	40	12 336	50 309
Subordinated debt	41	56 260	54 794
Other liabilities	42	947 625	858 063
Creditors for direct and indirect insurance		17 301	10 132
Other liabilities		930 324	847 931
Total Liabilities		**51 581 716**	**60 007 667**
Equity			
Share capital	43	4 900 000	4 900 000
Reserves, retained earnings and other comprehensive income	44	1 971 620	878 012
Net income for the period attributable to shareholders of the Bank		(980 558)	(497 645)
Total Equity attributable to shareholders of the Bank		**5 891 062**	**5 280 367**
Non-controlling interests	44	56 581	129 446
Total Equity		**5 947 643**	**5 409 813**
Total Liabilities and Equity		**57 529 359**	**65 417 480**

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

NOVO BANCO GROUP

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY
FOR THE PERIODS 4 AUGUST TO 31 DECEMBER 2014 AND 1 JANUARY TO 31 DECEMBER 2015

(in thousands of Euros)

	Share capital	Reserves, Retained earnings and Other comprehensive income			Net income 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 4 August 2014	**4 900 000**	**99 130**	**444 356**	**543 486**	**-**	**5 443 486**	**133 909**	**5 577 395**
Impact of restatement	-	-	522 517	522 517	-	522 517	-	522 517
Balance as at 4 August 2014 (restated)	**4 900 000**	**99 130**	**966 873**	**1 066 003**	**-**	**5 966 003**	**133 909**	**6 099 912**
Other comprehensive income								
Changes in fair value, net of tax	-	95 524	-	95 524	-	95 524	-	95 524
Re-measurement of defined benefit plans, net of tax	-	-	(249 396)	(249 396)	-	(249 396)	-	(249 396)
Other comprehensive income appropriated from associated companies	-	-	5	5	-	5	-	5
Foreign exchange differences, net of tax **(a)**	-	-	(12 795)	(12 795)	-	(12 795)	-	(12 795)
Net results for the period	-	-	-	-	(497 645)	(497 645)	(2 003)	(499 648)
Total comprehensive income for the period	**-**	**95 524**	**(262 186)**	**(166 662)**	**(497 645)**	**(664 307)**	**(2 003)**	**(666 310)**
Adjustments to the originating reserve **(b)**	-	-	(16 715)	(16 715)	-	(16 715)	-	(16 715)
Other movements	-	-	(1 210)	(1 210)	-	(1 210)	-	(1 210)
Other changes in non-controlling interests (see Note 44)	-	-	(3 404)	(3 404)	-	(3 404)	(2 460)	(5 864)
Balance as at 31 December 2014	**4 900 000**	**194 654**	**683 358**	**878 012**	**(497 645)**	**5 280 367**	**129 446**	**5 409 813**
Other comprehensive income								
Changes in fair value, net of tax	-	(130 588)	-	(130 588)	-	(130 588)	-	(130 588)
Re-measurement of defined benefit plans, net of tax	-	-	(48 904)	(48 904)	-	(48 904)	-	(48 904)
Other comprehensive income appropriated from associated companies	-	-	(3 655)	(3 655)	-	(3 655)	-	(3 655)
Foreign exchange differences, net of tax **(a)**	-	-	(123 797)	(123 797)	-	(123 797)	-	(123 797)
Net results for the period	-	-	-	-	(980 558)	(980 558)	(14 754)	(995 312)
Total comprehensive income for the period	**-**	**(130 588)**	**(176 356)**	**(306 944)**	**(980 558)**	**(1 287 502)**	**(14 754)**	**(1 302 256)**
Adjustments to the originating reserve **(c)**	-	-	1 948 236	1 948 236	-	1 948 236	-	1 948 236
Changes in perimeter **(d)**	-	-	(26 200)	(26 200)	-	(26 200)	-	(26 200)
Appropriation to retained earnings of net income of the previous period	-	-	(497 645)	(497 645)	497 645	-	-	-
Changes in consolidation perimeter	-	-	(18 041)	(18 041)	-	(18 041)	-	(18 041)
Transactions with non-controlling interests	-	-	(3 694)	(3 694)	-	(3 694)	(18 080)	(21 774)
Other movements	-	-	(2 104)	(2 104)	-	(2 104)	-	(2 104)
Other changes in non-controlling interests (see Note 44)	-	-	-	-	-	-	(40 031)	(40 031)
Balance as at 31 December 2015	**4 900 000**	**64 066**	**1 907 554**	**1 971 620**	**(980 558)**	**5 891 062**	**56 581**	**5 947 643**

(a) Includes the foreign exchange conversion differences of hyperinflationary economies (see Note 44)

(b) Results from clarifications on the Resolution Measure issued by Banco de Portugal subsequent to the date of publication of the opening balance sheet (see Note 44)

(c) Results from the decision made by Banco de Portugal published on 29 December 2015 on the resolution measure applied to BES (see Note 44)

(d) Results from the decision made by Banco de Portugal published on 29 December 2015 regarding the transfer of BES Finance to BES

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

NOVO BANCO GROUP

CONSOLIDATED CASH FLOW STATEMENT

FOR THE PERIODS 1 JANUARY TO 31 DECEMBER 2015 AND 4 AUGUST TO 31 DECEMBER 2014

(in thousands of Euros)

	Notes	31.12.2015	31.12.2014
Cash flows from operating activities			
Interest and similar income received		1 524 438	986 709
Interest expense and similar charges paid		(1 226 873)	(534 303)
Fees and commission received		471 675	225 427
Fees and commission paid		(139 498)	(60 412)
Insurance premiums		(185 581)	(262 427)
Recoveries on loans previously written off		18 080	6 871
Contributions to pension fund		(96 381)	(380 913)
Cash payments to employees and suppliers		(637 882)	(302 815)
		(272 022)	**(321 863)**
Changes in operating assets and liabilities:			
Deposits with / from Central Banks		(856 889)	(5 087 115)
Financial assets at fair value through profit or loss		524 610	27 578
Acquisition of available-for-sale financial assets		(47 976 830)	(12 688 760)
Sale of available-for-sale financial assets		45 714 174	14 268 790
Issue of insurance investment contracts		(262 593)	(420 062)
Loans and advances to banks		(82 755)	(863 850)
Deposits from banks		1 542 301	(153 496)
Loans and advances to customers		2 532 879	1 468 019
Due to customers and other loans		(189 902)	2 383 896
Derivatives held for risk management purposes		20 983	(19 613)
Other operating assets and liabilities		58 733	(137 335)
Net cash from operating activities before corporate income tax		**752 689**	**(1 543 811)**
Corporate income taxes paid		(27 314)	(150 550)
Net cash from operating activities		**725 375**	**(1 694 361)**
Cash flows from investing activities			
Acquisition of subsidiaries and associated companies	1	(7 592)	(2 637)
Sale of investments in subsidiaries and associated companies		332 496	-
Dividends received		15 241	4 774
Acquisition of tangible fixed and intangible assets and investment properties		(22 987)	(26 157)
Sale of tangible and intangible assets and investment properties		2 563	1 568
Net cash from investing activities		**319 721**	**(22 452)**
Cash flows from financing activities			
Issuance of bonds and other debt securities		4 593	-
Reimbursement of bonds and other debt securities		(3 135 470)	(1 177 501)
Reimbursement of subordinated debt		(3 605)	(1 292)
Net cash from financing activities		**(3 134 482)**	**(1 178 793)**
Net changes in cash and cash equivalents		**(2 089 386)**	**(2 895 606)**
Cash and cash equivalents at beginning of period [(1)]		**2 969 044**	**5 725 625**
Effect of changes in consolidation perimeter	53	(15 668)	(50 547)
Effect of exchange rate changes in cash and cash equivalents		(41 469)	189 572
Net changes in cash and cash equivalents		(2 089 386)	(2 895 606)
Cash and cash equivalents at end of period		**822 521**	**2 969 044**
Cash and cash equivalents include:			
Cash	19	179 701	186 604
Deposits with Central Banks	19	595 907	2 560 473
(of which, Restricted balances)		(293 296)	(268 889)
Deposits with banks	20	340 209	490 856
Total		**822 521**	**2 969 044**

[(1)] At 31 December 2014, this amount already includes Euros 4 815 million relating to the share capital increase realised in cash on the incorporation of the Bank. The realisation of the remaining share capital (Euros 85 million) to make up the total of Euros 4 900 million, occurred on 11 August 2014

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

NOVO BANCO Group

Notes to the Consolidated Financial Statements as at 31 December 2015

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

NOTE 1 – ACTIVITY AND GROUP STRUCTURE

NOVO BANCO, S.A. was 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.

As determined by point Two of the resolution of the Board of Directors of Banco de Portugal of 3 August 2014 (8 p.m.), consideringthe resolution by the same Board of Directors of 11 August (5 p.m.) (hereafter “Deliberation of 3 August 2014”), under and for the purposes of the 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 (hereafter “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), registered in the accounting records, are transferred to NOVO BANCO, SA, according to the following criteria:*

[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.

(a) All the assets, licences 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' 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 higherthan 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 aggravatethat 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' 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 beproven with documents existing in BES' archives, in terms that permit the control and inspection of the decisions made.

(viii) Effective as from 29 December 2015, all 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 programme 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, effective 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 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, SA 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 4900 million of Euros.*

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, among other relevant circumstancesthe professional activities of the persons in question, their degree of dependence on thepersons 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 thatthe 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".

Under the terms of number 1 Article 3 of its by-laws "the purpose of NOVO BANCO, S.A., is to manage the assets, liabilities, off-balance sheet items and assets under management transferred from Banco Espírito Santo, S.A., to NOVO BANCO, S.A., and to carry on the transferred activities, for thepurposes laid down in Article 145-A of the RGICSF".

As a transition bank, NOVO BANCO has a limited duration (no. 12 of article 145-G of the RGICSF). The initial commitments assumed by the Portuguese State with the European Commission stipulated that NOVO BANCO was to be sold within a maximum period of two years from its date of incorporation. According to the announcement of Banco de Portugal of 21 December 2015, the European Commission approved the extension of the deadline for the sale of NOVO BANCO, as well as a number of commitments regarding the strategic and operational reorganisation of the Bank.

Under Article 153-B of the RGICSF, the Resolution Fund ("Fundo de Resolução") is the sole holder of the share capital of NOVO BANCO, S.A. which is represented by 4 900 million registered shares with a nominal value of Euros 1per share, totalling Euros 4 900 million.

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

NOVO BANCO Group (hereafter also designated as Group or NB Group) has a retail network comprising 635 branches in Portugal and abroad, including branches in London, Spain, Cayman Islands, Venezuela and Luxembourg, an offshore branch in the Madeira Free Trade Zone and 7 representative offices overseas. During 2015, it the branches in New York, Nassau and Cape Verde were closed.

Group companies where 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 as follows.

a) Subsidiaries directly consolidated in NOVO BANCO:

	Year incorporated	Year acquired	Registered office	Activity	Share-holding %	Consolidation method
NOVO BANCO, SA	2014	-	Portugal	Commercial banking		
GNB - Companhia de Seguros Vida, SA (GNB VIDA)	1993	2006	Portugal	Insurance	100,00%	Full consolidation
Banque Espírito Santo et de la Vénétie, SA (BES Vénétie)	1927	1993	France	Commercial banking	87,50%	Full consolidation
Novo Banco Servicios Corporativos, SL	1996	1997	Spain	Insurance distrib. & real estate management	100,00%	Full consolidation
Novo Activos Financieros, SA	1988	2000	Spain	Asset management	95,00%	Full consolidation
Novo Vanguarda, SL	2011	2011	Spain	Services	100,00%	Full consolidation
Novo Banco dos Açores, SA (NBA)	2002	2002	Portugal	Commercial banking	57,53%	Full consolidation
BEST - Banco Electrónico de Serviço Total, SA (BEST)	2001	2001	Portugal	Home banking	100,00%	Full consolidation
NB África, SGPS, SA	2009	2009	Portugal	Management of shareholdings	100,00%	Full consolidation
Novo Banco Ásia, SA (NB ÁSIA)	1996	1996	Macao	Commercial banking	100,00%	Full consolidation
BES Beteiligungs, GmbH (BES GMBH)	2006	2006	Germany	Management of shareholdings	100,00%	Full consolidation
BIC International Bank Ltd. (BIBL)	2000	2000	Cayman Islands	Commercial banking	100,00%	Full consolidation
Praça do Marquês - Serviços Auxiliares, SA (PÇMARQUÊS)	1990	2007	Portugal	Management of real estate investments	100,00%	Full consolidation
Espírito Santo, plc. (ESPLC)	1999	1999	Ireland	Non-bank financing	99,99%	Full consolidation
ESAF - Espírito Santo Activos Financeiros, S.G.P.S., SA (ESAF)	1992	1992	Portugal	Management of shareholdings	89,99%	Full consolidation
ES Tech Ventures, S.G.P.S., SA (ESTV)	2000	2000	Portugal	Management of shareholdings	100,00%	Full consolidation
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
ES Concessões, SGPS, SA (ES CONCESSÕES)	2002	2003	Portugal	Management of shareholdings	71,66%	Full consolidation
GNB - Sistemas de Informação, ACE (GNB SI)	2006	2006	Portugal	Services	82,28%	Full consolidation
GNB - Serviços de Suporte Operacional, ACE (GNB ACE)	2006	2006	Portugal	Services	88,26%	Full consolidation
Espírito Santo Representações, Ltda. (ESREP)	1996	1996	Brazil	Representation services	99,99%	Full consolidation
Quinta dos Cónegos - Sociedade Imobiliária, SA (CÓNEGOS)	1991	2000	Portugal	Real estate trading	81,00%	Full consolidation
Fundo de Capital de Risco - ES Ventures II	2006	2006	Portugal	Venture capital fund	63,90%	Full consolidation
Fundo de Capital de Risco - ES Ventures III	2009	2009	Portugal	Venture capital fund	56,43%	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	95,79%	Full consolidation
ImoInvestimento – Fundo Especial de Investimento Imobiliário Fechado	2012	2012	Portugal	Real estate fund management	100,00%	Full consolidation
Prediloc Capital – Fundo Especial de Investimento Imobiliário Fechado	2006	2012	Portugal	Real estate fund management	100,00%	Full consolidation
Imogestão – Fundo de Investimento Imobiliário Fechado	2006	2013	Portugal	Real estate fund management	100,00%	Full consolidation
Arrábida - Fundo Especial de Investimento Imobiliário Fechado	2006	2013	Portugal	Real estate fund management	100,00%	Full consolidation
Invesfundo VII – Fundo de Investimento Imobiliário Fechado	2008	2013	Portugal	Real estate fund management	95,86%	Full consolidation
NB Logística - Fundo Especial de Investimento Imobiliário Aberto	2007	2012	Portugal	Real estate fund management	84,46%	Full consolidation
NB Património - Fundo de Investimento Imobiliário Aberto	1992	2014	Portugal	Real estate investment fund	58,76%	Full consolidation
Fundes - Fundo Especial Investimento Imobiliário Fechado	2008	2015	Portugal	Real estate investment fund	100,00%	Full consolidation
NB Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	2009	2012	Portugal	Investment fund	100,00%	Full consolidation
Orey Reabilitação Urbana - Fundo de Investimento Imobiliário Fechado	2006	2012	Portugal	Investment fund	77,32%	Full consolidation
Fimes Oriente - Fundo de Investimento Imobiliário Fechado	2004	2012	Portugal	Investment fund	100,00%	Full consolidation
Fundo de Investimento Imobiliário Fechado Amoreiras	2006	2015	Portugal	Investment fund	93,49%	Full consolidation
Fundo de Investimento Imobiliário Fechado Solid	2004	2015	Portugal	Investment fund	100,00%	Full consolidation
FLITPTREL VIII, SA	2011	2011	Portugal	Tourism real estate exploration	10,00% a)	Full consolidation
OBLOG Consulting, SA	1993	1993	Portugal	IT services	66,63%	Full consolidation
GNB - Companhia de Seguros, SA (GNB SEGUROS)	1996	1996	Portugal	Insurance	25,00%	Equity method
ESEGUR - 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
Banco Delle Tre Venezie, Spa	2006	2007	Italy	Commercial banking	20,00%	Equity method
Nanium, SA	1996	2010	Portugal	Semiconductor production	41,06%	Equity method
Ascendi Pinhal Interior - Estradas do Pinhal Interior, SA	2010	2010	Portugal	Motorway concessionaire	18,57% b)	Equity method
UNICRE - Instituição Financeira de Crédito, SA	1974	2010	Portugal	Non-bank financing	17,50% b)	Equity method
Ijar Leasing Algérie	2011	2011	Algeria	Leasing	35,00%	Equity method
Edenred Portugal, SA	1984	2013	Portugal	Services	50,00% c)	Equity method
Multipessoal Recursos Humanos - SGPS, S.A	1993	1993	Portugal	Management of shareholdings	22,52%	Equity method

a) This company was included in the consolidated balance sheet through the full consolidation method as the Group exercises control over its activities via a shareholder agreement
b) The percentage presented above reflects the Group's shareholding. These entities were included in the consolidated balance sheet via the equity method as the Group exercises significant influence over their activities, as referred to in Note 2.2
c) Entities consolidated under the equity method as the voting rights allows control by other shareholders

b) Subgroups:

	Year incorporated	Year acquired	Registered office	Activity	Share-holding %	Consolidation method
BES Beteiligungs, GmbH (BES GMBH)	**2006**	**2006**	**Germany**	**Management of shareholdings**	**100,00%**	**Full consolidation**
Bank Espírito Santo International, Ltd. (BESIL)	1983	2002	Cayman Islands	Commercial banking	100,00%	Full consolidation
NB África, SGPS, SA (NB ÁFRICA)	**2006**	**2006**	**Portugal**	**Management of shareholdings**	**100,00%**	**Full consolidation**
Moza Banco, SA	2008	2010	Mozambique	Commercial banking	49,00%	Equity method
ESAF - Espírito Santo Activos Financeiros, S.G.P.S., SA (ESAF)	**1992**	**1992**	**Portugal**	**Management of shareholdings**	**89,99%**	**Full consolidation**
GNB - Sociedade Gestora de Fundos de Investimento Mobiliário, SA	1987	1987	Portugal	Investment fund management	89,99%	Full consolidation
GNB - International Management, SA	1995	1995	Luxembourg	Investment fund management	89,81%	Full consolidation
GNB - Sociedade Gestora de Fundos de Investimento Imobiliário, SA	1992	1992	Portugal	Investment fund management	89,99%	Full consolidation
GNB - Sociedade Gestora de Fundos de Pensões, SA	1989	1989	Portugal	Investment fund management	89,99%	Full consolidation
Espírito Santo International Asset Management, Ltd.	1998	1998	British Virgin Islands	Investment fund management	44,10%	Equity method
GNB - Sociedade Gestora de Patrimónios, SA	1987	1987	Portugal	Wealth management	89,99%	Full consolidation
GNB - Participações Internacionais, SGPS, SA	1996	1996	Portugal	Management of shareholdings	89,99%	Full consolidation
BESAACTIF - Sociedade Gestora de Fundos de Investimento, SA	2008	2008	Angola	Investment fund management	31,50%	Equity method
BESAACTIF Pensões - Sociedade Gestora de Fundos de Pensões, SA	2009	2009	Angola	Pension fund management	31,50%	Equity method
Novo Activos Financieros, SA	**1988**	**2000**	**Spain**	**Asset management**	**95,00%**	**Full consolidation**
Novo Banco Gestión, SGIIC, S.A	2001	2001	Spain	Asset management	95,00%	Full consolidation
Novo Banco Pensiones, SGFP, SA	2001	2001	Spain	Pension fund management	95,00%	Full consolidation
ES Tech Ventures, S.G.P.S., SA (ESTV)	**2000**	**2000**	**Portugal**	**Management of shareholdings**	**100,00%**	**Full consolidation**
ES Ventures - Sociedade de Capital de Risco, SA	2005	2005	Portugal	Venture capital fund	100,00%	Full consolidation
Yunit Serviços, SA	2000	2000	Portugal	Internet portal management	33,33%	Equity method
FCR Espírito Santo Ventures Inovação e Internacionalização	2011	2011	Portugal	Venture capital fund	50,00%	Equity method
Fundo Bem Comum, FCR	2011	2011	Portugal	Venture capital fund	20,00%	Equity method
Espírito Santo Contact Center, Gestão de Call Centers, SA (ESCC)	2000	2000	Portugal	Call center management	41,67%	Equity method
Fundo de Capital de Risco - ES Ventures II	**2006**	**2006**	**Portugal**	**Venture capital fund**	**63,90%**	**Full consolidation**
Atlantic Ventures Corporation	2006	2006	USA	Management of shareholdings	63,90%	Full consolidation
Sousacamp, SGPS, SA	2007	2007	Portugal	Management of shareholdings	24,99%	Equity method
Global Active - SGPS, SA	2006	2006	Portugal	Management of shareholdings	28,54%	Equity method
Outsystems, SA	2007	2007	Portugal	Information technologies	18,72% b)	Equity method
Coreworks - Proj. Circuito Sist. Elect., SA	2006	2006	Portugal	Information technologies	20,69%	Equity method
Bio-Genesis	2007	2007	Brazil	Management of shareholdings	19,13% b)	Equity method
YDreams - Informática, SA	2000	2009	Portugal	Information technologies	30,67%	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	Management of shareholdings	100,00%	Full consolidation
Lírios Investimentos Imobiliários, Ltda	2007	2013	Brazil	Real estate fund management	100,00%	Full consolidation
UCH Investimentos Imobiliários, Ltda	2007	2013	Brazil	Real estate fund management	100,00%	Full consolidation
UCS Participações e Investimentos, Ltda	2004	2013	Brazil	Real estate fund management	100,00%	Full consolidation
UR3 Investimentos Imobiliários, Ltda	2007	2013	Brazil	Real estate fund management	100,00%	Full consolidation
Fundo de Capital de Risco - ES Ventures III	**2009**	**2009**	**Portugal**	**Venture capital fund**	**56,43%**	**Full consolidation**
Nutrigreen, SA	2007	2009	Portugal	Services	11,29% b)	Equity method
Advance Ciclone Systems, SA	2008	2009	Portugal	Treatment and disposal of inert waste	22,57%	Equity method
Watson Brown, HSM, Ltd	1997	2009	United Kingdom	Rubber recycling	20,26%	Equity method
Domática, Electrónica e Informática, SA	2002	2011	Portugal	Information technologies	16,59% b)	Equity method
Fundo FCR PME / NOVO BANCO	**1997**	**1997**	**Portugal**	**Venture capital fund**	**56,78%**	**Full consolidation**
Enkrott SA	2006	2006	Portugal	Water treatment and management	16,07% b)	Equity method
Palexpo - Espaços à Sua Medida, SA	2009	2009	Portugal	Furniture manufacturing	28,10%	Equity method
Otherlog, SA	2014	2014	Portugal	Logistics	21,86% b)	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

	Year incorporated	Year acquired	Registered office	Activity	Share-holding %	Consolidation method
GNB - Companhia de Seguros Vida, SA (GNB VIDA)	**1993**	**2006**	**Portugal**	**Insurance**	**100,00%**	**Full consolidation**
NB - Global Enhancement	1997	2015	Luxembourg	Investment fund	68,43%	Full consolidation
ES Concessões, SGPS, SA (ES CONCESSÕES)	**2002**	**2003**	**Portugal**	**Management of shareholdings**	**71,66%**	**Full consolidation**
ES Concessions International Holding, BV	2010	2010	Holland	Management of shareholdings	71,66%	Full consolidation
Empark - Aparcamientos y Servicios, SA	1968	2009	Spain	Parking lot exploitation	15,92% b)	Equity method
Esconcessions Spain Holding BV	2013	2013	Holland	Management of shareholdings	71,66%	Full consolidation
Auvisa - Autovia de los Viñedos, SA	2003	2010	Spain	Motorway concessionaire	35,83%	Equity method
Ascendi Group SGPS, SA	2010	2010	Portugal	Management of shareholdings	28,66%	Equity method
Banque Espírito Santo et de la Vénétie, SA (BES Vénétie)	**1927**	**1993**	**France**	**Commercial banking**	**87,50%**	**Full consolidation**
BESV Courtage, SA	1975	1975	France	Motorway concessionaire	87,50%	Full consolidation
AOC Patrimoine, SAS	2006	2013	France	Asset management	87,50%	Full consolidation
Marignan Gestion, SA	1986	2009	France	Asset management	87,50%	Full consolidation
Société Lyonnaise de Marchands de Biens	1993	2002	France	Real estate fund management	87,36%	Full consolidation
Société Civile Immobilière du 45 Avenue Georges Mandel	1995	1995	France	Real estate fund management	90,31%	Full consolidation
Groupe CFCA, SAS	1998	2010	France	Management of shareholdings	26,21%	Equity method

b)The percentage presented reflects the economic interest of the Group. These entities were included in the consolidated balance sheet using the equity method given that the Group exercises a significant influence over their activities, as referred in Note 2.2

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 SME No.1 plc (*)	2006	2006	Ireland	100%	Full consolidation
Lusitano Mortgages No.6 plc (*)	2007	2007	Ireland	100%	Full consolidation
Lusitano Project Finance No.1, FTC (*)	2007	2011	Portugal	100%	Full consolidation
Lusitano Mortgages No.7 plc (*)	2008	2008	Ireland	100%	Full consolidation
Lusitano Finance No. 3 (*)	2011	2011	Portugal	100%	Full consolidation

(*) - Structured entities set up in the scope of securitisation operations, recorded in the consolidated financial statements in accordance with the continued involvement of the Group in these operations, determined based on the percentage of the equity pieces held of the respective vehicles (see Note 48)

The consolidation of these entities has the following impact on the Group's accounts:

(in thousands of Euros)

	31.12.2015	31.12.2014
Cash and deposits with banks	125 980	128 811
Loans and advances to customers (net of impairment losses)	2 462 919	2 679 730
Debt securities issued	406 193	535 265

The custodian relationship maintained with customers holding preference shares of the entities Euro Aforro, Top Renda and Poupança Plus was transferred from BES to NOVO BANCO. Taking this fact into consideration, together with the trading of such instruments by BES and the scarcity of information on the functioning and composition of the net assets of these entities, these entities were consolidated in the financial statements of NOVO BANCO, in 2014. In this process, and because the assets of these vehicles included senior bonds issued by BES that were transferred to NOVO BANCO, the bonds recorded as liabilities in NOVO BANCO (as debt securities issued) were extinguished and the funds obtained from customers were booked in Due to customers. In parallel, a 4th vehicle was identified with a value of approximately Euros 77 million which, due to the inexistence of information on the functioning and composition of the net assets of this vehicle, was fully provided.

In the 2014 period, the impact of the consolidation of these vehicles was as follows:

(in thousands of Euros)

	31.12.2014
Cash and deposits with banks	2 223
Financial assets held for trading	(32 854)
Deferred tax assets	56 325
Due to customers and other loans	441 984
Debt securities issued	(278 391)
Other provisions	73 638
Other reserves and retained earnings	(415 532)
Net (profit) / loss for the period [(a)]	203 995

(a) The net profit / (loss) for the period of Euros 204.0 million includes Euros 296.6 million (before tax effect) related to the revaluation of liabilities (see Notes 14 and 36)

According to IFRS 10, a control situation should be periodically reassessed, considering the facts and circumstances known at each moment, identifying whether an entity exercises or is able to exercise some power or influence over another entity or maintains some relationship that determines its exposure or confers on it rights to obtain or to condition their results.

It became apparent, based on information obtained during 2015, that the Preference Shares issued by these entities, according to the Memorandum of Association and the Articles of Association, allows the exercising of voting rights by holders of said Preference Shares in the following cases: (i) decisions regarding the dissolution of the company; and (ii) the appointment and removal of members of the Board of Directors, in the event of non-payment of dividends over a period of four consecutive years. Since NOVO BANCO does not hold a relevant percentage of Preference Shares, it also has no legal mechanism that will enable it to exercise any influence over said entities, nor exercise any power over them and over their business and investments or disinvestments.

The intentions and responsibilities assumed by BES with retail customers' holders of Preference Shares were not transferred to NOVO BANCO, by virtue of the separation of assets, liabilities and off-balance sheet elements determined by the resolution measure applied to BES, as per the deliberation of Banco de Portugal, namely the deliberations of 3 August 2014 and 29 December 2015. The presentation, by NOVO BANCO, of commercial solutions to its clients, holders of the Preference Shares issued by these entities, is based on a purely commercial criteria, without assuming any responsibility for the trading or reimbursement of these investments, and, consequently, from this perspective, not assuming control or significant influence.

Given the aforementioned, as at 31 December 2015, these entities ceased to integrate the consolidation perimeter of the Group.

During 2015, the main changes in NOVO BANCO Group's structure were as follows:

- Subsidiaries

- In March and April 2015 BESNAC and ES Gest, respectively, were liquidated;
- In March 2015, in the scope of the redemption of a Capitalisation Operation of T-Vida, Companhia de Seguros, SA, NOVO BANCO came to hold and consolidate the Fundes Real Estate Investment Fund;
- In April 2015 NB Finance was incorporated, with a share capital of 100 thousand Euros totally subscribed by NOVO BANCO, with a share premium of 1 600 thousand Euros;
- In June 2015 took place the merger of Avistar in NOVO BANCO;
- In the scope of the redemption of the Capitalisation Operations *Unit Linked* of GNB Vida, NOVO BANCO came to hold and directly consolidate the Fimes Oriente, NB Arrendamento and Orey Reabilitação Urbana Real Estate Investment Funds;
- In June 2015, the Amoreiras Fund integrated the consolidation perimeterof NOVO BANCO Group due to a transfer in lieu of payment process. Following the share capital increase realised in July 2015, the Group came to hold 93.49% of the Participation Units of this fund;
- In November 2015, the position held by NOVO BANCO in Saxo Bank A/S was exchanged for the position held by the latter in BEST. With this exchange of securities, NOVO BANCO Group came to hold the entire share capital of BEST;
- In December 2015, the Group acquired the remaining 0.25% of the capital of NB Ásia, coming to hold the entire share capital of this subsidiary;
- Following the deliberation of Banco de Portugal of 29 December 2015, BES Finance was retransmitted to the consolidation perimeter of BES, ceasing to be integrated in NOVO BANCO Group. The impact of this deliberation in the equity of the Group was negative in Euros 26.2 million.

- Associated companies

- In April 2015, the FCR PME NOVO BANCO Fund acquired 21.52% of the share capital of Epedal, SGPS, SA, for an amount of 1 296 thousand Euros;
- In June 2015, the FCR PME NOVO BANCO Fund acquired 33.33% of the share capital of Attentionfocus, Lda, for an amount of 1 Euro;
- In July 2015, the FCR PME NOVO BANCO Fund acquired 59.58% of the share capital ofNexxpro, SA, for an amount of 185 thousand Euros, having generated negative consolidation differences amounting to 222 thousand Euros.

During 2015 year and the period from 4 August to 31 December 2014, the movements relating to acquisitions, disposals and other investments and reimbursements in subsidiaries and associated companies are detailed as follows:

(in thousands of Euros)

	31.12.2015						
	Acquisitions			Disposals			
	Acquisition cost	Other investments (a)	Total	Desposal amount	Other reimbursements (a)	Total	Capital gains / (losses) on disposals / liquidations
Subsidiaries							
BV Finance	-	1 700	1 700	-	-	-	-
Ventures II	-	1 927	1 927	-	-	-	-
Ventures III	-	930	930	-	-	-	-
Fundes	-	144 014	144 014	-	-	-	-
BEST	-	22 581	22 581	-	-	-	-
NB África	-	1 500	1 500	-	-	-	-
Esgest	-	-	-	-	(100)	(100)	33
BES Finance	-	-	-	-	(25)	(25)	-
	-	172 652	172 652	-	(125)	(125)	33
Associated companies							
Epedal, SGPS, SA	1 296	191	1 487	-	-	-	-
Nexxpro - Fábrica de Capacetes, S.A.	185	1 215	1 400	-	-	-	-
Moza Banco	-	2 477	2 477	-	-	-	-
Palexpo - Imagem Empresarial	-	2 228	2 228	-	-	-	-
Otherlog	-	1 213	1 213	-	-	-	-
	1 481	7 324	8 805	-	-	-	-
	1 481	**179 976**	**181 457**	**-**	**(125)**	**(125)**	**33**

(a) Share capital, Supplementary capital and Shareholder loan increases / decreases

(in thousands of Euros)

	31.12.2014						
	Acquisitions			Disposals			
	Acquisition cost	Other investments (a)	Total	Disposal amount	Other reimbursements (a)	Total	Capital gains / (losses) on disposals / liquidations
Subsidiaries							
BESI	-	-	-	379 000	-	379 000	(38 887) (b)
FCR PME BES	600	-	600	-	-	-	-
Fungere	550	-	550	-	-	-	-
Fungepi Novo Banco II	10 812	74 050	84 862	-	-	-	-
Imoinvestimento	-	74 050	74 050	-	-	-	-
ES Ventures II	-	436	436	-	-	-	-
	11 962	148 536	160 498	379 000	-	379 000	(38 887)
Associated companies							
Otherlog, SA	887	-	887	-	-	-	-
ES Ventures Inovação e Internacionalização	-	1 750	1 750	-	-	-	-
	887	1 750	2 637	-	-	-	-
	12 849	**150 286**	**163 135**	**379 000**	**-**	**379 000**	**(38 887)**

(a) Share capital, Supplementary capital and Shareholder loan increases / decreases
(b) Result determined at the time of signing the sales contract, with reference to BESI's financial statements of 30 November 2014 (see note 53).

The acquisition amounts indicated above relate to increases in shareholding percentages in subsidiaries that were already controlled by the Group. The impact of these acquisitions 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”.

At the beginning of December 2014, NOVO BANCO celebrated with Haitong International Holdings Limited, a contract selling 100% of its subsidiary Banco Espírito Santo Investimento, SA (BESI), as a result of which the latter ceased being consolidated under the full consolidation method, being classified instead, under IFRS 5, as a non-current asset held for sale. With the materialisation of the sale on 7 September 2015, this entity was derecognised.

In December 2015, the subsidiary Banco Internacional de Cabo Verde, SA, ceased being consolidated under the full consolidation method, being classified instead, under IFRS 5, as a non-current asset held for sale.

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 2015.

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 2015. The accounting policies used by the Group in their preparation are consistent with those used in the preparation of the financial statements with reference to 31 December 2014. The comparative amounts presented as at 31 December 2014 include the results corresponding to the period 4 August through 31 December 2014. The results generated by the subsidiaries and associated companies between 1 January through 3 August 2014 were incorporated in the caption Reserves.

However, and as described in Note 54, the Group adopted in the preparation of the consolidated financial statements as at 31 December 2015, the accounting policies issued by IASB and the IFRIC interpretations mandatory as from 1 January 2015. The accounting policies used by the Group in the preparation of the consolidated financial statements, described in this note, were adopted in conformity.

The accounting policies and interpretations issued recently but not yet effective and that the Group has not yet adopted in the preparation of its financial statements may also be analysed in Note 54.

The consolidated financial statements are expressed in thousands of Euros, rounded to the nearest thousand. These 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 conformity with IFRS requires that the Group 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 in these versus 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 2015 were approved at the Board of Directors' meeting held on 30 March 2016, and are to be submitted for approval at the Annual Shareholders General Meeting, that has the power to change them. However, it is the Board of Director's 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 periods covered by these consolidated financial statements.

Subsidiaries

Subsidiaries are entities (including investment funds and securitisation 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 re-measures its previously held non-controlling interest in the entity at its acquisition date fair value and recognises 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 re-measured to its fair value at the date the control is lost and the resulting gain or loss is recognised in the income statement.

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 re-measured 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.

Structured Entity (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. Usually it is presumed that there is control when the Group holds more than 50% of the respective participation units.

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 acquirerto the previous shareholders of the acquired, and iii) of the equity instruments issued.

According to 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.

At the acquisition date, the non-controlling interests are measured at their proportional interest in the fair value of thenet 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 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. Eventual impairment losses determined are recognised 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 balance sheet date;
- Income and expenses are translated at exchange rates approximating the actual 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. 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 as an integral part of the gain or loss on the disposal.

Taking into account the provision of paragraph 26 of IAS 21 – Effects of exchange rate changes - "when several exchange rates are available, the rate used is that in which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date", NOVO BANCO Group, as of 31 December 2015, began to use in the translation of the financial statements of the Venezuelan Branch, the SIMADI exchange rate published by the Central Bank of Venezuela.

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 transaction reveals evidence of an impairment loss.

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

Derivatives 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 re-measured on a regular basis and the resulting gains or losses on re-measurement 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.

The fair value of derivative financial instruments corresponds to their quoted market prices in active markets, if available, or is determined using valuation techniques, including discounted cash flow models and options pricing models, as appropriate.

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.

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 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.

At 31 December 2015, 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 their 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 assesses, at each balance sheet date, 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.

The Group first assesses whether objective evidence of impairment exists for each loan individually. 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 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 no evidence of loss has been identified, these loans are grouped together on the basis of similar credit risk characteristics (loan portfolio), andassessed 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 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 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 evaluation 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 evaluated 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 loans write-off policy followed by the Group is governed by the principles defined by Banco de Portugal in its Communication of 28.01.2009 (Reference: 15/09/DSBDR). Accordingly, the loan write-off only occurs after (i) the full amount of the loans has been deemed overdue and has been demanded; (Ii) it is considered that appropriate collection efforts have been undertaken; and (iii) the loans 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 loans that may be written off, which are:
- Loans cannot have associated collateral;
- Loans must be deemed overdue in their entirety (recorded, in their entirety, in overdue loans, with no portion being recorded in maturing debt);
- Loans cannot be marked asrenegotiated overdue, or integrate an active settlement agreement;
- The provision created for overdue loans, according to the rules of Notice no. 3/95 of Banco de Portugal, must be100%;
- The impairment loss has to cover at least 95% of the amount, except in respect of mortgage loans whenthe 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, that are those acquired for the purpose of selling in the short-term or that 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 derecognition

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

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.

Available-for-sale financial assets are also subsequently carried at fair value. Gains and losses arising from changes in their fair value are, however, recognised directly in reserves, 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. 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 transfer. 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 it 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.

Reclassifications of available-for-sale financial assets to loans and advances to customers - securitised credit - are allowed if there is an intention and the ability to hold same for the foreseeable future or until maturity.

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 carrying 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 on available-for-sale financial assets has occurred, the potential 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 lent 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 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 to pay dividends.

The 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 based on 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 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 value of the liability and its acquisition cost is recognised in the income statement.

2.9. 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.

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 realise 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 Group, as well as in the event of default, bankruptcy or insolvency of the Group or the counterpart.

2.12. Non-current assets held for sale

Non-current assets or disposal groups (groups of assets to be disposed of together and 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.

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 re-measured at the lower of their carrying value and fair value less costs to sell.

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 properties and other assets as payments in kind against the loan. 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 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, property in exchange for loans granted by the Group. This 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).

It is the Group's objective to immediately dispose of all property acquired as payment in kind for loans. This real estate property is classified as non-current assets held-for-sale and is initially recognised at the lower of its 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.

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:

a) *Market Method*

The Market Comparison Criteria takes as a reference transaction values of similar and comparable real estate properties to the property under valuation, obtained through market prospecting carried out in the area.

b) *Income Method*

Under this method, the real estate property is valued based on the capitalisation of its net income, discounted to the present using the discounted cash-flow method.

c) *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 Group's 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 loan impairment losses. 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 value of their assets and liabilities is compared with their fair value, less costs to sell, and impairment losses are recognised when necessary. Assets relating to operations being discontinued are recorded in accordance with the valuation policies applicable to each category of assets, as set down in IFRS 5.

For purposes of calculating the fair value of subsidiaries held for resale, the Bank 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.

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
Motor vehicles	4
Other	5

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 carrying 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 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 derecognition of a tangible fixed asset, the gain or loss determined as the difference between the net selling price and the carrying value is recognised under the caption “Other operating income / 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 period, 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 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 signing of the Collective Labour 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, 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 Group’s retirement pension liabilities were calculated as at 31 December 2015 and 31 December 2014, 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 includes 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 recognises 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 the fact that the employee retired before 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 services costs for active employees shall be funded at a minimum level of 95%.

The Group assesses the recoverability of any recognised excess in a fund in relation to 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, hospitalisation and surgeries, in accordance with its financing availability and internal regulations.

The Group's annual mandatory contribution to SAMS amounts to 6.50% of the total annual remuneration of active employees, including, amongst others, the holiday subsidy and Christmas subsidy.

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 bonuses

In accordance with the ACT ("Acordo Colectivo de Trabalho") for the Banking Sector, the NB Group has assumed the commitment to pay active employees who complete 15, 25 and 30 years of service in the Group, long-term service bonuses corresponding, respectively, to one, two and three months of their effective monthly remuneration earned at the date the bonuses are paid out.

At the date of early retirement due to disability or presumed disability, employees have 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 are 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 is periodically calculated by the Group using the Projected Unit Credit Method. The actuarial assumptions used are based on expectations as to future salary increases and mortality tables. The discount rate used in this calculation is 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, is to be charged to the income statement.

Employees' variable remuneration

In accordance with IAS 19 - Employee Benefits, variable remuneration (profit share, awards and other) attributed to employees and, eventually, to the executive members of the Board of Directors is recognised in the income statement in the period to which it relates.

2.17. Corporate income tax

Corporate income tax for the year 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 in equity. Corporate income tax recognised directly in equity relating to fair value re-measurement 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.

Deferred tax is calculatedon timing differences arising between the carrying values of assets and liabilities for financial reporting purposes and their respective tax base, and is calculated using the tax rates enacted or substantively enacted at the balance sheet date in each jurisdiction and that are expected to 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 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 deducted. Deferred tax liabilities are always accounted for, regardless of the performance of NOVO BANCO.

The Tax Authorities are entitled to review the calculation of the tax assessment made by the Bank and by its subsidiaries resident in Portugal, during a period of four or twelve years, in the event of tax loss carry forwards.

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.

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 operation 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.

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 carrying 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.

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 period 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

The basic earnings per share is calculated by dividing net income available to ordinary shareholders of the holding 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 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 purposes of the cash flow statement, cash and cash equivalents comprise balances with maturities under three month from the inception date and which risk of change in value is immaterial, including cash, deposits with Central Banks and deposits with other credit institutions (hereafter generally referred to as ‘banks’). 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. Investment properties are not depreciated.

Transfers to and from the caption Investment properties may occur whenever there is a change in respect of the use of a real estate property is verified. On the transfer of investment property 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 property held for own use is classified to investment properties, the Group records that assets in accordance with the policy applicable to property held for own use, up to the date of its transfer to investment properties and at fair value subsequently, the difference arising in its measurement at the date of the transfer being recognised in revaluation reserves.

Subsequent expenditure is capitalised only when it is probable that the Group will obtain future economic benefits in excess of those originally assessed based on the standard performance of the asset.

Investment properties recorded relate solely to the insurance and other non-banking activities.

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 writtenpremiums 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 in the same way as gross writtenpremiums.

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 reflects 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 provisions 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 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 became realised in accordance with the terms of the contracts and applicable legislation, by recognising a reserve.

Reserve for rate commitments (Liability adequacy test)

At 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 Reserve for rate commitments.

Unearned premium reserves

The unearned premiums reserves reflect that part of the gross premiums writtenimputable 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, whichrequire 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 quotation (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.

3.2. Fair value of derivatives 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.

3.3. Impairment losses in 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 on 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.

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 carrying 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.

3.5. Entities included in the consolidation perimeter

In determining which entities to include 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 that entity and (ii) it has the ability to appropriate those returns through its power over the company.

The decision that an entity must be consolidated by the Group requires the use of judgment to determine the extent to which the Group is exposed to the variability of the return from that entity and has the ability to appropriate those returns through its power over the company. In applying that judgment, the Group analyses estimates and assumptions. Therefore, different estimates and assumptions could lead to a different consolidation perimeter, with a direct impact on the balance sheet.

3.6. 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.

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 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.

3.7. Pensions and other employee benefits

Determining retirement pension liabilities requires the use of assumptions and estimates, including the use of actuarial tables, assumption regarding the growth of pensions, salaries and discounts rates. These assumptions are based on the expectations of 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.

Changes in these assumptions could materially affect the amounts determined.

3.8. Technical reserves and liabilities regarding insurance and investment contracts with discretionary participating features

Future liabilities relating to insurance contracts and investment contracts with discretionary participating features are recorded under the caption 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 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 with insurance contracts and investment contracts with discretionary participating features (capitalisation 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 understatementresulting 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.

3.9. Investment properties and Non-current assets held for sale

Investment properties are initially recognised at their acquisition cost, including directly related transaction costs, and subsequently at their fair value. Non-current assets held for sale are measured at the lower of their carrying value and their fair value net of costs to sell.

The fair value of these assets is determined based on valuations, performed by independent entities specialised in these services, using market, income or cost methods, as defined in Note 2.12. The valuation reports are analysed internally, comparing the sales values with the revalued amounts of the assets, so as to assure the adequacy of the valuation parameters and process with the market evolution.

The use of alternative methodologies and assumptions could result in a different fair value level impacting the balance sheet amount recognised.

3.10. 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 balance sheet date.

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 national 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 commercialisation 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 562 bank branches in Portugal and Branches in London, Spain (34 bank branches), Cayman Islands, Venezuela, Luxembourg, a financial branch in the Madeira Free Zone and 7 representation offices – with NB Açores (17 bank branches), Banco BEST (16 bank branches), NB Ásia, BES Vénétie, ESAF, GNB Seguros (non-life insurance) and GNB Vida, amongst other companies.

When evaluating performance by business area, the Group considers the following Operating Segments: (1) Domestic Commercial Banking, including Retail, Corporate, Institutional and Private Banking; (2) International Commercial Banking; (3) Asset Management; (4) Life Insurance; (5) Markets; and (6) Corporate Centre. 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 (considered an investment centre), is complemented at the Board of Directors of NOVO BANCO level, by the definition of strategies and commercial programmes specific for each unit.

4.1. Description of the operating segments

Each of the operating segments includes the following activities, products, customers and Group structures:

Domestic Commercial Banking

This Operating Segment includes all the banking activitydeveloped on national territory involving corporate and private customers and using the bank branch network, corporate centres 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-sized companies, developed through a commercial structure dedicated to this segment, which includes 22 Corporate Centres. 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, whose 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, Venezuela, New York and Cape Verde (the last two having been shut down during the 2015 financial year). The products and services included in this segment are deposits, all types of credit, leveraged finance, structured trade finance and project finance. This segment, within the context of pursuing the fundraising strategy, has assumed a significant role, mainly with institutional customers.

Asset Management

This segment 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 services and portfolio management.

Life Insurance

This segment includes 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, Organisation and Quality, amongst others.

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 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 company branches, subsidiaries and associated companies) is evaluated separately, as each of these units is considered an investment centre. 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, 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 securitise 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 and on the Cost Based Approach (CBA) model; (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 Financial Marketssegment.

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 in accordance with the CBA 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 Financial 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 Financial 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 consolidated using the equity method

Investments in associated companies consolidated under the equity method are included in the Financial 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 Board of Directors, does not affect the evaluation of most of the Operating Segments. Deferred tax assets and liabilities are included in the FinancialMarkets segment.

Domestic and International Areas

In the disclosure of financial information by geographical area, the operating units integrating the International Area are NB Ásia, Banco Internacional de Cabo Verde; Novo Banco Servicios, Novo AF, BES Vénétie, Banco Delle Tre Venezie, Moza Banco, Ijar Leasing Algérie, the NOVO BANCO branches in London, Spain, New York, Cape Verde, Venezuela and Luxembourg and the ESAF operating units located abroad. The company branches of NOVO BANCO in New York and Cape Verde were shut down during 2015.

The financial and economic elements relating to the international area are those presented in the financial statements of those units, with the respective consolidation and elimination adjustments.

The segment reporting for 31 December 2015 and 2014 is presented as follows:

(in thousands of Euros)

	31.12.2015									
	Retail	Corporate and Institutional	Private banking	International commercial banking	Investment banking	Asset management	Life insurance	Financial Markets	Corporate centre	**Total**
Net interest	185 545	68 464	45 416	98 982	-	933	17 316	33 996	-	450 652
Net fees and commissions	139 344	147 232	13 239	58 629	-	33 760	(8 193)	(45 966)	-	338 045
Other operating income	12 812	10 113	2 149	(21 955)	(22 803)	(2 310)	140 518	(78 941)	-	39 583
Total operating income	337 701	225 809	60 804	135 656	(22 803)	32 383	149 641	(90 911)	-	828 280
Operating expenses	388 960	631 555	16 477	255 382	-	14 187	26 878	339 244	139 910	1 812 593
Includes:										
Provisions / Impairment losses	*46 177*	*572 013*	*2 550*	*130 220*	*-*	*(1 410)*	*15 992*	*292 390*	*-*	*1 057 932*
Depreciation and amortisation	*40 592*	*5 361*	*1 650*	*12 175*	*-*	*242*	*666*	*6 365*	*4 662*	*71 713*
Net gains / (losses) on disposal of subsidiaries and associated companies	-	-	-	-	-	-	-	33	-	33
Net profits / (losses) on step acquisitions of control in subsidiaries	-	-	-	-	-	-	-	222	-	222
Net share of profits / (losses) of associated companies	-	-	-	386	-	1 357	-	14 905	-	16 648
Profit / (loss) before tax and non-controlling interests	**(51 259)**	**(405 746)**	**44 327**	**(119 340)**	**(22 803)**	**19 553**	**122 763**	**(414 995)**	**(139 910)**	**(967 410)**
Intersegment operating income / (loss)	*3 075*	*6 967*	*-*	*(8 170)*	*-*	*2 135*	*(3 229)*	*33 919*	*-*	*34 697*
Total Net Assets	**14 739 878**	**17 376 075**	**2 117 568**	**12 543 774**	**-**	**216 449**	**6 141 709**	**4 393 906**	**-**	**57 529 359**
Total Liabilities	**14 690 422**	**17 783 009**	**2 073 273**	**11 388 821**	**-**	**14 675**	**5 676 021**	**(44 505)**	**-**	**51 581 716**
Investments in associated companies	**-**	**-**	**-**	**21 036**	**-**	**2 859**	**-**	**381 591**	**-**	**405 486**
Investments in tangible fixed assets	**272**	**-**	**-**	**645**	**-**	**-**	**-**	**11 394**	**34**	**12 345**
Investments in intangible assets	**587**	**-**	**-**	**3 934**	**-**	**153**	**173**	**11 776**	**-**	**16 623**
Investment in non-current assets	**1 629**	**-**	**-**	**21 283**	**-**	**-**	**5 742**	**260 829**	**79**	**289 562**

(in thousands of Euros)

	31.12.2014									
	Retail	Corporate and Institutional	Private banking	International commercial banking	Investment banking	Asset management	Life insurance	Markets and strategic shareholdings	Corporate centre	**Total**
Net interest	149 529	119 541	30 087	94 309	-	445	15 575	(144 026)	-	265 460
Net fees and commissions	61 119	74 997	4 822	26 705	-	17 404	8 771	(24 910)	-	168 908
Other operating income	1 248	2 212	972	42 561	-	1 065	(29 704)	358 790	-	377 144
Total operating income	211 896	196 750	35 881	163 575	-	18 914	(5 358)	189 854	-	811 512
Operating expenses	167 824	284 244	8 316	162 600	-	6 238	36 503	308 200	80 527	1 054 452
Includes:										
Provisions / Impairment losses	*31 765*	*261 965*	*2 207*	*92 639*	*-*	*(156)*	*30 025*	*280 606*	*-*	*699 051*
Depreciation and amortisation	*18 992*	*2 250*	*717*	*9 788*	*-*	*98*	*325*	*3 539*	*2 141*	*37 850*
Net share of profits / (losses) of associated companies	-	-	-	672	-	453	-	4 096	-	5 221
Profit / (loss) before tax and non-controlling interests	**44 072**	**(87 494)**	**27 565**	**1 647**	**-**	**13 129**	**(41 861)**	**(114 250)**	**(80 527)**	**(237 719)**
Intersegment operating income / (loss)	*44*	*3 202*	*-*	*125 792*	*-*	*268*	*84*	*(118 685)*	*-*	*10 705*
Total Net Assets	**14 323 851**	**19 876 989**	**1 778 771**	**15 575 264**	**4 436 620**	**213 420**	**7 484 306**	**1 728 259**	**-**	**65 417 480**
Total Liabilities	**14 220 016**	**19 964 483**	**1 751 246**	**14 210 762**	**3 995 709**	**18 538**	**7 072 328**	**(1 225 416)**	**-**	**60 007 666**
Investments in associated companies	**-**	**-**	**-**	**36 501**	**-**	**1 948**	**-**	**363 840**	**-**	**402 289**
Investments in tangible fixed assets	**75**	**-**	**-**	**5 585**	**-**	**80**	**10**	**8 673**	**59**	**14 482**
Investments in intangible assets	**257**	**-**	**-**	**4 815**	**-**	**85**	**177**	**10 329**	**1**	**15 664**
Investment in non-current assets	**491**	**-**	**-**	**7 874**	**-**	**-**	**723**	**584 816**	**-**	**593 904**

The balances included in the Investment Banking Segment relate to BESI, classified as a unit being discontinued following the sale contract signed in December 2014 with Haitong International Holdings, which sale was concluded in September 2015 (see Note 53).

The segmental reporting prepared in accordance with the geographical distribution of the Group's business units, is presented as follows:

(in thousands of Euros)

	31.12.2015										
	Portugal	Spain	France / Luxembourg	United Kingdom	United States of America	Brazil	Angola	Cape Verde	Macao	Other	Total
Net profit / (loss) for the period	(866 996)	(47 668)	(36 547)	110	(28 338)	(1 644)	1 282	(2 723)	458	1 508	(980 558)
(of which: rel. to units being discontinued)	*41 109*	*(9 963)*	-	*(14 780)*	*5 548*	*(191)*	*(75)*	*(1 014)*	-	*1 155*	21 789
Intersegment operating income / (loss)	*266 986*	*2 948*	*(20 555)*	*(216 092)*	*842*	-	-	*86*	*464*	*18*	*34 697*
Net assets	45 251 643	3 082 282	4 742 254	4 071 188	46 949	12 723	2 859	113 354	121 189	84 918	57 529 359
(of which: rel. to units being discontinued)	*(40 327)*	-	-	-	-	-	-	*40 327*	-	-	-
Investments in associated companies	335 750	-	1 300	-	-	-	2 859	-	-	65 577	405 486
Investment in tangible fixed assets	11 666	492	67	88	-	-	-	5	2	25	12 345
Investment in intangible assets	12 679	3 210	152	145	-	-	-	116	310	11	16 623
Investment in non-current assets	268 200	19 472	1 890	-	-	-	-	-	-	-	289 562

(in thousands of Euros)

	31.12.2014										
	Portugal	Spain	France / Luxembourg	United Kingdom	United States of America	Brazil	Angola	Cape Verde	Macao	Other	Total
Net profit / (loss) for the period	(466 350)	(45 188)	43 374	(13 617)	(499)	(4 476)	(564)	(239)	(1 456)	(8 630)	(497 645)
(of which: rel. to units being discontinued)	*(16 038)*	*(9 966)*	-	*(13 460)*	*829*	*(2 891)*	*(1 017)*	-	-	*(4 069)*	(46 612)
Intersegment operating income / (loss)	*(117 162)*	*2 961*	*28 162*	*96 769*	*(850)*	-	-	*56*	*769*	-	*10 705*
Net assets	47 575 982	3 571 392	4 863 712	4 566 340	2 244 162	1 868 822	1 948	138 562	121 632	464 928	65 417 480
(of which: rel. to units being discontinued)	*1 872 986*	*117 724*	-	-	*279 312*	*1 850 117*	-	-	-	*89 661*	4 209 800
Investments in associated companies	330 408	-	1 300	-	-	-	1 948	-	-	68 633	402 289
Investment in tangible fixed assets	8 847	1 850	13	119	-	-	-	-	587	3 066	14 482
Investment in intangible assets	11 436	2 024	57	269	-	-	-	2	1 019	857	15 664
Investment in non-current assets	586 030	7 874	-	-	-	-	-	-	-	-	593 904

NOTE 5 – NET INTEREST INCOME

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2015			31.12.2014		
	Assets / Liabilities at amortised cost and Available-for-sale financial assets	**Assets / Liabilities at fair value through profit or loss**	**Total**	**Assets / Liabilities at amortised cost and Available-for-sale financial assets**	**Assets / Liabilities at fair value through profit or loss**	**Total**
Interest and similar income						
Interest from loans and advances	1 075 957	13 275	1 089 232	564 965	5 421	570 386
Interest from financial assets at fair value through profit or loss	-	32 116	32 116	-	25 415	25 415
Interest from deposits with and loans and advances to banks	38 972	207	39 179	11 655	623	12 278
Interest from available-for-sale financial assets	170 441	-	170 441	88 961	-	88 961
Interest from derivatives held for risk management purposes	-	84 676	84 676	-	76 361	76 361
Other interest and similar income	27 512	-	27 512	8 266	-	8 266
	1 312 882	**130 274**	**1 443 156**	**673 847**	**107 820**	**781 667**
Interest expense and similar charges						
Interest on debt securities	394 706	5 337	400 043	234 242	12 161	246 403
Interest on amounts due to customers	303 561	44 492	348 053	103 171	40 640	143 811
Interest on deposits from Central Banks and other banks	65 071	14 688	79 759	12 603	18 588	31 191
Interest on subordinated debt	250	-	250	1 232	-	1 232
Interest on derivatives held for risk management purposes	-	51 678	51 678	-	36 267	36 267
Other expenses and similar charges	112 721	-	112 721	57 303	-	57 303
	876 309	**116 195**	**992 504**	**408 551**	**107 656**	**516 207**
	436 573	**14 079**	**450 652**	**265 296**	**164**	**265 460**

The Interest income and Interest expenses 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 hedge 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)

	31.12.2015	31.12.2014
Fee and commission income		
From banking services	271 774	122 421
From guarantees provided	108 136	54 604
From transactions of securities	11 732	5 120
From commitments to third parties	21 816	9 867
Other fee and commission income	58 041	33 319
	471 499	**225 331**
Fee and commission expense		
With banking services rendered by third parties	67 848	26 289
With guarantees received	34 887	18 107
With transactions of securities	8 704	4 056
With commitments assumed to third parties	58	165
Other fee and commission expenses	21 957	7 806
	133 454	**56 423**
	338 045	**168 908**

The caption Fee and commission expense with guarantees received includes, as at 31 December 2015 and 2014, Euros 34.4 million and Euros 17.8 million, respectively, relating to commissions with the guarantee received from the Portuguese Government on 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)

	31.12.2015			31.12.2014		
	Gains	Losses	Total	Gains	Losses	Total
Securities held for trading						
Bonds and other fixed income securities						
Issued by government and public entities	2 874	1 477	1 397	2 082	455	1 627
Issued by other entities	2 461	1 081	1 380	2 135	798	1 337
Shares	471	1 089	(618)	754	5 213	(4 459)
Other variable income securities	-	53	(53)	-	3 280	(3 280)
	5 806	**3 700**	**2 106**	**4 971**	**9 746**	**(4 775)**
Derivative financial instruments						
Foreign exchange rate contracts	216 766	174 919	41 847	258 089	65 872	192 217
Interest rate contracts	3 098 532	3 205 099	(106 567)	859 398	934 430	(75 032)
Equity / Index contracts	379 810	400 678	(20 868)	289 819	303 883	(14 064)
Credit default contracts	123 113	124 220	(1 107)	36 230	74 676	(38 446)
Other	18 479	33 562	(15 083)	14 946	16 563	(1 617)
	3 836 700	**3 938 478**	**(101 778)**	**1 458 482**	**1 395 424**	**63 058**
Financial assets at fair value through profit or loss						
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	1 211	3 021	(1 810)	4 840	1 254	3 586
Issued by other entities	14 645	23 819	(9 174)	19 580	6 165	13 415
Shares	13 184	13 231	(47)	3 068	11 831	(8 763)
Other variable income securities	88 478	105 861	(17 383)	16 334	66 852	(50 518)
	117 518	**145 932**	**(28 414)**	**43 822**	**86 102**	**(42 280)**
Other financial assets(1)						
Loans and advances to banks	-	-	-	-	17	(17)
Loans and advances to customers	14 150	16 394	(2 244)	17 820	494	17 326
	14 150	**16 394**	**(2 244)**	**17 820**	**511**	**17 309**
Financial liabilities(1)						
Deposit from banks	9 622	1 215	8 407	291	20 853	(20 562)
Due to customers	26 756	6 795	19 961	37 000	23 728	13 272
Debt securities issued	4 963	893	4 070	11 293	5 499	5 794
Life insurance products	179 605	165 874	13 731	2 345	55 368	(53 023)
	220 946	**174 777**	**46 169**	**50 929**	**105 448**	**(54 519)**
	352 614	**337 103**	**15 511**	**112 571**	**192 061**	**(79 490)**
	4 195 120	**4 279 281**	**(84 161)**	**1 576 024**	**1 597 231**	**(21 207)**

(1) Includes the fair value change of hedged assets / liabilities or at fair value option

As at 31 December 2015, this caption also includes a positive effect of Euros 23.9 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 2014: positive effect of Euros 26.5 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 recognises 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.

In 2015, the gains recognised in the income statement arising from intermediation fees amounted to approximately Euros 9 610 thousand (31 December 2014: Euros 4 600 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)

	31.12.2015			31.12.2014		
	Gains	Losses	Total	Gains	Losses	Total
Bonds and other fixed income securities						
Issued by government and public entities	217 020	76 553	140 467	32 530	4 813	27 717
Issued by other entities	55 448	30 997	24 451	15 347	6 533	8 814
Shares	67 038	23 364	43 674	2 488	793	1 695
Other variable income securities	78 153	55 984	22 169	8 250	12 263	(4 013)
	417 659	**186 898**	**230 761**	**58 615**	**24 402**	**34 213**

NOTE 9 – NET GAINS / (LOSSES) FROM FOREIGN EXCHANGE REVALUATION

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2015			31.12.2014		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange revaluation	1 869 823	1 839 731	30 092	608 183	533 064	75 119
	1 869 823	**1 839 731**	**30 092**	**608 183**	**533 064**	**75 119**

This caption includes the results of the foreign exchange revaluation of monetary assets and liabilities denominated at the foreign exchange rates ruling at the balance sheet date 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)

	31.12.2015	31.12.2014
Loans and advances to customers	(8 668)	(45)
Non-current assets held for sale	(9 016)	3 952
Other	5 343	1 735
	(12 341)	**5 642**

NOTE 11 –INSURANCE EARNED PREMIUMS, NET OF REINSURANCE

Insurance earned premiums, net of reinsurance may be analysed as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Gross written premiums	86 013	38 328
Reinsurance premiums ceded	(47 687)	(20 529)
Net premiums	38 326	17 799

Gross written premiums, by segment, are analysed as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Traditional annuities	58 579	23 782
Capitalization products with profit sharing	27 434	14 546
Total	86 013	38 328

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 financial 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)

	31.12.2015	31.12.2014
Direct insurance		
Amounts paid	251 879	292 063
Change in the outstanding claims reserve	(558)	(15 101)
	251 321	276 962
Reinsurance ceded		
Amounts paid	(13 359)	(3 223)
Change in the outstanding claims reserve	(946)	(33)
	(14 305)	(3 256)
	237 016	273 706

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)

	31.12.2015	31.12.2014
Mathematical reserves	179 415	239 824
Reserve for profit sharing	(11 292)	546
Other technical reserves	(391)	(857)
Reserve for reinsurance	(1 566)	(929)
Commissions and profit sharing in reinsurance ceded	(176)	316
Change in provision for unearned premiums, net of reinsurance	102	364
	166 092	239 264

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, a 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)

	31.12.2015	31.12.2014
Other operating income / (costs)		
IT services	176	96
Net gains / (losses) on repurchase of Group debt securities (see Notes 37 and 41)	(567)	19 818
Gains / (losses) on credit operations	18 080	6 871
Non-recurring consultancy services	3 192	884
Direct and indirect taxes	(17 041)	(7 533)
Revaluation of liabilities	(65 139)	296 581
Contributions to the Deposits Guarantee Fund	(1 350)	(5 142)
Contributions to the Resolution Fund	(6 800)	(3 471)
Contributions to the Single Resolution Fund	(25 190)	-
Banking levy	(31 427)	(13 038)
Membership subscriptions and donations	(2 615)	(1 330)
Other	24 980	1 510
	(103 701)	**295 246**

At 31 December 2015, the caption Other operating income and expenses presents an amount of Euros 65.1 million related to the revaluation of liabilities inherent to the consolidation of the Structured Entities with debt securities issued by the Group (see Note 1).

NOTE 15 – STAFF COSTS

The breakdown of the Staff costs is as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Wages and salaries	278 031	122 668
Remuneration	276 499	122 177
Seniority bonuses (see Note 16)	1 532	491
Mandatory social charges	84 603	37 426
Costs with post-employment benefits (see Note 16)	18 292	9 368
Other costs	16 638	8 593
	397 564	**178 055**

The cost with remuneration and other benefits attributed to key management personnel of NOVO BANCO Group, is presented as follows:

(in thousands of Euros)

	Board of Directors	Supervisory Board	Other key management	Total
31 December 2015				
Salaries and other short-term benefits	1 684	244	7 285	9 213
Long-term benefits and other social charges	402	50	1 175	1 627
Seniority bonuses	42	-		42
Variable remuneration	-	-	125	125
	2 128	**294**	**8 585**	**11 007**
31 December 2014				
Salaries and other short-term benefits	479	108	3 448	4 035
Long-term benefits and other social charges	110	-	2 682	2 792
Seniority bonuses	-	-	-	-
Variable remuneration	-	-	115	115
	589	**108**	**6 245**	**6 942**

"Other key management personnel" include General Managers and Advisors to the Board of Directors of NOVO BANCO and Directors of the subsidiaries.

At 31 December 2015, the number of employees of NOVO BANCO Group has the following breakdown:

	31.12.2015	31.12.2014
Novo Banco employees	6 050	6 327
Employees of the Group's subsidiaries	1 261	1 395
Total employees of the Group	**7 311**	**7 722**

By professional category, the number of employees of NOVO BANCO Group is analysed as follows:

	31.12.2015	31.12.2014
Senior management	676	719
Managerial functions	831	936
Specific functions	3 086	3 277
Administrative functions and other	2 718	2 790
	7 311	**7 722**

NOTE 16 – EMPLOYEE BENEFITS

Pension and health-care benefits

In compliance with the Collective Labour 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, with the annual contribution by the Bank 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 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 guaranteed pension under the ACT is paid by the Banks.

At the end of financial year 2011 and pursuant to the third 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 at 31 December 2011.

This tripartite agreement established the transfer to the General Social Security Regime, of all the liabilities with pensions in payment 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 deferralsurvivor'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 of the 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 (5p.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 refers, not having, therefore, been transferred to NOVO BANCO, without prejudice to the responsibilities relating exclusively to the employment contracts with BES.

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 EC Plan were split, with a part (described above) remaining in BES, with the other part being transferred to NOVO BANCO, together with the responsibilities of 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 thedecision 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 Board 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, was based on the recommendation of the ASF transmitted to the Sociedade Gestora do Fundo de Pensões (Managing Company of the Pension Fund). However, until today, the ASF has not yet formalised its approval and the amounts presented in the Note may be subject to future corrections resulting from the final decision by ASF.

The key actuarial assumptions used to calculate retirement pension and health-care liabilities are identical and are as follows:

	31.12.2015			31.12.2014	
	Assumptions		Actual	Assumptions	Actual
Actuarial Assumptions					
Projected rate of return on plan assets	2,50%		-1,34%	2,50%	-16,00%
Discount rate	2,50%		-	2,50%	-
Pension increase rate	0,00%	(1)	0,11%	0,50%	-1,50%
Salary increase rate	0,50%	(2)	1,47%	1,00%	0,10%
Mortality table men	TV 73/77 - 2 years			TV 73/77 - 1 year	
Mortality table women	TV 88/90 - 2 years			TV 88/90	

(1) until 2019, from 2020 a growth rate of 0.50% was considered

(2) until 2019, from 2020 a growth rate of 1.00% was considered

Disability decreases are not considered in the liabilities' calculation. The determination of the discount rate as at 31 December 2015 was based on: (i) the evolution of the main indexes for high quality corporatebonds and (ii) the duration of the liabilities.

The number of persons covered by the pension plan has the following breakdown:

	31.12.2015	31.12.2014
Employees	5 080	5 400
Pensioners and survivors	6 122	5 988
TOTAL	**11 202**	**11 388**

The application of IAS 19 in terms of liabilities and coverage levels as at 31 December 2015 is presented as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Assets / (liabilities) recognised in the balance sheet		
Total liabilities	**(1 545 996)**	**(1 501 735)**
Pensioners	(715 247)	(636 541)
Employees	(830 749)	(865 194)
Coverage		
Fair value of plan assets	**1 514 326**	**1 442 119**
Net assets / (liabilities) in the balance sheet (See Note 33 and 42)	**(31 670)**	**(59 616)**
Accumulated actuarial deviations recognised in other comprehensive income	**314 161**	**265 066**

In accordance with the accounting policy described in Note 2.16 – Employees Benefits, the Group's liability with retirement pensions and the actuarial gains and losses are calculated half-yearly and at each balance sheet date and for each plan individually the recoverability of the fund's excess coverage in relation to the retirement pension liabilities is assessed.

The sensitivity analysis considering a 0.25% change in the assumption rates used and a one year change in the mortality tables has the following impact on the present value of past service liabilities:

(in thousands of Euros)

Assumptions	Change in the amount of liabilities due to the variation:	
	of +0.25% in the rate used	of -0.25% in the rate used
Discount rate	(62 840)	59 867
Salary increase rate	38 959	(2 989)
Pension increase rate	36 018	(36 034)
	of +1 year	of -1 year
Mortality table	(47 845)	44 856

The changes in retirement pension and health-care liabilities may be analysed as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Retirement pension liabilities at beginning of period	**1 501 735**	**1 404 711**
Active service cost	3 957	3 440
Interest cost	37 121	20 090
Plan participants' contribution	2 917	1 281
Contributions from other entities	302	-
Actuarial (gains) / losses in the period:		
- Changes in demographic assumptions	(75 320)	-
- Changes in financial assumptions	109 222	129 355
- Experience adjustments (gains) / losses	(2 330)	14 251
Pensions paid by the fund	(41 149)	(16 330)
Early retirement	12 791	6 006
Foreign exchange differences and other (1)	(3 250)	(61 069)
Retirement pension liabilities at end of period	**1 545 996**	**1 501 735**

(1) Includes Euros 59 982 thousand relating to the change in BESI consolidation method for activities being discontinued

The change in the value of the pension funds' assets during the period ended 31 December 2015 may be analysed as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Fair value of fund assets at beginning of the period	**1 442 119**	**1 239 566**
Expected return from the fund	37 027	17 780
Actuarial gains / (losses)	(17 545)	(119 040)
Group contributions	96 381	380 913
Plan participants' contributions	2 917	1 281
Pensions paid by the fund	(41 149)	(16 330)
Foreign exchange differences and other (1)	(5 424)	(62 051)
Fair value of fund assets at end of the period	**1 514 326**	**1 442 119**

(1) Includes Euros 60 275 thousand relating to the change in BESI consolidation method for activities being discontinued

The pension funds' assets may be analysed as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Shares	348 171	284 084
Bonds	613 894	328 806
Real estate	287 073	349 234
Other	265 188	479 995
Total	**1 514 326**	**1 442 119**

The assets of the pension funds used by the Group or representative of debt securities issued by Group companies are detailed as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Real estate	89 279	104 090
Other	3 745	3 750
Total	**93 024**	**107 840**

At 31 December 2015, the fund holds participation units of Fundo ES Ventures III, which is included in the Group's consolidation perimeter.

The changes in the accumulated actuarial gains and losses may be analysed as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Accumulated actuarial losses recognised in other comprehensive income at beginning of the period	**265 066**	**15 513**
Actuarial (gains) / losses in the period:		
- Changes in assumptions	33 902	129 355
- Experience adjustments (gains) / losses	15 215	133 291
Other	(22)	(13 093)
Accumulated actuarial losses recognised in other comprehensive income at the end of the period	**314 161**	**265 066**

The cost for the period with retirement pensions and health-care benefits may be analysed as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Active service cost	3 957	3 440
Interest cost / (income)	2 742	3 014
Early retirement	12 791	6 006
Other	856	(78)
Cost with post-employment benefits	**20 346**	**12 382**

During the period ended 31 December 2015, changes in net assets / (liabilities) recognised in the balance sheet may be analysed as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
At beginning of the period	**(59 616)**	**(165 145)**
Cost for period	(20 346)	(12 382)
Actuarial gains / (losses) recognised in other comprehensive income	(49 095)	(262 646)
Contributions made in the period	96 381	380 913
Other	1 006	(356)
At the end of the period	**(31 670)**	**(59 616)**

A summary of the liabilities and balances of the funds, as well as the experience adjustments (gains and losses) at 31 December 2015 is analysed as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Liabilities	(1 545 996)	(1 501 735)
Fair value of fund assets	1 514 326	1 442 119
(Under) / overfunding of liabilities	**(31 670)**	**(59 616)**
(Gains) / losses on experience adjustments in liabilities	(2 330)	14 251
(Gains) / losses on experience adjustments in fair value of assets	17 545	119 040

The average maturity of the liabilities of the defined benefit plans is approximately 17 years.

With the exception of the unfinanced liabilities in the balance sheet as at 31 December 2015, amounting to Euros 31 670 thousand (see Note 42), no contributions to the defined benefits plans for the subsequent year are foreseen, given that the fund's return is expected to be sufficient to cover changes in the liabilities.

Long-term service bonuses

As referred to in Note 2.16, for employees attaining a certain number of years of service, the Bank pays long-term service bonuses, calculated based on the higher effective monthly remuneration earned at the date the bonuses become due. At the date of their early retirement for presumed disability, employees have the right to a bonus proportional to that what they would receive if they have remained in service until they achieved the conditions for the next level.

At 31 December 2015 and 2014, the Group's liabilities with this benefit amount to Euros 29 129 thousand and Euros 29 799 thousand, respectively (see Note 42). The costs incurred during the 2015 financial period with long-term service bonuses amounted to Euros 1 532 thousand (31 December 2014: Euros 491 thousand).

The actuarial assumptions used in the calculation of these liabilities are those used for the calculation of retirement pensions (when applicable).

NOTE 17 – GENERAL AND ADMINISTRATIVE EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Rentals	41 864	18 310
Advertising	13 765	7 790
Communication	22 823	9 343
Maintenance and repairs	17 486	7 761
Travelling and representation expenses	5 914	2 746
Transportation of valuables	5 166	2 094
Insurance	5 540	2 431
IT services	50 080	24 096
Independent work	7 017	2 559
Temporary work	3 717	1 658
Electronic payment systems	9 834	3 109
Legal costs	23 119	8 817
Consultancy and audit fees	21 759	17 773
Water, energy and fuel	9 526	4 246
Consumables	3 054	1 375
Other costs	44 720	25 388
	285 384	**139 496**

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 the 2015 financial period by the Statutory Audit Firm, disclosed in accordance with article 508-F of the Commercial Companies Code, have the following breakdown:

(in thousands of Euros)

	31.12.2015	31.12.2014
Statutory audit fees	3 026	2 332
Audit related fees	1 004	935
Tax consultancy services	122	63
Other services	204	85
Total services rendered	**4 356**	**3 415**

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 period.

(in thousands of Euros)

	31.12.2015	31.12.2014
Net consolidated profit / (loss) attributable to shareholders of the Bank	(980 558)	(497 645)
Weighted average number of ordinary shares outstanding (thousands)	4 900 000	4 900 000
Basic earnings per share attributable to shareholders of NOVO BANCO (in Euros)	(0,20)	(0.10)
Basic earnings per share from continuing activities attributable to shareholders of NOVO BANCO (in Euros)	(0,20)	(0.09)

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 2015 and 2014, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Cash	179 701	186 604
Demand deposits with Central Banks		
Bank of Portugal	544 821	707 465
Other Central Banks	51 086	1 853 008
	595 907	2 560 473
	775 608	**2 747 077**

The caption Demand deposits with Banco de Portugal includes mandatory deposits, intended to satisfy the minimum legal cash requirements, in an amount of Euros 229 million (31 December 2014: Euros 207 million). According to European Central Bank Regulation no. 1348/2011, 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 System of Central Banks' minimum reserve requirements. At 31 December 2015, the average interest rate on these deposits was 0.05% (31 December 2014: 0.17%).

Compliance with minimum cash requirements, for a given observation period, is monitored considering the average amount of the deposits with Banco de Portugal over said period. The balance of the Bank's account with Banco de Portugal at 31 December 2015, was included in the observation period running from 9 December 2015 to 26 January 2016, to which corresponded an average minimum cash requirement of Euros 228.6 million.

NOTE 20 – DEPOSITS WITH OTHER BANKS

At 31 December 2015 and 2014, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Deposits with banks in Portugal		
Demand deposits	25 416	38 205
Uncollected cheques	88 486	99 582
	113 902	**137 787**
Deposits with banks abroad		
Demand deposits	204 468	325 932
Uncollected cheques	35	53
Other	21 804	27 084
	226 307	**353 069**
	340 209	**490 856**

The Uncollected cheques 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

At 31 December 2015 and 2014, the caption Financial assets and liabilities held for trading has the following breakdown:

(in thousands of Euros)

	31.12.2015	31.12.2014
Financial assets held for trading		
Securities		
Bonds and other fixed income securities		
Issued by government and public entities	1 128	51 557
Issued by other entities	29	69
Shares	14 550	3 662
Other variable income securities	76	120
	15 783	**55 408**
Derivatives		
Derivative financial instruments with a positive fair value	759 256	1 007 109
	775 039	**1 062 517**
Financial liabilities held for trading		
Derivative financial instruments with a negative fair value	743 860	1 045 648
	743 860	**1 045 648**

At 31 December 2015 and 2014, the analysis of the securities held for trading, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Up to 3 months	1 096	983
3 months to 1 year	-	5 148
1 to 5 years	-	33 156
More than 5 years	62	12 339
Undetermined	14 625	3 782
	15 783	**55 408**

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.

At 31 December 2015 and 2014, the caption Financial assets held for trading, split between quoted and unquoted securities, and has the following breakdown:

(in thousands of Euros)

	31.12.2015			31.12.2014		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	1 128	-	1 128	51 557	-	51 557
Issued by other entities	-	29	29	39	30	69
Shares	299	14 251	14 550	3 648	14	3 662
Other variable income securities	76	-	76	120	-	120
	1 503	**14 280**	**15 783**	**55 364**	**44**	**55 408**

A breakdown of the securities held for trading, by fair value, is presented in Note 49.

As at 31 December 2015, the exposure to sovereign debt of “peripheral” Eurozone countries is analysed in Note 50 – Risk management.

At 31 December 2015 and 2014, derivative financial instruments are analysed as follows:

(in thousands of Euros)

	31.12.2015			31.12.2014		
	Notional	Fair value		Notional	Fair value	
		Assets	Liabilities		Assets	Liabilities
Trading derivatives						
Exchange rate contracts						
Forwards						
- buy	282 445	7 102	8 612	428 459	5 221	9 235
- sell	284 013			433 804		
Currency Swaps						
- buy	857 229	316	154	266 537	76	217
- sell	852 446			265 483		
Currency Futures [a]						
- buy	1 998	-	-	1 748	-	-
- sell	33 497			29 417		
Currency Interest Rate Swaps						
- buy	28 946	23 927	23 900	14 387	13 553	11 061
- sell	28 931			15 819		
Currency Options						
- buy	410 392	7 246	5 969	1 424 471	50 173	23 664
- sell	229 544			1 386 828		
		38 591	**38 635**		**69 023**	**44 177**
Interest rate contracts						
Forward Rate Agreements						
- buy	-	-	-	-	-	23
- sell	-			200 000		
Interest Rate Swaps						
- buy	9 942 497	695 572	683 510	11 961 777	836 302	888 441
- sell	9 966 967			11 981 142		
Interest Rate Caps & Floors						
- buy	35 314	1 563	1 597	173 639	14 294	14 190
- sell	38 556			210 051		
		697 135	**685 107**		**850 596**	**902 654**
Equity / Index contracts						
Equity / Index Swaps						
- buy	14 283	386	54	298 489	38 959	39 940
- sell	14 283			289 966		
Equity / Index Options						
- buy	192 728	1 744	11 521	27 464	28 007	53 241
- sell	231 761			765 678		
Equity / Index Futures [a]						
- buy	31 014	-	-	43 626	-	-
- sell	462			121 968		
Future Options [a]						
- buy	325 160	-	-	1	-	-
- sell	-			-		
		2 130	**11 575**		**66 966**	**93 181**
Credit default contracts						
Credit Default Swaps						
- buy	334 938	21 400	8 543	574 888	20 524	5 636
- sell	334 938			574 888		
		21 400	**8 543**		**20 524**	**5 636**
Total		**759 256**	**743 860**		**1 007 109**	**1 045 648**

a) Derivatives traded on organised 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, on 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 the 2015 financial period, the Group recognised a loss of Euros 38.8 million related with the CVA of the derivative instruments (31 December 2014: loss of Euros 42.3 million).

At 31 December 2015 and 2014, the analysis of derivative financial instruments held for trading, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2015			31.12.2014		
	Notional		Fair value (net)	Notional		Fair value (net)
	Buy	Sell		Buy	Sell	
Up to 3 months	1 544 850	1 272 376	(37 792)	2 594 139	2 657 325	(53 098)
3 months to 1 year	1 359 353	1 077 543	3 481	2 108 714	2 784 288	38 975
1 to 5 years	2 661 862	2 726 427	6 106	2 711 110	2 988 836	(24 518)
More than 5 years	6 890 879	6 939 052	43 601	7 801 523	7 844 595	102
	12 456 944	**12 015 398**	**15 396**	**15 215 486**	**16 275 044**	**(38 539)**

NOTE 22 – OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The breakdown of this balance is as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Bonds and other fixed income securities		
Issued by government and public entities	124 628	237 017
Issued by other entities	498 705	725 762
Shares and other variable income securities	902 860	1 267 609
	1 526 193	**2 230 388**

The Group's option, considering the 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 in accordance with its documented management strategy, given that these financial assets (i) are managed and their reperformance evaluated on a fair value basis and / or (ii) have embedded derivative instruments.

At 31 December 2015 and 2014, the analysis of the financial assets at fair value through profit or loss, by maturity period, is as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Up to 3 months	17 700	77 325
3 months to 1 year	46 656	82 839
1 to 5 years	271 665	368 646
More than 5 years	274 186	458 571
Undetermined	915 986	1 243 007
	1 526 193	**2 230 388**

This caption, split between quoted and unquoted securities, has the following breakdown:

(in thousands of Euros)

	31.12.2015			31.12.2014		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Bonds and other fixed income securities						
Issued by government and public entities	124 628	-	124 628	237 017	-	237 017
Issued by other entities	486 893	11 812	498 705	584 197	141 565	725 762
Shares and other variable income securities	674 585	228 275	902 860	772 156	495 453	1 267 609
	1 286 106	**240 087**	**1 526 193**	**1 593 370**	**637 018**	**2 230 388**

Details of the securities held at fair value through profit or loss, by fair value hierarchy, is presented in Note 49.

NOTE 23 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

As at 31 December 2015 and 2014, 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	**7 237 602**	**18 976**	**(8 025)**	**-**	**7 248 553**
Resident	2 638 051	6 389	(2 869)	-	2 641 571
Non-resident	4 599 551	12 587	(5 156)	-	4 606 982
Issued by other entities	**2 349 373**	**20 972**	**(22 722)**	**(175 612)**	**2 172 011**
Resident	1 203 447	14 817	(1 886)	(131 183)	1 085 195
Non-resident	1 145 926	6 155	(20 836)	(44 429)	1 086 816
Shares	**2 025 245**	**99 382**	**(19 171)**	**(594 904)**	**1 510 552**
Resident	665 122	16 769	(12 498)	(450 585)	218 808
Non-resident	1 360 123	82 613	(6 673)	(144 319)	1 291 744
Other variable income securities	**1 011 194**	**17 126**	**(2 226)**	**(146 498)**	**879 596**
Resident	934 853	15 301	(1 972)	(122 441)	825 741
Non-resident	76 341	1 825	(254)	(24 057)	53 855
Balance at 31 December 2015	**12 623 414**	**156 456**	**(52 144)**	**(917 014)**	**11 810 712**
Bonds and other fixed income securities					
Issued by government and public entities	**4 103 483**	**164 192**	**(8 752)**	**-**	**4 258 923**
Resident	1 683 949	108 542	(1 705)	-	1 790 786
Non-resident	2 419 534	55 650	(7 047)	-	2 468 137
Issued by other entities	**2 834 235**	**78 863**	**(32 188)**	**(48 459)**	**2 832 451**
Resident	1 929 288	17 398	(25 224)	(23 866)	1 897 596
Non-resident	904 947	61 465	(6 964)	(24 593)	934 855
Shares	**1 717 713**	**90 117**	**(9 365)**	**(568 926)**	**1 229 539**
Resident	669 062	15 747	(1 614)	(400 318)	282 877
Non-resident	1 048 651	74 370	(7 751)	(168 608)	946 662
Other variable income securities	**1 295 053**	**9 166**	**(6 976)**	**(139 687)**	**1 157 556**
Resident	943 155	(3 481)	(3 153)	(116 587)	819 934
Non-resident	351 898	12 647	(3 823)	(23 100)	337 622
Balance at 31 December 2014	**9 950 484**	**342 338**	**(57 281)**	**(757 072)**	**9 478 469**

[1] Acquisition cost for shares and other variable income securities and amortised cost for debt securities

As at 31 December 2015, this caption includes assets amounting to Euros 4 958 thousand measured at acquisition cost net of impairment (31 December 2014: Euros 6 611 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 2015, the exposure, under this balance, to sovereign debt of the Eurozone "peripheral" countries is presented in Note 50 – Risk management.

The changes occurred in the impairment losses of Available-for-sale financial assets are presented as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Balance at the beginning of period	757 072	651 482
Allocation for the period	265 033	211 528
Utilisation during the period	(71 483)	(14 673)
Write-back for the period	(28 847)	(11 785)
Foreign exchange differences and other [(a)]	(4 761)	(79 480)
Balance at end of period	**917 014**	**757 072**

[(a)] At 31 December 2014 includes Euros 16 083 thousand regarding BESI, as it was classified as an activity being discontinued

As at 31 December 2015 and 2014, the analysis of Available-for-sale financial assets by maturity period, is presented as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Up to 3 months	1 041 138	1 735 722
3 months to 1 year	3 088 361	1 465 553
1 to 5 years	2 930 122	1 040 317
More than 5 years	2 299 532	2 854 893
Undetermined	2 451 559	2 381 984
	11 810 712	**9 478 469**

Available-for-sale financial assets split between quoted and unquoted securities are as follows:

(in thousands of Euros)

	31.12.2015			31.12.2014		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	6 805 711	442 842	7 248 553	4 228 853	30 070	4 258 923
Issued by other entities	1 100 134	1 071 877	2 172 011	924 303	1 908 148	2 832 451
Shares	639 228	871 324	1 510 552	339 407	890 132	1 229 539
Other variable income securities	5 380	874 216	879 596	344 372	813 184	1 157 556
	8 550 453	**3 260 259**	**11 810 712**	**5 836 935**	**3 641 534**	**9 478 469**

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 2015 and 2014, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Loans and advances to banks in Portugal		
Deposits with banks	764 733	39 863
Loans	41 918	54 773
Operations with repurchase agreements	13 226	-
	819 877	**94 636**
Loans and advances to banks abroad		
Deposits	426 641	387 365
Very short-term deposits	70 975	51 767
Loans	7 754	59 845
Operations with repurchase agreements	-	34 941
Other loans and advances	394 493	367 780
	899 863	**901 698**
Overdue loans and advances	391 105	389 910
	2 110 845	**1 386 244**
Impairment losses	(420 217)	(341 958)
	1 690 628	**1 044 286**

As at 31 December 2015, impairment losses include Euros 341.1 million for the exposure in ES Bank Panamá that is totally provided for (31 December 2014: Euros 339.9 million) - see Note 50.

Operations with repurchase agreements, as at 31 December 2015, relate to operations with a maturity of up to 5 years (31 December 2014: up to 3 months).

During October 2014, Banco Nacional de Angola ((BNA), the Angolan Central Bank) made several financial restructuring decisions in respect of BES Angola (now Banco Económico) with an impact on the NOVO BANCO loan. In this context, it was constituted (i) a new senior loan in an amount equivalent to USD 425 million (Euros 390 million at 31 December 2015), maturing in April 2016, 50% of which covered by Angolan sovereign debt securities for which a negotiation process with Banco Económico has already started in order to evaluate the eventual need to redefine the reimbursement conditions, and (ii) a subordinated loan of USD 425 million (Euros 390 million at 31 December 2015), maturing on 30 October 2024, and (iii) USD 52 million of debt were converted into 9.7% of Banco Económico's share capital. The differential from the original debt, amounting to Euros 2 750.4 million, fully provided in the opening balance sheet, was derecognised and the referred provision was used.

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

	Amount (thousand millions of kwanzas)	%
GENI	14,3	19,9
LEKTRON CAPITAL	22,3	31,0
SONANGOL EP	11,5	16,0
SONANGOL VIDA	11,5	16,0
SONANGOL HOLDINGS	5,3	7,4
NOVO BANCO	7,0	9,7
	72,0	100,0

Taking into account (i) the implicit haircut of 80% as a result of the restructuring measures applied by BNA, which resulted in an impairment already recognised by NOVO BANCO of Euros 2750.4 million, (ii) the capital inflows (new money) referred to above made by the new Banco Económico shareholder structure and (iii) the current performance of the loans from NOVO BANCO and (iv) the inexistence of audited financial information of Banco Económico for the 2014 and 2015 financial periods, an impairment of Euros 83 million was set upduring the 2015 financial period for the above mentioned exposure.

At 31 December 2015 and 2014, the analysis of loans and advances to banks, by residual maturity period, is presented as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Up to 3 months	487 056	244 092
3 months to 1 year	429 462	80 932
1 to 5 years	795 133	356 553
More than 5 years	8 089	314 757
Undetermined	391 105	389 910
	2 110 845	**1 386 244**

The changes occurred during the period in the impairment losses of loans and advances to banks are presented as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Balance at the beginning of period	341 958	3 041 988
Allocation in the period	80 029	63 009
Utilisation during the period	-	(2 940 961)
Write-back for the period	(3 166)	(252)
Foreign exchange differences and other [(a)]	1 396	178 174
Balance at the end of the period	**420 217**	**341 958**

[(a)] At 31 December 2014 includes Euros 248 thousand of BESI, as it was classified as an activity being discontinued and Euros 190 580 thousand relating to the foreign exchange variation on the provision for the exposure to Banco Económico, which was used up during October 2014

NOTE 25 – LOANS AND ADVANCES TO CUSTOMERS

As at 31 December 2015 and 2014, this balance is analysed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Domestic loans and advances		
Corporate		
Loans	10 441 593	12 004 144
Commercial lines of credit	2 293 414	3 533 539
Finance leases	1 653 040	1 933 695
Discounted bills	130 090	193 120
Factoring	789 187	760 863
Overdrafts	19 582	13 570
Other loans and advances	30 781	39 913
Retail		
Residential Mortgage loans	8 968 225	9 340 446
Consumer and other loans	978 940	1 216 134
	25 304 852	**29 035 424**
Foreign loans and advances		
Corporate		
Loans	3 409 643	3 702 414
Commercial lines of credit	756 316	1 038 097
Finance leases	50 232	72 115
Discounted bills	550 701	401 058
Factoring	82 385	76 025
Overdrafts	133 821	369 921
Other loans and advances	269 630	351 742
Retail		
Residential Mortgage loans	742 299	769 228
Consumer and other loans	325 160	326 921
	6 320 187	**7 107 521**
Overdue loans and advances and interest		
Up to 3 months	379 542	449 009
3 months to 1 year	1 521 664	803 861
1 to 3 years	2 066 143	1 515 506
More than 3 years	1 824 018	1 148 937
	5 791 367	**3 917 313**
	37 416 406	**40 060 258**
Impairment losses	(5 832 647)	(5 130 944)
	31 583 759	**34 929 314**

As at 31 December 2015, the balance for Loans and advances to customers (net of impairment) includes an amount of Euros 2 462.9 million (31 December 2014: Euros 2 679.7 million) related to securitisation 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 Note 1 and 48). The liabilities related to these securitisation operations were booked as Liabilities represented by debt securities (see Notes 37 and 48).

As at 31 December 2015, loans and advances to customers include Euros 4 233.6 million in mortgage loans that collateralise the issue of covered debt securities (31 December 2014: Euros 5 359.3 million) (see Note 37).

This balance includes, as at 31 December 2015, Euros 359 960 thousand recorded in the balance sheet at fair value through profit or loss (31 December 2014: Euros 326 398 thousand) (see Note 49).

As at 31 December 2015, the amount of interest income and commission fees recorded in the balance sheet relating to credit operations amounts to Euros 8 522 thousand (31 December 2014: Euros 30 960 thousand).

The caption Residential Mortgage loans includes Euros 76 370 thousand with a negative fair value related to the fair value adjustments of covered items (see Note 26).

As at 31 December 2015 and 2014, the analysis of loans and advances to customers, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Up to 3 months	3 522 303	5 256 209
3 months to 1 year	3 178 457	3 947 120
1 to 5 years	7 211 455	7 523 555
More than 5 years	17 712 824	19 416 061
Undetermined (overdue loans)	5 791 367	3 917 313
	37 416 406	**40 060 258**

The changes occurring during the period in the impairment losses of loans and advances to customers are presented as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Balance at the beginning of the period	5 130 944	5 248 266
Allocation for the period	2 163 326	975 922
Utilisation during the period	(164 495)	(162 026)
Write-back for the period	(1 424 003)	(597 802)
Discounting effect	(129 237)	(44 892)
Foreign exchange differences and other [(a)]	256 112	(288 524)
Balance at the end of the period	**5 832 647**	**5 130 944**

[(a)] At 31 December 2014 includes the exclusion of Euros 210 088 thousand of BESI, as it was classified as an activity being discontinued

As at 31 December 2015 and 2014, the impairment is analysed as follows:

(in thousands of Euros)

	31.12.2015						
	Loans with impairment triggers		Loans without impairment triggers		Total		
	Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment	Loans net of impairment
Corporate loans	14 701 392	5 329 139	11 206 747	32 655	25 908 139	5 361 794	20 546 345
Loans to individuals - mortgage	1 959 364	182 798	7 882 641	13 168	9 842 005	195 966	9 646 039
Loans to individuals - other	660 271	268 132	1 005 991	6 755	1 666 262	274 887	1 391 375
Total	17 321 027	5 780 069	20 095 379	52 578	37 416 406	5 832 647	31 583 759

(in thousands of Euros)

	31.12.2014						
	Loans with impairment triggers		Loans without impairment triggers		Total		
	Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment	Loans net of impairment
Corporate loans	15 038 925	4 623 258	12 969 871	92 783	28 008 796	4 716 041	23 292 755
Consumer loans - mortgage	2 050 471	182 130	8 179 590	8 844	10 230 061	190 974	10 039 087
Consumer loans - other	541 484	215 800	1 279 917	8 129	1 821 401	223 929	1 597 472
Total	17 630 880	5 021 188	22 429 378	109 756	40 060 258	5 130 944	34 929 314

Loans with impairment triggers correspond to loans with objective evidence of loss (Credit in Default) and to loans classified as "High 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 "High Risk Loans" correspond to loans without an objective evidence of loss, but with risk indicators (e.g. customers with loans overdue by more than 30 days but less than 90 days; customers in litigation registered in the Central Credit Register (“Central de Responsablidades de Crédito”); customers with higher risk rating / scoring; customers allocated to the Departamento de Acompanhamento e Estruturação de Empresas (Department of Monitoring and Structuring of Companies); and loans restructured due to financial difficulties of the debtor that is not in default).

Loans without impairment triggers relate to "Low Risk Loans". All exposures that do not show any of the above High Risk indicators and exposures for which the impairment loss determined is equal to or less than 0.05%, are classified as "Low Risk Credit". These situations correspond to loans for which the impairment determined is immaterial due to the existence of guarantees / collateral, allowing their classification as "Low Risk Loans", regardless of their original classification.

Loans and advances to customers by interest rate type are as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Fixed interest rate	3 549 185	2 864 174
Floating interest rate	33 867 221	37 196 084
	37 416 406	**40 060 258**

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 revaluated periodically. The loans to customers and respective collateral are presented as follows:

(in thousands of Euros)

	31.12.2015		31.12.2014	
	Carrying value	Fair value of collateral	Carrying value	Fair value of collateral
Residential mortgage loans				
Mortgages	9 577 700	9 537 325	10 120 931	10 100 513
Pledges	62 200	62 048	3 113	2 931
Not collateralised	202 105	-	106 017	-
	9 842 005	9 599 373	10 230 061	10 103 444
Other loans to individuals				
Mortgages	285 543	285 900	285 279	260 193
Pledges	195 955	106 236	253 812	167 415
Not collateralised	1 184 764	-	1 282 310	-
	1 666 262	392 136	1 821 401	427 608
Corporate loans				
Mortgages	5 010 570	4 346 875	7 272 107	6 110 026
Pledges	4 801 823	3 587 239	2 933 002	1 017 941
Not collateralised	16 095 746	-	17 803 687	-
	25 908 139	7 934 114	28 008 796	7 127 967
Total	**37 416 406**	**17 925 623**	**40 060 258**	**17 659 019**

The details of the mortgage collateral is as follows:

(in thousands of Euros)

	31.12.2015							
	Residential mortgage loans		Other loans to individuals		Corporate loans		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
<0,5M€	189.017	9.401.570	4.264	210.532	18.540	725.740	211.821	10.337.842
>= 0,5M€ e <1,0M€	193	102.897	76	27.133	2.424	440.249	2.693	570.279
>= 1,0M€ e <5,0M€	29	32.858	48	42.899	4.501	1.395.841	4.578	1.471.598
>= 5,0M€ e <10,0M€	-	-	-	-	832	564.566	832	564.566
>= 10,0M€ e <20,0M€	-	-	-	-	46	405.673	46	405.673
>= 20,0M€ e <50,0M€	-	-	70	5.336	2.916	625.904	2.986	631.240
>=50M€	-	-	-	-	1.569	188.902	1.569	188.902
	189.239	9.537.325	4.458	285.900	30.828	4.346.875	224.525	14.170.100

In assessing the risk of an operation or set of operations the Bank takes into account the associated credit risk mitigation elements according with the internal rules and procedures implemented that comply with the requirements defined by Banco de Portugal.

Relevant collaterals are essentially the following:

- Real estate property, where the value considered is the one that corresponds to the latest available appraisal;
- 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 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 exposure of said collateral. As an approach to this matter, the Group stipulated a number of procedures applicable to collateral (namely the financial collateral and real estate collateral), covering, amongst others, the volatility of the value of the collateral, its liquidity as well as indication of 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 exposure of said collateral, including the risks of liquidity and volatility."

The real state property revaluation process is conducted by valuation experts registered with CMVM, and is based on the methodology described in point 2.12.

The analysis of finance lease loans, by residual maturity period, is presented as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Gross investment in finance leases receivable		
Up to 1 year	282 384	332 154
1 to 5 years	845 363	953 895
More than 5 years	855 776	1 002 031
	1 983 523	2 288 080
Unrealised finance income in finance leases		
Up to 1 year	47 881	56 476
1 to 5 years	127 548	139 498
More than 5 years	66 621	43 072
	242 050	239 046
Present value of minimum lease payments receivable		
Up to 1 year	234 503	275 678
1 to 5 years	717 815	814 397
More than 5 years	789 155	958 959
	1 741 473	2 049 034
Impairment	(287 191)	(299 609)
	1 454 282	**1 749 425**

NOTE 26 – DERIVATIVES HELD FOR RISK MANAGEMENT PURPOSES

As at 31 December 2015 and 2014, the fair value of the derivatives held for risk management purposes is analysed as follows:

(in thousands of Euros)

	31.12.2015			31.12.2014		
	Hedging	Risk management	Total	Hedging	Risk management	Total
Derivatives held for risk management purposes						
Derivatives held for risk management purposes - assets	87 189	231 407	318 596	152 448	252 134	404 582
Derivatives held for risk management purposes - liabilities	(75 806)	(2 040)	(77 846)	(100 063)	(4 077)	(104 140)
	11 383	**229 367**	**240 750**	**52 385**	**248 057**	**300 442**
Fair value component of assets and liabilities hedged or recorded at fair value through profit or loss						
Financial assets						
Loans and advances to banks	-	-	-	1 143	-	1 143
Loans and advances to customers	76 370	(1 395)	74 975	81 553	-	81 553
	76 370	**(1 395)**	**74 975**	**82 696**	**-**	**82 696**
Financial liabilities						
Deposits from banks	(80 949)	-	(80 949)	(90 571)	-	(90 571)
Due to customers	-	(22 017)	(22 017)	-	(41 970)	(41 970)
Debt securities issued	(767)	3 206	2 439	(13 287)	(321)	(13 608)
	(81 716)	**(18 811)**	**(100 527)**	**(103 858)**	**(42 291)**	**(146 149)**
	(5 346)	**(20 206)**	**(25 552)**	**(21 162)**	**(42 291)**	**(63 453)**

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 hedge 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 2015 and 2014, fair value hedging operations may be analysed as follows:

(in thousands of Euros)

31.12.2015

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 of hedged item in period [1]
Currency Interest Rate Swap	Loan and advances to banks	Interest and exchange rates	-	-	-	-	-
Interest Rate Swap / Currency Interest Rate Swap	Loans and advances to customers	Interest and exchange rates	611 333	(75 676)	9 137	76 370	(5 182)
Interest Rate Swap	Deposit from banks	Interest rate	348 000	86 206	(10 205)	(80 949)	8 407
Interest Rate Swap	Due to customers	Interest rate	-	-	-	-	-
Equity / Interest Rate Swap	Debt securities issued	Interest rate / Quotation	80 000	853	(4 396)	(767)	4 070
			1 039 333	**11 383**	**(5 464)**	**(5 346)**	**7 295**

[1] Attributable to hedged risk
[2] Includes accrued interest

(in thousands of Euros)

31.12.2014

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 of hedged item in period [1]
Currency Interest Rate Swap	Loan and advances to banks	Interest and exchange rates	508 791	(1 677)	(28)	1 143	(17)
Interest Rate Swap/ Currency Interest Rate Swap	Loans and advances to customers	Interest and exchange rates	513 947	(79 137)	(18 502)	81 553	17 326
Interest Rate Swap	Deposit from banks	Interest rate	348 000	96 414	20 637	(90 571)	(20 562)
Interest Rate Swap	Due to customers	Interest rate	-	-	(180)	-	180
Equity / Interest Rate Swap	Debt securities issued	Interest rate / Quotation	3 503 800	36 785	(7 814)	(13 287)	4 823
			4 874 538	**52 385**	**(5 887)**	**(21 162)**	**1 750**

[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 under Net gains / (losses) from financial assets and liabilities at fair value through profit or loss (See Note 7).

As at 31 December 2015, the ineffective portion of the fair value hedging operations resulted in a gain of Euros 1.9 million that was recognised in the income statement (31 December 2014: loss of Euros 4.1 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 carrying value of financial assets and liabilities at fair value through profit or loss may be analysed as follows:

(in thousands of Euros)

31.12.2015		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 value	Redemption amount at maturity (1)
	Assets							
Credit Default Swap	Loans and advances to customers	266 230	102 797	-	-	-	-	266 230
	Liabilities							
Interest Rate Swap	Due to customers	1 120 000	21 965	5 055	(22 017)	19 961	1 038 486	1 016 470
Interest Rate Swap / FX Forward	Debt securities issued	908 075	104 605	7 064	1 811	2 938	240 157	309 167
		2 294 305	**229 367**	**12 119**	**(20 206)**	**22 899**	**1 278 643**	**1 591 867**

(1) Corresponds to the contractually guaranteed amount to be reimbursed at maturity

(in thousands of Euros)

31.12.2014		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 value	Redemption amount at maturity (1)
	Assets							
Credit Default Swap	Loans and advances to customers	267 783	69 939	(17 769)	-	-	-	267 783
	Liabilities							
Interest Rate Swap	Due to customers	6 360 000	49 148	(15 211)	(41 970)	13 092	3 818 561	3 776 591
Interest Rate Swap / FX Forward	Debt securities issued	1 081 125	128 970	15 995	(321)	971	286 573	309 168
		7 708 908	**248 057**	**(16 985)**	**(42 291)**	**14 063**	**4 105 134**	**4 353 542**

(1) Corresponds to the contractually guaranteed amount to be reimbursed at maturity

The credit default swaps associated with loans and advances to customers are part of synthetic securitisation operations, as mentioned in Note 48.

As at 31 December 2015, the fair value of the financial liabilities at fair value through profit or loss includes a positive cumulative effect of Euros 161.0 million (31 December 2014: positive cumulative effect of Euros 137.2 million) attributable to the Group's own credit risk. The change in fair value attributable to the Group's own credit risk resulted in the recognition in 2015 of a gain amounting to Euros 23.9 million (31 December 2014: Euros 26.5 million) - see Note 7.

As at 31 December 2015 and 2014, the analysis of derivatives held for risk management purposes, by residual maturity period, may be analysed as follows:

(in thousands of Euros)

	31.12.2015			31.12.2014		
	Notional		Fair value (net)	Notional		Fair value (net)
	Buy	Sell		Buy	Sell	
Up to 3 months	215 621	215 714	875	2 712 447	2 711 210	27 211
3 months to 1 year	12 736	12 962	83	1 289 229	1 288 481	3 353
1 to 5 years	491 160	491 160	16 777	1 145 240	1 145 240	46 430
More than 5 years	960 662	933 623	223 015	1 159 700	1 131 899	223 448
	1 680 179	**1 653 459**	**240 750**	**6 306 616**	**6 276 830**	**300 442**

NOTE 27 – NON-CURRENT ASSETS AND LIABILITIES HELD FOR SALE

This caption, at 31 December 2015 and 2014, is analysed as follows:

(in thousands of Euros)

	31.12.2015		31.12.2014	
	Assets	Liabilities	Assets	Liabilities
Assets / liabilities of subsidiaries acquired for resale	**778 880**	**162 709**	**1 192 469**	**330 903**
Impairment losses	(290 486)	-	(402 533)	-
Net amount	488 394	162 709	789 936	330 903
Property held for sale	3 567 364	-	2 767 686	-
Equipment held for sale	25 490	-	12 263	-
Other tangible assets held for sale	4 164	-	4 164	-
	3 597 018	**-**	**2 784 113**	**-**
Impairment losses	(902 933)	**-**	(826 881)	**-**
Net amount	2 694 085	-	1 957 232	-
	3 182 479	**162 709**	**2 747 168**	**330 903**

Non-current assets and liabilities held for sale include, namely (i) 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, and (ii) foreclosure real estate property or real estate property built for sale.

As at 31 December 2015 and 2014, the assets of subsidiaries acquired for resale purposes have the following breakdown:

(in thousands of Euros)

	31.12.2015						31.12.2014					
	Share-holding %	Values incorporated by NB Group					Share-holding %	Values incorporated by NB Group				
		Assets	Impairment	Carrying value	Liabilities	Net result for period		Assets	Impairment	Carrying value	Liabilities	Net result for period
Greenwoods Ecoresorts empreendimentos imobiliários, SA	100.00%	223 406	(149 890)	73 516	386	(270)	100.00%	228 275	(149 829)	78 446	263	277
Sealion Holdings Limited	57.56%	202 977	(26 942)	176 035	145 346	(5 243)	57.00%	205 260	(25 189)	180 071	139 182	1 626
Portucale - Sociedade De Desenvolvimento Agro - Turistico, S.A.	97.42%	59 634	(27 079)	32 555	6 625	(101)	97.42%	61 805	(25 782)	36 023	9 255	127
Autodril - Sociedade Imobiliária, SA	100.00%	49 150	(36 060)	13 090	3	(3)	100.00%	49 173	(45 532)	3 641	23	96
Ribagolfe - Empreendimentos de Golfe, SA	100.00%	9 530	(4 701)	4 829	84	(329)	100.00%	9 898	(8 533)	1 365	22	(172)
Febagri-Actividades Agropecuárias e Imobiliárias SA	100.00%	10 976	(4 095)	6 881	140	(73)	100.00%	10 963	(3 911)	7 052	154	(57)
Quinta da Areia - Sociedade Imobiliária, SA	100.00%	14 153	(2 727)	11 426	2 168	(4)	100.00%	11 994	(5 046)	6 948	5	(4)
Herdade da Boina - Sociedade Imobiliária	100.00%	9 872	(1 070)	8 802	3	(17)	100.00%	9 910	(1 304)	8 606	24	(43)
JCN - IP - Investimentos Imobiliários e Participações, S.A.	97.42%	15 070	(9 164)	5 906	267	(7 694)	97.42%	21 456	(16 407)	5 049	264	(762)
Herdade Vale da Mata [(1)]	-	-	-	-	-	-	100.00%	8 104	(3 590)	4 514	139	-
Sociedade Imobiliária Quinta D. Manuel I, SA	100.00%	3 443	(373)	3 070	526	(12)	100.00%	2 911	(61)	2 850	2	(3)
Sociedade Agrícola Turística e Imobiliária da Várzea da Lagoa, SA	100.00%	7 761	(1 081)	6 680	1 932	(11)	100.00%	5 844	(1 210)	4 634	4	(47)
EMSA – Empreendimentos e Exploração de Estacionamentos SA	100.00%	5 997	(847)	5 150	469	249	100.00%	5 692	-	5 692	413	(126)
Promotur - Empreendimentos Turísticos, SA	99.875%	4 830	(2 301)	2 529	739	646	99.875%	4 084	(764)	3 320	690	(30)
Imalgarve - Sociedade de Investimentos Imobiliários, SA	100.00%	15 091	(889)	14 202	2 091	(4 515)	100.00%	20 414	(2 650)	17 764	3 229	(45)
Pocahontas P Holdings, Llc	-	-	-	-	-	-	29.49%	61 818	(40 200)	21 618	-	-
Tertir - Terminais Portuários, SGPS [(2)]	36.875%	54 840	-	54 840	-	-	36.875%	57 391	(2 009)	55 382	-	-
Benagil - Promoção Imobiliária, SA [(3)]	100.00%	69 978	(14 715)	55 263	70	(22)	-	-	-	-	-	-
Fundo NB Património [(4)]	-	-		-	-	-	53.88%	400 493	(63 250)	337 243	175 231	-
ASAS Invest - FEIIF	100.00%	3 837	(1 254)	2 583	30	(1 273)	100.00%	6 049	-	6 049	14	(148)
Outros		18 335	(7 298)	11 037	1 830	(91)		10 935	(7 266)	3 669	1 989	(546)
		778 880	**(290 486)**	**488 394**	**162 709**	**(18 763)**		**1 192 469**	**(402 533)**	**789 936**	**330 903**	**143**

[(1)] - Company disposed of in April 2015
[(2)] - Company disposed of in February 2016
[(3)] - Company held by Fundo Fimes Oriente
[(4)] - Consolidated under the full consolidation method as from June 2015

The changes occurring in impairment losses are presented as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Balance at the beginning of the period	1 229 414	1 130 394
Allocation / write-back for the period	13 796	57 653
Utilisation during the period	(75 116)	(19 144)
Foreign exchange rate differences and other	25 325	60 511
Balance at end of the period	**1 193 419**	**1 229 414**

In addition to the impairment losses, the Group recognised, in the income statement, the following amounts relating to these assets:

- Losses on the disposal of real estate property, equipment and other assets in the amount of Euros 33.8 million (31 December 2014: Euros 4.8 million) and gains in the amount of Euros 22.4 million (31 December 2014: Euros 8.7 million); and
- Losses in the amount of Euros 18.8 million on the appropriation of results of subsidiaries held for resale (31 December 2014: Euros 0.1 million).

The changes occurring in non-current assets held for sale during the periods ended 31 December 2015 and 2014, are as follows:

(in thousands of Euros)

	31.12.2015			31.12.2014		
	Property and other assets	Assets of subsidiaries acquired for resale	Total	Property and other assets	Assets of subsidiaries acquired for resale	Total
Balance at the beginning of the period	2 784 113	1 192 469	3 976 582	2 607 141	922 315	3 529 456
Changes in consolidation perimeter [a)]	746 618	(288 078)	458 540	48 364	(129 872)	(81 508)
Additions	283 572	5 990	289 562	191 123	402 781	593 904
Disposals	(520 438)	(115 961)	(636 399)	(63 118)	-	(63 118)
Other [b)]	303 153	(15 540)	287 613	603	(2 755)	(2 152)
Balance at the end of the period	**3 597 018**	**778 880**	**4 375 898**	**2 784 113**	**1 192 469**	**3 976 582**

a) includes the effect of the full consolidation of Fundo NB Património
b) includes real estate property transferred from Investment properties (see Note 28)

The Group implemented a plan aiming for the immediate sale of all non-current assets held for sale. However, due to the current market conditions the Group has been unable to sell some of them within the expected time frame. Nevertheless, the Group continues its efforts to meet the sale programme established, from 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 centres. Despite its intention to sell these assets, the Group requests regularly Banco de Portugal’s authorisation, under article 114 of RGICSF, to extend the time period the Bank has to hold foreclosed assets.

As at 31 December 2015 and 2014, the detail of the real estate included in non-current assets held for sale, by type, is as follow:

(in thousands of Euros)

	31.12.2015				
	Number of properties	Gross value	Impairment	Net Value	Fair value of asset (b)
Land					
Urban	2 959	1 086 069	207 521	878 548	963 396
Rural	619	272 389	84 682	187 707	216 239
	3 578	1 358 458	292 203	1 066 255	1 179 635
Buildings under construction					
Commercial	192	58 448	34 801	23 647	27 897
Residential	841	121 613	27 563	94 050	109 098
Other	83	64 616	21 814	42 802	53 191
	1 116	244 677	84 178	160 499	190 186
Buildings constructed					
Commercial	2 032	681 644	227 533	454 111	475 590
Residential	5 575	589 364	103 018	486 346	471 664
Other	1 620	680 569	140 885	539 684	581 384
	9 227	1 951 577	471 436	1 480 141	1 528 638
Other [(a)]	**-**	**12 652**	**52 595**	**(39 943)**	**(38 933)**
	13 921	**3 567 364**	**900 412**	**2 666 952**	**2 859 526**

(a) The carrying value of this caption is negative due to the imputation of costs incurred with the sale of real estate
(b) Determined in accordance with accounting policy 2.12

(in thousands of Euros)

	31.12.2014				
	Number of properties	Gross value	Impairment	Net value	Fair value of asset (b)
Land					
Urban	2 922	588 908	157 868	431 040	487 612
Rural	631	266 066	73 874	192 192	211 132
	3 553	854 974	231 742	623 232	698 744
Buildings under construction					
Commercial	182	50 377	17 145	33 232	36 180
Residential	548	107 338	20 926	86 412	95 040
Other	83	70 080	17 408	52 672	60 979
	813	227 795	55 479	172 316	192 199
Buildings constructed					
Commercial	1 534	473 544	246 116	227 428	267 444
Residential	6 746	737 189	113 269	623 920	709 508
Other	1 330	456 219	132 078	324 141	395 755
	9 610	1 666 952	491 463	1 175 489	1 372 707
Other [(a)]	**-**	**17 965**	**45 726**	**(27 761)**	**(27 761)**
	13 976	**2 767 686**	**824 410**	**1 943 276**	**2 235 889**

(a) The carrying value of this caption is negative due to the imputation of costs incurred with the sale of real estate
(b) Determined in accordance with accounting policy 2.12

The analysis of real estate included in non-current assets held for sale, by ageing, is as follows:

(in thousands of Euros)

	31.12.2015				
	Up to 1 year	1 to 2.5 years	2.5 to 5 years	More than 5 years	Total net value
Land					
Urban	285 372	165 628	218 008	209 540	878 548
Rural	13 080	108 393	54 987	11 247	187 707
	298 452	274 021	272 995	220 787	1 066 255
Buildings under construction					
Commercial	1 350	5 701	12 838	3 758	23 647
Residential	11 348	10 147	56 322	16 233	94 050
Other	7 952	13 066	17 336	4 448	42 802
	20 650	28 914	86 496	24 439	160 499
Buildings constructed					
Commercial	64 992	65 209	98 506	225 404	454 111
Residential	86 472	131 342	213 098	55 434	486 346
Other	111 256	74 444	142 242	211 742	539 684
	262 720	270 995	453 846	492 580	1 480 141
Other [(a)]	**(39 943)**	**-**	**-**	**-**	**(39 943)**
	541 879	**573 930**	**813 337**	**737 806**	**2 666 952**

(a) The carrying value of this caption is negative due to the imputation of costs incurred with the sale of real estate properties

(in thousands of Euros)

	31.12.2014				
	Up to 1 year	1 to 2.5 years	2.5 to 5 years	More than 5 years	Total net value
Land					
Urban	51 538	274 517	91 480	13 505	431 040
Rural	67 634	97 756	24 019	2 783	192 192
	119 172	372 273	115 499	16 288	623 232
Buildings under construction					
Commercial	523	24 100	7 073	1 536	33 232
Residential	4 184	21 092	54 519	6 617	86 412
Other	26 297	19 621	5 866	888	52 672
	31 004	64 813	67 458	9 041	172 316
Buildings constructed					
Commercial	41 792	92 798	64 649	28 189	227 428
Residential	140 644	240 828	203 733	38 715	623 920
Other	37 120	193 534	44 065	49 422	324 141
	219 556	527 160	312 447	116 326	1 175 489
Other [(a)]	**(27 761)**	**-**	**-**	**-**	**(27 761)**
	341 971	**964 246**	**495 404**	**141 655**	**1 943 276**

(a) The net value of this caption is negative due to the imputation of costs incurred with the sale of real estate properties

As at 31 December 2015, discontinued premises included as Real estate property amount to Euros 17 497 thousand (31 December 2014: Euros 39 565 thousand), in respect of which the Group recognised an impairment loss amounting to Euros 8 495 thousand (31 December 2014: Euros 9 757 thousand).

NOTE 28 – INVESTMENT PROPERTIES

The movement in the item Investment properties during the periods ended 31 December 2015 and 2014 is presented as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Balance at beginning of the period	297 133	305 493
Acquisitions	63	-
Disposals	(2 416)	-
Changes in fair value	1 784	(1 043)
Other movements [a)]	(241 939)	(7 317)
Balance at end of the period	54 625	297 133

a) In the scope of the redemption of the GNB Vida Unit Linked Capitalisation Operations and as referred to in Note 2, the funds' real estate assets that ceased to be allocated to this product were reclassified as non-current assets held for sale (see Note 27), amounting to Euros 255 413 thousand

The carrying 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 values are determined taking into considerationwhenever available recent market transactions for similar properties in similar locations to those of the Group's investment properties.

Investment properties comprise a number of assets held by the subsidiary GNB Vida and by Investment Funds and include a number of commercial properties that are leased out to third parties. Most lease contracts do not have a specified term, with the lessees being able to cancel at any time. However, for a small number of commercial properties leased to third parties, the leases contain an initial non-cancellable period of, approximately, 10 years. Subsequent renewals are negotiated with the lessee.

As at 31 December 2015, the increase in the fair value of investment properties of Euros 2.1 million and the rental income from investment properties of Euros 3.0 million, are recognised in Other operating income and expenses.

Generally accepted criteria and methodologies are used, including analyses using the cost method and the market method.

NOTE 29 – OTHER TANGIBLE ASSETS

At 31 December 2015 and 2014, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Real estate property		
For own use	372 052	424 765
Improvements in leasehold property	183 068	188 662
Other	-	19
	555 120	**613 446**
Equipment		
Computer equipment	223 721	264 492
Fixtures	128 411	129 595
Furniture	120 340	122 601
Security equipment	34 498	34 614
Office equipment	28 679	30 438
Motor vehicles	1 260	2 522
Other	4 846	9 111
	541 755	**593 373**
Other	546	570
	1 097 421	**1 207 389**
Work in progress		
Improvements in leasehold property	541	669
Real estate property	61	45
Equipment	199	1 451
Other	15	4
	816	**2 169**
	1 098 237	**1 209 558**
Accumulated impairment [a)]	(4 548)	-
Accumulated depreciation	(781 252)	(812 470)
	312 437	**397 088**

a) Impairment recorded for the company's property in Praça do Marquês

The movement in this caption is as follows:

(in thousands of Euros)

	Real estate property	Equipment	Other	Work in progress	Total
Acquisition cost					
Balance at 4 August 2014	**640 442**	**619 010**	**573**	**2 620**	**1 262 645**
Acquisitions	634	11 418	-	2 430	14 482
Disposals / write-offs	(3 540)	(16 207)	-	(99)	(19 846)
Transfers **(a)**	(22 885)	649	-	(1 540)	(23 776)
Foreign exchange differences and other **(b)**	(1 205)	(21 497)	(3)	(1 242)	(23 947)
Balance at 31 December 2014	**613 446**	**593 373**	**570**	**2 169**	**1 209 558**
Acquisitions	2 190	6 845	-	3 310	12 345
Disposals / write-offs	(5 629)	(43 636)	-	-	(49 265)
Transfers **(c)**	(6 089)	3 340	-	(4 723)	(7 472)
Foreign exchange differences and other	(48 798)	(18 167)	(24)	60	(66 929)
Balance at 31 December 2015	**555 120**	**541 755**	**546**	**816**	**1 098 237**
Accumulated depreciation					
Balance at 4 August 2014	**296 155**	**539 183**	**240**	**-**	**835 578**
Depreciation	7 761	10 776	8	-	18 545
Disposals / write-offs	(3 459)	(14 753)	-	-	(18 212)
Transfers **(a)**	(3 823)	(40)	-	-	(3 863)
Foreign exchange differences and other **(b)**	(5 293)	(14 294)	9	-	(19 578)
Balance at 31 December 2014	**291 341**	**520 872**	**257**	**-**	**812 470**
Depreciation	13 775	19 466	229	-	33 470
Disposals / write-offs	(5 629)	(43 526)	-	-	(49 155)
Transfers **(c)**	(2 468)	(197)	-	-	(2 665)
Foreign exchange differences and other	(3 913)	(10 170)	1 215	-	(12 868)
Balance at 31 December 2015	**293 106**	**486 445**	**1 701**	**-**	**781 252**
Impairment					
Balance at 31 December 2014	**-**	**-**	**-**	**-**	**-**
Impairment losses	4 548	-	-	-	4 548
Balance at 31 December 2015	**4 548**	**-**	**-**	**-**	**4 548**
Carrying value at 31 December 2015	**257 466**	**55 310**	**(1 155)**	**816**	**312 437**
Carrying value at 31 December 2014	**322 105**	**72 501**	**313**	**2 169**	**397 088**

(a) Includes Euros 23 776 thousand in property and equipment and Euros 3 863 thousand in accumulated depreciation relating to bank branches discontinued that were transferred at their carrying value to the appropriate captions of the balance sheet

(b) Includes Euros 14 115 thousand in property, Euros 25 742 thousand in equipment, Euros 354 thousand in work in progress and Euros 22 569 thousand in accumulated depreciation relating to the BESI reclassification as an activity being discontinued

(c) Includes Euros 7 472 thousand in property and equipment and Euros 2 665 thousand in accumulated depreciation relating to the bank branches discontinued that were transferred at their carrying value to the appropriate captions of the balance sheet

NOTE 30 – INTANGIBLE ASSETS

As at 31 December 2015 and 2014, this caption is analysed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Goodwill	**259 622**	**259 622**
Internally developed		
Software - Automatic data processing system	81 155	94 323
Acquired from third parties		
Software - Automatic data processing system	677 335	663 244
Other	1 392	1 368
	678 727	**664 612**
Work in progress	**12 650**	**19 686**
	1 032 154	**1 038 243**
Accumulated amortisation	(697 433)	(670 958)
Impairment losses	(113 553)	(113 553)
	221 168	**253 732**

The movement in this caption is as follows:

(thousands of Euros)

	Goodwill and Value in force	Software	Other	Work in progress	Total
Acquisition cost					
Balance at 4 August 2014	314 181	754 539	2 151	32 734	1 103 605
Acquisitions:					
Internally developed	-	368	-	3 621	3 989
Acquired from third parties	-	5 332	167	6 176	11 675
Disposals / write-offs	-	(4)	-	-	(4)
Transfers **(a)**	-	16 016	-	(16 493)	(477)
Foreign exchange differences and other **(b)**	(54 559)	(18 684)	(950)	(6 352)	(80 545)
Balance at 31 December 2014	259 622	757 567	1 368	19 686	1 038 243
Acquisitions:					
Internally developed	-	46	-	5 998	6 044
Acquired from third parties	-	5 911	-	4 668	10 579
Disposals / write-offs	-	(62)	-	-	(62)
Transfers	-	17 488	23	(17 511)	-
Foreign exchange differences and other	-	(22 460)	1	(191)	(22 650)
Balance at 31 December 2015	259 622	758 490	1 392	12 650	1 032 154
Accumulated amortisation					
Balance at 4 August 2014	-	664 463	916	-	665 379
Amortisation for the period	-	19 215	90	-	19 305
Disposals / write-offs	-	7	-	-	7
Foreign exchange differences and other	-	(12 784)	(949)	-	(13 733)
Balance at 31 December 2014	-	670 901	57	-	670 958
Amortisation for the period	-	38 116	127	-	38 243
Disposals / write-offs	-	(62)	-	-	(62)
Foreign exchange differences and other	-	(11 645)	(61)	-	(11 706)
Balance at 31 December 2015	-	697 310	123	-	697 433
Impairment					
Balance at 4 August 2014	102 288	-	-	-	102 288
Impairment losses	13 526	-	-	-	13 526
Foreign exchange differences and other **(d)**	(2 261)	-	-	-	(2 261)
Balance at 31 December 2014	113 553	-	-	-	113 553
Balance at 31 December 2015	113 553	-	-	-	113 553
Carrying value at 31 December 2015	146 069	61 180	1 269	12 650	221 168
Carrying value at 31 December 2014	146 069	86 666	1 311	19 686	253 732

(a) Includes Euros 477 thousand of discontinued investment projects that were taken to costs
(b) Includes Euros 95 281 thousand relating to the reclassification of BESI as an activity being discontinued
(c) Includes Euros 16 621 thousand relating to the reclassification of BESI as an activity being discontinued
(d) Includes Euros 2 261 thousand relating to the reclassification of BESI as an activity being discontinued

Goodwill, recognised in accordance with the accounting policy described in Note 2.2, is analysed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Subsidiaries		
GNB Vida	234 575	234 575
ES Gestion	2 460	2 460
Imbassaí	13 526	13 526
Other	1 168	1 168
Other cash-generating units		
Leasing and Factoring	7 893	7 893
	259 622	**259 622**
Impairment losses		
GNB Vida	(100 027)	(100 027)
Imbassaí	(13 526)	(13 526)
	(113 553)	(113 553)
	146 069	**146 069**

GNB Vida

The valuation of GNB Vida was determined taking into consideration the Traditional Embedded value and the Goodwill value. The Embedded value consists of 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 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.

For purposes of the valuation it was used the business projections for the next 30 years and a discount rate of 12.07% was applied, which includes an appropriate risk premium for the estimated future flows. Based on these assumptions, the recoverable amount of this investment exceeds its carrying value, including the goodwill component.

NOTE 31 – INVESTMENTS IN ASSOCIATED COMPANIES

The financial information relating to associated companies is presented in the following tables:

(thousands of Euros)

	Assets		Liabilities		Equity		Income [1]		Profit / (loss) for period [1]	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
LOCARENT	239 307	244 567	213 719	227 287	25 588	17 280	74 174	25 176	7 670	1 835
GNB SEGUROS	108 185	115 526	76 722	81 090	31 463	34 436	64 434	66 118	6 053	4 384
ESEGUR	38 974	35 132	24 697	21 440	14 277	13 692	48 296	26 424	1 400	901
ASCENDI GROUP	4 314 000	4 314 000	3 750 000	3 750 000	564 000	564 000	-	-	-	-
EMPARK **a)**	746 064	764 299	616 584	630 491	129 480	133 808	135 768	60 371	3 911	218
AUVISA - AUTOVIA DE LOS VIÑEDOS **b)**	224 923	208 484	197 971	213 895	26 952	(5 411)	-	-	-	-
UNICRE **a)**	308 800	334 788	157 716	196 044	151 084	138 744	87 585	88 490	39 872	2 311
MOZA BANCO	678 925	594 321	629 542	541 454	49 383	52 867	91 556	4 458	2 185	3 156

Note: Data adjusted for consolidation purposes

[1] Amounts generated between 4 August and 31 December 2014

(in thousands of Euros)

	Participation cost		Economic Interest %		Book value		Share of profits / (losses) of associated companies attributed to the Group	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
LOCARENT	2 967	2 967	50.00%	50.00%	13 104	8 950	3 835	918
GNB SEGUROS	3 749	3 749	25.00%	25.00%	7 863	8 606	1 513	1 096
ESEGUR	9 634	9 634	44.00%	44.00%	13 126	12 869	616	397
ASCENDI GROUP	188 143	188 143	28.66%	28.66%	149 409	149 879	(470)	(196)
EMPARK **a)**	55 081	55 081	15.92%	15.92%	50 002	51 069	(8)	(154)
AUVISA - AUTOVIA DE LOS VIÑEDOS **b)**	41 056	41 056	35.83%	35.83%	34 793	34 793	-	-
UNICRE **a)**	11 497	11 497	17.50%	17.50%	26 440	24 280	6 978	404
MOZA BANCO	47 456	44 921	49.00%	49.00%	45 263	46 970	1 071	1 546
Other	95 825	94 769			73 021	66 468	3 113	1 210
	455 408	**451 817**			**413 021**	**403 884**	**16 648**	**5 221**
Impairment					**(7 535)**	**(1 595)**		
					405 486	**402 289**		

a) Although the Group's shareholding is less than 20%, these entities were consolidated under the equity method, as the Group exercises a significant influence over their activities

b) No equity changes were recognised in respect of this associated company as a result of the disposal process underway, since the disposal amount agreed is higher than the carrying value of the shareholding

The movement occurring in this caption is as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Balance at beginning of period	402 289	428 053
Acquisitions and additional investments (see Note 1)	8 805	2 637
Share of profits / (losses) of associated companies	16 648	5 221
Impairment in associated companies	(5 940)	-
Fair value reserves for investments in associated companies	(3 731)	(889)
Dividends received	(3 710)	-
Changes in consolidation perimeter **(a)**	-	(33 838)
Foreign exchange differences and other	(8 875)	1 105
Balance at end of period	**405 486**	**402 289**

(a) - BESI was consolidated as an activity being discontinued in December 2014, with all its investments in associated companies being recorded under the caption Assets from discontinued operations

NOTE 32 – TECHNICAL RESERVES

The technical reserves for direct insurance and reinsurance ceded are analysed as follows:

(thousands of Euros)

	31.12.2015			31.12.2014		
	Direct insurance and accepted reinsurance	Reinsurance ceded	Total	Direct insurance and accepted reinsurance	Reinsurance ceded	Total
Unearned premiums reserve	3 172	(14)	3 158	3 268	-	3 268
Life mathematical reserve	1 295 974	(3 298)	1 292 676	1 404 514	(4 864)	1 399 650
Outstanding claims reserve	31 205	(4 379)	26 826	30 208	(3 169)	27 039
Reserve for profit sharing	10 232	(5)	10 227	19 845	(5)	19 840
Reserve for rate commitments	3 633	-	3 633	3 235	-	3 235
	1 344 216	(7 696)	1 336 520	1 461 070	(8 038)	1 453 032

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 life mathematical reserve is presented as follows:

(thousands of Euros)

	31.12.2015			31.12.2014		
	Direct insurance and accepted reinsurance	Reinsurance ceded	Total	Direct insurance and accepted reinsurance	Reinsurance ceded	Total
Traditional annuities	24 711	(3 298)	21 413	25 615	(4 864)	20 751
Savings contracts with profit sharing	1 271 263	-	1 271 263	1 378 899	-	1 378 899
	1 295 974	(3 298)	1 292 676	1 404 514	(4 864)	1 399 650

The outstanding claims reserve is presented as follows:

(in thousands of Euros)

	31.12.2015			31.12.2014		
	Direct insurance and accepted reinsurance	Reinsurance ceded	Total	Direct insurance and accepted reinsurance	Reinsurance ceded	Total
Traditional annuities	11 181	(4 379)	6 802	10 306	(3 169)	7 137
Capitalization products with profit sharing	20 024	-	20 024	19 902	-	19 902
	31 205	(4 379)	26 826	30 208	(3 169)	27 039

The outstanding claims reserve represents unsettled claims occurring before 31 December 2015 and includes an estimated provision amounting to Euros 567 thousand (31 December 2014: Euros 581 thousand), for unreported claims (IBNR).

The movement in the outstanding claims reserve for the periods ended 31 December 2015 and 2014, is as follows:

(in thousands of Euros)

	31.12.2015			31.12.2014		
	Direct insurance and accepted reinsurance	Reinsurance ceded	Total	Direct insurance and accepted reinsurance	Reinsurance ceded	Total
Balance at the beginning of the period	**30 208**	**(3 169)**	**27 039**	**39 000**	**(3 400)**	**35 600**
Incurred claims						
Current period	241 700	(10 654)	231 046	275 792	(3 431)	272 361
Prior periods	9 622	(3 651)	5 971	1 171	176	1 347
Paid claims						
Current period	(231 600)	7 934	(223 666)	(282 764)	3 090	(279 674)
Prior periods	(18 725)	5 161	(13 564)	(2 991)	396	(2 595)
Balance at end of the period	**31 205**	**(4 379)**	**26 826**	**30 208**	**(3 169)**	**27 039**

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 to or included in the life mathematical reserve.

The movement in the reserve for profit sharing for the periods ended on 31 December 2015 and 2014, is as follows:

(thousands of Euros)

	31.12.2015			31.12.2014		
	Direct insurance and accepted reinsurance	Reinsurance ceded	Total	Direct insurance and accepted reinsurance	Reinsurance ceded	Total
Balance at beginning of the period	19 845	(5)	19 840	16 525	(5)	16 520
Amounts paid	(20 905)	438	(20 467)	(1 050)	122	(928)
Estimated attributable amounts	11 292	(438)	10 854	4 370	(122)	4 248
Balance at the end of the period	10 232	(5)	10 227	19 845	(5)	19 840

On 31 December 2015 and 2014, the reserve for rate commitments relates to the liability adequacy test, which was carried out based on the best estimate assumptions at the balance sheet date (see Note 2.25):

	31.12.2015			31.12.2014		
	Direct insurance and accepted reinsurance	Reinsurance ceded	Total	Direct insurance and accepted reinsurance	Reinsurance ceded	Total
Traditional annuities	3 633	-	3 633	3 235	-	3 235
	3 633	-	3 633	3 235	-	3 235

(thousands of Euros)

NOTE 33 – OTHER ASSETS

As at 31 December 2015 and 2014, the balance Other assets is analysed as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Collateral deposits placed	962 234	1 247 987
Derivative products	*631 791*	*874 682*
Collateral CLEARNET, VISA and EBA	*40 835*	*77 948*
Collateral deposits relating to reinsurance operations	*289 608*	*295 357*
Recoverable government subsidies on mortgage loans	12 209	21 844
Public sector	184 526	162 417
Debtors from the insurance business	3 019	1 263
Other debtors	567 313	582 370
Income receivable	31 441	41 467
Deferred costs	101 468	110 535
Retirement pensions and health-care benefits (see Note 16)	5 493	5 834
Precious metals, numismatics, medal collection and other liquid assets	9 479	9 577
Stock exchange transactions pending settlement	26 717	17 523
Other transactions pending settlement	72 153	2 179
Other assets	156 527	162 101
	2 132 579	**2 365 097**
Impairment losses	**(222 453)**	**(185 924)**
	1 910 126	**2 179 173**

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 (Contract Support Annex – CSA).

The Other debtors amount includes, among others:

- Euros 100 million relating to shareholder loans granted to Locarent – Companhia Portuguesa de Aluguer de Viaturas, S.A. (31 December 2014: Euros 100 million);
- Euros 66.3 million in shareholder loans and supplementary capital granted to entities within the Group's venture capital business, of which Euros 57.4 million are provided for (31 December 2014: Euros 66.8 million, of which Euros 48.7 million were provided for); and
- Euros 112.9 million of shareholder loans and supplementary capital resulting from the assignment of loans and advances, of which Euros 112.9 million are provided for (31 December 2014: Euros 112.9 million, of which Euros 110.8 million were provided for).

As at 31 December 2015, the caption Deferred costs includes an amount of Euros 71 514 thousand (31 December 2014: Euros 76 119 thousand) relating to the difference between the nominal amount of the loans and advances granted to Group's employees under the Collective Labour 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 2.6.

The movements in impairment losses are presented as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Balance at the beginning of the period	185 924	180 630
Increase for the period	40 096	21 850
Utilisation during period	-	(2 917)
Write-back for the period	(4 162)	(1 030)
Foreign exchange differences and other [(a)]	595	(12 609)
Balance at the end of the period	**222 453**	**185 924**

[(a)] Includes, at 31 December 2014, the exclusion of Euros 7 362 thousand of BESI that was then classified as an activity being discontinued

NOTE 34 – DEPOSITS FROM CENTRAL BANKS

The balance Deposits from Central Banks is presented as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
From the European System of Central Banks		
Deposits	292 738	385 427
Other funds	7 340 000	8 140 000
	7 632 738	**8 525 427**
From other Central Banks		
Deposits	56	86 282
	56	**86 282**
	7 632 794	**8 611 709**

As at 31 December 2015, the caption Other funds from the European System of Central Banks includes Euros 7 487 million, collateralised by Group financial assets (31 December 2014: Euros 8 286 million) (see Note 45).

As at 31 December 2015 and 2014, the analysis of deposits from Central Banks, by residual maturity period, is as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Up to 3 months	5 489 613	6 971 032
3 months to 1 year	500 010	-
1 to 5 years	1 643 171	1 640 677
	7 632 794	**8 611 709**

NOTE 35 – DEPOSITS FROM BANKS

The balance Deposits from banks is presented as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Domestic		
Deposits	202 137	255 052
Repurchase agreements	39 976	140 883
Other funds	32 634	29 999
	274 747	**425 934**
International		
Deposits	432 447	128 321
Loans	1 083 485	1 042 531
Very short-term funds	39 095	1 998
Repurchase agreements	2 103 659	891 807
Other funds	223 699	133 273
	3 882 385	**2 197 930**
	4 157 132	**2 623 864**

The balance of the 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 2015 and 2014, the analysis of Deposits from banks by residual maturity period is as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Up to 3 months	2 239 686	718 192
3 months to 1 year	334 782	258 187
1 to 5 years	858 559	1 239 762
More than 5 years	724 105	407 723
	4 157 132	**2 623 864**

The maturities of sales operations with repurchase agreements (repos) are as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Domestic		
Up to 3 months	39 976	140 883
International		
Up to 3 months	1 409 937	193 737
1 to 5 years	693 722	698 070
	2 103 659	891 807

NOTE 36 – DUE TO CUSTOMERS

The caption Due to customers has the following breakdown:

(thousands of Euros)

	31.12.2015	31.12.2014
Repayable on demand		
Demand deposits	7 983 398	8 515 858
Time deposits		
Time deposits	16 429 758	15 695 076
Other	21 344	25 024
	16 451 102	**15 720 100**
Savings accounts		
Pensioners	437 222	459 975
Other	2 491 925	1 929 606
	2 929 147	**2 389 581**
Other funds		
Repurchase agreements	44 864	111 450
Other **(a)**	173 631	1 201 064
	218 495	**1 312 514**
	27 582 142	**27 938 053**

(a) At 31 December 2014, includes Euros 441 484 thousand of amounts due to customers in the scope of the consolidation of the entities Euro Aforro, Top Renda and Poupança Plus, as referred to in Note 1. At 31 December 2015, these entities were excluded from the consolidation perimeter of the Group (see Note 1)

As at 31 December 2015, this caption includes funds in the amount of Euros 1 038 666 thousand recorded in the balance sheet at fair value through profit or loss (31 December 2014: Euros 3 811 732 thousand) (see Note 49).

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 2015, from the total securities sales with repurchase agreements around Euros 43.7 million have a maturity period of under 3 months and Euros 1.2 million have a maturity of between 3 months and one year (31 December 2014: Euros 111.5 million with a maturity of under 3 months).

As at 31 December 2015 and 2014, the analysis of Due to customers, by residual maturity period, is as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Repayable on demand	7 983 398	8 515 858
With agreed maturity		
Up to 3 months	9 290 953	10 685 463
3 months to 1 year	7 843 269	6 452 213
1 to 5 years	2 077 218	1 955 005
More than 5 years	387 304	329 514
	19 598 744	**19 422 195**
	27 582 142	**27 938 053**

NOTE 37 – DEBT SECURITIES ISSUED

The balance Debt securities issued has the following breakdown:

(thousands of Euros)

	31.12.2015	31.12.2014
Euro Medium Term Notes (EMTN)	3 601 463	7 102 399
Certificates of deposit	4 615	9 903
Bonds	499 544	954 804
Covered bonds	40 855	884 722
Other	78 181	81 128
	4 224 658	**9 032 956**

As at 31 December 2015, the Group had debt securities issued with the guarantee of the Portuguese Government, in a nominal amount of Euros 3 500 million, of which Euros 3 407 million had been acquired by the Group at the Balance Sheet date (31 December 2014: nominal amount of Euros 3 500 million, fully acquired). In 2015, the Group extended the maturity of these bonds, guaranteed by the Portuguese Government in the amount of Euros 3 500 million.

Under the Covered Bonds Programme (Programa de Emissão de Obrigações Hipotecárias), which has a maximum amount of Euros 10 000 million, the Group issued covered bonds in a total amount of Euros 3 740 million (31 December 2014: Euros 4 040 million).

The main characteristics of the outstanding issues at 31 December 2015 and 2014 are as follows:

31.12.2015

Description	Nominal value (thousands of Euros)	Book value (thousands of Euros)	Issue date	Maturity date	Interest payment	Interest rate	Rating Moody's	Rating DBRS
BES Covered bonds DUE 4.6%	40 000	40 855	15-12-2010	26-01-2018	Annually	Fixed rate 4.6%	Baa3	AL
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
	3 740 000	**40 855**						

31.12.2014

Description	Nominal value (thousands of Euros)	Book value (thousands of Euros)	Issue date	Maturity date	Interest payment	Interest rate	Rating Moody's	Rating DBRS
BES Covered bonds 3.375%	1 000 000	843 250	17-11-2009	17-02-2015	Annually	3.375%	Baa3	AL
BES Covered bonds DUE JUL 17	1 000 000	-	07-07-2010	09-07-2017	Half-yearly	Euribor 6 Months + 0.60%	Baa3	AL
BES Covered bonds 21/07/2017	1 000 000	-	21-07-2010	21-07-2017	Half-yearly	Euribor 6 Months + 0.60%	Baa3	AL
BES Covered bonds DUE 4.6%	40 000	41 472	15-12-2010	26-01-2018	Annually	Fixed rate 4.6%	Baa3	AL
BES Covered bonds HIPOT. 2018	1 000 000	-	25-01-2011	25-01-2018	Half-yearly	Euribor 6 Months + 0.60%	Baa3	AL
	4 040 000	**884 722**						

These covered bonds are guaranteed by a cover assets pool, comprising residential 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 foreseen in Decree-Law no. 59/2006, and in Notices 5, 6, 7 and 8 and Instruction 13 of Banco de Portugal.

As at 31 December 2015, the assets that collateralise these covered debt securities amount to Euros 4 233.6 million (31 December 2014: Euros 5 359.3 million) (see Note 25).

The movement occurring in debt securities issued, during the periods ended on 31 December 2015 and 2014, is as follows:

(thousands of Euros)

	Balance at 31.12.2014	Issues	Retransmission to BES	Repayments	Net purchases	Other movements [a)]	Balance at 31.12.2015
Euro Medium Term Notes (EMTN)	7 102 399	-	(1 923 496)	(1 805 653)	238 911	(10 698)	3 601 463
Certificates of deposit	9 903	4 593 [b)]	-	-	-	(9 881)	4 615
Bonds	954 804	-	-	(515 965)	49 558	11 147	499 544
Covered bonds	884 722	3 700 000	-	(4 516 850) [c)]	-	(27 017)	40 855
Other	81 128	-	-	-	-	(2 947)	78 181
	9 032 956	**3 704 593**	**(1 923 496)**	**(6 838 468)**	**288 469**	**(39 396)**	**4 224 658**

a) Other movements include accrued interest, corrections for hedging operations, fair value adjustments and foreign exchanges differences

b) Certificates of deposit are presented net of repayments, considering their short-term maturity

c) Includes Euros 3 700.0 million relating to early repayments

(in thousands of Euros)

	Balance at 04.08.2014	Issues	Repayments	Net purchases	Other movements [a)]	Balance at 31.12.2014
Euro Medium Term Notes (EMTN)	8 093 133	-	(269 173)	198 703	(920 264)	7 102 399
Certificates of deposit	326 625	-	(314 949) [b)]	-	(1 773)	9 903
Bonds	933 449	-	(32 360)	(16 171)	69 886	954 804
Covered bonds	881 608	-	-	(44)	3 158	884 722
Other	918 756	-	(766 938)	-	(70 690)	81 128
	11 153 571	**-**	**(1 383 420)**	**182 488**	**(919 683)**	**9 032 956**

a) Other movements include accrued interest, corrections for hedging operations, fair value adjustments, foreign exchanges differences and Euros 1 138 286 thousands of BESI, that was then classified as an activity being discontinued

b) Certificates of deposit are presented net of repayments, considering their short-term maturity

Following on from the deliberation of Banco de Portugal of 29 December 2015, non-subordinated debt instruments, along with the liabilities, contingencies and off-balance sheet items relating to such debt instruments were retransferred to BES. The impact of this deliberation was a decrease of Euros 1 923 million in the debt securities issued at NOVO BANCO.

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 value of the liability and its acquisition cost is recognised in the income statement. As a result of repurchases made during the year ended on 31 December 2015, the Group recognised a gain of Euros 3.0 million (31 December 2014:a gain of Euros 21.1 million) (see Notes 14 and 41).

As at 31 December 2015 and 2014, the analysis of Debt securities issued, by residual maturity period, is as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Up to 3 months	419 040	1 479 672
3 months to 1 year	82 796	1 494 148
1 to 5 years	1 682 534	4 069 763
More than 5 years	2 040 288	1 989 373
	4 224 658	**9 032 956**

The main characteristics of debts securities, at 31 December 2015 and 2014, are as follows:

(in thousands of Euros)

Entity	Description		31.12.2015 Currency	Issue Date	Book Value	Maturity	Interest Rate
Novo Banco	BES DUE 4.6%	a)	EUR	2010	40 855	2018	Fixed rate 4.6%
Novo Banco	BES 4 YEARS 7%		EUR	2012	142 627	2016	Fixed rate 7%
Novo Banco	BES GUAR FEB 16		EUR	2012	93 351	2017	Euribor 3m + 1.5%
NB (Spain Branch)	Mortgage bonds	a)	EUR	2006	78 181	2016	Fixed rate 4.25%
NB (London Branch)	Certificates of deposit		USD	2015	4 615	2016	Fixed rate 1.12%
NB (London Branch)	EMTN Series 2		EUR	2012	136 037	2016	Fixed rate 7%
NB (London Branch)	EMTN Series 3		EUR	2012	118 196	2022	Fixed rate 5%
NB (London Branch)	EMTN Series 5		EUR	2012	47 025	2016	Fixed rate 7%
NB (London Branch)	EMTN Series 6		EUR	2012	174 840	2022	Fixed rate 5%
NB (London Branch)	EMTN Series 7		EUR	2012	178 968	2019	Fixed rate 5%
NB (London Branch)	EMTN Series 10		EUR	2012	580 775	2019	Fixed rate 5%
NB (London Branch)	EMTN Series 12		EUR	2012	363 737	2019	Fixed rate 5%
NB (London Branch)	EMTN Series 13		EUR	2012	257 340	2019	Fixed rate 5%
NB (London Branch)	EMTN Series 14		EUR	2012	241 091	2019	Fixed rate 5%
NB (Luxembourg Branch)	BES Luxembourg 5.75% 28/06/17		EUR	2012	19 768	2017	Fixed rate 5.75%
NB (Luxembourg Branch)	BES Luxembourg 3% 21/06/22		USD	2012	133 761	2022	Fixed rate 3%
NB (Luxembourg Branch)	BES Luxembourg 3.5% 02/01/43		EUR	2013	54 526	2043	Fixed rate 3.5%
NB (Luxembourg Branch)	BES Luxembourg 3.5% 23/01/43		EUR	2013	106 628	2043	Fixed rate 3.5%
NB (Luxembourg Branch)	BES Luxembourg 3.5% 19/02/2043		EUR	2013	82 057	2043	Fixed rate 3.5%
NB (Luxembourg Branch)	BES Luxembourg 3.5% 18/03/2043		EUR	2013	58 127	2043	Fixed rate 3.5%
NB (Luxembourg Branch)	BES Luxembourg ZC		EUR	2013	39 412	2048	Zero Coupon
NB (Luxembourg Branch)	Banco Esp San Lux ZC 12/02/49		EUR	2014	46 448	2049	Zero Coupon
NB (Luxembourg Branch)	Banco Esp San Lux ZC 19/02/49		EUR	2014	45 778	2049	Zero Coupon
NB (Luxembourg Branch)	Banco Esp San Lux ZC 27/02/51		EUR	2014	39 266	2051	Zero Coupon
NB (Luxembourg Branch)	BES Luxembourg ZC 06/03/2051		EUR	2014	39 170	2051	Zero Coupon
NB (Luxembourg Branch)	BES Luxembourg ZC 13/03/48		EUR	2014	33 676	2048	Zero Coupon
NB (Luxembourg Branch)	BES Luxembourg ZC 03/04/48		EUR	2014	42 161	2048	Zero Coupon
NB (Luxembourg Branch)	BES Luxembourg ZC 09/04/52		EUR	2014	38 996	2052	Zero Coupon
NB (Luxembourg Branch)	BES Luxembourg ZC 16/04/46		EUR	2014	46 885	2046	Zero Coupon
NB (Luxembourg Branch)	BES Luxembourg ZC 27/03/47		EUR	2014	48 322	2047	Zero Coupon
NB (Luxembourg Branch)	BES Luxembourg ZC 29/01/2049		EUR	2014	42 635	2049	Zero Coupon
NB (Luxembourg Branch)	Banco Esp San Lux ZC 05/02/49		EUR	2014	42 617	2049	Zero Coupon
NB (Luxembourg Branch)	BES Luxembourg ZC 25/03/50		EUR	2014	39 465	2050	Zero Coupon
NB (Luxembourg Branch)	BES Luxembourg ZC 22/01/2049		EUR	2014	32 036	2049	Zero Coupon
NB Finance	EMTN 37		EUR	2004	35 780	2029	Effective rate 5.3%
NB Finance	EMTN 40	a)	EUR	2005	170 832	2035	6.00% indexed to the swap rate
NB Finance	EMTN 56		EUR	2009	12 285	2043	Fixed rate 7.13%
NB Finance	EMTN 57		EUR	2009	14 070	2044	Fixed rate 7.09%
NB Finance	EMTN 58		EUR	2009	12 406	2045	Fixed rate 7.06%
NB Finance	EMTN 59		EUR	2009	11 425	2042	Fixed rate 6.84%
NB Finance	EMTN 60		EUR	2009	11 991	2040	Fixed rate 6.91%
NB Finance	EMTN 61		EUR	2009	16 787	2041	Fixed rate 6.87%
NB Finance	EMTN 113		EUR	2011	23 345	2021	Fixed rate 5%
NB Finance	EMTN 114		EUR	2011	20 171	2021	Fixed rate 5%
Lusitano SME nº 1	Lusitano SME no. 1- Class B		EUR	2006	15 602	2028	Euribor + 0.05%
Lusitano SME nº 1	Lusitano SME no. 1- Class C		EUR	2006	22 097	2028	Euribor + 2.20%
Lusitano Mortgage nº 6	Lusitano Mortgage no. 6- Class A		EUR	2007	361 994	2060	Euribor + 0.20%
Lusitano Mortgage nº 6	Lusitano Mortgage no. 6- Class B		EUR	2007	6 501	2060	Euribor + 0.30%
					4 224 658		

a) Liabilities at fair value through profit or loss or with embedded derivatives

(in thousands of Euros)

			31.12.2014				
Entity	Description		Currency	Issue Date	Book Value	Maturity	Interest Rate
Novo Banco	BES 3.375%		EUR	2009	843 250	2015	Fixed rate 3.375%
Novo Banco	BES DUE 3.875%		EUR	2010	403 518	2015	Fixed rate 3.875%
Novo Banco	BES DUE 4.6%		EUR	2010	41 472	2017	Fixed rate 4.6%
Novo Banco	BES DUE JULY 16		EUR	2011	59 638	2016	Fixed rate 6.875%
Novo Banco	BES 4 YEARS 7%		EUR	2012	132 690	2016	Fixed rate 7%
Novo Banco	BES 6.9% 2024		EUR	2012	70 611	2024	Fixed rate 6.9%
Novo Banco	BES 5.875% 2015		EUR	2012	753 019	2015	Fixed rate 5.875%
Novo Banco	BES 4.75% 2018		EUR	2013	520 050	2018	Fixed rate 4.75%
Novo Banco	BES 4%		EUR	2014	775 447	2019	Fixed rate 4%
Novo Banco	BES 2.625%		EUR	2014	719 770	2017	Fixed rate 2.625%
NB (Cayman Branch)	BIC CAYMAN 27 2001		EUR	2001	47 537	2015	Fixed rate - 6.09%
NB (Spain Branch)	Mortgage bonds	a)	EUR	2008	81 128	2016	Fixed rate 4.25%
NB (London Branch)	Certificates of deposit		USD	2014	4 140	2015	Fixed rate 1.25%
NB (London Branch)	Certificates of deposit		USD	2014	5 763	2015	Taxa fixa 1.12%
NB (London Branch)	EMTN Series 2		EUR	2012	127 373	2016	Nominal rate 7%
NB (London Branch)	EMTN Series 3		EUR	2012	112 473	2022	Nominal rate 5%
NB (London Branch)	EMTN Series 5		EUR	2012	43 605	2016	Nominal rate 7%
NB (London Branch)	EMTN Series 6		EUR	2012	168 831	2022	Nominal rate 5%
NB (London Branch)	EMTN Series 7		EUR	2012	171 213	2019	Nominal rate 5%
NB (London Branch)	EMTN Series 8		EUR	2012	45 250	2015	Nominal rate 6.75%
NB (London Branch)	EMTN Series 9		EUR	2012	221 114	2015	Nominal rate 6.75%
NB (London Branch)	EMTN Series 10		EUR	2012	553 812	2019	Nominal rate 5%
NB (London Branch)	EMTN Series 11		EUR	2012	66 995	2015	Nominal rate 6.75%
NB (London Branch)	EMTN Series 12		EUR	2012	346 913	2019	Nominal rate 5%
NB (London Branch)	EMTN Series 13		EUR	2012	246 527	2019	Nominal rate 5%
NB (London Branch)	EMTN Series 14		EUR	2012	231 395	2019	Nominal rate 5%
NB (Luxembourg Branch)	BES Luxembourg 5.75% 28/06/17		EUR	2012	18 730	2017	Nominal rate - 5.75%
NB (Luxembourg Branch)	BES Luxembourg 3% 21/06/22		USD	2012	115 498	2022	Nominal rate - 3%
NB (Luxembourg Branch)	BES Luxembourg 3.5% 02/01/43		EUR	2013	54 082	2043	Fixed rate - 3.5%
NB (Luxembourg Branch)	BES Luxembourg 3.5% 23/01/43		EUR	2013	105 922	2043	Fixed rate - 3.5%
NB (Luxembourg Branch)	BES Luxembourg 3.5% 19/02/2043		EUR	2013	81 386	2043	Fixed rate - 3.5%
NB (Luxembourg Branch)	BES Luxembourg 3.5% 18/03/2043		EUR	2013	57 667	2043	Fixed rate - 3.5%
NB (Luxembourg Branch)	BES Luxembourg ZC		EUR	2013	37 475	2048	Fixed rate - 7%
NB (Luxembourg Branch)	Banco Esp San Lux ZC 12/02/49		EUR	2014	43 780	2049	Fixed rate - 7%
NB (Luxembourg Branch)	Banco Esp San Lux ZC 19/02/49		EUR	2014	43 095	2049	Fixed rate - 7%
NB (Luxembourg Branch)	Banco Esp San Lux ZC 27/02/51		EUR	2014	25 682	2051	Fixed rate - 7%
NB (Luxembourg Branch)	BES Luxembourg ZC 06/03/2051		EUR	2014	12 323	2051	Fixed rate - 7%
NB (Luxembourg Branch)	BES Luxembourg ZC 13/03/48		EUR	2014	2 630	2048	Fixed rate - 7%
NB (Luxembourg Branch)	BES Luxembourg ZC 03/04/48		EUR	2014	39 402	2048	Fixed rate - 7%
NB (Luxembourg Branch)	BES Luxembourg ZC 09/04/52		EUR	2014	36 873	2052	Fixed rate - 7%
NB (Luxembourg Branch)	BES Luxembourg ZC 16/04/46		EUR	2014	21 690	2046	Fixed rate - 7%
BES Finance	EMTN 37		EUR	2004	33 957	2029	Effective rate 5.30%
BES Finance	EMTN 39		EUR	2005	100 063	2015	Euribor 3 months + 0.23%
BES Finance	EMTN 40	a)	EUR	2005	216 098	2035	6.00% indexed to the swap rate
BES Finance	EMTN 56		EUR	2009	11 468	2043	Fixed rate 7.13%
BES Finance	EMTN 57		EUR	2009	13 138	2044	Fixed rate 7.09%
BES Finance	EMTN 58		EUR	2009	11 588	2045	Fixed rate 7.06%
BES Finance	EMTN 59		EUR	2009	10 694	2042	Fixed rate 6.84%
BES Finance	EMTN 60		EUR	2009	11 215	2040	Fixed rate 6.91%
BES Finance	EMTN 61		EUR	2009	17 583	2041	Fixed rate 6.87%
BES Finance	Exchangeable Bonds (EDP)	a)	EUR	2010	10 243	2015	Fixed rate 3%
BES Finance	Exchangeable Bonds		USD	2012	361 759	2015	Fixed rate 3.5%
BES Finance	EMTN 81	a)	EUR	2010	5 102	2015	Fixed rate 3.19%
BES Finance	EMTN 82	a)	EUR	2010	5 919	2015	Fixed rate 3.19%
BES Finance	EMTN 83	a)	EUR	2010	6 021	2015	Fixed rate 3.19%
BES Finance	EMTN 84	a)	EUR	2010	5 818	2015	Fixed rate 3.19%
BES Finance	EMTN 85	a)	EUR	2010	6 481	2015	Fixed rate 3.19%
BES Finance	EMTN 96	a)	EUR	2011	6 892	2015	Fixed rate 5.75%
BES Finance	EMTN 97	a)	EUR	2011	6 691	2015	Fixed rate 5.75%
BES Finance	EMTN 98	a)	EUR	2011	7 654	2015	Fixed rate 5.75%
BES Finance	EMTN 99	a)	EUR	2011	7 856	2015	Fixed rate 5.75%
BES Finance	EMTN 100	a)	EUR	2011	8 667	2015	Fixed rate 5.75%
BES Finance	EMTN 106	a)	EUR	2011	6 534	2015	Fixed rate 5.51%
BES Finance	EMTN 107	a)	EUR	2011	8 864	2015	Fixed rate 5.51%
BES Finance	EMTN 108	a)	EUR	2011	8 915	2015	Fixed rate 5.51%
BES Finance	EMTN 109	a)	EUR	2011	9 624	2015	Fixed rate 5.51%
BES Finance	EMTN 110	a)	EUR	2011	10 131	2015	Fixed rate 5.51%
BES Finance	EMTN 113	a)	EUR	2011	70 505	2021	Fixed rate 5%
BES Finance	EMTN 114	a)	EUR	2011	28 442	2021	Fixed rate 5%
Lusitano SME nº 1	Lusitano SME no. 1- Class A		EUR	2006	4 981	2028	Euribor + 0.15%
Lusitano SME nº 1	Lusitano SME no. 1- Class B		EUR	2006	29 084	2028	Euribor + 0.05%
Lusitano SME nº 1	Lusitano SME no. 1- Class C		EUR	2006	24 245	2028	Euribor + 2.20%
Lusitano Mortgage nº 6	Lusitano Mortgage no. 6- Class A		EUR	2007	460 452	2060	Euribor + 0.20%
Lusitano Mortgage nº 6	Lusitano Mortgage no. 6- Class B		EUR	2007	6 501	2060	Euribor + 0.30%
Lusitano Mortgage nº 6	Lusitano Mortgage no. 6- Class C		EUR	2007	10 002	2060	Euribor + 0.45%
					9 032 956		

a) Liabilities at fair value through profit or loss or with embedded derivatives

This caption includes Euros 213 467 thousand in liabilities for debt securities recorded in the balance sheet at fair value through profit or loss (31 December 2014: Euros 1 813 167 thousand).

NOTE 38 – INVESTMENT CONTRACTS

As at 31 December 2015 and 2014, the liabilities arising from investment contracts are presented as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Fixed rate investment contracts	2 687 451	2 975 244
Investment contracts in which the financial investment risk is borne by the policyholder	1 356 037	1 404 198
	4 043 488	4 379 442

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 Fixed rate investment contracts, during the periods of 31 December 2015 and 2014, is as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Balance at the beginning of the period	2 975 244	3 224 800
New contracts / reinforcements	226 812	12 167
Benefits paid	(520 922)	(311 468)
Change in deferred acquisition costs	6 911	(1 394)
Technical interest for the period	(594)	51 139
Balance at the end of the period	2 687 451	2 975 244

The movement in the Investment contracts in which the financial risk is borne by the policyholder, during the periods ended on 31 December 2015 and 2014, is as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Balance at the beginning of the period	1 404 198	1 664 537
New contracts / reinforcements	160 206	43 568
Benefits paid	(186 962)	(173 428)
Technical gain / (loss) for theperiod	(21 405)	(130 479)
Balance at the end of the period	1 356 037	1 404 198

As at 31 December 2015 and 2014, the Investment contracts, by residual maturity period, are as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Up to 3 months	284 943	6 292
3 months to 1 year	587 063	877 946
1 to 5 years	2 004 576	1 896 028
More than 5 years	1 166 906	1 599 176
	4 043 488	**4 379 442**

NOTE 39 – PROVISIONS

During 2015 and in the period from 4 August through 31 December 2014, the caption Provisions presents the following movements:

(thousands of Euros)

	31.12.2015	31.12.2014
Balance at the beginning of the period	**409 723**	**567 250**
Changes in consolidation perimeter [(a)]	295 981	-
Increase / (write-backs) for the period	(54 512)	(35 163)
Utilisation during the period	(180 880)	(69 426)
Foreign exchange differences and other [(b)]	(5 198)	(52 938)
Balance at the end of the period	**465 114**	**409 723**

[(a)] Relates to the exclusion from the consolidation perimiter of the entities Euro Aforro, Top Renda and Poupança Plus, as referred to in Note 1

[(a)] At 31 December 2014 includes Euros 34 295 thousand of BESI, that was then classified as an activity being discontinued

Provisions, amounting to Euros 465 114 thousand (31 December 2014: Euros 409 723 thousand), are intended to cover certain duly identified contingencies related to the Group's activities, the most relevant of which being:

- Provision in the amount of Euros 295.8 million to cover for costs resulting from commercial offers approved by the Board of Directors of NOVO BANCO, aimed at retail customers who hold NOVO BANCO unsubordinated bonds. The Board of Directors considers the amount of this provision adequate based on experience gained in the negotiations already completed and sales price expectations regarding the bonds and financial instruments subscribed by the customers. At 31 December 2014, the estimated cost to be incurred with these commercial offers was included in the amount of Due to customers recognised in the consolidation process of the entities Euro Aforro, Top Renda and Poupança Plus (see Note 1);
- Contingencies for ongoing tax processes. To cover for these contingencies, the Group maintains provisions of approximately Euros 36.0 million (31 December 2014: Euros 28.1 million). The contingencies for ongoing tax processes include, at 31 December 2015, provisions of Euros 24.3 million (31 December 2014: Euros 23.2 million) relating to the insurance business, of which Euros 17.8 million (31 December 2014: Euros 17.8 million) relate to tax

periods already inspected by the Portuguese Tax Authorities and for which judicial claims, totalling Euros 17.8 million (31 December 2014: Euros 17.8 million) have been presented;

- The remaining balance, of Euros 133.3 million (31 December 2014: Euros 47.4 million), is maintained to cover for potential losses in connection with the normal activities of the Group, such as, amongst others, fraud, theft and robbery and ongoing judicial cases.

NOTE 40 –TAXES

NOVO BANCO and its subsidiaries and associated companies domiciled in Portugal are subject, individually, to taxation in accordance with the Corporate Income Tax Code (IRC Code) and separate legislation.

For the 2014 period, NOVO BANCO was subject to corporate income tax (IRC) at the IRC rate (23%) approved by Law no. 2/2014, of 16 January. For the 2015 year, NOVO BANCO was subject to corporate income tax (IRC), at the IRC rate of 21% approved by Law no. 82-B/2014, of 31 December (State Budget Law for 2015),which changed the IRC Code.

Corporate income taxes (current or deferred) are recognised in the income statement except in cases where the underlying transactions have been reflected under equity captions. 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 at 31 December 2015 and 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 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. Accordingly, the corresponding deferred tax assets 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 subjectto carry forward can be transmitted to NOVO BANCO. No response was obtained to the application and, consequently, in the 2015 financial year

deferred tax assets amounting to Euros 159 756 thousand, corresponding to those tax losses, were written off.

- 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 from the accounting policy change on recognising previously deferred actuarial gains and losses will be fully deductible in equal parts over 10 years (counting from the financial period that 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 period that 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 to, 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 period in the event of a tax loss.
- Considering the previous paragraphs:
  - As at 31 December 2014, 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 159 988 thousand, respectively, are therefore recoverable over the minimum periods of 13 and 7 years.
  - 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. These periods may be extended in the event of tax losses being determined and by the application of the Special Regime applicable to Deferred Tax Assets approved by Law no. 61/2014, of 26 August, on the terms previously referred.

- The merger by incorporation of Avistar SGPS, with accounting impacts as at 30 June 2015, is subject to the special regime of tax neutrality foreseen in article 73 *et sec* of the IRC Code.

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, at 31 December 2015 and 2014:

- the deferred tax relating to tax losses carried forward was specifically determined using on the IRC rate of 21% approved by Law no. 82-B/2014, of 31 December, which changed the IRC Code;
- the deferred tax relating to timing differences was determined based on an aggregate rate of 29%, resulting from the sum of the IRC rate of 21%, the Municipal Surcharge of 1.5% and an average rate of State Surcharge of 6.5%.

Pursuant to Law no. 55-A/2010, of 31 December, a Banking Levy (Contribuição sobre o Sector Bancário) was created, which is not eligible as a tax cost, and which 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 and by Law no. 82-B/2014, of 31 December. At 3 August 2014, and as a result of the transfer operation involving the assets, liabilities, off-balance sheet elements and assets under management of BES, to NOVO BANCO, S.A., made in accordance with the terms of the deliberation of Banco de Portugal of 3 August 2014, NOVO BANCO continued to recognise in assets, as a deferred cost, the amount of Euros 12 952 thousand. This amounts was recognised as a cost of NOVO BANCO during the period 4 August through 31 December 2014. At 31 December 2015, NOVO BANCO Group recognised Banking Levy charges, in the amount of Euros 31 427 thousand, as a cost.

The deferred tax assets and liabilities recognised in the balance sheet at 31 December 2015 and 2014, may be analysed as follows:

(thousands of Euros

	Assets		Liabilities		Net	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Financial instruments	205 272	134 523	(59 676)	(40 640)	145 596	93 883
Impairment losses on loans and advances to customers	857 771	956 287	-	-	857 771	956 287
Other tangible assets	17 340	-	(15 807)	(20 897)	1 533	(20 897)
Intangible assets	-	-	-	-	-	-
Investments in subsidiaries and associated companies	2 978	46 211	(3 657)	(48 132)	(679)	(1 921)
Provisions / Reserves	117 857	136 397	-	-	117 857	136 397
Pensions	205 399	214 418	(147)	(147)	205 252	214 271
Long-term service bonuses	8 417	8 636	-	-	8 417	8 636
Debt securities issued	-	-	(3 989)	(8 533)	(3 989)	(8 533)
Other	14 744	19 494	(6 318)	(7 351)	8 426	12 143
Tax losses brought forward	1 182 903	1 065 033	-	-	1 182 903	1 065 033
Deferred tax asset / (liability)	**2 612 681**	**2 580 999**	**(89 594)**	**(125 700)**	**2 523 087**	**2 455 299**
Asset / liability set-off for deferred tax purposes	(77 258)	(75 391)	77 258	75 391	-	-
Net Deferred tax asset / (liability)	**2 535 423**	**2 505 608**	**(12 336)**	**(50 309)**	**2 523 087**	**2 455 299**

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available allowing for the utilisation of the deductible timing differences. The Group has evaluated the recoverability of the deferred tax assets considering its expectations of future taxable profits up until 2027.

At 31 December 2015, deferred tax assets related to tax losses, by year of expiry, are analysed as follows (in thousands of euros):

(thousands of Euros)

Use by date	Amount
2026	902 660
2027	280 243

As referred in the accounting policy and in accordance with the requirements defined in IAS 12, the deferred tax assets were recognised based on the Bank's expectation regarding their recoverability. The assessment of the recoverability of the deferred tax assets was made based on the business plan approved by the Board of Directors for the period 2016-2020, and considering a constant activity growth after that date and up to the expiry of the deferred tax assets generated in 2014 and 2015 (12 years).

The expectation of generating future taxable income in Portugal is supported fundamentally on the favourable evolution of:

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

- fees and commissions, reflecting a growth with the expectation of the end of the guarantee from the Portuguese Government over the Bank's debt securities issued, with an annual cost higher than Euros 30 million.

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

The movements in the deferred tax captions were recognised as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Balance at beginning of period	2 455 299	2 777 429
Recognised in Results for the period	27 654	(186 575)
Recognised in Fair value reserves	16 797	22 019
Recognised in Other reserves	21 391	(339)
Change in method of consolidation (BESI)	-	(102 188)
Transfer to current taxes	-	(57 729)
Foreign exchange differences and other	1 946	2 682
Balance at end of period (Assets / (Liabilities))	**2 523 087**	**2 455 299**

Current tax assets and liabilities recognised in the balance sheet at 31 December 2015 and 2014, may be analysed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Assets		
Corporate tax recoverable	37 018	27 695
Other	1 830	2 267
	38 848	29 962
Liabilities		
Corporate tax payable	33 046	25 148
Other	5 597	9 125
	38 643	34 273

The current and deferred taxes recognised in the income statement and in reserves, during the financial year ended 31 December 2015 and the period from 4 August to 31 December 2014, is analysed in the following table:

(thousands of Euros)

	31.12.2015		31.12.2014	
	Recognised in the income statement	Recognised in reserves	Recognised in the income statement	Recognised in reserves
Financial Instruments	(35 049)	(16 797)	29 689	(22 019)
Impairment losses on loans and advances to customers	98 516	-	571 752	-
Other tangible assets	(854)	(21 576)	(610)	5 231
Intangible assets	-	-	-	-
Investments in subsidiaries and associated companies	(1 242)	-	(173 624)	-
Provisions / Reserves	18 540	-	124 155	(4 892)
Pensions	8 834	185	18 875	-
Long-term service bonuses	219	-	130	-
Debt securities issued	(2 940)	-	5 520	-
Other	4 192	-	1 853	-
Tax losses carried forward	(117 870)	-	(391 165)	-
Deferred taxes	(27 654)	(38 188)	186 575	(21 680)
Current taxes	58 582	(20 576)	28 885	3 700
Total tax recognised (profit) / loss	**30 928**	**(58 764)**	**215 460**	**(17 980)**

The current tax recorded in reserves as at 31 December 2015 and 2014, totalling a negative Euros 20 576 thousand, is related to unrealised gains included in the fair value reserves of the insurance activity.

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)

	31.12.2015		31.12.2014	
	%	Amount	%	Amount
Net profit / (loss) before tax		**(964 384)**		**(284 188)**
Banking levy		31 427		13 038
Loss before tax for the tax rate reconciliation		**(932 957)**		**(271 150)**
Tax rate of NOVO BANCO	21.0		23.0	
Income tax calculated based on the tax rate of NOVO BANCO		(195 921)		(62 365)
Tax-exempt dividends	0.6	(5 756)	0.4	(1 169)
Tax rate change	-	-	(47.7)	129 442
Tax losses without expectation of use	(0.0)	130	(92.7)	251 491
Impairment on equity holdings not subject to *participation exemption*	1.4	(13 508)	-	-
Impairment on equity holding subject to *participation exemption*	(3.1)	29 106	49.7	(134 739)
Impairment of and provisions for loans to customers	-	-	22.2	(60 224)
Non-deductible costs	(2.8)	25 684	-	-
Rate differential on the generation / reversal of timing differences	0.9	(8 229)	(13.6)	36 811
Gains / losses in units with a more favourable tax system	(1.5)	14 341	(8.6)	23 207
Taxes of Branches and tax withheld abroad	(1.0)	9 560	(5.5)	14 890
Differences in tax rates amongst subsidiaries	(1.6)	14 749	(2.5)	6 869
Elimination of DTA associated with tax losses of 2013 not transferred from BES	(17.1)	159 756	-	-
Other	(0.1)	1 016	(4.1)	11 246
Total tax recognised	**(3.3)**	**30 928**	**(79.5)**	**215 460**

NOTE 41 – SUBORDINATED DEBT

The caption Subordinated debt is analysed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Bonds	30 148	28 663
Loans	9 920	10 022
Perpetual Bonds	16 192	16 109
	56 260	**54 794**

The main features of the subordinated debt, as at 31 December 2015 and 2014, are presented as follows:

(thousands of Euros)

Issuer	Designation	31.12.2015 Currency	Issue date	Issue amount	Carrying amount	Interest rate	Maturity
GNB Vida	Subordinated bonds	EUR	2002	45 000	30 148	Euribor 3M + 2.20%	2022
GNB Vida	Subordinated perpetual bonds	EUR	2002	45 000	16 192	Euribor 3M + 2.50%	2016 a)
BES Venetie	Subordinated loans	EUR	2002	9 669	9 920	Fixed rate 4.25%	b)
				99 669	**56 260**		

a) Next call option date
b) Perpetual loan

(thousands of Euros)

Issuer	Designation	31.12.2014 Currency	Issue date	Issue amount	Carrying amount	Interest rate	Maturity
BES Vida	Subordinated bonds	EUR	2002	45 000	28 663	Euribor 3M + 2.20%	2022
BES Vida	Subordinated perpetual bonds	EUR	2002	45 000	16 109	Euribor 3M + 2.50%	2015 a)
BES Venetie	Subordinated loans	EUR	2002	9 669	10 022	Fixed rate 4.25%	b)
				99 669	**54 794**		

a) Next call option date
b) Perpetual loan

The movement occurring in subordinated debt during the financial year ended 31 December 2015 and during the period from 4 August to 31 December 2014, is as follows:

(thousands of Euros)

	Balance at 31.12.2014	Issues	Repayments	Net purchases	Other movements [a]	Balance at 31.12.2015
Bonds	28 663	-	-	-	1 485	30 148
Loans	10 022	-	-	-	(102)	9 920
Perpetual Bonds	16 109	-	-	(40)	123	16 192
	54 794	**-**	**-**	**(40)**	**1 506**	**56 260**

[a] Other movements include accrued interest and hedging, fair value and foreign exchange adjustments

(thousands of Euros)

	Balance at 04.08.2014	Issues	Repayments	Net purchases	Other movements [a]	Balance at 31.12.2014
Bonds	49 167	-	-	-	(20 504)	28 663
Loans	9 911	-	-	-	111	10 022
Perpetual Bonds	16 173	-	-	(15)	(49)	16 109
	75 251	**-**	**-**	**(15)**	**(20 442)**	**54 794**

[a] Other movements include accrued interest and hedging, fair value and foreign exchange adjustments and Euros 20 996 thousand of BESI, that was classified as an activity being discontinued.

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 value of the liability and its acquisition cost is recognised in the income statement. As a result of repurchases made during the year ended on 31 December 2015, the Group recognised a loss of Euros 3.6 million (31 December 2014: a loss of Euros 1.3 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 liability 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, in the amount, as at 31 December 2014, of Euros 206 million, was transferred to NOVO BANCO.

These instruments are held by BES Finance that acquired them at the same date as they were issued 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 issue made by BES. Consequently, the instruments so issued by BES Finance benefited from BES's own guarantee.

BES Finance was, at the date of the issue of aforementioned financial instruments, wholly owned by BES and was, as at 31 December 2014, wholly owned by NOVO BANCO, under the terms of the Resolution Deliberation.

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 these 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 as at 31 December 2014.

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 authorisation from the debt securities holders, with the subordinated debt and preference shares issued remaining in BES Finance. NB Finance is 100% held by NOVO BANCO, and consequently integrates its consolidation perimeter.

With the deliberation of Banco de Portugal of 29 December 2015, the participation held in BES Finance was retransmitted to BES, such that as at 31 December 2015 this subsidiary ceased to be consolidated in NOVO BANCO Group, with a negative impact on reserves of Euros 26.2 million.

NOTE 42 – OTHER LIABILITIES

At 31 December 2015 and 2014, the caption Other liabilities is analysed as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Public sector	53 782	56 433
Security deposit accounts	122 594	75 257
Creditors for transactions with securities	11 086	5 615
Suppliers	28 459	40 127
Creditors for factoring operations	2 396	2 987
Creditors for insurance operations	17 301	10 132
Other creditors	265 989	289 358
Non-controlling interests of Open Investment funds	121 895	-
Long term service bonuses (see Note 16)	29 129	29 799
Retirement pensions and health-care benefits (see Note 16)	37 163	65 450
Other accrued expenses	147 151	161 617
Deferred income	23 700	27 386
Stock exchange transactions pending settlement	69 574	4 988
Foreign exchange transactions pending settlement	238	39 168
Other transactions pending settlement	17 168	49 746
	947 625	**858 063**

At 31 December 2015, the caption Deferred income includes the amount of Euros 10 699 thousand (31 December 2014: Euros 15 142 thousand) relating to the value in-force of the remaining contracts acquired from GNB Vida, following the reinsurance transaction performed in 2013 covering the life insurance portfolio held. This amount will be amortised to income over the remaining life of the respective contracts.

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 2015 and 2014, the Bank's share capital, in the amount of Euros 4 900 000 000, is represented by 4 900 000 000 registered shares, with a nominal value of Euro 1 per share, fully subscribed and realised by the Fundo de Resolução (Resolution Fund).

Under Law No. 61/2014, of 26 August, NOVO BANCO adhered to the special regime applicable to deferred tax assets (DTA) relating to impairment losses on loans and advances to customers and employee benefits, which entered into force on 1 January 2015. This regime provides that those assets can be converted into tax credits when the taxable entity reports a net loss or when it enters into liquidation through voluntary dissolution, insolvency decreed by a court or, where applicable, with the revocation of the respective authorisation by the competent supervisory authority.

The net loss determined for 2015 at the individual level, after approval by the corporate bodies of NOVO BANCO, implied:

- The conversion of the eligible deferred tax assets into tax credits;
- The simultaneous constitution of a special reserve and of conversion rights in shares representative of share capital attributable to the State.

The conversion of the eligible deferred tax assets into tax credits resulting from the determination of a net loss in the 2015 accounts should be made in function of the proportion of the amount of said loss and total equity at the individual level.

The special reserve shall be constituted with the same amount of the tax credit determined, increased by 10%, and is intended to be incorporated in the share capital.

The conversion rights are securities which give 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 Resolution Fund, as sole shareholder of NOVO BANCO, has the unilateral right to acquire the conversion rights from the State.

The amount of deferred tax assets converted into tax credits, the creation of the special reserve and the issue and allocation to the State of conversion rights must be certified by the statutory auditor.

It is estimated that the amount of deferred tax assets to be converted into tax credit amounts, at the most, to Euros 173 million, that the special reserve amounts to Euros 190 million and the conversion rights to be issued and allocated to the State will confer to it a shareholding of up to about 3% of the share capital of NOVO BANCO.

NOTE 44 – RESERVES, RETAINED EARNINGS, OTHER COMPREHENSIVE INCOME AND NON-CONTROLLING INTERESTS

The Group's reserves had the following breakdown as at 31 December 2015 and 2014:

(thousands of Euros)

	31.12.2015	31.12.2014
Originating reserve	2 704 713	756 477
Fair value reserves	64 066	194 654
Other reserves	(797 159)	(73 119)
	1 971 620	**878 012**

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 appointed by Banco de Portugal. The adjustment in the originating reserve results from clarifications regarding the resolution measure made by Banco de Portugal after the date of the publication of the opening balance sheet, and that have resulted in accounting adjustments relating to the transfer of assets and liabilities from BES to NOVO BANCO (see Note 2.1).

Fair value reserves

The fair value reserves represents 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:

(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 4 August 2014	**131 353**	**(32 223)**	**99 130**	**(15 513)**	**-**	**982 386**	**966 873**	**1 066 003**
Actuarial deviations	-	-	-	(249 396)	-	-	(249 396)	(249 396)
Changes in fair value	123 465	(27 941)	95 524	-	-	-	-	95 524
Foreign exchange differences	-	-	-	-	(12 795)	-	(12 795)	(12 795)
Adjustments to originating reserve	-	-	-	-	-	(16 715)	(16 715)	(16 715)
Other comprehensive income of associated companies	-	-	-	-	-	5	5	5
Other	-	-	-	-	-	(4 614)	(4 614)	(4 614)
Balance at 31 December 2014	**254 818**	**(60 164)**	**194 654**	**(264 909)**	**(12 795)**	**961 062**	**683 358**	**878 012**
Actuarial deviations	-	-	-	(48 904)	-	-	(48 904)	(48 904)
Changes in fair value	(162 246)	31 658	(130 588)	-	-	-	-	(130 588)
Foreign exchange differences	-	-	-	-	(123 797)	-	(123 797)	(123 797)
Adjustments to originating reserve	-	-	-	-	-	1 948 236	1 948 236	1 948 236
Appropriation of the Net profit / (loss) of the previous year to Retained earnings	-	-	-	-	-	(497 645)	(497 645)	(497 645)
Transactions with non-controlling interests	-	-	-	-	-	(3 694)	(3 694)	(3 694)
Changes in the consolidation perimeter **(a)**	-	-	-	-	-	(44 241)	(44 241)	(44 241)
Other comprehensive income of associated companies	-	-	-	-	-	(3 655)	(3 655)	(3 655)
Other	-	-	-	-	-	(2 104)	(2 104)	(2 104)
Balance at 31 December 2015	**92 572**	**(28 506)**	**64 066**	**(313 813)**	**(136 592)**	**2 357 959**	**1 907 554**	**1 971 620**

(a) Includes a negative impact of Euros 26 200 thousand relating to the transfer of BES Finance as per decision of Banco de Portugal published on 29 December 2015

Considering the provisions of paragraph 26 of IAS 21 - Effects of exchange rate changes - "when several exchange rates are available, the rate used is that in which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date", NOVO BANCO Group, on 31 December 2015, began to use in the translation of the financial statements of the Venezuelan Branch, the SIMADI exchange rate published by the Central Bank of Venezuela.

Fair value reserves is analysed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Amortised cost of available-for-sale financial assets	12 623 414	9 950 484
Accumulated impairment recognised	(917 014)	(757 072)
Amortised cost of available-for-sale financial assets, net of impairment	11 706 400	9 193 412
Market value of available-for-sale financial assets	11 810 712	9 478 469
Unrealised gains / (losses) recognised in fair value reserves	104 312	285 057
Deferred taxes	(28 506)	(60 164)
Unrealised gains / (losses) of associated companies recognised in fair value reserves	(4 620)	(889)
Total fair value reserves	71 186	224 004
Fair value reserves of activities being discontinued	-	(17 757)
Non-controlling interests	(7 120)	(11 593)
Fair value reserves attributable to shareholders of the Bank	**64 066**	**194 654**

The movement in fair value reserves, net of deferred taxes, impairment losses and non-controlling interests may be analysed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Balance at the beginning of the period	**194 654**	**99 130**
Changes in fair value	(222 149)	(41 072)
Disposals during the period	(167 420)	(34 271)
Impairment recognised during the period	227 323	198 808
Deferred taxes recognised in reserves during the period	31 658	(27 941)
Balance at the end of the period	**64 066**	**194 654**

Non-controlling interests

Non-controlling interests, by subsidiary, are detailed as follows:

(thousands of Euros)

	31.12.2015			31.12.2014		
	Balance sheet	Income statement	% non-controlling interests	Balance sheet	Income statement	% non-controlling interests
ES Concessões	23 302	(325)	28.34%	23 862	(264)	28.34%
FCR Ventures II	8 541	(3 255)	36.10%	10 058	(571)	34.03%
NB Património [a)]	-	(8 415)	41.24%	-	-	-
BES Securities [b)]	-	-	-	5 948	-	20.00%
BES Investimento do Brasil [b)]	-	-	-	28 997	-	20.00%
ESAF	16 806	1 849	10.01%	14 927	803	10.01%
NB Açores	15 269	(51)	42.47%	15 565	288	42.47%
BEST	-	-	-	17 957	(7)	25.00%
BES Vénétie	21 216	367	12.50%	21 812	760	12.50%
Other	(28 553)	(4 924)		(9 680)	(3 012)	
	56 581	**(14 754)**		**129 446**	**(2 003)**	

[a)] Non-controlling interests relating to Open real estate investment funds are recorded as Other Liabilities on the balance sheet

[b)] Entities excluded from the consolidation perimeter of the Group in the scope of the BESI disposal

The movement in non-controlling interests during the periods ended on 31 December 2015 and 2014, may be analysed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Non-controlling interests at the beginning of the period	**129 446**	**133 909**
Changes in consolidation perimeter and control percentages	(34 232)	4 142
Increases / (decreases) in share capital of subsidiaries	1 533	226
Reclassification to Other liabilities [(a)]	(17 060)	-
Dividends distributed	(1 877)	(969)
Changes in fair value reserves	4 090	1 281
Foreign exchange differences and other	(10 565)	(7 140)
Net profit / (loss) for the period	(14 754)	(2 003)
Non-controlling interests at the end of the period	**56 581**	**129 446**

[a)] Non-controlling interests relating to Open real estate investment funds transferred to Other liabilities in the balance sheet

NOTE 45 – CONTINGENT LIABILITIES AND COMMITMENTS

At 31 December 2015 and 2014, off-balance sheet elements are as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Contingent liabilities		
Guarantees	4 968 231	6 172 304
Financial assets pledged as collateral	15 415 171	20 662 143
Open documentary credits	1 040 307	2 384 896
Other	11 631	84 709
	21 435 340	**29 304 052**
Commitments		
Revocable commitments	5 806 842	6 423 030
Irrevocable commitments	1 370 255	1 526 985
	7 177 097	**7 950 015**

Guarantees provided are banking operations that do not imply any outflow for the Group.

As at 31 December 2015, the caption financial assets pledged as collateral includes:

- The market value of assets pledged as collateral to the European Central Bank in the scope of a liquidity facility, in the amount of Euros 14.5 billion (31 December 2014: Euros 19.2 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 an amount of Euros 14.6 million (31 December 2014: Euros 20.0 million);
- Securities pledged as collateral to the Deposits' Guarantee Fund (Fundo de Garantia de Depósitos), in an amount of Euros 80.3 million (31 December 2014: Euros 93.3 million);
- Securities pledged as collateral to the European Investment Bank, in an amount of Euros 740.4 million (31 December 2014: Euros 1 388.0 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 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 lines of credit), 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 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 cash outflows.

Additionally, the off-balance sheet elements related to banking services provided are as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Deposit and custodianship of securities and other items for customers	39 628 963	44 026 618
Assets received for subsequent collection on behalf of clients	179 858	210 526
Securitised loans under management (servicing)	2 105 223	2 284 192
Other responsibilities related with banking services	2 208 184	2 805 004
	44 122 228	**49 326 340**

Under the resolution measure applied to BES per deliberation of Banco de Portugal of 3 August 2014, (point1., 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 Grupo Espírito Santo (…)*”. Considering the above mentioned, any liabilities relating to products issued by entities that integrate Espírito Santo Group, including those resulting from their trading, if any, remained in BES’ scope.

Under the terms of the point and paragraph referred to above and subpoint (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:

a) Clarified the treatment to be given to 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, labour, 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

b) In particular, it 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 20hours 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.

c) 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' legal sphere, said liabilities will be retransmitted from NOVO BANCO to BES, with effect as at 20hours of 3 August 2014.

In preparing its financial statements, 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 neutralise, 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 materialisation of liabilities and contingencies which, according to the transfer perimeter to NOVO BANCO as defined by Banco de Portugal, should remain in the 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 granted by Oak Finance to BES (deliberation of Banco de Portugal of 22 December 2014 that determined that that responsibility remained in BES, not having therefore been transferred to NOVO BANCO), 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 in disputes relating to the definition of the perimeter of the assets, liabilities, off-balance sheet elements and assets under management transferred to NOVO BANCO.

In preparing the consolidated financial statements of the Bank as at 31 December 2015, the Board of Directors reflected the Resolution Deliberation and related decisions made by Banco de Portugal, in particular the decisions of 29 December 2015, both as regarding the clarification of contingencies, as well as regarding the neutralisation of risks related to the resolution measure in respect of liabilities and contingencies not transferred to NOVO BANCO, but that may materialise in its legal sphere. In this context, the present financial statements 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 to the current legal bases and the information available at the present date.

Relevant lawsuits

For the purpose of determining the contingent liabilities, 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., Insolvent Estate of Espírito Santo Financial Group, S.A. and Insolvent Estate of 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 favour 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 sales price (EUR 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, on 19 December 2015, the resolution act, with this process running its course appended to the insolvency proceedings of Partran, SGPS, S.A.

Fundo de Resolução / Resolution Fund

a) Fundo de Resolução (Resolution Fund) is a public law legal person with administrative and financial autonomy, being governed by the General Law on Credit Institutions and Financial Companies ("RGICSF") and its internal regulation, which has as its object to provide financial assistance to financial institutions in difficulties, applying the measures decided by Banco de Portugal. In this context, and in accordance with what is defined in the RGICSF, the funding sources of Fundo de Resolução are: (i) the revenue from the banking sector levy; (ii) the initial contributions of the participating institutions; (iii) the periodic contributions of the participating institutions; (iv) amounts obtained by way of loans; (v) income from investment/application of the funds; (vi) donations; and (vii) any other income, revenue or amounts resulting from its activity or allocated to same by law or contract, including the amounts received from the credit institution object of the resolution or the transitional institution.

The Bank, as with the majority of financial institutions operating in Portugal, is one of the institutions participating in Fundo de Resolução, making the contributions that result from the application of a rate set annually by Banco de Portugal based, essentially, on the amount of liabilities. In 2015, the periodic payment made by the Group amounted to Euros 6 800 thousand.

b) As part of its responsibility as the supervisory and resolution authority of the Portuguese financial sector, Banco de Portugal decided to apply, on 3 August 2014, a resolution measure to BES, under no. 5 of article 145-G of the RGICSF, with the wording at the time, which consisted of the transfer of most of its activity to a transition bank, called NOVO BANCO, S.A., especially created for the purpose.

To realise the share capital of NOVO BANCO, Fundo de Resolução made available Euros 4 900 million. Of this amount, Euros 377 million are own funds of Fundo de Resolução. In addition, a loan was granted by a banking syndicate to Fundo de Resolução, of Euros 700 million, with the share of each credit institution having been weighted depending on various factors, including its size. The remaining amount came from a loan granted by the Portuguese State, which will be reimbursed and remunerated by Fundo de Resolução.

Recently, on 29 December 2015, Banco de Portugal, as resolution authority, determined the retransmission, from NOVO BANCO to BES of five issues of non-subordinated debt instruments, made the final adjustment of the perimeter of the assets, liabilities, off-balance sheet elements and assets under management transferred to NOVO BANCO, and also clarified, as mentioned above, that it is the responsibility of Fundo de Resolução to neutralise, by compensating NOVO BANCO, the possible negative effects of future judicial decisions arising from the resolution process that result in liabilities or contingencies.

c) Also during the month of December, 2015, the national authorities decided to sell the activity and most of the assets and liabilities of Banif - Banco Internacional do Funchal, SA ("Banif") to Banco Santander Totta, for Euros 150 million, in the framework of the application of a resolution measure. According to information provided by Banco de Portugal, this operation involved an estimated Euros 2 255 million in public funding, aimed at covering future contingencies, financed in Euros 489 million by Fundo de Resolução and in Euros 1766 million directly by the Portuguese State, as a result of the options agreed to between the Portuguese authorities, the European authorities and Banco Santander Totta, for the delimitation of the perimeter of the assets and liabilities to be sold.

d) As a result of the deliberations referred to above, the risk of litigation involving Fundo de Resolução may also be materially significant.

At the date of approval of the attached financial statements, the Board of Directors has no information allowing it to estimate with reasonable reliability if, due to the ongoing process of the disposal of NOVO BANCO, the outcome of ongoing lawsuits and other contingent liabilities that can also result from the recent resolution measure applied to Banif, these could result in an insufficient funding of Fundo de Resolução and, if so, how this will be resolved.

In these circumstances, it is not possible to assess whether these situations can, and to what extent, have any impact on the future financial statements of the Group.

NOTE 46 – ASSETS UNDER MANAGEMENT (DISINTERMEDIATION)

In accordance with legislation in force, the managing companies and the depositary bank are jointly liable participants of the funds for non-fulfilment of obligations assumed under the terms of the law and the management regulations of the funds.

As at 31 December 2015 and 2014, the amounts of the investment funds managed by the Group companies are analysed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Securities investment funds	1 594 300	2 709 905
Real estate investment funds	330 258	765 292
Pension funds	2 105 629	1 839 818
Bancassurance	425 287	413 135
Portfolio management	-	3 055
Discretionary management	1 186 040	1 368 059
	5 641 514	**7 099 264**

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 companies that, on one hand, the Bank controls, directly or indirectly, or has an interest that gives it significant influence over the management, i.e. joint ventures and subsidiary and associated companies and, on the other hand, the entities having a significant influence on the Bank's management, namely the shareholders and members of key management personnel and their immediate families.

The amounts of the transactions between the Group and its related parties as at 31 December 2015 and 2014, is summarised as follows:

(thousands of Euros)

	31.12.2015					31.12.2014				
	Assets	**Liabilities**	**Guarantees**	**Income**	**Expenses**	**Assets**	**Liabilities**	**Guarantees**	**Income**	**Expenses**
Shareholder										
FUNDO DE RESOLUÇÃO	-	-	-	-	6 664	-	-	-	-	3 504
Associated companies										
ASCENDI GROUP SGPS	574 072	20 265	3 844	32 744	48	525 325	4 550	14 405	13 840	141
LOCARENT	100 561	522	-	2 306	8 536	100 505	816	-	810	4 531
NANIUM	31 018	5 602	188	143	12	26 057	3 516	188	34	4
EMPARK	23	-	-	41	76	15	-	-	11	-
ASCENDI PINHAL INTERIOR	155 810	23 748	7 639	15 530	29 978	152 540	15 815	7 935	1 847	-
PALEXPO	2 897	-	-	-	-	2 897	-	-	-	-
GNB SEGUROS	436	7 065	-	2 689	22	26	10 812	-	41	27
ESEGUR	7 030	-	941	789	157	5 869	10	1 008	40	259
ES CONTACT CENTER	208	337	-	1	751	268	238	-	1	1
UNICRE	8	13 882	-	1 197	1	11	2	-	-	-
MULTIPESSOAL	10 154	17	798	362	103	15 122	20	980	152	39
2BCAPITAL	-	-	-	-	-	-	-	-	-	-
ADVANCE CICLONE SYSTEMS	-	22	14	427	3	-	538	321	-	5
AUVISA	918	-	-	50	-	868	-	-	18	-
BANCO DELLE TRE VENEZIE	-	38	-	134	-	-	35	-	-	-
COPORGEST	-	-	-	-	-	22 068	1 189	361	507	29
COREWORKS	-	131	-	-	-	-	214	-	-	-
DOMÁTICA	71	5	-	33	-	73	5	-	-	-
EDENRED	7	38 787	26	-	343	5	31 362	26	-	140
ENKROTT	594	13	57	27	-	333	2	57	3	-
ESIAM	250	-	-			224	-	-	-	-
FCR ESVInovação	238	4	-	1 584	9	-	3 028	-	-	3
GLOBAL ACTIVE	-	-	-	1	-	58	1	-	1	-
IBERIA	-	-	-	-	-	-	150	-	499	-
MCO2	-	-	-	-	-	550	1	-	-	-
MOZA BANCO	35 410	35 476	7 237	2 279	69	35 029	7 401	2 148	2 664	6
NUTRIGREEN	22 846	5	2 572	471	8 416	24 168	17	2 614	373	-
OUTSYSTEMS	-	2 704	-	-	80	-	5 056	-	-	10
SOUSACAMP	64	-	-	-	-	64	-	-	-	-
YDREAMS	7 622	-	-	211	-	7 300	-	9	120	-
IJAR	261	-	-	-	-	-	-	-	-	-
YUNIT	4 232	3	67	318	-	4 093	55	67	-	-
	954 730	**148 626**	**23 383**	**61 337**	**55 268**	**923 468**	**84 833**	**30 119**	**20 961**	**8 699**
Other (*)	**2**	**694**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

(*) **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 Group's activity. The liabilities relate mainly to bank deposits taken.

All the loans granted to related parties are included in the impairment model, being subject to the determination of impairment like any other loans and advances granted by the Group in the scope of its activity.

As at 31 December 2015 (in accordance with the scope defined in IAS 24) credit granted to members of the Board of Directors of NOVO BANCO and their direct relatives amounted to Euros 269 thousand; members of the Statutory Supervisory Board and their direct relatives had no credit granted to them; and the amount of credit extended to Other Key Management Personnel of the Group amounted to Euros 7 755 thousand.

NOTE 48 – SECURITISATION OF ASSETS

As at 31 December 2015 and 2014, the outstanding securitisation transactions realised by the Group were as follows:

(thousands of Euros)

Issue	Start date	Original amount	Current amount		Asset securitised
			31.12.2015	31.12.2014	
Lusitano Mortgages No.1 plc	December 2002	1 000 000	270 081	298 553	Mortgage loans (subsidised regime)
Lusitano Mortgages No.2 plc	November 2003	1 000 000	271 697	299 387	Mortgage loans (general and subsidised regime)
Lusitano Mortgages No.3 plc	November 2004	1 200 000	409 651	444 692	Mortgage loans (general regime)
Lusitano Mortgages No.4 plc	September 2005	1 200 000	478 582	516 264	Mortgage loans (general regime)
Lusitano Mortgages No.5 plc	September 2006	1 400 000	675 212	725 295	Mortgage loans (general regime)
Lusitano SME No.1 plc	October 2006	862 607	118 038	137 923	Loans to small- and medium-sized companies
Lusitano Mortgages No.6 plc	July 2007	1 100 000	649 914	687 131	Mortgage loans (general regime)
Lusitano Project Finance No.1, FTC	December 2007	1 079 100	88 359	105 414	Project Finance
Lusitano Mortgages No.7 plc	September 2008	1 900 000	1 575 737	1 646 516	Mortgage loans (general regime)
Lusitano Leverage Finance No. 1 BV	February 2010	516 534	-	1 610	Leverage Finance
Lusitano Finance No. 3	November 2011	657 981	124 115	186 105	Consumer loans

Additionally, as at 31 December 2015 and 2014, the following synthetic securitisation operations were in progress:

(thousands of Euros)

Issue	Start date	Initial amount of CDS	Current amount of CDS		Asset securitised
			31.12.2015	31.12.2014	
Lusitano Synthetic Limited	December 2012	1 000 000	889 397	1 000 000	M- /L -term Loans and advances (SMEs
Lusitano Synthetic II Ltd.	December 2013	2 000 000	1 736 459	1 832 081	Current accounts

The loans and advances to customers covered by the securitisation operations Lusitano Mortgages No.3 and Lusitano Leverage Finance No.1 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 securitisation operations were derecognised as the Bank 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 securitisation 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 Bank's balance sheet under the Loans and advances to customers' caption. As at 31 December 2015, the fair value of the CDS of these transactions is a positive Euros 102 796 thousand (31 December 2014: positive fair value of Euros 69 939 thousand).

The main characteristics of these operations, as at 31 December 2015 and 2014, may be analysed as follows:

(thousands of Euros)

31.12.2015														
Issue	Bonds issued	Initial nominal value	Current nominal value	Interest held by Group (Nominal value)	Interest held by Group (Carrying 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	173 402	-	-	December 2035	AAA	Aaa	AAA	-	A+	A1	BBB+	-
	Class B	32 500	32 500	-	-	December 2035	AA	Aa3	AA	-	A+	A1	BBB+	-
	Class C	25 000	25 000	-	-	December 2035	A	A2	A	-	A+	Baa2	BB-	-
	Class D	22 500	22 500	-	-	December 2035	BBB	Baa2	BBB	-	A	B1	B+	-
	Class E	5 000	5 000	-	-	December 2035	BB	Ba1	BB	-	BBB	Caa1	B-	-
	Class F	10 000	10 000	-	-	December 2035	-	-	-	-	-	-	-	-
Lusitano Mortgages No.2 plc	Class A	920 000	178 722	-	-	December 2036	AAA	Aaa	AAA	-	A+	A1	BBB+	-
	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+	Baa1	BB	-
	Class D	16 000	16 000	-	-	December 2046	BBB	Baa3	BBB	-	BBB+	Ba2	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	348 548	-	-	December 2047	AAA	Aaa	AAA	-	BBB+	A2	BBB+	-
	Class B	27 000	13 677	-	-	December 2047	AA	Aa2	AA	-	BBB	Ba2	BB-	-
	Class C	18 600	9 422	-	-	December 2047	A	A2	A	-	BB	B1	B	-
	Class D	14 400	7 294	-	-	December 2047	BBB	Baa2	BBB	-	B	B3	B-	-
	Class E	10 800	6 821	-	-	December 2047	-	-	-	-	-	-	-	-
Lusitano Mortgages No.4 plc	Class A	1 134 000	387 861	3 249	2 756	December 2048	AAA	Aaa	AAA	-	BBB-	A1	A-	-
	Class B	22 800	21 553	-	-	December 2048	AA	Aa2	AA	-	BB+	Ba1	BB	-
	Class C	19 200	18 150	-	-	December 2048	A+	A1	A+	-	B+	B3	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	563 470	-	-	December 2059	AAA	Aaa	AAA	-	BB+	Baa3	BB+	-
	Class B	26 600	25 494	-	-	December 2059	AA	Aa2	AA	-	B+	Caa1	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-	-	PIF	-	-	-
	Class B	40 974	15 602	-	-	December 2028	AAA	-	AAA	-	AAA	-	AAA	-
	Class C	34 073	22 046	-	-	December 2028	CCC	-	B	-	B-	-	B-	-
	Class D	28 035	18 139	18 139	17 523	December 2028	-	-	-	-	-	-	-	-
	Class E	8 626	4 313	4 313	4 314	December 2028	-	-	-	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943 250	461 224	99 140	89 038	March 2060	AAA	Aaa	AAA	-	BBB	A1	BBB+	-
	Class B	65 450	65 450	58 950	43 188	March 2060	AA	Aa3	AA	-	BB-	Baa3	BB+	-
	Class C	41 800	41 800	41 800	24 745	March 2060	A	A3	A	-	B-	B3	B	-
	Class D	17 600	17 600	17 600	8 114	March 2060	BBB	Baa3	BBB	-	CCC	Caa3	CCC	-
	Class E	31 900	31 900	31 900	10 186	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	104 497	104 497	89 452	March 2025	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1 425 000	1 075 646	1 075 647	968 340	October 2064	-	-	AAA	AAA	-	-	A	AAH
	Class B	294 500	294 500	294 500	191 407	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	156 943	125 697	113 278	November 2029	-	-	-	-	-	-	-	-
	Class C	24 800	10 000	10 000	8 436	November 2029	-	-	-	-	-	-	-	-
Lusitano Synthetic Limited	Senior	900 000	849 390	777 341	-	April 2034	-	-	-	-	-	-	-	-
	Mezzanine	80 000	80 000	-	-	April 2034	-	-	-	-	-	-	-	-
	Junior	20 000	15 827	9 570	-	April 2034	-	-	-	-	-	-	-	-
Lusitano Synthetic II Ltd.	Senior	1 800 000	1 694 842	1 575 080	-	November 2023	-	-	-	-	-	-	-	-
	Mezzanine	180 000	180 000	-	-	November 2023	-	-	-	-	-	-	-	-
	Junior	20 000	15 767	-	-	November 2023	-	-	-	-	-	-	-	-

(thousands of Euros)

31.12.2014														
Issue	Bonds issued	Initial nominal value	Current nominal value	Interest held by Group (Nominal value)	Interest held by Group (Carrying 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	217 648	-	-	December 2035	AAA	Aaa	AAA	-	A+	A	A	-
	Class B	32 500	32 500	-	-	December 2035	AA	Aa3	AA	-	A+	Baa2	A-	-
	Class C	25 000	25 000	-	-	December 2035	A	A2	A	-	A+	Ba2	BB	-
	Class D	22 500	22 500	-	-	December 2035	BBB	Baa2	BBB	-	A	B2	BB-	-
	Class E	5 000	5 000	-	-	December 2035	BB	Ba1	BB	-	BBB	Caa1	B-	-
	Class F	10 000	10 000	-	-	December 2035	-	-	-	-	-	-	-	-
Lusitano Mortgages No.2 plc	Class A	920 000	215 483	-	-	December 2036	AAA	Aaa	AAA	-	A+	A3	A	-
	Class B	30 000	30 000	-	-	December 2046	AA	Aa3	AA	-	A+	Baa3	BBB+	-
	Class C	28 000	28 000	5 000	4 383	December 2046	A	A3	A	-	A+	Ba2	BB	-
	Class D	16 000	16 000	4 000	3 500	December 2046	BBB	Baa3	BBB	-	BBB+	B3	B	-
	Class E	6 000	6 000	-	-	December 2046	BBB-	Ba1	BB	-	BB	Caa2	B-	-
	Class F	9 000	9 000	-	-	December 2046	-	-	-	-	-	-	-	-
Lusitano Mortgages No.3 plc	Class A	1 140 000	399 561	-	-	December 2047	AAA	Aaa	AAA	-	A	Baa3	A-	-
	Class B	27 000	15 679	-	-	December 2047	AA	Aa2	AA	-	BBB	B2	BBB	-
	Class C	18 600	10 801	-	-	December 2047	A	A2	A	-	BB	Caa1	BB-	-
	Class D	14 400	8 362	-	-	December 2047	BBB	Baa2	BBB	-	B	Caa2	B-	-
	Class E	10 800	7 819	-	-	December 2047	-	-	-	-	-	-	-	-
Lusitano Mortgages No.4 plc	Class A	1 134 000	427 263	3 579	3 394	December 2048	AAA	Aaa	AAA	-	BBB-	Baa3	A-	-
	Class B	22 800	21 553	-	-	December 2048	AA	Aa2	AA	-	BB+	B3	BBB	-
	Class C	19 200	18 150	3 309	2 481	December 2048	A+	A1	A+	-	B+	Caa1	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	630 708	4 290	3 939	December 2059	AAA	Aaa	AAA	-	BB+	Ba1	BBB+	-
	Class B	26 600	25 494	-	-	December 2059	AA	Aa2	AA	-	B+	Caa1	B+	-
	Class C	22 400	21 469	-	-	December 2059	A	A1	A	-	CCC	Caa3	B-	-
	Class D	28 000	26 836	5 271	4 110	December 2059	BBB+	Baa2	BBB	-	CC	Ca	CCC	-
	Class E	11 900	11 900	1 700	177	December 2059	N/A	-	N/A	-	-	-	-	-
Lusitano SME No.1 plc	Class A	759 525	6 686	1 707	1 702	December 2028	A+	-	A-	-	A+	-	A-	-
	Class B	40 974	29 080	-	-	December 2028	AAA	-	AAA	-	AAA	-	AAA	-
	Class C	34 073	24 182	-	-	December 2028	CCC	-	B	-	CCC	-	B	-
	Class D	28 035	19 897	19 897	19 574	December 2028	-	-	-	-	-	-	-	-
	Class E	8 626	4 313	4 313	14 797	December 2028	-	-	-	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943 250	499 840	39 929	38 217	March 2060	AAA	Aaa	AAA	-	BBB	Baa3	BBB	-
	Class B	65 450	65 450	58 950	45 882	March 2060	AA	Aa3	AA	-	BB-	Ba3	B+	-
	Class C	41 800	41 800	31 800	21 803	March 2060	A	A3	A	-	B-	Caa1	B	-
	Class D	17 600	17 600	17 600	9 000	March 2060	BBB	Baa3	BBB	-	CCC	Caa3	CCC	-
	Class E	31 900	31 900	31 900	9 292	March 2060	BB	-	BB	-	CC	-	D	-
	Class F	22 000	22 000	22 000	3 884	March 2060	-	-	-	-	-	-	-	-
Lusitano Project Finance No.1 FTC		198 101	107 118	99 194	99 194	March 2025	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1 425 000	1 156 035	1 156 035	1 090 380	October 2064	-	-	AAA	AAA	-	-	A-	AAH
	Class B	294 500	294 500	294 500	208 085	October 2064	-	-	BBB-	-	-	-	BB-	-
	Class C	180 500	180 500	180 500	46 623	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	57 000	57 000	66 227	October 2064	-	-	-	-	-	-	-	-
Lusitano Leverage finance No. 1 BV	Class A	352 000	-	-	-	January 2020	-	-	AAA	-	-	-	-	-
	Class X	21 850	21 850	20 633	-	January 2020	-	-	-	-	-	-	-	-
	Class Sub	206 800	3 255	-	-	January 2020	-	-	-	-	-	-	-	-
Lusitano Finance No. 3	Class A	450 700	-	-	-	November 2029	-	-	-	-	-	-	-	-
	Class B	207 200	197 929	197 930	197 930	November 2029	-	-	-	-	-	-	-	-
	Class C	24 800	10 000	10 000	12 233	November 2029	-	-	-	-	-	-	-	-
Lusitano Synthetic Limited	Senior	900 000	895 007	895 007	-	April 2034	-	-	-	-	-	-	-	-
	Mezzanine	80 000	80 000	-	-	April 2034	-	-	-	-	-	-	-	-
	Junior	20 000	16 671	13 337	-	April 2034	-	-	-	-	-	-	-	-
Lusitano Synthetic II Ltd.	Senior	1 800 000	1 797 941	1 797 941	-	November 2023	-	-	-	-	-	-	-	-
	Mezzanine	180 000	180 000	-	-	November 2023	-	-	-	-	-	-	-	-
	Junior	20 000	17 484	13 987	-	November 2023	-	-	-	-	-	-	-	-

NOTE 49 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

(thousands of Euros

	Amortised Cost	At fair value: Quoted Market Prices (Level 1)	At fair value: Valuation models based on observable market information (Level 2)	At fair value: Valuation models based on unobservable market information (Level 3)	Carrying value	Fair value
31 December 2015						
Cash and deposits with Central Banks	775 608	-	-	-	775 608	775 608
Deposits with banks	340 209	-	-	-	340 209	340 209
Financial assets held for trading	-	1 503	759 256	14 280	775 039	775 039
Securities						
Bonds issued by government and public entities	-	*1 128*	-	-	*1 128*	*1 128*
Bonds issued by other entities	-	-	-	*29*	*29*	*29*
Shares	-	*299*	-	*14 251*	*14 550*	*14 550*
Other variable income securities	-	*76*	-	-	*76*	*76*
Derivatives						
Exchange rate contracts	-	-	*38 591*	-	*38 591*	*38 591*
Interest rate contracts	-	-	*697 135*	-	*697 135*	*697 135*
Credit derivatives	-	-	*21 400*	-	*21 400*	*21 400*
Other	-	-	*2 130*	-	*2 130*	*2 130*
Other Financial assets at fair value through profit or loss	-	1 286 106	36 564	203 523	1 526 193	1 526 193
Bonds issued by government and public entities	-	*124 628*	-	-	*124 628*	*124 628*
Bonds issued by other entities	-	*486 893*	*11 642*	*170*	*498 705*	*498 705*
Shares and other variable income securities	-	*674 585*	*24 922*	*203 353*	*902 860*	*902 860*
Available-for-sale financial assets	4 958 [a)]	8 550 453	765 261	2 490 040	11 810 712	11 810 712
Bonds issued by government and public entities	-	*6 805 711*	*438 890*	*3 952*	*7 248 553*	*7 248 553*
Bonds issued by other entities	-	*1 100 134*	*326 371*	*745 506*	*2 172 011*	*2 172 011*
Shares	*4 958* [a)]	*639 228*	-	*866 366*	*1 510 552*	*1 510 552*
Other variable income securities	-	*5 380*	-	*874 216*	*879 596*	*879 596*
Loans and advances to banks	1 690 628	-	-	-	1 690 628	1 690 628
Loans and advances to customers	31 223 799	-	359 960	-	31 583 759	30 438 677
Derivatives held for risk management purposes	-	-	318 596	-	318 596	318 596
Exchange rate contracts	-	-	*295*	-	*295*	*295*
Interest rate contracts	-	-	*215 505*	-	*215 505*	*215 505*
Credit default contracts	-	-	*102 796*	-	*102 796*	*102 796*
Other	-	-	-	-	-	-
Financial assets	**34 035 202**	**9 838 062**	**2 239 637**	**2 707 843**	**48 820 744**	**47 675 662**
Deposits from Central Banks	7 632 794	-	-	-	7 632 794	7 632 794
Financial liabilities held for trading	-	-	743 860	-	743 860	743 860
Derivatives						
Exchange rate contracts	-	-	*38 635*	-	*38 635*	*38 635*
Interest rate contracts	-	-	*685 107*	-	*685 107*	*685 107*
Credit derivatives	-	-	*8 543*	-	*8 543*	*8 543*
Other	-	-	*11 575*	-	*11 575*	*11 575*
Other financial liabilities held for trading	-	-	-	-	-	-
Deposits from banks	3 735 631	-	421 501	-	4 157 132	4 087 617
Due to customers	26 543 476	-	1 038 666	-	27 582 142	27 582 142
Debt securities issued	4 011 191	-	213 467	-	4 224 658	4 621 509
Derivatives held for risk management purposes	-	-	77 846	-	77 846	77 846
Exchange rate contracts	-	-	*13*	-	*13*	*13*
Interest rate contracts	-	-	*77 833*	-	*77 833*	*77 833*
Credit derivatives	-	-	-	-	-	-
Other	-	-	-	-	-	-
Investment contracts	2 687 451	-	-	1 356 037	4 043 488	4 029 489
Subordinated debt	56 260	-	-	-	56 260	92 859
Financial Liabilities	**44 666 803**	**-**	**2 495 340**	**1 356 037**	**48 518 180**	**48 868 116**

[a)] Assets at acquisition cost net of impairment. These assets refer to equity instruments issued by unquoted entities in respect of which no recent transactions were identified and for which it is not possible to estimate fair value reliably

(in thousands of Euros)

	Amortised Cost	At fair value: Quoted Market Prices (Level 1)	At fair value: Valuation models based on observable market information (Level 2)	At fair value: Valuation models based on non-observable market information (Level 3)	Book value	Fair value
31 December 2014						
Cash and deposits with Central Banks	2 747 077	-	-	-	2 747 077	2 747 077
Deposits with banks	490 856	-	-	-	490 856	490 856
Financial assets held for trading	-	55 364	1 007 123	30	1 062 517	1 062 517
Securities						
Bonds issued by government and public entities	-	*51 557*	-	-	*51 557*	*51 557*
Bonds issued by other entities	-	*39*	-	*30*	*69*	*69*
Shares	-	*3 648*	*14*	-	*3 662*	*3 662*
Other variable income securities	-	*120*	-	-	*120*	*120*
Derivatives						
Exchange rate contracts	-	-	*69 023*	-	*69 023*	*69 023*
Interest rate contracts	-	-	*850 596*	-	*850 596*	*850 596*
Credit derivatives	-	-	*20 524*	-	*20 524*	*20 524*
Other	-	-	*66 966*	-	*66 966*	*66 966*
Other Financial assets at fair value through profit or loss	-	1 576 821	158 546	495 021	2 230 388	2 230 388
Bonds issued by government and public entities	-	*237 017*	-	-	*237 017*	*237 017*
Bonds issued by other entities	-	*584 197*	*105 292*	*36 273*	*725 762*	*725 762*
Shares and other variable income securities	-	*755 607*	*53 254*	*458 748*	*1 267 609*	*1 267 609*
Available-for-sale financial assets	6 611 a)	5 836 935	854 803	2 780 120	9 478 469	9 478 469
Bonds issued by government and public entities	*1 848*	*4 228 853*	-	*28 222*	*4 258 923*	*4 258 923*
Bonds issued by other entities	-	*924 303*	*751 717*	*1 156 431*	*2 832 451*	*2 832 451*
Shares	*4 763* a)	*339 407*	*103 086*	*782 283*	*1 229 539*	*1 229 539*
Other variable income securities	-	*344 372*	-	*813 184*	*1 157 556*	*1 157 556*
Loans and advances to banks	814 329	-	229 957	-	1 044 286	1 044 286
Loans and advances to customers	34 602 916	-	*326 398*	-	34 929 314	32 754 084
Derivatives held for risk management purposes	-	-	404 582	-	404 582	404 582
Exchange rate contracts	-	-	*335*	-	*335*	*335*
Interest rate contracts	-	-	*334 309*	-	*334 309*	*334 309*
Credit derivatives	-	-	*69 938*	-	*69 938*	*69 938*
Other	-	-	-	-	-	-
Financial assets	**38 661 789**	**7 469 120**	**2 981 409**	**3 275 171**	**52 387 489**	**50 212 259**
Deposits from Central Banks	8 611 709	-	-	-	8 611 709	8 611 709
Financial liabilities held for trading	-	-	1 045 648	-	1 045 648	1 045 648
Derivatives						
Exchange rate contracts	-	-	*44 177*	-	*44 177*	*44 177*
Interest rate contracts	-	-	*902 654*	-	*902 654*	*902 654*
Credit derivatives	-	-	*5 636*	-	*5 636*	*5 636*
Other	-	-	*93 181*	-	*93 181*	*93 181*
Other financial liabilities held for trading	-	-	-	-	-	-
Deposits from banks	2 152 054	-	471 810	-	2 623 864	2 576 333
Due to customers	24 126 321	-	3 811 732	-	27 938 053	27 938 053
Debt securities issued	7 219 789	-	1 813 167	-	9 032 956	10 339 514
Derivatives held for risk management purposes	-	-	104 140	-	104 140	104 140
Exchange rate contracts	-	-	*176*	-	*176*	*176*
Interest rate contracts	-	-	*103 962*	-	*103 962*	*103 962*
Credit derivatives	-	-	*2*	-	*2*	*2*
Other	-	-	-	-	-	-
Investment contracts	2 975 244	-	1 404 198	-	4 379 442	4 397 134
Subordinated debt	54 794	-	-	-	54 794	93 022
Financial Liabilities	**45 139 911**	**-**	**8 650 695**	**-**	**53 790 606**	**55 105 553**

[a] Assets at acquisition cost net of impairment losses. These assets refer to equity instruments issued by unlisted entities in respect of which no recent transactions were identified nor is possible to estimate reliably its fair value.

NOVO BANCO Group determines the fair value of its Financial assets and liabilities at fair value in accordance with IFRS 13 – Fair Value:

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 in 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 favour 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 quoted 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;

ii) OTC (over-the-counter) derivatives; and

iii) Commercial paper for which there are observable market inputs, namely interest rate curves and credit spreads, applicable to the issuer.

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

This level consists in using models relying on internal valuation techniques or quotations provided by third parties but which parameters imply the use of non-observable market information.

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; and

vi) Restructuring funds.

The movement in financial assets valued based on non-observable market information, during the periods ended on 31 December 2015 and 2014, may be analysed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Balance at the beginning of the period	3 275 171	3 440 535
Acquisitions	932 407	766 722
Attainment of maturity	(1 071 220)	(642 145)
Disposals	(344 774)	(300 272)
Transfers in	71 521	28 050
Transfers out	(64)	(5 756)
Changes in value	(155 198)	(11 963)
Balance at the end of the period	**2 707 843**	**3 275 171**

The transfers that occurred in 2015 were mainly related to the end of observable market parameters.

The main parameters used in the valuation models as at 31 December 2015 and 2014 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:

(%)

	31.12.2015			31.12.2014		
	EUR	USD	GBP	EUR	USD	GBP
Overnight	-0,3500	0,4100	0,3200	0,0100	0,1750	0,4500
1 month	-0,2050	0,6050	0,5750	0,0180	0,3100	0,5250
3 months	-0,1310	0,7550	0,6700	0,0780	0,1900	0,6000
6 months	-0,0400	0,9400	0,8250	0,1710	0,5000	0,7400
9 months	-0,0480	1,1200	0,9750	0,1662	0,6000	0,7393
1 year	-0,0569	0,8470	0,7261	0,1635	0,4325	0,6476
3 years	0,0590	1,3849	1,3026	0,2240	1,2610	1,1400
5 years	0,3280	1,7010	1,5920	0,3600	1,7900	1,4490
7 years	0,6210	1,9310	1,7990	0,5320	2,0390	1,6450
10 years	1,0000	2,1615	1,9931	0,8195	2,2790	1,8430
15 years	1,3990	2,3930	2,1606	1,1528	2,5020	2,0673
20 years	1,5670	2,5020	2,2010	1,3268	2,6160	2,1838
25 years	1,6040	2,6320	2,1800	1,4169	2,6660	2,2211
30 years	1,6100	2,5900	2,1550	1,4718	2,6910	2,2320

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 behaviour 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 2015						
CDX USD Main	**25**	-	59,38	88,41	109,54	126,65
iTraxx Eur Main	**24**	**-**	51,43	77,26	96,54	114,04
iTraxx Eur Senior Financial	**24**	**-**	-	76,87	-	107,11
31 December 2014						
CDX USD Main	**23**	-	38,57	66,09	88,32	107,10
iTraxx Eur Main	**22**	**-**	35,46	62,95	84,44	101,20
iTraxx Eur Senior Financial	**22**	**-**	-	67,38	-	99,77

Interest rate volatility

The values presented below represent the implicit volatilities (at the money) used for the valuation of interest rate options:

(%)

	31.12.2015			31.12.2014		
	EUR	USD	GBP	EUR	USD	GBP
1 year	31,65	50,93	44,44	283,60	69,94	49,46
3 years	58,65	46,06	53,36	102,30	57,67	61,19
5 years	78,45	46,29	54,11	94,22	49,13	59,26
7 years	83,60	43,95	51,72	84,35	44,41	55,17
10 years	84,47	39,50	47,70	67,52	40,68	49,61
15 years	80,90	-	42,18	53,72	35,58	41,94

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	**31.12.2015**	**31.12.2014**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1,0887	1,2141	9,68	9,95	9,95	10,03	10,05
EUR/GBP	0,7340	0,7789	8,75	9,13	9,81	10,30	10,50
EUR/CHF	1,0835	1,2024	6,15	6,80	7,20	7,50	7,70
EUR/NOK	9,6030	9,0420	10,85	10,85	10,73	10,70	10,70
EUR/PLN	4,2639	4,2732	6,75	6,73	6,88	7,00	7,08
EUR/RUB	80,6736	72,3370	21,22	22,26	22,67	22,77	22,86
USD/BRL [a)]	3,9604	2,6527	23,59	22,81	21,78	21,53	21,29
USD/TRY [b)]	2,9177	2,3326	12,34	13,24	13,99	14,47	14,90

[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
	31.12.2015	**31.12.2014**	**% change**	**1 month**	**3 months**	
DJ Euro Stoxx 50	3 268	3 146	3,85	23,39	23,14	22,72
PSI 20	5 313	4 799	10,71	16,81	21,40	-
IBEX 35	9 544	10 280	-7,15	22,88	22,20	-
FTSE 100	6 242	6 566	-4,93	17,98	20,34	16,08
DAX	10 743	9 806	9,56	25,48	24,38	21,79
S&P 500	2 044	2 059	-0,73	16,33	18,56	15,58
BOVESPA	43 350	50 007	-13,31	25,68	27,27	25,38

The main methods and assumptions used in estimating the fair value of financial assets and liabilities recorded on the balance sheet at amortised cost are as follows:

(in thousands of Euros)

	Assets/ Liabilities at amortised cost	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 2015					
Cash and deposits at Central Banks	775 608	775 608	-	-	775 608
Deposits with credit institutions	340 209	340 209	-	-	340 209
Available-for-sale financial assets (shares)	4 958	-	-	4 958	4 958
Loans and advances to credit institutions	1 690 628	-	1 690 628	-	1 690 628
Loans and advances to customers	31 223 799	-	30 078 717	-	30 078 717
Financial assets	**34 035 202**	**1 115 817**	**31 769 345**	**4 958**	**32 890 120**
Deposits from Central Banks	7 632 794	7 632 794	-	-	7 632 794
Deposits from banks	3 735 631	-	3 666 116	-	3 666 116
Due to customers	26 543 476	-	26 543 476	-	26 543 476
Debt securities issued	4 011 191	4 135 837	22	198 675	4 334 534
Investment contracts	2 687 451	-	-	2 673 452	2 673 452
Subordinated debt	56 260	37 913	54 946	-	92 859
Financial Liabilities	**44 666 803**	**11 806 544**	**30 264 560**	**2 872 127**	**44 943 231**

(in thousands of Euros)

	Assets/ Liabilities at amortised cost	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 2014					
Cash and deposits at Central Banks	2 747 077	2 747 077	-	-	2 747 077
Deposits with credit institutions	490 856	490 856	-	-	490 856
Available-for-sale financial assets (shares)	6 611	-	-	6 611	6 611
Loans and advances to credit institutions	814 329	-	814 329	-	814 329
Loans and advances to customers	34 602 916	-	32 427 686	-	32 427 686
Financial assets	**38 661 789**	**3 237 933**	**33 242 015**	**6 611**	**36 486 559**
Deposits from Central Banks	8 611 709	8 611 709	-	-	8 611 709
Deposits from banks	2 152 054	-	2 104 523	-	2 104 523
Due to customers	24 126 321	-	24 126 321	-	24 126 321
Debt securities issued	7 219 789	7 706 794	9 903	828 149	8 544 846
Investment contracts	2 975 244	-	-	2 992 936	2 992 936
Subordinated debt	54 794	37 966	55 056	-	93 022
Financial Liabilities	**45 139 911**	**16 356 469**	**26 295 803**	**3 821 085**	**46 473 357**

Cash and deposits with Central Banks, Deposits with banks and Loans and advances to banks

Considering the short-term nature of these financial instruments, their carrying 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 residential mortgages, are estimated collectively on a portfolio basis. 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 banks

The fair value of Deposits from Central Banks and Deposits from banks 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 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, the differences between their fair value and their book value are not significant.

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 borrowers or counterparts to honour their contractual obligations 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 contingent liabilities. In the 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 recorded 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 credit risk exposure is analysed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Deposits with and loans and advances to banks	2 034 089	3 382 042
Financial assets held for trading	760 413	1 058 735
Other financial assets at fair value through profit or loss	623 333	962 779
Available-for-sale financial assets	9 420 564	7 091 374
Loans and advances to customers	31 583 759	34 929 314
Derivatives held for risk management purposes	318 596	404 582
Other assets	391 529	481 611
Guarantees and standby letters provided	4 968 231	6 172 304
Documentary credits	1 040 307	2 384 896
Irrevocable commitments	1 370 255	1 526 985
Credit risk associated with the credit derivatives' reference entities	42 491	71 276
	52 553 567	**58 465 898**

For financial assets recognised in the balance sheet, the maximum exposure to credit risk is represented by the carrying value net of impairment. For the off-balance sheet elements, the maximum exposure of the guarantees is the maximum amount that the 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 an individual basis for all financial assets that are overdue. If the value of the collateral, net of haircuts, equals or exceeds the exposure, the impairment may be nil. Hence, the Group does not have any overdue financial assets for which it has not performed a review as to its recovery and the subsequent recognition of impairment when necessary.

The exposure of the subsidiaries of NOVO BANCO Group, at 31 December 2015 and 2014, to Espírito Santo Group is presented as follows:

(thousands of Euros)

	31.12.2015						31.12.2014					
	Loans and advances to banks	Loan and advances to customers	Other assets	Guarantees provided	Total exposure	Impairment	Loans and advances to banks	Loan and advances to customers	Other assets	Guarantees provided	Total exposure	Impairment
ES BANK PANAMÁ	341 105	-	-	-	341 105	(341 105)	339 871	16		-	339 887	(339 871)
ES FINANCIAL GROUP	-	-	13 567	-	13 567	(13 553)	-	-	2 111	-	2 111	(2 065)
BANQUE PRIVÉE ESPÍRITO SANTO	471	-	-	-	471	(468)	15 541	-	15	-	15 556	(14 937)
ES HEALTH CARE	-	-	14 562	-	14 562	-	-	-	17 049	-	17 049	-
CONSTRUCCIONES SARRIÓN	-	-	-	-	-	-	-	2 161	-	-	2 161	-
OPWAY	-	-	1 471	-	1 471	-	-	-	1 871	-	1 871	-
RIO FORTE	-	2	-	-	2	-	-	2	412	-	414	(375)
ESF PORTUGAL	-	-	43	-	43	-	-	-	64	-	64	-
OTHER	18 371	173	62	100	18 706	(33)	16 751	214	113	100	17 178	(116)
TOTAL	**359 947**	**175**	**29 705**	**100**	**389 927**	**(355 159)**	**372 163**	**2 393**	**21 635**	**100**	**396 291**	**(357 364)**

As at 31 December 2015 and 2014, the analysis of the gross loans and advances to customers' exposure and impairment, by segment, is presented as follows:

(thousands of Euros)

Segment	31.12.2015													
	Credit not at risk						Credit at risk [a]						Total Loans	
	Without indications of impairment		With indications of impairment		Total		Days overdue: <= 90 days [b]		Days overdue: >90 days		Total			
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	10 250 607	69 050	8 365 918	1 396 325	18 616 525	1 465 375	1 109 642	550 261	6 181 972	3 346 158	7 291 614	3 896 419	25 908 139	5 361 794
Mortgage loans	8 035 520	11 310	1 022 355	21 570	9 057 875	32 880	68 567	4 965	715 563	158 121	784 130	163 086	9 842 005	195 966
Consumer loans	823 096	7 526	371 697	38 464	1 194 793	45 990	57 485	14 059	413 984	214 838	471 469	228 897	1 666 262	274 887
Total	**19 109 223**	**87 886**	**9 759 970**	**1 456 359**	**28 869 193**	**1 544 245**	**1 235 694**	**569 285**	**7 311 519**	**3 719 117**	**8 547 213**	**4 288 402**	**37 416 406**	**5 832 647**

[a] Loans and advances with principal and / or interest overdue 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

[b] Loans and advances at risk correspond to the definition contained in Instruction no. 23/2011 of Banco de Portugal

(thousands of Euros)

Segment	31.12.2014													
	Credit not at risk						Credit at risk [a]						Total Loans	
	Without indications of impairment		With indications of impairment		Total		Days overdue: <= 90 days [b]		Days overdue: >90 days		Total			
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	12 840 123	71 735	9 780 101	1 862 099	22 620 224	1 933 834	1 819 951	734 769	3 568 621	2 047 438	5 388 572	2 782 207	28 008 796	4 716 041
Mortgage loans	8 323 442	10 262	1 139 668	25 861	9 463 110	36 123	31 918	2 218	735 033	152 633	766 951	154 851	10 230 061	190 974
Consumer loans	1 005 783	9 444	378 314	5 335	1 384 097	14 779	42 534	14 166	394 770	194 984	437 304	209 150	1 821 401	223 929
Total	**22 169 348**	**91 441**	**11 298 083**	**1 893 295**	**33 467 431**	**1 984 736**	**1 894 403**	**751 153**	**4 698 424**	**2 395 055**	**6 592 827**	**3 146 208**	**40 060 258**	**5 130 944**

[a] Loans and advances with principal and / or interest overdue 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

[b] Loans and advances at risk correspond to the definition contained in Instruction no. 23/2011 of Banco de Portugal

As at 31 December 2015 and 2014, the analysis of the Loans and advances to customers' portfolio, by segment and by year of production, is presented as follows:

(in thousands of Euros)

Year of production	31.12.2015											
	Corporate			Mortgage loans			Consumer and others			Total		
	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2004 and prior	33 880	1 470 693	549 740	63 980	1 989 282	53 675	188 875	122 719	12 136	286 735	3 582 694	615 551
2005	5 284	437 675	144 002	11 946	621 166	16 169	35 442	49 747	14 778	52 672	1 108 588	174 949
2006	7 335	1 107 926	304 810	20 010	1 107 128	25 456	48 510	65 746	12 665	75 855	2 280 800	342 931
2007	12 253	1 119 636	296 835	31 622	1 652 869	35 364	63 531	97 711	28 190	107 406	2 870 216	360 389
2008	7 727	1 876 266	383 703	21 149	1 218 544	19 458	58 514	104 444	32 494	87 390	3 199 254	435 655
2009	8 589	1 787 743	486 185	14 470	845 062	14 971	45 586	105 768	25 624	68 645	2 738 573	526 780
2010	18 786	1 850 333	443 024	13 549	893 749	14 518	48 219	142 925	33 853	80 554	2 887 007	491 395
2011	11 348	1 738 616	391 842	8 125	425 601	6 613	42 660	168 047	28 628	62 133	2 332 264	427 083
2012	12 406	2 746 078	684 561	5 014	217 633	4 095	48 242	143 878	26 321	65 662	3 107 589	714 977
2013	32 364	3 484 171	662 817	5 644	299 532	3 192	45 992	200 433	30 960	84 000	3 984 136	696 969
2014	16 720	4 129 543	659 361	3 772	243 853	1 444	42 648	220 539	21 973	63 140	4 593 935	682 778
2015	47 995	4 159 460	354 913	4 627	327 584	1 012	46 861	244 306	7 265	99 483	4 731 350	363 190
Total	**214 687**	**25 908 140**	**5 361 793**	**203 908**	**9 842 003**	**195 967**	**715 080**	**1 666 263**	**274 887**	**1 133 675**	**37 416 406**	**5 832 647**

(in thousands of Euros)

Year of production	Corporate			Mortgage loans			Consumer and others			Total		
31.12.2014	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2004 and prior	39 192	1 785 943	531 065	66 488	2 186 951	56 564	207 678	154 989	11 971	313 358	4 127 883	599 600
2005	6 948	627 491	143 278	12 382	670 729	16 583	45 394	61 014	12 751	64 724	1 359 234	172 612
2006	8 610	1 237 844	280 620	20 313	1 173 480	23 587	54 339	80 282	12 148	83 262	2 491 606	316 355
2007	13 461	1 535 336	274 921	32 219	1 749 769	32 479	71 590	125 509	35 504	117 270	3 410 614	342 904
2008	10 221	2 350 514	396 018	21 623	1 293 365	18 875	67 732	139 724	31 585	99 576	3 783 603	446 478
2009	10 632	2 121 611	396 992	14 910	906 601	15 103	52 678	145 467	22 816	78 220	3 173 679	434 911
2010	20 151	2 219 404	418 010	14 054	952 146	12 884	55 580	199 446	28 457	89 785	3 370 996	459 351
2011	13 590	2 281 130	384 379	8 563	464 842	6 365	48 338	192 166	22 558	70 491	2 938 138	413 302
2012	15 948	3 238 641	621 475	5 350	242 961	4 843	54 379	171 474	17 442	75 677	3 653 076	643 760
2013	35 202	4 767 060	593 683	5 900	327 851	2 767	52 378	244 461	21 158	93 480	5 339 372	617 608
2014	36 233	5 843 822	675 599	3 835	261 366	924	43 108	306 869	7 540	83 176	6 412 057	684 063
Total	**210 188**	**28 008 796**	**4 716 040**	**205 637**	**10 230 061**	**190 974**	**753 194**	**1 821 401**	**223 930**	**1 169 019**	**40 060 258**	**5 130 944**

As at 31 December 2015 and 2014, 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)

31.12.2015	Individual Assessment (1)		Collective Assessment (2)		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	10 498 213	4 538 333	15 409 926	823 461	25 908 139	5 361 794
Mortgage loans	55 594	14 045	9 786 411	181 921	9 842 005	195 966
Consumer and others	375 603	112 960	1 290 659	161 927	1 666 262	274 887
Total	**10 929 410**	**4 665 338**	**26 486 996**	**1 167 309**	**37 416 406**	**5 832 647**

(1) Loans and advances to customers for which the final impairment was determined and approved by the Impairment Committee
(2) Loans and advances to customers for which the final impairment was determined automatically by the Impairment model

(in thousands of Euros)

31.12.2014	Individual Assessment (1)		Collective Assessment (2)		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	10 441 770	3 904 943	17 567 026	811 098	28 008 796	4 716 041
Mortgage loans	46 579	10 916	10 183 482	180 058	10 230 061	190 974
Consumer and others	284 073	63 832	1 537 328	160 097	1 821 401	223 929
Total	**10 772 422**	**3 979 691**	**29 287 836**	**1 151 253**	**40 060 258**	**5 130 944**

(1) Loans and advances to customers for which the final impairment was determined and approved by the Impairment Committee
(2) Loans and advances to customers for which the final impairment was determined automatically by the Impairment model

The loans 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 2015 and 2014, the analysis of the gross loans and advances to customers' exposure and impairment assessedindividually and collectively, by geography, is presented as follows:

(in thousands of Euros)

	31.12.2015					
	Individual Assessment*		Collective Assessement**		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Portugal	12 831 624	4 732 138	14 897 092	22 811	27 728 716	4 754 949
Luxembourg	273 042	92 555	647 183	3 676	920 225	96 231
Venezuela	61	2	6 563	66	6 624	68
Cape Verde	-	-	-	-	-	-
United Kingdom	1 604 073	440 641	147 066	1 256	1 751 139	441 897
Spain	956 107	221 474	1 481 756	20 788	2 437 863	242 262
Caymen Islands	596 204	80 525	840	7	597 044	80 532
USA	-	-	-	-	-	-
France	239 680	63 731	1 052 570	770	1 292 250	64 501
Ireland	820 236	149 003	1 799 663	3 204	2 619 899	152 207
Macao	-	-	62 646	-	62 646	-
Total	**17 321 027**	**5 780 069**	**20 095 379**	**52 578**	**37 416 406**	**5 832 647**

* Loans and advances to customers w hich impairment results from an individual analysis (defined and approved by the Impairment Committee)

** Loans and advances to customers w hich impairment w as evaluated on a collective basis and determined automatically by the Impairment model

(in thousands of Euros)

	31.12.2014					
	Individual Assessment*		Collective Assessement**		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Portugal	7 955 905	3 610 177	23 795 706	753 086	31 751 611	4 363 263
Luxembourg	103 517	14 171	629 984	12 594	733 501	26 765
Venezuela	-	-	97 942	103	97 942	103
Cape Verde	-	-	38 108	970	38 108	970
United Kingdom	64 144	13 277	1 907 724	1 403	1 971 868	14 681
Spain	996 116	218 202	1 828 926	132 365	2 825 042	350 567
Caymen Islands	43 883	1 629	722 945	248 991	766 828	250 620
USA	-	-	87 468	1 554	87 468	1 554
France	1 377 524	62 521	-	-	1 377 524	62 521
Ireland	231 333	59 712	95 734	188	327 067	59 900
Macao	-	-	83 298	-	83 298	-
Total	**10 772 422**	**3 979 689**	**29 287 835**	**1 151 254**	**40 060 257**	**5 130 943**

* Loans and advances to customers w hich impairment results from an individual analysis (defined and approved by the Impairment Committee)

** Loans and advances to customers w hich impairment w as evaluated on a collective basis and determined automatically by the Impairment model

The analysis of risk exposure by industry sector of activity, as at 31 December 2015 and 2014, is presented as follows:

(thousands of Euros)

	31.12.2015							
	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	
Agriculture, Forestry and Fishery	468 481	(55 957)	3 071	-	-	-	-	21 481
Mining	166 463	(10 350)	-	-	-	3 391	-	7 475
Food, Beverages and Tobacco	757 111	(80 434)	3 432	-	-	28 450	(473)	62 608
Textiles and Clothing	307 835	(59 355)	285	-	-	36 040	(2 105)	10 527
Leather and Shoes	72 450	(11 191)	108	-	-	499	(499)	1 350
Wood and Cork	137 144	(38 384)	366	-	-	1 329	(1 329)	4 580
Paper and Printing Industry	291 513	(45 641)	-	-	-	8 539	(5 440)	11 035
Refining of Petroleum	2 751	(561)	157	-	-	-	-	20 076
Chemicals and Rubber	412 978	(35 712)	4 392	-	-	11 741	(11 741)	73 574
Non-metallic Minerals	219 622	(51 992)	77	-	-	41 881	(5 376)	14 435
Metallurgical Industries and Metallic Products	1 062 873	(345 083)	181	-	-	3 912	(157)	66 082
Production of Machinery, Equipment and Electrical Devi	193 520	(26 285)	270	-	-	1 251	(603)	92 077
Production of Transport Material	69 818	(7 721)	-	-	-	31	(31)	15 854
Other Transforming Industries	222 447	(43 833)	-	-	-	-	-	29 857
Electricity, Gas and Water	712 589	(12 144)	64 169	-	-	147 696	-	133 596
Construction and Public Works	2 452 635	(728 993)	144 704	-	-	251 863	(555)	1 295 336
Wholesale and Retail Trade	2 274 022	(673 655)	1 452	-	-	54 931	(21 856)	368 934
Tourism	1 165 042	(126 946)	2 534	-	-	8 213	(8 023)	84 975
Transport and Communication	1 257 193	(104 960)	95 980	-	-	50 597	(20 677)	663 579
Financial Activities	1 478 799	(304 654)	394 391	585	318 596	1 411 243	(124 445)	146 624
Real Estate Activities	3 999 910	(813 206)	8 286	15 447	-	117 058	(11 793)	357 615
Services Provided to Companies	4 487 857	(1 149 334)	28 200	-	-	671 056	(455 527)	910 124
Public Administration and Services	925 835	(47 974)	1 287	-	-	4 856 191	-	41 595
Other activities of collective services	2 727 251	(586 526)	21 675	-	-	143 252	(73 567)	152 058
Mortgage Loans	9 842 005	(195 966)	-	-	-	-	-	294 184
Consumers Loans	1 666 262	(274 887)	-	-	-	-	-	88 173
Other	42 000	(903)	22	1 510 161	-	4 878 562	(172 817)	427
TOTAL	**37 416 406**	**(5 832 647)**	**775 039**	**1 526 193**	**318 596**	**12 727 726**	**(917 014)**	**4 968 231**

(thousands of Euros)

	31.12.2014							
	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	
Agriculture, Forestry and Fishery	491 934	(54 681)	2 376	-	-	4 986	-	21 816
Mining	193 870	(15 738)	432	9 853	-	14 675	(1 546)	7 316
Food, Beverages and Tobacco	783 292	(85 665)	20 522	1 501	-	35 656	(382)	73 536
Textiles and Clothing	372 085	(68 003)	573	-	-	33 806	(2 105)	13 987
Leather and Shoes	73 056	(10 212)	139	-	-	44	(44)	1 527
Wood and Cork	141 161	(44 531)	786	4 141	-	1 329	(1 329)	6 017
Paper and Printing Industry	310 067	(50 759)	764	-	-	23 716	(15 195)	38 688
Refining of Petroleum	4 408	(347)	521	24 536	-	6 831	(388)	9 033
Chemicals and Rubber	468 311	(37 033)	5 321	2 616	-	19 417	(13 571)	54 866
Non-metallic Minerals	233 569	(40 519)	107	-	-	47 879	(9 940)	15 778
Metallurgical Industries and Metallic Products	739 055	(129 952)	6 714	7 755	-	6 497	(68)	88 419
Production of Machinery, Equipment and Electrical Devi	219 108	(25 181)	103	2 005	-	15 830	(7 363)	126 971
Production of Transport Material	77 024	(5 271)	-	20 475	-	10 620	(40)	18 353
Other Transforming Industries	236 250	(43 800)	28	11 270	-	18 343	(11 395)	26 650
Electricity, Gas and Water	927 240	(13 211)	84 772	15 377	-	196 097	(12 416)	274 475
Construction and Public Works	2 707 991	(801 274)	234 209	8 725	-	254 295	(555)	1 532 602
Wholesale and Retail Trade	2 420 903	(656 117)	1 441	757	-	82 600	(28 277)	391 866
Tourism	1 281 469	(165 508)	3 166	6 104	-	20 812	(8 023)	91 177
Transport and Communication	1 259 654	(73 702)	185 504	30 546	-	104 550	(48 090)	654 001
Financial Activities	2 032 879	(44 948)	365 255	1 759 296	404 582	5 820 066	(198 103)	131 439
Real Estate Activities	4 542 881	(865 612)	9 720	137 998	-	156 897	(15 965)	310 230
Services Provided to Companies	4 191 147	(971 324)	78 096	90 413	-	1 164 058	(316 888)	1 230 423
Public Administration and Services	1 480 284	(50 100)	51 816	63 336	-	2 010 483	-	189 562
Other activities of collective services	2 771 152	(457 067)	10 046	20 845	-	163 130	(52 568)	148 700
Mortgage Loans	10 230 061	(190 974)	-	-	-	-	-	679 116
Consumers Loans	1 821 401	(223 929)	-	-	-	-	-	34 028
Other	50 006	(5 486)	106	12 839	-	22 924	(12 821)	1 728
TOTAL	**40 060 258**	**(5 130 944)**	**1 062 517**	**2 230 388**	**404 582**	**10 235 541**	**(757 072)**	**6 172 304**

Regarding loans restructured due to financial difficulties of the client, as defined by Instruction no. 32/2013 of Banco de Portugal, the amounts involved as at 31 December 2015 and 2014 are as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Corporate	4 339 158	3 950 208
Mortgage loans	349 343	339 850
Consumer and others loans	110 404	118 696
Loans to non-resident	1 834 863	1 484 416
Total	**6 633 768**	**5 893 170**

Below are presented the details of the restructuring measures applied to restructured loans up until 31 December 2015 and 2014:

(thousands of Euros)

Measure	31.12.2015								
	Credit not at risk			Credit at risk[a]			Total		
	No. transaction	Exposure	Impairment	No. transaction	Exposure	Impairment	No. transaction	Exposure	Impairment
Principal or interest pardon	12	73 448	13 569	147	196 351	135 528	159	269 799	149 097
Capitalisation of interest	20	506 219	160 954	141	142 367	43 540	161	648 586	204 494
New loan in total or partial payment of existing loan	2 844	883 854	377 478	828	314 615	159 328	3 672	1 198 469	536 806
Extension of repayment period	1 624	891 397	194 246	682	728 027	278 449	2 306	1 619 424	472 695
Introduction of a grace period of principal or interest	1 736	441 488	37 165	320	370 864	142 126	2 056	812 352	179 291
Decrease in the interest rates	164	295 780	42 491	94	363 652	248 964	258	659 432	291 455
Change of the leasing payment plan	208	102 538	4 517	81	37 457	16 028	289	139 995	20 545
Change in the interest payment periods	15	206 388	88 066	28	197 961	62 940	43	404 349	151 006
Other	9 957	526 246	53 753	6 407	355 116	137 555	16 364	881 362	191 308
Total	**16 580**	**3 927 358**	**972 239**	**8 728**	**2 706 410**	**1 224 458**	**25 308**	**6 633 768**	**2 196 697**

[a] Credit at risk corresponds to the definition contained in Instruction no. 23/2011 of Banco de Portugal

(thousands of Euros)

Measure	31.12.2014								
	Credit not at risk			Credit at risk[a]			Total		
	No. transaction	Exposure	Impairment	No. transaction	Exposure	Impairment	No. transaction	Exposure	Impairment
Principal or interest pardon	6	2 426	605	121	128 446	84 959	127	130 872	85 564
Capitalisation of interest	26	103 964	70 141	74	49 157	13 219	100	153 121	83 360
New loan in total or partial payment of existing loan	1 999	929 873	393 296	547	194 870	89 848	2 546	1 124 743	483 144
Extension of repayment period	1 137	1 096 884	182 685	592	512 234	193 005	1 729	1 609 118	375 690
Introduction of a grace period of principal or interest	1 498	630 105	60 668	220	317 223	116 686	1 718	947 328	177 354
Decrease in the interest rates	92	304 858	74 385	37	69 878	24 978	129	374 736	99 363
Change of the leasing payment plan	178	98 450	3 408	84	71 716	26 748	262	170 166	30 156
Change in the interest payment periods	25	197 381	49 369	28	150 228	24 377	53	347 609	73 746
Other	11 473	780 723	81 824	5 679	254 754	77 265	17 152	1 035 477	159 089
Total	**16 434**	**4 144 664**	**916 381**	**7 382**	**1 748 506**	**651 085**	**23 816**	**5 893 170**	**1 567 466**

[a] Credit at risk corresponds to the definition contained in Instruction no. 23/2011 of Banco de Portugal

As at 31 December 2015 and 2014, the analysis of the loans and advances to customers' portfolio, by rating, is as follows:

(millions of Euros)

Rating / Scoring models	Internal scale	31.12.2015		31.12.2014	
		Loan amount	(%)	Loan amount	(%)
Large company models	[aaa;a-]	8	0,02%	2	-
	[bbb+;-bbb-]	1 312	3,51%	1 529	3,82%
	[bb+;bb-]	2 615	6,99%	3 289	8,21%
	[b+;b-]	3 556	9,50%	5 324	13,29%
	ccc+	727	1,94%	1 814	4,53%
	Worse than ccc-	4 212	11,26%		
Medium-sized company models	8-9	508	1,36%	548	1,37%
	10-11	474	1,27%	463	1,16%
	12-13	432	1,15%	538	1,34%
	14-15	335	0,90%	445	1,11%
	16-17	382	1,02%	385	0,96%
	18-19	255	0,68%	275	0,69%
	20-21	318	0,85%	191	0,48%
	22-23	121	0,32%	264	0,66%
	24-25	592	1,58%	1 446	3,61%
	Worse than 25	1 807	4,83%	-	-
Small-sized company models	A	51	0,14%	59	0,15%
	B	199	0,53%	204	0,51%
	C	425	1,14%	476	1,19%
	D	181	0,48%	202	0,50%
	E	124	0,33%	141	0,35%
	F	144	0,38%	354	0,88%
	Worse than F	711	1,90%	-	-
Mortgage loan models	01	1 214	3,24%	1 272	3,18%
	02	4 434	11,85%	4 477	11,18%
	03	1 305	3,49%	1 350	3,37%
	04	580	1,55%	613	1,53%
	05	455	1,22%	465	1,16%
	06	464	1,24%	465	1,16%
	07	501	1,34%	554	1,38%
	08	448	1,20%	522	1,30%
Consumer loan models	01	50	0,13%	59	0,15%
	02	30	0,08%	42	0,10%
	03	81	0,22%	100	0,25%
	04	173	0,46%	250	0,62%
	05	100	0,27%	95	0,24%
	06	124	0,33%	111	0,28%
	07	113	0,30%	111	0,28%
	08	76	0,20%	88	0,22%
	09	109	0,29%	184	0,46%
	10	1	-	2	-
Loans with no internal rating / scoring		7 669	20,51%	11 351	28,33%
TOTAL		**37 416**	**100,00%**	**40 060**	**100,00%**

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, set 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 potential 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 business 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, allowing to evaluate the impact of potential higher losses than those considered by the VaR measurement.

(thousands of Euros)

	31.12.2015				31.12.2014			
	December	Period average	Maximum	Minimum	December	Period average	Maximum	Minimum
Foreign exchange risk	14 571	20 947	29 369	14 616	15 534	11 239	20 127	8 786
Interest rate risk	1 479	2 719	3 890	1 350	4 094	3 727	5 256	1 718
Shares and commodities	1 114	8 943	17 740	2 210	33 616	22 766	39 860	9 085
Volatility	345	1 067	1 757	1 333	2 157	3 133	1 411	2 328
Credit spread	1 282	5 389	7 061	795	8 826	11 522	14 833	10 158
Diversification effect	(4 217)	(9 393)	(14 785)	(6 908)	(14 492)	(10 014)	(17 057)	(7 175)
Total	**14 574**	**29 672**	**45 032**	**13 396**	**49 735**	**42 373**	**64 431**	**24 900**

NOVO BANCO Group has a VaR of Euros 14 574 thousand (31 December 2014: Euros 49 735 thousand), in respect of its trading positions.

Following the recommendations of Basel II (Pillar 2) and Instruction no. 19/2005 of Banco de Portugal, NOVO BANCO Group calculates its 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.

(thousands of Euros)

	31.12.2015						
	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	2 825 759	268 222	1 727 556	409 571	14 311	15 853	390 246
Loans and advances to customers	37 337 408	-	20 191 448	7 912 949	2 089 022	6 250 147	893 842
Securities	13 295 752	3 862 387	1 240 531	1 325 681	2 397 289	2 758 528	1 711 336
Total			**23 159 535**	**9 648 201**	**4 500 622**	**9 024 528**	**2 995 424**
Deposits from Banks	11 780 738	-	8 695 149	38 100	239 760	2 469 729	338 000
Due to customers	27 316 408	-	10 221 457	4 235 668	5 609 477	6 947 055	302 756
Securities issued	4 139 600	-	1 029 597	76 476	4 598	1 633 552	1 395 377
Investment contracts	4 038 349	1 370 435	72 482	94 656	916 426	1 034 590	549 760
Technical reserves	1 344 216	62 952	9 521	11 322	669 070	198 715	392 636
Total			**20 028 201**	**4 456 222**	**7 439 331**	**12 283 641**	**2 978 529**
Balance sheet GAP (Assets - Liabilities)	2 142 386		3 131 334	5 191 979	(2 938 709)	(3 259 113)	16 895
Off-Balance sheet	-		(219 394)	(120 619)	-	461 160	(121 147)
Structural GAP	**2 142 386**		**2 911 940**	**5 071 360**	**(2 938 709)**	**(2 797 953)**	**(104 252)**
Accumulated GAP			**2 911 940**	**7 983 300**	**5 044 591**	**2 246 638**	**2 142 386**

(thousands of Euros)

	31.12.2014						
	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	4 296 202	286 252	3 278 797	11 762	14 645	354 503	350 243
Loans and advances to customers	42 124 271	-	24 116 522	9 131 776	2 396 009	5 488 968	990 996
Securities	13 062 871	5 419 090	2 339 586	1 161 463	674 394	1 050 052	2 418 286
Total			**29 734 905**	**10 305 001**	**3 085 048**	**6 893 523**	**3 759 525**
Deposits from Banks	11 848 059	-	8 465 491	134 953	259 782	2 580 185	407 648
Due to customers	26 670 670	-	11 972 321	2 967 162	5 317 552	6 252 953	160 682
Securities issued	9 896 918	-	2 540 345	404 199	1 295 140	4 409 092	1 248 142
Investment contracts	4 372 003	1 439 393	59 015	37 300	971 857	476 852	1 387 586
Technical reserves	1 461 070	50 132	9 391	10 036	779 181	175 547	436 783
Total			**23 046 563**	**3 553 650**	**8 623 512**	**13 894 629**	**3 640 841**
Balance sheet GAP (Assets - Liabilities)	1 018 807		6 688 342	6 751 351	(5 538 464)	(7 001 106)	118 684
Off-Balance sheet	(11 783)		(1 186 370)	(1 202 026)	1 248 309	1 200 720	(87 599)
Structural GAP	**991 841**		**5 501 972**	**5 549 325**	**(4 290 155)**	**(5 800 386)**	**31 085**
Accumulated GAP			**5 501 972**	**11 051 297**	**6 761 142**	**960 756**	**991 841**

Sensitivity analyses of the interest rate risk of the Bank's prudential portfolios are performed, based on an approximation of the duration model approach, considering several scenarios of yield curve shifts at all interest rate levels.

(thousands of Euros)

	31.12.2015				31.12.2014			
	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
On 31 December	61 080	(61 080)	32 878	(32 878)	106 628	(106 628)	52 563	(52 563)
Average for period	65 146	(65 146)	30 233	(30 233)	117 885	(117 885)	66 737	(66 737)
Maximum for period	69 212	(69 212)	32 878	(32 878)	129 141	(129 141)	80 911	(80 911)
Minimum for period	61 080	(61 080)	27 589	(27 589)	106 628	(106 628)	52 563	(52 563)

The following table presents the average interest rates as well as the average balances and interest for the period: relating to the Group's major financial asset and liability categories, for the periods ended on 31 December 2015 and 2014

(in thousands of Euros)

	31.12.2015			31.12.2014
	Average balance for period	Interest for period	Average interest rate	Average interest rate
Monetary assets	2 781 859	38 614	1.39%	0.54%
Loans and advances to customers	38 829 417	1 087 771	2.80%	3.38%
Securities and other	7 082 948	263 067	3.71%	5.71%
Differential applications	-	-	-	-
Financial assets	**48 694 224**	**1 389 452**	**2.85%**	**3.39%**
Monetary Liabilities	9 864 233	79 759	0.81%	0.55%
Due to customers	27 772 864	352 414	1.27%	1.48%
Debt securities and other	9 818 249	506 627	5.15%	5.28%
Differential liabilities	1 238 878	-	-	-
Financial liabilities	**48 694 224**	**938 800**	**1.93%**	**2.18%**
Net interest income		**450 652**	**0.93%**	**1.21%**

Regarding the Foreign exchange risk, the breakdown of assets and liabilities by currency as at 31 December 2015 and 2014, is analysed as follows:

(thousands of Euros)

		31.12.2015				31.12.2014			
		Spot	Forward	Other elements	Net exposure	Spot	Forward	Other elements	Net exposure
USD	UNITED STATES DOLLAR	(880 822)	943 149	13 446	75 773	(454 785)	(56 256)	355 112	(155 929)
GBP	GREAT BRITISH POUND	412 086	(404 466)	2 235	9 855	320 682	(313 927)	1 093	7 848
BRL	BRAZILIAN REAL	35 104	7	-	35 111	237 496	(193 742)	1 105	44 859
MOP	MACAO PATACA	206 399	(235 402)	-	(29 003)	127 624	(143 593)	-	(15 969)
JPY	JAPANESE YEN	2 210	(1 790)	-	420	(5 460)	3 038	(8 867)	(11 289)
CHF	SWISS FRANC	40 317	(36 364)	-	3 953	524	3 593	(2 750)	1 367
SEK	SWEDISH KRONE	2 136	(1 197)	6 014	6 953	1 647	(1 208)	-	439
NOK	NORWEGIAN KRONE	(22 429)	22 993	127	691	(29 211)	29 379	-	168
CAD	CANADIAN DOLLAR	(11 224)	12 536	-	1 312	7 933	(2 954)	-	4 979
ZAR	SOUTH AFRICAN RAND	(536)	(189)	-	(725)	(3 691)	3 755	-	64
AUD	AUSTRALIAN DOLLAR	(17 458)	18 326	-	868	(15 253)	16 759	-	1 506
VEB	VENEZUELAN BOLIVAR	62 501	-	-	62 501	64 469	-	-	64 469
PLN	POLISH ZLOTY	5 920	(4 997)	66	989	25 830	(4 727)	19	21 122
MAD	MOROCCAN DIRHAM	23	102	-	125	23	83 778	-	83 801
MXN	MEXICAN PESO	(1 432)	1 353	-	(79)	(942)	895	-	(47)
AOA	ANGOLAN KWANZA	47 351	-	-	47 351	55 950	-	-	55 950
CVE	CAPE VERDEAN ESCUDO	18 381	-	-	18 381	21 341	-	-	21 341
HKD	HONG-KONG DOLLAR	19 194	(2 489)	-	16 705	42 841	(25 727)	-	17 114
	OTHER	19 344	(6 588)	(299)	12 457	11 513	339	519	12 371
		(62 935)	**304 984**	**21 589**	**263 638**	**408 531**	**(600 598)**	**346 231**	**154 164**

Exposure to "peripheral" Eurozone countries' sovereign debt

As at 31 December 2015 and 2014, the Group's exposure to sovereign debt of "peripheral" Eurozone countries, is presented as follows:

(thousands of Euros)

	31.12.2015				
	Loans and advances to customers	Financial assets held for trading and at Fair value	Derivative instruments [1]	Available-for-sale financial assets	Total
Portugal	953 749	43 401	4 760	2 641 571	3 643 481
Spain	53 363	24 949	-	1 257 214	1 335 526
Ireland	-	-	-	5 116	5 116
Italy	-	45 099	-	2 316 544	2 361 643
	1 007 112	**113 449**	**4 760**	**6 220 445**	**7 345 766**

[1] Net values: receivable / (payable)

(thousands of Euros)

	31.12.2014				
	Loans and advances to customers	Financial assets held for trading and at Fair value	Derivative instruments [1]	Available-for-sale financial assets	Total
Portugal	1 374 949	157 119	5 736	1 790 786	3 328 590
Spain	63 877	37 303	(18)	648 568	749 730
Greece	-	14 417	-	20 841	35 258
Italy	-	47 904	-	1 657 073	1 704 977
	1 438 826	**256 743**	**5 718**	**4 117 268**	**5 818 555**

[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, as Financial assets held for trading and as Financial assets at fair value through profit or loss, is as follows:

(thousands of Euros)

31.12.2015	Nominal Amount	Market quotation	Accrued interest	Carrying value	Impairment	Fair value reserves
Available-for-sale financial assets						
Portugal	**2 487 179**	**2 612 486**	**29 085**	**2 641 571**	**-**	**3 520**
Maturity up to 1 year	846 240	848 131	3 628	851 759	-	169
Maturity exceeding 1 year	1 640 939	1 764 355	25 457	1 789 812	-	3 351
Spain	**1 228 122**	**1 252 923**	**4 291**	**1 257 214**	**-**	**2 633**
Maturity up to 1 year	818 500	819 129	462	819 591	-	(297)
Maturity exceeding 1 year	409 622	433 794	3 829	437 623	-	2 930
Ireland	**4 500**	**5 075**	**41**	**5 116**	**-**	**(6)**
Maturity exceeding 1 year	4 500	5 075	41	5 116	-	(6)
Italy	**2 304 650**	**2 315 452**	**1 092**	**2 316 544**	**-**	**868**
Maturity up to 1 year	1 138 000	1 138 247	-	1 138 247	-	549
Maturity exceeding 1 year	1 166 650	1 177 205	1 092	1 178 297	-	319
	6 024 451	**6 185 936**	**34 509**	**6 220 445**	**-**	**7 015**
Financial assets held for trading						
Portugal	1 050	1 070	58	1 128	-	-
	1 050	**1 070**	**58**	**1 128**	**-**	**-**
Financial assets at fair value						
Portugal	37 466	41 478	795	42 273	-	-
Spain	22 325	24 772	177	24 949	-	-
Italy	40 752	44 886	213	45 099	-	-
	100 543	**111 136**	**1 185**	**112 321**	**-**	**-**

(thousands of Euros)

	31.12.2014					
	Nominal Amount	Market quotation	Accrued interest	Carrying value	Impairment	Fair value reserves
Available-for-sale financial assets						
Portugal	**1 611 720**	**1 764 761**	**26 025**	**1 790 786**	**-**	**106 837**
Maturity up to 1 year	511 692	511 986	240	512 226	-	(1 465)
Maturity exceeding 1 year	1 100 028	1 252 775	25 785	1 278 560	-	108 302
Spain	**552 802**	**642 651**	**5 917**	**648 568**	**-**	**36 455**
Maturity up to 1 year	75 000	74 976	-	74 976	-	(16)
Maturity exceeding 1 year	477 802	567 675	5 917	573 592	-	36 471
Greece	**25 000**	**20 000**	**841**	**20 841**	**-**	**(2 105)**
Maturity up to 1 year	-	-	-	-	-	-
Maturity exceeding 1 year	25 000	20 000	841	20 841	-	(2 105)
Italy	**1 620 000**	**1 654 337**	**2 736**	**1 657 073**	**-**	**15 859**
Maturity up to 1 year	1 410 000	1 409 281	207	1 409 488	-	742
Maturity exceeding 1 year	210 000	245 056	2 529	247 585	-	15 117
	3 809 522	**4 081 749**	**35 519**	**4 117 268**	**-**	**157 046**
Financial assets held for trading						
Portugal	45 766	50 613	944	51 557	-	-
Spain	-	-	-	-	-	-
	45 766	**50 613**	**944**	**51 557**	**-**	**-**
Financial assets at fair value						
Portugal	104 027	103 808	1 754	105 562	-	-
Spain	31 989	37 030	273	37 303	-	-
Greece	17 200	14 244	173	14 417	-	-
Italy	52 916	47 837	67	47 904	-	-
	206 132	**202 919**	**2 267**	**205 186**	**-**	**-**

Liquidity risk

Liquidity risk derives from an institution's current or future inability, to settle its liabilities as they became due, without incurring into excessive losses.

Liquidity risk can be breakdown 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 in the desired currency to finance assets and / or refinance debt coming to maturity. 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 the asset, even if incurring in significant losses. The risk of (re)financing should be reduced through an adequate diversification of funding sources and maturities.

As at 31 December 2015, the value of the asset portfolio eligible as collateral for rediscounting operations with the ECB amounted to Euros 12.7 billion (31 December 2014: Euros 12.9 billion). The amount includes all the exposure to Portuguese sovereign debt, in the amount of approximately Euros 2.1 billion, of which Euros 0.6 billion with a maturity under 1 year.

In order to evaluate the global liquidity risk exposure, reports are prepared which allow not only the identification of negative mismatches, but also lead to a dynamic coverage of these situations.

(millions of Euros)

	31.12.2015						
	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	268	268	-	-	-	-	-
Deposits with and loans and advances to banks and Central Banks	2 558	940	30	8	410	8	1 162
Loans and advances to customers	27 832	325	368	829	787	1 089	24 434
Securities	20 806	1 799	151	749	989	2 287	14 830
Other net assets	1 062	11	85	64	18	27	858
Off-balance sheet (Commitments and Derivatives)	187	5	34	20	65	64	-
Total		**3 348**	**668**	**1 670**	**2 269**	**3 475**	**41 284**
LIABILITIES							
Deposits from banks, Central Banks and Other loans	11 781	4 054	1 023	3 029	13	442	3 219
Due to customers	27 316	731	217	191	248	299	25 631
Debt securities issued	4 141	-	-	319	76	5	3 740
Investments contracts	4 038	26	257	28	12	575	3 140
Technical reserves	1 344	49	8	11	22	53	1 201
Other short-term liabilities	1 344	821	137	14	27	41	304
Off-balance sheet (Commitments and Derivatives)	7 431	60	32	68	89	112	7 069
Total		**5 741**	**1 674**	**3 660**	**487**	**1 527**	**44 304**
GAP (Assets - Liabilities)		**(2 394)**	**(1 005)**	**(1 990)**	**1 781**	**1 949**	
Accumulated GAP		**(2 394)**	**(3 400)**	**(5 389)**	**(3 609)**	**(1 660)**	
Net Assets Buffer > 12 months							**8 914**

(millions of Euros)

	31.12.2014						
	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	286	286	-	-	-	-	-
Deposits with and loans and advances to banks and Central Banks	4 010	3 235	27	11	12	9	716
Loans and advances to customers	31 970	357	478	909	1 220	1 920	27 086
Securities	23 262	2 270	429	1 351	1 386	1 088	16 737
Technical reserves	-	-	-	-	-	-	-
Other net assets	1 788	615	15	-	9	108	1 042
Off-balance sheet (Commitments and Derivatives)	1 819	281	623	311	273	331	-
Total		**7 044**	**1 572**	**2 582**	**2 900**	**3 456**	**45 581**
LIABILITIES							
Deposits from banks, Central Banks and Other loans	11 996	1 231	1 881	5 163	110	310	3 302
Due to customers	26 523	1 013	396	692	332	630	23 459
Debt securities issued	9 817	1	498	1 170	388	1 306	6 454
Investments contracts	4 372	44	2	4	122	846	3 354
Technical reserves	1 461	58	5	13	20	168	1 197
Other short-term liabilities	2 628	2 256	64	9	39	47	213
Off-balance sheet (Commitments and Derivatives)	10 949	304	766	313	377	474	8 715
Total		**4 907**	**3 612**	**7 364**	**1 388**	**3 781**	**46 694**
GAP (Assets - Liabilities)		**2 136**	**(2 040)**	**(4 783)**	**1 512**	**(324)**	
Accumulated GAP		**2 136**	**96**	**(4 687)**	**(3 175)**	**(3 499)**	
Net Assets Buffer > 12 months							**11 073**

The one-year cumulative gap moved from Euros – 3 499 million as at 31 December 2014 to Euros – 1 660 million as at 31 December 2015, with the net assets buffer over 12 months attaining Euros 8 914 million (31 December 2014: Euros 11 073 million). It should be noted that these amounts include GNB Vida.

Additionally, and in accordance with Instruction no. 13/2009 of Banco de Portugal, the liquidity gap is defined through the indicator [(Net Assets - Volatile Liabilities) / (Assets - Net assets) * 100] at each residual maturity cumulative level. Net assets include cash and cash equivalents and net securities and volatile liabilities include debt securities issued, commitments assumed, derivatives and other liabilities. This indicator allows for a characterisation of the wholesale risk of institutions.

As at 31 December 2015, NOVO BANCO Group's one year liquidity gap was 3.79, which compares to -2.00 at 31 December 2014. It is to be noted that the above figures, calculated in accordance with Instruction no. 13/2009 of Banco de Portugal, do not include GNB Vida, whose activity is regulated by the Portuguese Insurance Authority ("Instituto de Seguros de Portugal"), which establishes exposure limits covering diversification and prudential spread.

In order to try to anticipate possible constraints, extreme stress scenarios in terms of liquidity (moderate and severe), different timeframes and different impact areas (systemic, specific to the Bank and combined) are considered. For example, in the systemic scenario is simulated the closure of the wholesale market, whilst in the scenario specific to the Bank is simulated the run-off of customer deposits from retail and non-retail, with different severity levels.

In December 2010, the Basel Committee on Banking Supervision (BCBS) announced the introduction of a liquidity coverage ratio (LCR) and a net stable funding ratio (NSFR), to be implemented in 2015 and 2018, respectively.

These regulatory developments are intended to address situations observed in banks during the 2008 crisis, namely inadequate funding structures and low liquidity buffers.

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 a sufficient value to survive a severe stress scenario over a period of 30 days.

The implementation of 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.

On 1 October 2015, the delegated European Union 2015/61 regulation, detailing the calculation of the liquidity ratio- Liquidity Coverage Ratio (LCR) - and imposing limits on this ratio, entered into force. On 15 December 2015, the European Banking Authority issued a report on the NSFR. The Group continues to follow all legislative changes in order to comply with regulatory obligations.

The following tables presents information on encumbered and unencumbered assets, as defined by Instruction No. 28/2014 of Banco de Portugal (it is to be noted that the information is prepared from a prudential perspective, which consolidation perimeter differs from the consolidation perimeter subjacent to the financial statements presented) is as follows:

(thousands of Euros)

Assets	31.12.2015			
	Carrying value of encumbered assets	Fair value of encumbered assets	Carrying value of unencumbered assets	Fair value of unencumbered assets
Assets of the institution	**13 735 540**		**38 586 688**	
Equity instruments	-	-	3 399 169	3 399 169
Debt securities	3 362 838	2 835 615	2 818 863	2 818 863
Other assets	10 372 703		32 368 656	

(thousands of Euros)

Assets	31.12.2014			
	Carrying value of encumbered assets	Fair value of encumbered assets	Carrying value of unencumbered assets	Fair value of unencumbered assets
Assets of the institution	**16 796 360**		**43 544 234**	
Equity instruments	-	-	3 466 300	3 466 300
Debt securities	2 638 701	2 638 701	1 299 686	1 299 686
Other assets	14 157 659		38 778 248	

(thousands of Euros)

Collateral received	31.12.2015		31.12.2014	
	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 by the reporting company	**24 488**	**-**	**-**	**-**
Equity instruments	-		-	-
Debt securities	24 488		-	-
Other collateral received	-		-	-
Own debt securities other than own covered bonds or ABS	**515 300**		**3 664 637**	**205 163**

(thousands of Euros)

Encumbered assets, encumbered collateral received and associated liabilities	31.12.2015		31.12.2014	
	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 value of the selected financial liabilities	11 196 259	14 275 329	11 900 825	16 796 360

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 behaviour 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, it was developed and implemented a system that standardises, systematises and regulates the frequency of actions undertaken with the objective of identifying, monitoring, controlling and mitigating this risk. This system is supported by an organisational structure, integrated within the Global Risk Department, exclusively dedicated to this task, as well as by Operational Risk 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.

Insurance business specific risk (life insurance)

The insurance business specific risk reflects at the moment of the underwriting of a policy, 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 and non-collection risk.

Insurance specific risk is managed through a combination of underwriting, pricing, reserving and reinsurance policies.

Underwriting

There are written rules that establish the guidelines to be considered in respect of risk acceptance, that are based on the analysis of several portfolio statistical indicators made in order to match the best possible price to the risk. 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, referring to the underwriting process and policy management, segmenting this process into three groups of products, financial products, risk products associated with distributor credit products and risk products not associated with credit products (dry sale).

Pricing

GNB Seguros Vida aims to set prices that are sufficient and adequate to cover all commitments (outstanding claims, expenses and cost of capital).

Before the products are launched they are analysed and discussed by the Products Committee, in which all the departments of the Company are represented. This Committee's function is to analyse the technical and operational aspects of the product to be launched, formulating recommendations for the Managing Director and for subsequent approval, or not, by the Board of Directors. After approval by the Product Committee, which is represented by the Director responsible for the day-to-day business, the product is approved to begin its construction phase. Before starting the marketing phase it shall be submitted to the New Activities and Products Committee, represented by the Departments responsible for the Management Control, Risk and Compliance, Technical, Investment and the Marketing.

Initially, the adequacy of the price is tested using realistic cash flow projection techniques and subsequently, the profitability of each product or group of products is annually monitored when calculating the Market Consistent Embedded Value / Traditional Embedded Value.

Metrics and guidelines have been defined by the Company, both for setting out the minimum profitability requirements for any new product as well as for performing sensitivity analyses. Both the Market Consistent Embedded Value and the Traditional Embedded Value calculations are performed once a year by the Company and reviewed by external consultants.

Reserving

In general, GNB Vida's reserving policy is of prudential nature and relies on recognised actuarial methods to comply with the applicable legislation. The main policy objective is to constitute appropriate and adequate reserves so that GNB Vida can meet all its future liabilities. For each line of business, GNB Vida creates 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 asset and liability amounts in future periods.

Such estimates and assumptions are periodically evaluated, namely through statistical analyses of internal and / or external historical data. The adequacy of the estimated liabilities of the insurance activity is reviewed annually. If the technical reserves are insufficient to cover the present value of the expected future cash outflows (claims, costs and commissions), such insufficiency is immediately recognised through the creation of additional reserves.

Claims management

The risk subjacent to claims management derives from the possibility of liability increases due to the insufficient or inadequate quality of the data used in the reserving process or additional expenses and litigation costs due to an inadequate management of claims.

To address this risk, a clear set of rules have been established together 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 ongoing, as well as monitor the compliance with deadlines and time-management of claims.

Reinsurance

GNB Seguros Vida signs reinsurance treaties to limit its risk exposure. Reinsurance coverage can be 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), when 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 which indemnity levels are high, as well as the impact of multiple claims provoked by a single occurrence.

The following table presents the sensitivity analyses (net of tax) on the Market Consistent Embedded Value of the Company, that includes the Equity and the future income associated with existing contracts:

	2015	2014
Increase of 10% in costs	(2 961 256)	(2 503 339)
Increase of 10% in redemptions	3 982 756	5 060 186
Decrease of 10% in redemptions	(4 025 836)	(5 118 323)
Increase of 5% in mortality rate (life except annuities)	256 578	346 622
Decrease of 5% in mortality rate (life except annuities)	(273 385)	(360 394)

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 can be more important, 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 the 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 the underwriting policies, a regular review of the mortality tables used and reinsurance. The disability risk covers the uncertainty of effective losses due to the 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.

Non-collection risk

The non-collection risk 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 2015 and 2014, are as follows:

	Mortality Table	Technical rate
Retirement savings plans and capitalisation 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% and 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%
After September 2006	GKF - 3 anos	2%
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%

(*) In the year 2015, the technical rate was 1.5% for products with participating features and 1.65% for products without participating features

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 2015 and 2014, are as follows:

Mortality Table	
Annuities	GRM 95
Savings and other contracts	30% GKM 80

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 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.

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 risk classes of institutions, corporate and retail of both NOVO BANCO Portugal and NOVO BANCO's London Branch. The shares' risk classes and the positions taken in the form of securitisation 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. 75/2013 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 entities as from 1 January 2014. This legislation transposes into the European legal order the recommendations of the Basel Committee, usually designated by Basel III.

Notice no. 6/2013, of 23 December, of Banco de Portugal regulated the transitory regime foreseen in that Regulation regarding to own funds, and established capital preservation measures.

The capital adequacy calculations of NOVO BANCO Group as at 31 December 2015 and 2014, based on information available, the European Regulatory Framework in force and considering the transitory period foreseen in the Notice referred to above, may be presented as follows:

(in millions of Euros)

		31.12.2015	31.12.2014
Realised ordinary capital		4 900	4 900
Reserves and Retained earnings		2 293	948
Net income / (loss) for the period		(1 004)	(498)
Revaluation reserves		(197)	(70)
Non-controlling interests		(3)	212
A - Accounting Equity		**5 989**	**5 492**
Revaluation reserves		(79)	(214)
Non-controlling interests		8	(107)
B - Prudential adjustments to Equity		**(71)**	**(321)**
Goodwill and other intangibles		(293)	(423)
Deferred taxes		(473)	(277)
Shareholdings in financial companies		(49)	(101)
Other		39	72
C - Prudential deductions		**(776)**	**(729)**
D - Common Equity Tier I (A+B+C)		**5 142**	**4 442**
Eligible instruments for Tier I		-	2
Deductions from Tier I		-	(2)
E - Tier I		**5 142**	**4 442**
Eligible instruments for Tier II		108	136
Deductions from Tier II		(108)	(136)
F - Tier II		**-**	**-**
G - Eligible Own Funds		**5 142**	**4 442**
H - Risk Weighted Assets		**38 168**	**46 982**
Prudential ratios			
Common Equity Tier I	**(D / H)**	**13,5%**	**9,5%**
Tier I	**(E / H)**	**13,5%**	**9,5%**
Solvency	**(G / H)**	**13,5%**	**9,5%**

NOTE 51 – CONTRACTUAL COMMITMENTS

Contract 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 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 requirements 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 revitalise 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.

Since the 2012 financial period, a number of assignments of financial assets (namely loans and advances to customers) were made to the subsidiaries of those parent companies. These entities are responsible for managing the assets received as collateral and 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 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 at the Group's balance sheet.

Therefore, following the asset assignment operation, 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, whose accounts are audited at the end of each period;
- junior instruments issued by the asset acquiring companies, which are fully provided for reflecting the best impairment estimate of the financial assets transferred.

The instruments subscribed by 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, 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 de-recognition of the assets transferred and the recognition of the assets received in return, as shown in the following table:

(in thousands of Euros)

	Amounts at transfer date							
	Amount of the assets transferred			Securities subscribed				
	Net assets transferred	Transfer amount	Result of the transfer	Shares (senior securities)	Junior securities	Total	Impairment	Net carrying 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	1 681	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)	30 404	-	30 404	-	30 404
Fundo Recuperação, FCR	1 471	1 471	-	-	-	-	-	-
Discovery Portugal Real Estate Fund	5 348	5 774	426	4 855	-	4 855	-	4 855
	1 345 444	**1 342 078**	**(3 366)**	**1 277 050**	**119 515**	**1 396 565**	**(106 333)**	**1 290 232**

As at 31 December 2015, the Group's total exposure to securities associated with operations relating to the assignment of loans and advances to customers, amounts to Euros 1 375.9 million (31 December 2014: Euros 1 325.2 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 initially amounting to Euros 60 million remains recognised in the Group's balance sheet under Loans and advances to customers.

NOTE 53 – DISCONTINUING ACTIVITIES

The analysis of the activities being discontinued as at 31 December 2015 and 2014 is as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Assets of activities being discontinued		
Banco Internacional de Cabo Verde	40 327	-
BESI	-	4 209 800
	40 327	**4 209 800**
Liabilities of activities being discontinued		
Banco Internacional de Cabo Verde	92 893	-
BESI	-	3 072 720
	92 893	**3 072 720**

The results of the activities being discontinued for the periods ended on 31 December 2015 and 2014 are as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Profit / (loss) generated by activities being discontinued		
Banco Internacional de Cabo Verde	(1 014)	-
BESI	22 803	(46 612)
	21 789	**(46 612)**

Banco Internacional de Cabo Verde

According to IFRS 5 - Non-current assets held for sale and discontinued operations, Banco Internacional de Cabo Verde (BICV) ceased to be consolidated under the full consolidation method, being presented instead in the financial statements as an activity being discontinued. The impact of this transaction resulted in the recognition of a loss in the consolidated financial statements of NOVO BANCO in the amount of Euros 1.2 million, calculated by reference to the financial statements of BICV as at 31 December 2015 (transaction date). The Group will following that date and up until the date of the financial closing of the transaction, and based on the provisions of IFRS 5, measure this asset being discontinued at the lesser of two values: carrying value or fair value less selling costs.

For purposes of the consolidation of the assets and liabilities of activities being discontinued, the respective balance sheet transactions with Group entities are eliminated.

The information relating to BICV presented above, as well as the financial statements as at 31 December 2015 presented below, were considered for consolidation purposes in NOVO BANCO Group.

BANCO INTERNACIONAL DE CABO VERDE

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2015

(in thousands of Euros)	31.12.2015
Assets	
Cash and deposits with Central Banks	7 677
Deposits with banks	7 991
Financial assets held for trading	1 985
Loans and advances to banks	63 777
Loans and advances to customers	21 555
Other tangible assets	2 090
Intangible assets	990
Other assets	1 801
Total Assets	**107 866**
Liabilities	
Deposits from Central Banks	49
Deposits from banks	5
Due to customers	92 747
Current tax liabilities	(134)
Other liabilities	226
Total Liabilities	**92 893**
Equity	
Share capital	12 996
Reserves, Retained earnings and Other comprehensive income / (losses)	2 012
Profit / (loss) for the period attributable to shareholders of the Bank	(35)
Total Equity and Liabilities	**107 866**

BANCO INTERNACIONAL DE CABO VERDE

CONSOLIDATED INCOME STATEMENT
FOR THE PERIOD ENDED ON 31 DECEMBER 2015

(in thousands of Euros)	31.12.2015
Interest and similar income	1 565
Interest expense and similar charges	(270)
Net interest income	**1 295**
Fee and commission income	443
Fee and commission expenses	(18)
Net gains / (losses) from foreign exchange revaluation	149
Other operating income and expenses	18
Operating income	**1 887**
Staff costs	(696)
General and administrative expenses	(785)
Depreciation and amortisation	(426)
Impairment of loans and advances, net of reversals and recoveries	(11)
Operating expenses	**(1 918)**
Profit / (loss) before income tax	**(31)**
Income tax	
Current tax	(4)
Net profit / (loss) for the period	**(35)**

BANCO INTERNACIONAL DE CABO VERDE

CONSOLIDATED CASH FLOW STATEMENT
FOR THE PERIOD ENDED ON 31 DECEMBER 2015

(in thousands of Euros)

	31.12.2015
Cash flows from operating activities	
Interest and income received	2 020
Interest and similar charges paid	(447)
Cash payments to employees and suppliers	(1 401)
	172
Changes in operating assets and liabilities:	
Deposits from banks	(6)
Loans and advances to customers	(2 442)
Due to customers and other loans	3 003
Other operating assets and liabilities	(2 215)
Net cash from operating activities before income tax	**(1 488)**
Income taxes paid	(293)
	(1 781)
Cash flows from investing activities	
Acquisition of tangible and intangible assets and investment properties	(1 336)
	(1 336)
Effect of foreign exchange rate changes on cash and cash equivalents	149
Net changes in cash and cash equivalents	**(2 968)**
Cash and cash equivalents at beginning of period	82 415
Cash and cash equivalents at end of period	79 447
	(2 968)
Cash and cash equivalents include:	
Cash	3 296
Deposits with banks	76 151
Total	**79 447**

BESI

On 8 December 2014, NOVO BANCO agreed with Haitong International Holdings Limited, a contract for the sale of 100% of the share capital of its subsidiary Banco Espírito Santo Investimento (BESI). This company has its registered office in Hong Kong, and is wholly owned by Haitong Securities Co. Ltd, its shares being quoted on the Shanghai Stock Exchange and on the Stock Exchange of Hong Kong Limited.

On 7 September 2015 the transaction was completed after having received the approval of all the authorities involved, namely, the European Commission, the Competition Authorities and of a number of other authorities that have supervisory functions over the international units of BESI, as well as of the supervisory authorities of the selling and buying entities.

According to IFRS 5 – Non-current assets held for sale and discontinued operations, BESI ceased to be consolidated using the full consolidation method as from 31 December 2014 (inclusive) being, instead, classified in the financial statements as an activity being discontinued. The impact of this operation translated into the recognition, in 2014, of a loss at the level of the consolidated financial statements of NOVO BANCO in the amount of Euros 38.9 million, calculated based on the 30 November 2014 (transaction date) financial statements of BESI. The Group, subsequent to that date and up until the date of the financial closing of the transaction, and based on the provisions of IFRS 5, measured this asset being discontinued at the lesser of two values: carrying value or fair value less selling costs (Euros 379 million). As such, and as shown below, the result of the activities being discontinued has the following breakdown:

(thousands of Euros)

		31.12.2015	31.12.2014
	Transaction amount	379 000	379 000
	BESI equity at date of derecognition [(1)]	326 257	392 167
	Consolidated capital gain / (loss)	52 743	(13 167)
	Change in consolidated capital gain / (loss)	13 167	-
(+)	Profit / (loss) generated by BESI	(31 531)	(33 445)
(+)	Consolidation adjustments of BESI	(788)	-
(+)	Realisation of Fair valur reserves of BESI	(10 788)	-
=	**Profit / (loss) generated by activities being discontinued**	**22 803**	**(46 612)**

[(1)] The date of the conclusion of the transaction w as 7 September 2015, but the financial data used to determine the impacts of the derecognition w ere those of 31 August 2015 (last financial information made available by BESI)

As a result of the presentation of the assets and liabilities of BESI as activities being discontinued, the consolidated equity of NOVO BANCO incorporated a negative impact up until 31 August 2015, in the amount of Euros 38 110 thousand. The negative change in the equity of BESI up until 31 August 2015 resulted primarily from exchange differences recorded under Other reserves, generated on the translation of the financial statements of the investments held by the BESI Group in companies whose functional currency is different from the Euro.

In these circumstances, bearing in mind the negative impact of Euros 38 110 thousand in the caption of Other reserves and the positive effect in the caption Results of activities being discontinued, in the amount of Euros 22 803 thousand referred to above, the net effect on the consolidated equity of NOVO BANCO as at 31 December 2015 relating to activities being discontinued amounts to Euros 15 307 thousand.

As at 31 December 2014, for purposes of the consolidation of the assets and liabilities of the activities being discontinued of BESI, the respective balance sheet transactions with Group entities are eliminated, and the amount calculated is as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Total assets of BESI	-	4 436 620
Intragroup operations	-	(226 820)
Assets of units being discontinued	**-**	**4 209 800**
Total liabilities of BESI	-	3 995 709
Intragroup operations	-	(922 989)
Liabilities of units being discontinued	**-**	**3 072 720**

The information relating to BESI presented above, as well as the preliminary financial statements as at 31 August 2015 and 31 December 2014 presented below, were those considered for purposes of the derecognition and consolidation in NOVO BANCO Group, respectively. The differences when compared with the audited accounts disclosed by BESI to the market do not alter the mensuration of that asset in discontinuation according to IFRS 5.

GRUPO BESI

CONSOLIDATED BALANCE SHEET AT 31 AUGUST 2015 AND 31 DECEMBER 2014

(in thousands of Euros)

	31.08.2015	31.12.2014
Assets		
Cash and deposits with Central Banks	510	1 524
Deposits with banks	55 536	49 067
Financial assets held for trading	1 108 969	1 468 475
Available-for-sale financial assets	406 568	554 679
Loans and advances to banks	86 731	34 308
Loans and advances to customers	1 187 294	1 551 145
Derivatives held for risk management purposes	22 567	25 754
Non-current assets held for sale	3 600	3 600
Other tangible assets	12 781	15 494
Intangible assets	80 495	77 397
Investments in associated companies	26 417	26 877
Current tax assets	6 253	5 173
Deferred tax assets	124 130	95 520
Other assets	327 900	527 607
Total Assets	**3 449 751**	**4 436 620**
Liabilities		
Deposits from Central Banks	61 129	61 108
Financial liabilities held for trading	499 764	621 546
Deposits from banks	1 150 692	1 397 285
Due to customers	387 863	448 912
Debt securities issued	652 194	1 072 211
Derivatives held for risk management purposes	59 774	33 940
Provisions	38 266	46 425
Current tax liabilities	10 041	17 728
Subordinated debt	27 160	37 096
Other liabilities	199 500	259 458
Total Liabilities	**3 086 383**	**3 995 709**
Equity		
Share capital	326 269	326 269
Share premium	8 796	8 796
Reserves, Retained earnings and Other comprehensive income / (losses)	22 723	90 547
Profit / (loss) for the period attributable to shareholders of the Bank	(31 531)	(33 445)
Total Equity attributable to shareholders of the Bank	**326 257**	**392 167**
Non-controlling interests	37 111	48 744
Total Equity	**363 368**	**440 911**
Total Equity and Liabilities	**3 449 751**	**4 436 620**

NOTE 54 – RECENTLY ISSUED ACCOUNTING STANDARDS AND INTERPRETATIONS

Impact of the adoption of standards and interpretations that became effective on 1 January 2015:

Standards

IFRS 1 (amendment), 'First-time adoption of IFRS'. The improvement to IFRS 1 clarifies that a first-time adopter can use either the previous version or the new version of the standard that, despite not being mandatory, is available for early adoption. The adoption of this amendment had no impact on the financial statements of the Group.

IFRS 3 (amendment), 'Business combinations'. The Improvement to IFRS 3 clarifies that the standard is not applicable to the accounting of the creation of any joint agreement according to IFRS 11, in the financial statements of the joint agreement. The adoption of this amendment had no impact on the financial statements of the Group.

IFRS 13 (amendment), 'Fair value: mensuration and disclosure'. The improvement clarifies that the exception to the fair value measurement of a portfolio on a net basis, is applicable to all types of contracts (including non-financial contracts) under IAS 39. The adoption of this amendment had no impact on the financial statements of the Group.

IAS 40 (amendment), 'Investment properties' (to be applied in the European Union in the annual periods beginning on or after 1 January 2015). The improvement clarifies that IAS 40 and IFRS 3 are not mutually exclusive. It is necessary to use IFRS 3, when an investment property is acquired, to determine whether the acquisition is, or not, a business combination. The adoption of this amendment had no impact on the financial statements of the Group.

Interpretations

IFRIC 21 (new), 'Levies'. IFRIC 21 is an interpretation of IAS 37 and of the recognition of liabilities, clarifying that the past event that result in an obligation to pay a levy or tax (other than corporate income tax - IRC) is the activity described in the relevant legislation that requires the payment. The adoption of this amendment had no impact on the financial statements of the Group.

Standards and amendments to existing standards, which application is mandatory for annual periods starting on or after 1 February 2015, and that the Group decided not to anticipate the adoption:

Standards

IFRS 2 (amendment), ‘Payment based on shares’ (to be applied as from the annual periods beginning on or after 1 February 2015). The improvement to IFRS 2 amends the definition of vesting conditions, providing for two types of vesting conditions only, "conditions of service" and "performance conditions". The new definition of "performance conditions" provides that only conditions related to the entity are considered. The adoption of the amendment is not expected to produce a material impact on the financial statements of the Group.

IFRS 3 (amendment), ‘Business combinations’ (to be applied as from the annual periods beginning on or after 1 February 2015). The improvement clarifies that an obligation to pay a purchase amount that is contingent is classified, in accordance with IAS 32, as a liability, or if it meets the definition of financial instrument as an equity instrument. Contingent payments classified as liabilities shall be measured at fair value through the income statement. The adoption of the amendment is not expected to produce a material impact on the financial statements of the Group.

IFRS 8 (amendment), ‘Operating segments’ (to be applied as from the annual periods beginning on or after 1 February 2015). The improvement changes IFRS 8, which now requires the disclosure of judgments made by management for the aggregation of operating segments, requiring, too, the reconciliation between assets by segment and the overall assets of the Entity, when this information is reported. The adoption of the amendment is not expected to produce a material impact on the financial statements of the Group.

IFRS 13 (amendment), ‘Fair value: mensuration and disclosure’ (to be applied as from the annual periods beginning on or after 1 February 2015). The Improvement to IFRS 13 clarifies that the standard does not remove the possibility of the measurement of current accounts receivable and payable based on the amounts billed, when the effect of discounting is not material. The adoption of the amendment is not expected to produce a material impact on the financial statements of the Group.

IAS 16 (amendment), ‘Tangible fixed assets’ and **IAS 38** ‘Intangible assets’ (to be applied as from the annual periods beginning on or after 1 February 2015). The improvement to IAS 16 and IAS 38 clarifies thetreatment to given to the gross amounts and to the accumulated depreciation / amortisation,when an Entity adopts the revaluation model for the subsequent measurement of tangible fixed assets and / or intangible assets, providing for 2 methods. This clarification is significant when either the useful lives or the methods of depreciation / amortisation are reviewed during the revaluation period. The adoption of the amendment is not expected to produce a material impact on the financial statements of the Group.

IAS 24 (amendment), ‘Related party disclosure’ (to be applied as from the annual periods beginning on or after 1 February 2015). The improvement to IAS 24 changes the definition of a related party to include the Entities that provide management services to the Entity that reports, or the Parent-entity of the Entity that reports. The adoption of the amendment is not expected to produce a material impact on the financial statements of the Group.

IAS 19 (amendment), ‘Defined benefit plans – Employee contributions’ (to be applied as from the annual periods beginning on or after 1 February 2015).The amendment to IAS 19 applies to contributions from employees or third parties to defined benefit plans, and intends to simplify their accounting, when the contributions are not associated with the number of years of service. The adoption of the amendment is not expected to produce a material impact on the financial statements of the Group.

IAS 1 (amendment), ‘Revision of disclosures’ (to be applied as from the annual periods beginning on or after 1 January 2016). The amendment gives indications as to materiality and aggregation, the presentation of subtotals, the structure of the financial statements, the disclosure of accounting policies and the presentation of items of other comprehensive income generated by investments measured applying the equity method. The adoption of the amendment is not expected to produce a material impact on the financial statements of the Group.

IAS 16 and IAS 38 (amendment), ‘Accepted methods of calculating amortisation and depreciation (to be applied as from the annual periods beginning on or after 1 January 2016). The amendment clarifies that the use of methods of calculating depreciation / amortisation of assets based on revenue earned, are not, as a rule, considered suitable for the measurement of the consumption pattern of the economic benefits associated with the asset. The amendment has prospective application. The adoption of the amendment is not expected to produce a material impact on the financial statements of the Group.

IAS 16 and IAS 41 (amendment), ‘Agriculture: plants that produce consumable biological assets’ (to be applied as from the annual periods beginning on or after 1 January 2016). This amendment defines the concept of a plant that produces consumable biological assets, and removes such assets from under the application of IAS 41 - Agriculture and into that of IAS 16 - Tangible fixed assets, with a consequent impact on the measurement. However, the biological assets produced by these plants, remain under IAS 41 – Agriculture. The adoption of the amendment is not expected to produce a material impact on the financial statements of the Group.

IAS 27 (amendment), ‘Equity method in separate financial statements’ (to be applied as from the annual periods beginning on or after 1 January 2016). The amendment permits an entity to apply the equity method in the measurement of investments in subsidiaries, joint ventures and associated companies in the separate financial statements. This amendment is retrospectively applied.The adoption of the amendment is not expected to produce a material impact on the financial statements of the Group.

IFRS 10, 12 and IAS 28 (amendment), ‘Investment entities: application of the exemption to the obligation to consolidate’ (to be applied as from the annual periods beginning on or after 1 January 2016). The amendment is still subject to endorsement by European Union. The amendment clarifies that the exemption from the obligation to consolidate an "Investment Entity" applies to an intermediate holding company that is a subsidiary of an investment entity. In addition, the option of applying the equity method, in accordance with IAS 28, extends to an entity that is not an investment entity, but holds an interest in an associated company or joint venture that is an "Investment Entity ".The adoption of the amendment is not expected to produce a material impact on the financial statements of the Group.

IFRS 11 (amendment), ‘Accounting for the acquisition of interests in a joint operation’ (to be applied as from the annual periods beginning on or after 1 January 2016). The amendment provides guidance on the accounting for the acquisition of interests in a joint operation that qualifies as a business, in respect of which the principles of IFRS 3 – Business combinations- are to be applied. The adoption of the amendment is not expected to produce a material impact on the financial statements of the Group.

IFRS 5 (amendment), ‘non-current assets held for sale and discontinued operational units’ (to be applied as from the annual periods beginning on or after 1 January 2016). The improvement clarifies that when an asset (or disposal group) has been reclassified from "held for sale" to "held for distribution" or vice-versa, this does not constitute a change to the plan to sell or distribute.The adoption of the amendment is not expected to produce a material impact on the financial statements of the Group.

IFRS 7 (amendment), ‘Financial instruments: disclosure’ (to be applied as from the annual periods beginning on or after 1 January 2016). The improvement includes additional information about the meaning of continuing involvement in the transfer (derecognition) of financial assets for the purpose of compliance with the disclosure obligations. The adoption of the amendment is not expected to produce a material impact on the financial statements of the Group.

IAS 19 (amendment), ‘Employee benefits’ (to be applied as from the annual periods beginning on or after 1 January 2016). The improvement clarifies that in determining the discount rate of liabilities with post-employment defined benefit plans, it must meet the requirements of high quality securities in the same currency in which the liabilities are calculated.The adoption of the amendment is not expected to produce a material impact on the financial statements of the Group.

IAS 34 (amendment), ‘Interim reporting’ (to be applied as from the annual periods beginning on or after 1 January 2016). The improvement clarifies the meaning of "information disclosed in another area of the interim financial statements”, and requires the inclusion of cross-references to this information.The adoption of the amendment is not expected to produce a material impact on the financial statements of the Group.

IFRS 9 (new), ‘Financial instruments’ (to be applied as from the annual periods beginning on or after 1 January 2018). This standard is still subject to endorsement by the European Union. 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.

IFRS 15 (new), ‘Revenue from contracts with customers’ (to be applied as from the annual periods beginning on or after 1 January 2018). This standard is still subject to endorsement by the European Union. This new standard applies only to contracts for the delivery of products or services, and require an entity to recognise revenue when the contractual obligation to deliver assets or services is satisfied and in an amount that reflects the consideration to which the entity has the right, as provided for in "the 5 steps methodology".The adoption of the amendment is not expected to produce a material impact on the financial statements of the Group.

NOTE 55 – SUBSEQUENT EVENTS

- The Board of Directors of NOVO BANCO prepared a restructuring plan that was presented to the European Commission at the end of 2015. This restructuring plan was prepared in full cooperation with Banco de Portugal and comprises a number of measures, namely by focusing on the retail and corporate banking activities in Portugal and Spain, the disinvestment in non-strategic assets and the reduction of Euros 150 million in recurring operating costs (excluding restructuring costs estimated in circa Euros 100 million), associated with the layoff of 1 000 employees and the decrease in the number of bank branches to 550. This plan is currently in the implementation phase;
- On 15 January 2016, Banco de Portugal informed, as agreed to between national authorities and the European Commission, its decision to resume the sale of the shareholding of Fundo de Resolução in NOVO BANCO. Decisions regarding the sales model, as well as the terms of reference, will be made at a later stage.
- Following the press releases issued on 21 December 2015 by the European Commission and Banco de Portugal, on 15 February, NOVO BANCO informed that it had extended for one year the maturity of the bond issue guaranteed by the Portuguese Government in the amount of Euros 3 500 million.

2. APPENDIX

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 CEBS and FSF recommendations.

This appendix aims to ensure compliance with Banco de Portugal's recommendation, including references to where the information provided may be found within the Management Report or in the Notes to the Financial Statements for 2015 and for the period from the 4 August to 31 December 2014.

I. BUSINESS MODEL

1. Description of the business model

A detailed description of the Group's business model is provided in Item 2 of the Management Report. The performance of the main business areas (operational segments) of the Group is also presented in Note no. 4[2].

2. Strategy and Objectives

The Group's strategy and objectives are provided in Item 2 of the Management Report. The securitisation transactions are detailed in Note 48.

3. 4. and 5. Activities developed and contribution to the business

Item 2 of the Management Report and Note no. 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 5 of the Management Report describes how the risk management function is organised within NOVO BANCO Group.

[2] The numbering refers to the Notes to the Consolidated Financial Statements

Note 50 contains diverse information that in total allows 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.

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 2015.

12. Breakdown 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, non realised gains and losses on assets available for sale are detailed in Notes 23 and 44, while the most significant positions are detailed in Note 23.

13. Financial turmoil and the price of share

NOVO BANCO does not have listed shares.

14. Risk of maximum loss

Item 5 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 contain information on the impact of debt revaluation and the methods used to calculate the 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 2015 the exposure to Portuguese sovereign debt totalled EUR 2 685 million (2014: EUR 1 948 million), EUR 1 282 million of Spanish sovereign debt (2014: EUR 686 million), EUR 2 362 million of Italian sovereign debt (2014: EUR 1 705 million) and no exposure to Greek sovereign debt (2014: EUR 35 million).

The information about these Group's exposures is provided in Note 50.

19. Movement in exposures between periods

Note 50 contain diverse information comparing the exposures to markets and results for 2015 and for the period from the 4 August to 31 December 2014. 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 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 Appendix. 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 satisfy 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 disclosing information, 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, we highlight the Annual and Half Year Management Reports, the Financial Statements and the respective Notes, and the information on Corporate Governance.

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 presents the most relevant topics about the governing structure of the Group.

The Sustainability Accounts, which form an integral part of the Annual Management Report, 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.

pwc

Audit Report for Statutory and Stock Exchange Regulatory Purposes on the Consolidated Financial Information

(Free translation from the original in Portuguese)

Introduction

1 As required by law, we present the Audit Report for Statutory and Stock Exchange Regulatory Purposes on the financial information included in the Directors' Report and in the attached consolidated financial statements of Novo Banco, S.A. ("Novo Banco" or "Bank"), comprising the consolidated balance sheet as at 31 December 2015 (which shows total assets of Euro 57.529.359 thousand and total shareholder's equity of Euro 5.947.643 thousand, including non-controlling interests of Euro 56.581 thousand and a net loss of Euro 980.558 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 corresponding notes to the accounts.

Responsibilities

2 It is the responsibility of the Bank's Board of Directors (i) to prepare the Directors' Report and the consolidated financial statements which present fairly, in all material respects, the financial position of the group of companies included in the consolidation, the consolidated results and the consolidated comprehensive income of their operations, the changes in consolidated equity and the consolidated cash flows; (ii) to prepare historic financial information in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and which is complete, true, up-to-date, clear, objective and lawful, as required by the Portuguese Securities Market Code; (iii) to adopt appropriate accounting policies and criteria; (iv) to maintain appropriate systems of internal control; and (v) to disclose any significant matters which have influenced the activity, financial position or results of the group of companies included in the consolidation.

3 Our responsibility is to verify the financial information included in the financial statements referred to above, namely as to whether it is complete, true, up-to-date, clear, objective and lawful, as required by the Portuguese Securities Market Code, for the purpose of issuing an independent and professional report based on our audit.

Scope

4 Except as described in paragraph nr. 7 below, we conducted our audit in accordance with the Standards and Technical Recommendations issued by the Institute of Statutory Auditors which require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Accordingly, our audit included: (i) verification that the financial statements of the group of companies included in the consolidation have been appropriately examined and, for the cases where such an audit was not carried out, verification, on a sample basis, of the evidence supporting the amounts and disclosures in

PricewaterhouseCoopers & Associados - Sociedade de Revisores Oficiais de Contas, Lda.
Sede: Palácio Sottomayor, Rua Sousa Martins, 1 - 3º, 1069-316 Lisboa, Portugal
Tel +351 213 599 000, Fax +351 213 599 999, www.pwc. pt
Matriculada na CRC sob o NUPC 506 628 752, Capital Social Euros 314.000
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the consolidated financial statements and assessing the reasonableness of the estimates, based on the judgements and criteria of the Board of Directors used in the preparation of the consolidated financial statements; (ii) verification of the consolidation operations and the utilization of the equity method; (iii) assessing the appropriateness of the accounting principles used and their disclosure, as applicable; (iv) assessing the applicability of the going concern basis of accounting; (v) assessing the overall presentation of the consolidated financial statements; and (vi) assessing the completeness, truthfulness, accuracy, clarity, objectivity and lawfulness of the consolidated financial information.

5 Our audit also covered the verification that the information included in the Directors' Report is consistent with the financial statements as well as the verification set forth in paragraphs 4 and 5 of Article 451º of the Companies Code.

6 We believe that our audit provides a reasonable basis for our opinion.

Qualifications

7 Novo Banco has at 31 December 2015 a total exposure of around Euro 838 million to Banco Económico, S.A., for which it has recorded an impairment of Euro 82.8 million, decomposed into a participation on its share capital of around Euro 47 million recorded in the caption of Available for sale financial assets and two loans, senior and subordinate, of respectively, around Euro 397 million and Euro 394 million, including accrued interests, recorded in the caption of Loans and advances to banks. Despite the loans being performing at 31 December 2015, considering the lack of 2014 and 2015 audited financial information for Banco Económico S.A., the unavailability of a business plan to allow us to appreciate its future capacity of generate free cash flows for the settlement of the mentioned loans, the current economic situation in Angola and the fact that, as referred in Note 24 of the notes to the accounts, there are, at the present date, ongoing negotiations on the potential need to redefine the reimbursement conditions of the senior loan, it is not possible for us to conclude, with reasonable assurance, on the recoverability of the above mentioned total exposure.

8 As referred in Note 40 of the notes to the accounts, the consolidated balance sheet of the Bank at 31 December 2015 includes Euro 1.183 million of deferred tax assets related to tax losses estimated in 2014 and 2015, for which, the effective recoverability is dependent on the generation of future taxable profit. Given that the maximum period for the use of these tax losses is 12 years, we consider that the estimated recoverability of the aforementioned deferred tax assets made by the Board of Directors based on a business plan covering the years 2016 through 2017, that assumes a stability of the results as from 2020, incorporates assumptions that we consider optimistic given the current economic situation and the fact that it is a bridge bank. Under these circumstances, the captions of Deferred tax assets, Reserves, retained earnings and other comprehensive income and Net income for the period, contained in the consolidated balance sheet of the Bank at 31 December 2015, are overstated by an amount that we are unable to quantify with reasonable assurance, taking into account the multiple underlying assumptions and respective correlations, as well as the potential impact deriving from the projected entry of a new shareholder in the Bank.

Opinion

9 In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary, if the scope limitation referred to in paragraph nr. 7 above had not existed and except for the effects on the financial statements of the matters referred to in paragraph nr. 8 above, the consolidated financial statements referred to above, present fairly in all material respects, the consolidated financial position of Novo Banco S.A. as at 31 December 2015, the consolidated results and the consolidated comprehensive income of its operations, the changes in consolidated equity and the consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and the information included is complete, true, up-to-date, clear, objective and lawful.

Report on other legal requirements

10 It is also our opinion that the information included in the Directors' Report is consistent with the consolidated financial statements for the year and that its chapter related to the corporate governance includes the information required under Article 245º-A of the Portuguese Securities Market Code.

Emphasis

11 Without further qualifying our opinion expressed in paragraph nr. 9 above, we draw attention to:

11.1 As disclosed in Note 1 of the notes to the accounts, the commitments of the Portuguese State before the European Commission foresee Novo Banco being sold within a maximum period of two years from its incorporation, having the European Commission extended the deadline in 21 December 2015. Nevertheless, from its incorporation the Bank's Board of Directors considers that, based on the business plan it has drawn up and the prospective information it has on profitability, cash flows and capital levels, the Bank has the means to continue to develop its activity in the foreseeable future, so much so that the accounts for the year ended on 31 December 2015 were prepared based on the going concern basis. We point out, however, that while the Bank is in a sale process, the compliance with the business plan presented by the Board of Directors, including, namely, the recoverability of the deferred tax assets recognized on the tax losses referred to in paragraph nr. 8 above, is necessarily conditioned by the future shareholder's strategy and by its ability to generate significant business for Novo Banco.

11.2 Given that the incorporation of the Bank resulted from the application of a resolution measure to BES, which originated material impacts on third parties, the risk of litigation involving Novo Banco, related to the Resolution Deliberation and the definition of the perimeter of assets, liabilities, off-balance sheet elements and assets under management transferred to the latter, is significant. In the preparation of the financial statements of the Bank at 31 December 2015, as referred to in Note 45 of the notes to the accounts, the Board of Directors took its account and reflected therein the Resolution Deliberation and related decisions taken by the Banco de Portugal, including the deliberation of 29 December 2015 related to the clarification of the contingencies and offsetting of risks related to the resolution measure regarding responsibilities and liabilities not transferred to Novo Banco, but that may be materialized in its juridical perimeter, therefore no material liabilities are expected for Novo Banco from said litigation, given the legal grounds and the information available at the present date.

12 April 2016

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

José Manuel Henriques Bernardo, R.O.C.

4. Report and Opinion of the Statutory Supervisory Board on the Consolidated and the Separate Financial Statements

REPORT AND OPINION OF THE STATUTORY SUPERVISORY BOARD ON THE MANAGEMENT REPORT AND THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2015

(free translation from the original in Portuguese)

To the Shareholder

Under the terms of the mandate granted to us and in compliance with the terms set forth in paragraph g) of number 1 of Article 420 of the *Código das Sociedades Comerciais* ("Portuguese Companies Code"), the Company's Bylaws and the Resolutions by the Board of Directors of Banco de Portugal concerning the resolution measure applied to Banco Espírito Santo, SA., we hereby present our Annual Report and Opinion on the Management Report and the individual and consolidated Financial Statements of Novo Banco, SA., that includes the individual and consolidated Income Statements, the individual and consolidated Statements of Comprehensive Income, the individual and consolidated Balance Sheets, the individual and consolidated Statements of Changes in Equity, the individual and consolidated Statements of Cash Flows, and the respective Annexes comprising the Notes to the individual and consolidated Financial Statements, as well as the Board of Directors proposal for the distribution of Net Income of Novo Banco, S.A., concerning the year ended on 31 December 2015.

During the year we oversaw the activity of the Bank and of the Bank's most relevant subsidiaries, having carried out, with the frequency and to the extent considered adequate, the following activities:

- Examined whether it was compliant with the law and the Bank's bylaws;

- we analysed the legal and regulatory requirements specific to the financial sector, namely the *Regime Geral das Instituições de Crédito e Sociedades Financeiras* - RGICSF (General Law on Credit Institutions and Financial Companies), the European Union regulations, and Notices and other instructions of Banco de Portugal, having found that some of the provisions introduced in the RGICSF by Decree-Law no. 157/2014, of 24 October, had not yet been implemented;

- we monitored the monthly, quarterly and annual accounts closing process;

- we monitored the reports on the ICAAP, ILAAP, Recovery Plan, credit impairment and monthly information presented to the Risk Committee, as well as the reports on exposure to the Espírito Santo Group, on the position on the *Restructuring Funds*, *Revitalisation Funds*, and on the *Repos* Portfolio.

- we regularly monitored the Bank's liquidity position and respective regulatory ratios through weekly information provided to the Board of Directors;

- we appraised the Anti-Money Laundering and Counter Terrorism Financing Report issued in 2015, about which we issued our opinion on 30 June 2015;

- we appraised the reports on the adequacy and effectiveness of the internal control system of the Bank, at individual and consolidated level, and of its most relevant subsidiaries, having issued the respective opinions on 10 July 2015;

- we have presented monthly activity reports to the Fundo de Resolução (Resolution Fund) and to Banco de Portugal.

As part of its functions, the Statutory Supervisory Board took part in the regular and extraordinary meetings of the Board of Directors in order to monitor the Board's actions and the activity and businesses of the Bank.

We held monthly meetings with the Internal Audit, Risk and Compliance departments, in order to monitor the more relevant aspects of their activity and the effectiveness of the respective internal control system.

The Statutory Supervisory Board also met with the Joint Supervisory Team (Banco de Portugal and ECB) in order to report its activities and discuss the aspects of greater interest and relevance to the supervisory authorities.

Within the scope and for the purposes of the analyses and verifications made, the Statutory Supervisory Board requested, and obtained, documentation and clarifications on the multiple questions raised.

Concerning the monitoring of the internal audit department activity, the Statutory Supervisory Board it is important to mention the following:

- the involvement of the Statutory Supervisory Board in the monitoring of the audit plan for 2015 having had an active participation in the discussions on this plan; and

- regularly monitored the reports issued and the discussion of the main aspects, in particular concerning the most significant deficiencies including those that had been reported in previous years but had not yet been resolved.

During 2015 the Statutory Supervisory Board issued 37 opinions in response to requests made by the Board of Directors and Managing Directors, namely concerning the following situations:

- The verification of the application of several measures concerning credit granted to persons and entities especially related with the Espírito Santo Group, taking into account the restrictions imposed by Banco de Portugal;

- the independence of the external statutory auditors concerning the provision of additional services;

- the granting of credit to entities where Novo Banco has a significant presence in the management, under the terms of paragraph c) number 2 of Article 20 of Novo Banco's bylaws;

- the assessment of the applicability to credit operations of the provisions on conflicts of interest set forth in Article 85 of the RGICSF, considering that some members of the Board of Directors of Novo Banco are also members of the management bodies of subsidiaries of the Bank.

During the year the Statutory Supervisory Board held working meetings with the External Statutory Auditors, PricewaterhouseCoopers, SROC, Lda. within the scope of both the limited review of the financial statements for the 6-month period ended on 30 June 2015 and the audit to the financial statements for 31 December 2015, and also in connection to the regular monitoring and discussion of the more relevant issues arising from the assessment of internal control. Through coordinated works with the External Statutory Auditors, the Statutory Supervisory Board obtained the necessary and sufficient clarifications to the questions made in the course of their functions, and in particular concerning the following:

- the conformity of the accounting records and corresponding supporting documents;

- the existence of assets or valuables belonging to the Company or received as security, deposit or otherwise; and

- whether the accounting policies and valuation criteria adopted lead to an adequate valuation of the assets and results of the Company, save in those aspects highlighted under qualifications and emphasis in the Auditors' Report on the Individual and Consolidated Financial Information issued by the External Statutory Auditors on 12 April 2016.

Within the scope of the closing process of the accounts for the year, the Statutory Supervisory Board analysed the Management Report and remaining reporting documents presented by the Board of Directors, having carried out the verifications and obtained the clarifications deemed convenient, which comply with the applicable legal requirements.

The reporting documents were audited by the External Statutory Auditors PricewaterhouseCoopers, SROC, Lda., which issued the corresponding Auditors' Report on the Individual and Consolidated Financial Information on 12 April 2016, with qualifications and emphasis, that the Supervisory Board agrees, in accordance with the provisions of number 2 of Article 452 of the Portuguese Companies Code.

The Board of Directors' Management Report is sufficiently clear about the evolution of the business and the financial and equity position of the Bank, highlighting the most significant aspects and describing the main risks and uncertainties faced by the Bank.

The information on corporate governance includes the elements required under Article 245-A of the *Código dos Valores Mobiliários* (”Portuguese Securities Code”).

The proposal for distribution of the Net Income does not contravene the applicable legal and statutory provisions.

Considering the above, we express our opinion that:

(a) The Management Report and remaining reporting documents relative to financial year 2015 presented by the Board of Directors, should be approved taking into account the qualifications expressed in the External Statutory Auditors' Report;

(b) The proposal for distribution of the Net Income presented by the Board of Directors in the Management Report should be approved.

Finally, the Statutory Supervisory Board wishes to express its recognition to the Board of Directors, the Managing Directors responsible for the Bank's Departments and all staff, as well as to the External Statutory Auditors, for the cooperation and support given.

Lisbon, 12 April 2016

The Statutory Supervisory Board

José Manuel de Oliveira Vitorino
Chairman

José António Noivo Alves Fonseca
Member

José Francisco Claro
Member

5. SEPARATE FINANCIAL STATEMENTS AND NOTES TO THE SEPARATE FINANCIAL STATEMENTS

NOVO BANCO, S.A.

INCOME STATEMENT FOR THE PERIODS 1 JANUARY TO 31 DECEMBER 2015 AND 4 AUGUST TO 31 DECEMBER 2014

(in thousands of Euros)

	Notes	31.12.2015	31.12.2014
Interest and similar income	4	1 148 168	639 666
Interest expense and similar charges	4	900 486	466 030
Net interest income		**247 682**	**173 636**
Dividend income	5	50 832	7 474
Fee and commission income	6	392 745	178 534
Fee and commission expenses	6	(98 228)	(43 803)
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	7	(55 961)	(29 023)
Net gains / (losses) from available-for-sale financial assets	8	(13 625)	22 375
Net gains / (losses) from foreign exchange differences	9	(7 445)	32 466
Net gains/ (losses) from the sale of other assets	10	10 030	(896)
Other operating income and expenses	11	(60 367)	(19 354)
Operating income		**465 663**	**321 409**
Staff costs	12	(333 650)	(147 747)
General and administrative expenses	14	(264 757)	(126 219)
Depreciation and amortisation	25 & 26	(66 404)	(35 353)
Provisions, net of reversals	33	(41 264)	369 529
Impairment losses on loans and advances, net of reversals and recoveries	22	(469 610)	(446 721)
Impairment losses on other financial assets, net of reversals and recoveries	20 & 21	(288 976)	(301 237)
Impairment losses on other assets, net of reversals and recoveries	24, 27 & 28	(119 643)	(136 078)
Operating expenses		**(1 584 304)**	**(823 826)**
Profit / (loss) before income tax		**(1 118 641)**	**(502 417)**
Income tax			
Current tax	34	(12 178)	(16 395)
Deferred tax	34	15 159	(129 808)
		2 981	**(146 203)**
Net profit / (loss) for the period		**(1 115 660)**	**(648 620)**
Basic earnings per share (in Euros)	15	(0.23)	(0.13)
Diluted earnings per share (in Euros)	15	(0.23)	(0.13)

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

NOVO BANCO, S.A.

STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIODS 1 JANUARY TO 31 DECEMBER 2015 AND 4 AUGUST TO 31 DECEMBER 2014

(in thousands of Euros)

	Notes	31.12.2015	31.12.2014
Net profit / (loss) for the period		**(1 115 660)**	**(648 620)**
Other comprehensive income / (loss) for the period			
Items that will not be reclassified to results			
Re-measurement of defined benefit plans	13	(48 454)	(256 906)
Pensions - transitory regime	a)	-	(2 282)
Tax on income defined benefit plans	a)	1 093	-
		(47 361)	(259 188)
Items that may be reclassified to results			
Foreign exchange differences	a)	(104 759)	18 038
Taxes on foreign exchange differences	a)	21 576	(5 231)
		(83 183)	12 807
Available-for-sale financial assets			
Potential gains and losses arising in the period	37	(199 779)	(93 629)
Gains and losses included in profit and loss for the period	37	223 445	171 738
Deferred taxes	37	(4 997)	(21 903)
Incorporation of revaluation reserves of Avistar on merger (see Note 46)	37	(13 322)	-
		5 347	56 206
Total other comprehensive income / (loss) for the period		**(125 197)**	**(190 175)**
Total comprehensive income / (loss) for the period		**(1 240 857)**	**(838 795)**

a) See Statement of Changes in Equity

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

NOVO BANCO, S.A.

BALANCE SHEET AT 31 DECEMBER 2015 AND 31 DECEMBER 2014

(in thousands of Euros)

	Notes	31.12.2015	31.12.2014
Assets			
Cash and deposits with Central Banks	16	738 360	2 724 884
Deposits with banks	17	132 753	214 258
Financial assets held for trading	18	787 083	1 295 491
Other financial assets at fair value through profit or loss	19	227 393	1 245 882
Available-for-sale financial assets	20	10 594 931	7 564 670
Loans and advances to banks	21	2 548 148	2 830 785
Loans and advances to customers	22	28 272 583	31 341 787
Derivatives held for risk management purposes	23	322 055	405 235
Non-current assets held for sale	24	1 252 050	1 713 729
Other tangible assets	25	229 560	304 889
Intangible assets	26	68 469	99 918
Investments in subsidiaries and associated companies	27	1 415 763	1 382 675
Current tax assets	34	1 529	14 928
Deferred tax assets	34	2 566 944	2 532 431
Other assets	28	2 118 206	2 619 286
Total Assets		**51 275 827**	**56 290 848**
Liabilities			
Deposits from Central Banks	29	7 485 794	8 471 659
Financial liabilities held for trading	18	758 446	1 078 260
Deposits from banks	30	5 129 860	4 347 939
Due to customers	31	27 237 874	27 838 824
Debt securities issued	32	3 489 565	7 785 141
Financial liabilities associated with assets transferred		168 565	230 555
Derivatives held for risk management purposes	23	77 846	104 669
Provisions	33	689 352	825 947
Current tax liabilities	34	29 803	25 537
Deferred tax liabilities	34	78 956	77 096
Other liabilities	35	618 018	687 540
Total Liabilities		**45 764 079**	**51 473 167**
Equity			
Share capital	36	4 900 000	4 900 000
Reserves, Retained earnings and Other comprehensive income	37	1 727 408	566 301
Net income for the period		(1 115 660)	(648 620)
Total Equity		**5 511 748**	**4 817 681**
Total Liabilities and Equity		**51 275 827**	**56 290 848**

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

NOVO BANCO, S.A.

STATEMENT OF CHANGES IN EQUITY
FOR THE PERIODS 1 JANUARY TO 31 DECEMBER 2015 AND 4 AUGUST TO 31 DECEMBER 2014

(in thousands of Euros)

	Share capital	Reserves, Retained earnings and Other comprehensive income / (losses)			Net income for the period	Total Equity
		Fair value reserves	Other reserves, Retained earnings and Other comprehensive income	Total		
Balance as at 4 August 2014	**4 900 000**	**-**	**250 673**	**250 673**	**-**	**5 150 673**
Impact of restatement	-	-	522 519	522 519	-	522 519
Balance as at 4 August 2014 (restated)	**4 900 000**	**-**	**773 192**	**773 192**	**-**	**5 673 192**
Other comprehensive income						
Changes in fair value, net of tax	-	56 206	-	56 206	-	56 206
Pensions - transitory regime	-	-	(2 282)	(2 282)	-	(2 282)
Re-measurement of defined benefit plans, net of tax	-	-	(256 906)	(256 906)	-	(256 906)
Foreign exchange differences, net of tax **(a)**	-	-	12 807	12 807	-	12 807
Net results for the period	-	-	-	-	(648 620)	(648 620)
Total comprehensive income for the period	**-**	**56 206**	**(246 381)**	**(190 175)**	**(648 620)**	**(838 795)**
Adjustments to the originating reserve **(b)**	-	-	(16 711)	(16 711)	-	(16 711)
Other movements	-	-	(5)	(5)	-	(5)
Balance as at 31 December 2014	**4 900 000**	**56 206**	**510 095**	**566 301**	**(648 620)**	**4 817 681**
Other comprehensive income						
Changes in fair value, net of tax	-	18 669	-	18 669	-	18 669
Revaluation reserves of Avistar	-	(13 322)	-	(13 322)	-	(13 322)
Re-measurement of defined benefit plans, net of tax	-	-	(47 361)	(47 361)	-	(47 361)
Foreign exchange differences, net of tax **(a)**	-	-	(83 183)	(83 183)	-	(83 183)
Net results for the period	-	-	-	-	(1 115 660)	(1 115 660)
Total comprehensive income for the period	**-**	**5 347**	**(130 544)**	**(125 197)**	**(1 115 660)**	**(1 240 857)**
Appropriation to retained earnings of net income of the previous perod	-	-	(648 620)	(648 620)	648 620	-
Adjustments to the originating reserve **(c)**	-	-	1 948 236	1 948 236	-	1 948 236
Reserves arising on merger of Avistar	-	-	(13 316)	(13 316)	-	(13 316)
Other movements	-	-	4	4	-	4
Balance as at 31 December 2015	**4 900 000**	**61 553**	**1 665 855**	**1 727 408**	**(1 115 660)**	**5 511 748**

(a) Includes the foreign exchange conversion differences of hyperinflationary economies

(b) Results from clarifications on the Resolution Measure issued by Banco de Portugal subsequent to the date of publication of the opening balance sheet (see Note 37)

(c) Results from the decision made by Banco de Portugal published on 29 December 2015 on the resolution measure applied to BES (see Note 37)

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

NOVO BANCO, S.A.

CASH FLOW STATEMENT
FOR THE PERIODS 1 JANUARY TO 31 DECEMBER 2015 AND 4 AUGUST TO 31 DECEMBER 2014

(in thousands of Euros)

	Notes	31.12.2015	31.12.2014
Cash flows from operating activities			
Interest and similar income received		1 208 559	776 394
Interest expense and similar charges paid		(1 134 935)	(449 591)
Fees and commission received		392 921	178 630
Fees and commission paid		(105 094)	(47 205)
Recoveries on loans previously written off		17 653	6 778
Contributions to pension fund		(94 449)	(377 434)
Cash payments to employees and suppliers		(545 750)	(264 706)
		(261 095)	**(177 134)**
Changes in operating assets and liabilities:			
Deposits with / from Central Banks		(841 187)	(4 945 880)
Financial assets at fair value through profit or loss		1 108 238	116 985
Acquisition of available-for-sale financial assets		(42 904 627)	(12 188 212)
Sale of available-for-sale financial assets		39 338 447	13 201 899
Loans and advances to banks		159 370	(408 901)
Deposits from banks		800 373	(1 028 951)
Loans and advances to customers		2 180 010	1 439 609
Due to customers and other loans		(580 400)	1 905 905
Derivatives held for risk management purposes		17 148	(38 977)
Other operating assets and liabilities		733 751	(481 528)
Net cash from operating activities before corporate income tax		**(249 972)**	**(2 605 185)**
Corporate income taxes paid		(17 693)	9 999
Net cash from operating activities		**(267 665)**	**(2 595 186)**
Cash flows from investing activities			
Dividends received		50 832	7 474
Acquisition of tangible fixed assets, intangible assets and investment properties		(24 387)	(23 733)
Sale of tangible fixed assets, intangible assets and investment properties		(492)	1 479
Net cash from investing activities		**348 103**	**(14 780)**
Cash flows from financing activities			
Issuance of bonds and other debt securities		4 593	-
Reimbursement of bonds and other debt securities		(2 111 181)	(296 828)
Net cash from financing activities		**(2 106 588)**	**(296 828)**
Net changes in cash and cash equivalents		**(2 026 150)**	**(2 906 794)**
Cash and cash equivalents at beginning of period [1]		**2 679 315**	**5 398 406**
Effect of exchange rate changes in cash and cash equivalents		(43 579)	187 703
Net changes in cash and cash equivalents		(2 026 150)	(2 906 794)
Cash and cash equivalents at end of period		**609 586**	**2 679 315**
Cash and cash equivalents include:			
Cash	16	174 223	178 943
Deposits with Central Banks	16	564 137	2 545 941
(of which, Restricted balances)		(261 527)	(259 827)
Deposits with banks	17	132 753	214 258
Total		**609 586**	**2 679 315**

[1] At 31 December 2014, this amount already includes Euros 4 815 million relating to the share capital increase on the incorporation of the Bank. The realisation of the remaining share capital (Euros 85 million) to make up the total of Euros 4 900 million occurred on 11 August 2014

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

NOVO BANCO, S.A.

Explanatory notes to the separate financial statementsat31December 2015

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

NOTE 1 – ACTIVITY

NOVO BANCO, S.A. was 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 SociedadesFinanceiras" (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.

As determined by Point Two of the resolution of the Board of Directors of Banco de Portugal of 3 August 2014 (8 p.m.), consideringthe resolution by the same Board of Directors of 11 August (5 p.m.) (hereafter "Deliberation of 3 August 2014"), under and for the purposes of the 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 (hereafter "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), registered in the accounting records, are transferred to NOVO BANCO, SA, according to the following criteria:*

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[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.

(a) *All the assets, licences 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 ValoresMobiliários"), 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 onEspírito Santo Financial Group, secured by financial pledge on all the shares of Companhia de SegurosTranquilidade, 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 SegurosTranquilidade, T-Vida-Companhia de Seguros, Europ Assistance andSeguros 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' 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 higherthan 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 aggravatethat 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' 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' archives, in terms that permit the control and inspection of the decisions made.

(viii)Effective as from 29 December 2015, all 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 programme 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, effective from 29 December 2015, to BES Finance, Limited;*

(e) *The assets under management of BES will be assets under management ofNOVO 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 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 4 900 million of Euros.*

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, among other relevant circumstancesthe professional activities of the persons in question, their degree of dependence on thepersons 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 thatthe 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".

Under the terms of number 1 Article 3 of its by-laws “the purpose of NOVO BANCO, S.A., is to manage the assets, liabilities, off-balance sheet items and assets under management transferred from Banco Espírito Santo, S.A., to NOVO BANCO, S.A., and to carry on the transferred activities, for the purposes laid down in Article 145-A of the RGICSF.

As a transition bank, NOVO BANCO has a limited duration (no. 12 of article 145-G of the RGICSF). The initial commitments assumed by the Portuguese Government with the European Commission stipulated that NOVO BANCO was to be sold within a maximum period of two years from its date of incorporation. According to the announcement of Banco de Portugal of 21 December 2015, the European Commission approved the extension of the deadline for the sale of NOVO BANCO, as well as a number of commitments regarding the strategic and operational reorganisation of the Bank.

Under Article 153-B of the RGICSF, the Resolution Fund (“Fundo de Resolução”) is the sole holder of the share capital of NOVO BANCO, S.A. which is represented by 4 900 million registered shares with a nominal value of Euros 1 per share, totalling Euros 4 900 million.

In June 2015, the merger by incorporation ofAvistar, SGPS, S.A. was realised.

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

NOVO BANCO Group (hereafter also designated as Group or NB Group) has a retail network comprising 635 branches in Portugal and abroad, including branches in London, Spain, Cayman Islands, Venezuela and Luxembourg, an offshore branch in the Madeira Free Trade Zone and 7 representative offices overseas. During 2015, the branches in New York, Nassau and Cape Verde were closed.

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 2015.

The NCAs translate into the application in the separate financial statements of the International Financial Reporting Standards (IFRS) as adopted by the European Union, except for certain issues regulated by Banco de Portugal, such as impairment of loans to customers and the accounting treatment given to the recognition in retained earnings of the adjustments in retirement and survival pension liabilities determined on the transition.

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 separate financial statements of NOVO BANCO are presented as at 31 December 2015 and were prepared in accordance with the NCAs, which include the IFRSs in force as adopted by the European Union up till 31 December 2015. The comparative amounts presented as at 31 December 2014 include the results corresponding to the period 4 August through 31 December 2014.

The accounting policies used by the Bank in the preparation of its separate financial statements as at 31 December 2015 are consistent with those used in the preparation of the separate financial statements with reference to 31 December 2014.

The accounting policies and interpretations issued recently but not yet effective and that the Group has not yet adopted in the preparation of its financial statements may also be analysed in Note 45.

These 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 conformity with the NCAs 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 in these versus 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.

These financial statements were approved at the Board of Directors' meeting held on 30 March 2016.

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.

Taking into account the provision of paragraph 26 of IAS 21 – The effects of changes in foreign exchange rates - "when several exchange rates are available, the rate used is that in which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date", NOVO BANCO Group, as of 31 December 2015, began to use in the translation of the financial statements of the Venezuelan Branch, the SIMADI exchange rate published by the Central Bank of Venezuela.

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

Derivatives 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 re-measured on a regular basis and the resulting gains or losses on re-measurement 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.

The fair value of derivative financial instruments corresponds to their quoted market prices in active markets, if available, or is determined using valuation techniques, including discounted cash flow models and options pricing models, as appropriate.

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 33) and comprise the minimum collateral mandatory for open positions.

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 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.

At 31 December 2015, the Bank 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.

2.4. 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, 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 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 2.4. In these situations, the initial recognition of the loan is made through their 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 assesses, at each balance sheet date, 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.

The Bank first assesses whether objective evidence of impairment exists for each loan individually. 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 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 no evidence of loss has been identified, these loans are grouped together on the basis of 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 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 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 evaluation 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 evaluated 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.

In accordance with NCAs, the amount of the loans and advances should be adjusted, applying criteria of rigor and prudence, so as to reflect, at all times, their realisable value. This value adjustment (impairment loss) may not be inferior to that determined in accordance with Notice no. 3/95, of Banco de Portugal, which establishes the minimum reference framework for the constitution of specific and general provisions.

The loans write-off policy followed by the Bank is governed by the principles defined by Banco de Portugal in its Communication of 28.01.2009 (Reference: 15/09/DSBDR). Accordingly, the loan write-off only occurs after (i) the full amount of the loans has been deemed overdue and has been demanded; (Ii) it is considered that appropriate collection efforts have been undertaken; and (iii) the loans 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 loans that may be written off, which are:

- Loans cannot have associated collateral;
- Loans must be deemed overdue in their entirety (recorded, in their entirety, in overdue loans, with no portion being recorded in maturing debt);
- Loans cannot be marked as renegotiated overdue loans, or integrate an active settlement agreement;
- The provision created for overdue loans, according to the rules of Notice no. 3/95 of Banco de Portugal, must be 100%;
- The impairment loss 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, that are those acquired for the purpose of selling in the short-term or that 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 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 standards, will force the Bank 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 Bank, (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 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

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.

Available-for-sale financial assets are also subsequently carried at fair value. Gains and losses arising from changes in their fair value are, however, recognised directly in reserves, 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. 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 customized to reflect the specificities and circumstances of the instrument, and (ii) valuation assumptions based on market information.

Reclassificationsbetween 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 transfer. 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 it 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.

Reclassifications of available-for-sale financial assets to loans and advances to customers - securitised credit - are allowed if there is an intention and the ability to hold same for the foreseeable future or until maturity.

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 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 carrying 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 on available-for-sale financial assets has occurred, the potential 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.

2.6. 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 lent 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 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 expires or is cancelled.

Non-derivatives financial liabilities include deposits from banks and customers, loans, debt securities, subordinated debt and short sales.

The 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, which correspond to financial instruments containing one or more 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 based on current market bid prices. In the absence of a quoted price, the Bank establishes the fair value by 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 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 realise 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 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.

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. Non-current assets held for sale

Non-current assets or disposal groups (groups of assets to be disposed of together and 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.

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 re-measured at the lower of their carrying value and fair value less costs to sell.

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 properties and other assets as payments in kind against the loan. Due to the provisions of the "Regime Geral das Instituições de Crédito e SociedadesFinanceiras (RGICSF)", banks are prevented, unless authorised by Banco de Portugal, from acquiring 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, property in exchange for loans granted by same. This property must be sold within two 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).

It is the Bank's objective to immediately dispose of all property acquired as payment in kind for loans. This real estate property is classified as non-current assets held-for-sale and is initially recognised at the lower of its 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 the Bank, the amount recoverable from their immediate sale is considered to be their respective fair value. Unrealised losses on 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:

a) 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 prospecting carried out in the area.

b) Income Method

Under this method, the real estate property is valued based on the capitalisation of its net income, discounted to the present using the discounted cash-flow method.

c) Cost Method

This 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 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 Bank's 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 Bank in the scope of loan restructuring operations, for which the Bank'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 loan impairment losses.

2.12. Other tangible assets

The Bank'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
Motor vehicles	4
Other	5

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 carrying 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 value is recognised under the caption “Other operating income / 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 period, 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.

2.14. 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.

Financial leases

- As lessee

Financial lease contracts are recorded at 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 Labour Agreement (“AcordoColectivo 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 by pension funds managed by GNB - SociedadeGestora de Fundos de Pensões, SA, subsidiary of the Group.

The 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 Bank’s retirement pension liabilities were calculated as at 31 December 2015 and 31 December 2014, 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 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 includes 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 Bank recognises 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 the fact that the employee retired before 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 services costs for active employees shall be funded at a minimum level of 95%.

The Bank assesses the recoverability of any recognised excess in a fund in relation to the retirement pension liabilities, based on the expectation of reductions in future contributions.

Health-care benefits

The Bank 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, hospitalisation and surgeries, in accordance with its financing availability and internal regulations.

The Bank's annual mandatory contribution to SAMS amounts to 6.50% of the total annual remuneration of active employees, including, amongst others, the holiday subsidy and Christmas subsidy.

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 bonuses

In accordance with the ACT ("Acordo Colectivo de Trabalho") for the Banking Sector, the Bank has assumed the commitment to pay active employees who complete 15, 25 and 30 years of service in the Bank, long-term service bonuses corresponding, respectively, to one, two and three months of their effective monthly remuneration earned at the date the bonuses are paid out.

At the date of early retirement due to disability or presumed disability, employees have 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 are 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 is periodically calculated by the Bank using the Projected Unit Credit Method. The actuarial assumptions used are based on expectations as to future salary increases and mortality tables. The discount rate used in this calculation is 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, is to be charged to the income statement.

Employees’ variable remuneration

In accordance with IAS 19 - Employee Benefits, variable remuneration (profit share, awards and other) attributed to employees and, eventually, to the executive members of the Board of Directors is recognised in the income statement in the period to which it relates.

2.16. Corporate Income tax

Corporate income tax for the year 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 in equity. Corporate income tax recognised directly in equity relating to fair value re-measurement 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.

Deferred tax is calculated on timing differences arising between the carrying values of assets and liabilities for financial reporting purposes and their respective tax base, and is calculated using the tax rates enacted or substantively enacted at the balance sheet date in each jurisdiction and that are expected to apply when the timing differences are reversed.

Deferred tax liabilities are recognised for all taxable timing differences except for differences arising on the initial recognition of assets and liabilities that neither affect accounting nor taxable profit, and that do not result from 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 deducted. Deferred tax liabilities are always accounted for, regardless of the performance of NOVO BANCO.

The Tax Authorities are entitled to review the calculation of the tax assessment made by the Bank, during a period of four or twelve years, in the event of tax loss carry forwards.

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.

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 operation has either commenced or has been publicly announced.

A provision for onerous contracts is 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 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.

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 carrying 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.

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 commission income 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 period 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

Pursuant to paragraph 4 of IFRS 8 – Operating segments, the Bank is dispensed from presenting segmental reporting on an individual 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 net income available to ordinary shareholders of the Bank 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 Bank.

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 purposes of the cash flow statement, cash and cash equivalents comprise balances with maturities under three month from the inception date and which risk of change in value is immaterial, including cash, deposits with Central Banks and deposits with other credit institutions [the latter hereafter generally referred to as ‘banks’]. 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 exercise 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 rendered, 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 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.

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 Bank 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 quotation (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 may result in a different level of impairment losses being recognised.

3.2. Fair value of derivatives 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.

3.3. Impairment losses in loans and advances to customers

The Bank reviews its loan portfolio on a regular basis to assess impairment, as described in Note 2.4, taking as reference the minimum levels required by Banco de Portugal through Notice no. 3/95.

The assessment process applied on 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.

3.4. CorporateIncome 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.

The Tax Authorities are entitled to review and adjust the self-assessment of the taxable income 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 period 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 significant value will occur.

3.5. Pensions and other employee benefits

Determining retirement pension liabilities requires the use of assumptions and estimates, including the use of actuarial tables, assumption 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.

Changes in these assumptions could materially affect the amounts determined.

3.6. Non-current assets held for sale

Non-current assets held for sale are measured at the lower of their carrying value and their fair value net of costs to sell.

The fair value of these assets is determined based on valuations, performed by independent entities specialised in these services, using market, income or cost methods, as defined in Note 2.11. The valuation reports are analysed internally, comparing the sales values with the revalued amounts of the assets, so as to assure the adequacy of the valuation parameters and process with market evolution.

The use of alternative methodologies and assumptions could result in a different fair value level impacting the balance sheet amount recognised.

3.7. Provisions

The Bank 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 balance sheet date.

NOTE 4 – NET INTEREST INCOME

The breakdown of the net interest income is as follows:

(thousands of Euros)

	31.12.2015			31.12.2014		
	Assets / Liabilities at amortised cost and Available-for-sale financial assets	Assets / Liabilities at fair value through profit or loss	Total	Assets / Liabilities at amortised cost and Available-for-sale financial assets	Assets / Liabilities at fair value through profit or loss	Total
Interest and similar income						
Interest from loans and advances	872 177	12 956	885 133	482 519	5 421	487 940
Interest from financial assets at fair value through profit or loss	-	7 359	7 359	-	7 615	7 615
Interest from deposits with and loans and advances to banks	54 585	207	54 792	13 033	623	13 656
Interest from available-for-sale financial assets	90 016	-	90 016	48 313	-	48 313
Interest from derivatives held for risk management purposes	-	85 079	85 079	-	76 094	76 094
Other interest and similar income	25 789	-	25 789	6 048	-	6 048
	1 042 567	**105 601**	**1 148 168**	**549 913**	**89 753**	**639 666**
Interest expense and similar charges						
Interest on debt securities	390 338	5 337	395 675	215 528	12 161	227 689
Interest on amounts due to customers	299 545	44 492	344 037	101 523	40 640	142 163
Interest on deposits from Central Banks and other banks	88 995	14 688	103 683	37 061	18 588	55 649
Interest on derivatives held for risk management purposes	-	52 186	52 186	-	36 176	36 176
Other expenses and similar charges	4 905	-	4 905	4 353	-	4 353
	783 783	**116 703**	**900 486**	**358 465**	**107 565**	**466 030**
	258 784	**(11 102)**	**247 682**	**191 448**	**(17 812)**	**173 636**

The Interest Income and Interest Expenses relating to interest fromderivatives 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 hegde 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:

(thousands of Euros)

	31.12.2015	31.12.2014
Dividends from subsidiaries and associated companies	44 562	3 450
Dividends from available-for-sale financial assets	6 270	4 024
	50 832	**7 474**

Dividends from subsidiaries and associated companies include Euros 23 319 thousand from ES Tech Ventures, SGPS, SA and Euros 10 356 thousand from NB Asia.

NOTE 6 – NET FEE AND COMMISSION INCOME

The breakdown of this caption is as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Fee and commission income		
From banking services	223 035	98 735
From guarantees provided	103 531	52 775
From transactions of securities	5 101	3 378
From commitments to third parties	18 274	8 148
Other fee and commission income	42 804	15 498
	392 745	**178 534**
Fee and commission expense		
With banking services rendered by third parties	49 957	19 775
With guarantees received	34 847	18 511
With transactions of securities	7 977	3 655
Other fee and commission expenses	5 447	1 862
	98 228	**43 803**
	294 517	**134 731**

The caption Fee and commission expense with guarantees received includes, as at 31 December 2015, Euros 34.4 million relating to commissions with the guarantee received from the Portuguese Government on the debt securities issue (31 December 2014: Euros 17.8 million) (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)

	31.12.2015			31.12.2014		
	Gains	Losses	Total	Gains	Losses	Total
Securities held for trading						
Bonds and other fixed income securities						
Issued by government and public entities	2 874	1 477	1 397	2 082	455	1 627
Issued by other entities	2 461	18 231	(15 770)	25 760	197	25 563
Shares	471	19 682	(19 211)	754	6 428	(5 674)
Other variable income securities	-	53	(53)	-	201	(201)
	5 806	**39 443**	**(33 637)**	**28 596**	**7 281**	**21 315**
Derivative financial instruments						
Foreign exchange rate contracts	216 409	173 686	42 723	257 896	65 303	192 593
Interest rate contracts	2 516 088	2 588 090	(72 002)	690 195	764 429	(74 234)
Equity / Index contracts	379 851	400 698	(20 847)	188 225	200 662	(12 437)
Credit default contracts	122 515	123 648	(1 133)	30 860	68 990	(38 130)
Other	73 100	53 355	19 745	7 393	18 749	(11 356)
	3 307 963	**3 339 477**	**(31 514)**	**1 174 569**	**1 118 133**	**56 436**
Other financial assets and liabilities at fair value through profit or loss						
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	-	69	(69)	139	-	139
Issued by other entities	8 345	655	7 690	11 179	874	10 305
Shares	19	-	19	120	1 050	(930)
Other variable income securities	25 331	54 891	(29 560)	2 578	134 439	(131 861)
	33 695	**55 615**	**(21 920)**	**14 016**	**136 363**	**(122 347)**
Other financial assets (1)						
Loans and advances to banks	-	-	-	-	17	(17)
Loans and advances to customers	14 114	15 442	(1 328)	17 721	458	17 263
	14 114	**15 442**	**(1 328)**	**17 721**	**475**	**17 246**
Financial liabilities (1)						
Deposit from banks	9 622	1 215	8 407	291	20 853	(20 562)
Due to customers	26 756	6 795	19 961	37 000	23 728	13 272
Debt securities issued	4 963	893	4 070	11 116	5 499	5 617
	41 341	**8 903**	**32 438**	**48 407**	**50 080**	**(1 673)**
	89 150	**79 960**	**9 190**	**80 144**	**186 918**	**(106 774)**
	3 402 919	**3 458 880**	**(55 961)**	**1 283 309**	**1 312 332**	**(29 023)**

(1) Includes the fair value change of hedged assets / liabilities or at fair value option

As at 31 December 2015, this caption includes a positive effect of Euros 23.9 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 2014: positive effect of Euros 27.5 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 an intermediation fee, originating a day one profit.

The Bank recognises 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.

In 2015, the gains recognised in the income statement arising from intermediation fees amounted to approximately Euros 9 610 thousand (31 December 2014: Euros 4 600 thousand) and are essentially related to foreign currency operations.

NOTE 8 – NET GAINS / (LOSSES) FROM AVAILABLE-FOR-SALE FINANCIAL ASSETS

The breakdown of this caption is as follows:

(thousands of Euros)

	31.12.2015			31.12.2014		
	Gains	Losses	Total	Gains	Losses	Total
Bonds and other fixed income securities						
Issued by government and public entities	57 235	49 772	7 463	8 912	1 303	7 609
Issued by other entities	5 989	11 681	(5 692)	10 363	2 921	7 442
Shares	8 544	4 710	3 834	157	4	153
Other variable income securities	10 386	29 616	(19 230)	9 615	2 444	7 171
	82 154	**95 779**	**(13 625)**	**29 047**	**6 672**	**22 375**

NOTE 9 – NET GAINS / (LOSSES) FROM FOREIGN EXCHANGE REVALUATION

The breakdown of this caption is as follows:

(thousands of Euros)

	31.12.2015			31.12.2014		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange revaluation	1 620 902	1 628 347	(7 445)	567 909	535 443	32 466
	1 620 902	1 628 347	(7 445)	567 909	535 443	32 466

This caption includes the results of the foreign exchange revaluation of monetary assets and liabilities denominated in foreign exchange rates 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)

	31.12.2015	31.12.2014
Loans and advances to customers	(2 239)	(38)
Non-current assets held for sale	9 530	(1 321)
Other	2 739	463
	10 030	**(896)**

NOTE 11 – OTHER OPERATING INCOME AND EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Other operating income / (costs)		
IT related	176	96
Gains / (losses) on recovery of credit operations	17 653	6 778
Non-recurring advisory services	3 192	884
Direct and indirect taxes	(8 803)	(5 359)
Contributions to the Deposits Guarantee Fund	(1 310)	(5 062)
Contributions to the Resolution Fund	(6 591)	(3 448)
Contributions to the Single Resolution Fund	(25 190)	-
Banking levy	(31 159)	(12 952)
Membership subscriptions and donations	(2 247)	(1 135)
Net gains / (losses) on repurchase of Group debt securities (see Note 32)	9 570	9
Other	(15 658)	844
	(60 367)	**(19 354)**

NOTE 12 – STAFF COSTS

The breakdown of the caption Staff costs is as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Wages and salaries	233 010	103 433
Remuneration	231 532	103 005
Long-term service bonuses (see Note 13)	1 478	428
Mandatory social charges	76 474	28 287
Costs with post-employment benefits (see Note 13)	10 081	9 260
Other costs	14 085	6 767
	333 650	**147 747**

The cost with salaries and other benefits attributed to key management personnel of the Bank, is presented as follows:

(thousands of Euros)

	Board of Directors	Supervisory Board	Other key management	Total
31 December 2015				
Salaries and other short-term benefits	1 681	244	2 276	4 201
Long-term benefits and other social charges	402	50	617	1 069
Seniority bonuses	42	-	-	42
Variable remuneration	-	-	-	-
	2 125	**294**	**2 893**	**5 312**
31 December 2014				
Salaries and other short-term benefits	479	108	1 251	1 838
Long-term benefits and other social charges	110	-	502	612
Seniority bonuses	-	-	-	-
Variable remuneration	-	-	-	-
	589	**108**	**1 753**	**2 450**

"Other key management personnel" include General Managers and Advisors to the Board of Directors of NOVO BANCO.

As at 31 December 2015, the number of employees of the Bank, considering both permanent and fixed-term employees, has the following breakdown by professional category:

	31.12.2015	31.12.2014
Senior management	548	595
Managerial Functions	717	823
Specific functions	2 558	2 582
Administrative functions and other	2 227	2 327
	6 050	**6 327**

NOTE 13 – EMPLOYEE BENEFITS

Pension and health-care benefits

In compliance with the Collective Labour 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, with the annual contribution by the Bank 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 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 – SociedadeGestora 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 EmpregadosBancários" 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 EmpregadosBancários (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 guaranteed pension under the ACT is paid by the Banks.

At the end of 2011 and pursuant to the third 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 at 31 December 2011.

This tripartite agreement established the transfer to the General Social Security Regime, of all the liabilities with pensions in payment at 31 December 2011, at constant values (0% discount rate) for the component foreseen in the "Instrumento de RegulaçãoColectiva 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 deferralsurvivalpensions 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 of the 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 (5p.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 refers, not having, therefore, been transferred to NOVO BANCO, without prejudice to the responsibilities relating exclusively to the employment contracts with BES.

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 EC Plan were split, with a part (described above) remaining in BES, with the other part being transferred to NOVO BANCO, together with the responsibilities of 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 thedecision 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 Board 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, was based on the recommendation of the ASF transmitted to the Sociedade Gestora do Fundo de Pensões (Managing Company of the Pension Fund). However, until today, as the ASF has not yet formalised its approval the amounts presented in the Note may be subject to future corrections resulting from the final decision by ASF.

The key actuarial assumptions used to calculate retirement pension and health-care liabilities are identical and are as follows:

	31.12.2015		31.12.2014	
	Assumptions	Actual	Assumptions	Actual
Actuarial Assumptions				
Projected rate of return on plan assets	2.50%	-1.34%	2.50%	-16.00%
Discount rate	2.50%	-	2.50%	-
Pension increase rate	0.00% **(1)**	0.11%	0.50%	-1.50%
Salary increase rate	0.50% **(2)**	1.47%	1.00%	0.10%
Mortality table men	TV 73/77 - 2 years		TV 73/77 - 1 year	
Mortality table women	TV 88/90 - 2 years		TV 88/90	

(1) until 2019, from 2020 a growth rate of 0.50% was considered

(2) until 2019, from 2020 a growth rate of 1.00% was considered

Disability decreases are not considered in the liabilities' calculation. The determination of the discount rate as at 31 December 2015 and 2014 was based on: (i) the evolution in the main indexes for high quality corporate bonds and (ii) the duration of the liabilities.

The number of persons covered by the pension plan has the following breakdown:

	31.12.2015	31.12.2014
Employees	4 953	5 271
Pensioners and survivors	6 083	5 956
TOTAL	**11 036**	**11 227**

The application of IAS 19 in terms of liabilities and coverage levels as at 31 December 2015 and 2014 is presented as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Assets / (liabilities) recognised in the balance sheet		
Total liabilities	**(1 513 154)**	**(1 470 481)**
Liabilities with retirement pensions		
Pensioners	(712 715)	(634 616)
Employees	(800 439)	(835 865)
Coverage		
Fair value of plan assets	**1 481 484**	**1 410 335**
Net assets / (liabilities) in the balance sheet (see Note 35)	**(31 670)**	**(60 146)**
Accumulated actuarial deviations recognised in other comprehensive income	304 267	256 906

In accordance with the accounting policy described in Note 2.15 – Employees Benefits, the Bank's liability with retirement pensions and the actuarial gains and losses are calculated half-yearly and assesses at each balance sheet date and for each plan individually, the recoverability of the fund's excess coverage in relation to the retirement pension liabilities.

The sensitivity analysis considering a 0.25% change in the assumption rates used and a one year change in the mortality tables has the following impact on the present value of past services liabilities:

(thousands of Euros)

Assumptions	**Change in the amount of liabilities due to the variation:**	
	of +0.25% in the rate used	of -0.25% in the rate used
Discount rate	(62 091)	59 134
Salary increase rate	38 437	(2 957)
Pension increase rate	35 481	(35 481)
	of +1 year	of -1 year
Mortality table	(47 308)	44 351

The changes in retirement pension and health-care liabilities may be analysed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Retirement pension liabilities at beginning of period	**1 470 481**	**1 319 604**
Active service cost	3 738	3 340
Interest cost	36 350	20 096
Plan participants' contribution	2 871	1 247
Contributions from other entities	302	-
Actuarial (gains) / losses in the period:		
- Changes in demographic assumptions	(76 107)	-
- Changes in financial assumptions	109 667	125 002
- Experience adjustments (gains) / losses	(2 835)	13 005
Pensions paid by the fund	(40 324)	(16 330)
Early retirement	12 791	6 006
Foreign exchange differences and other	(3 780)	(1 489)
Retirement pension liabilities at end of period	**1 513 154**	**1 470 481**

The change in the value of the pension funds' assets may be analysed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Fair value of fund assets at beginning of period	**1 410 335**	**1 151 147**
Expected return from the fund	35 714	17 526
Actuarial gains / (losses)	(16 161)	(118 921)
Bank contributions	94 449	377 434
Plan participants' contributions	2 871	1 247
Pensions paid by the fund	(40 324)	(16 330)
Foreign exchange differences and other	(5 400)	(1 768)
Fair value of fund assets at end of period	**1 481 484**	**1 410 335**

The pension funds' assets may be analysed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Shares	339 216	275 415
Bonds	596 058	312 300
Real estate	286 371	348 546
Other	259 839	474 074
Total	**1 481 484**	**1 410 335**

The assets of the pension funds used by the Bank or representative of debt securities issued by the Bank are detailed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Real estate	83 212	97 306
Total	**83 212**	**97 306**

The changes in the accumulated actuarial gains and losses may be analysed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Accumulated actuarial losses recognised in other comprehensive income at beginning of period	**256 906**	**-**
Actuarial (gains) / losses in the period:		
- Changes in assumptions	33 560	125 002
- Experience adjustments (gains) / losses	13 326	133 522
Other	475	(1 618)
Accumulated actuarial losses recognised in other comprehensive income at end of period	**304 267**	**256 906**

The cost for the period with retirement pensions and health-care benefits may be analysed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Active service cost	3 738	3 340
Interest cost / (income)	2 208	3 029
Early retirement	12 791	6 006
Other	1 536	(86)
Cost with post-employment benefits	**20 273**	**12 289**

The changes in net assets / (liabilities) recognised in the balance sheet may be analysed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
At beginning of period	**(60 146)**	**(168 457)**
Cost for period	(20 273)	(12 289)
Actuarial gains / (losses) recognised in other comprehensive income	(46 886)	(256 906)
Contributions made in the period	94 449	377 434
Other	1 186	72
At end of period	**(31 670)**	**(60 146)**

A summary of the liabilities and balances of the funds, as well as the experience adjustments (gains and losses) at 31 December 2015 and 2014 are analysed as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Retirement pension liabilities	(1 513 154)	(1 470 481)
Fair value of plan assets	1 481 484	1 410 335
(Under) / overfunding of liabilities	**(31 670)**	**(60 146)**
(Gains) / losses on experience adjustments in retirement pension liabilities	(2 835)	13 005
(Gains) / losses on experience adjustments in fair value of assets	16 161	118 921

The average maturity of the liabilities of the defined benefit plans is approximately 17 years.

With the exception of the unfinanced liabilities in the balance sheet as at 31 December 2015, amounting to Euros 31 670 thousand (see Note 35), no contributions to the defined benefits plans for the subsequent year are foreseen, given that the fund's return is expected to be sufficient to cover for changes in the liabilities.

Long-term service bonuses

As referred to in Note 2.15, for employees attaining a certain number of years of service, the Bank pays long-term service bonuses, calculated based on the effective monthly remuneration earned at the date the bonuses become due. At the date of their early retirement for presumed disability, employees have the right to a bonus proportional to that which they would receive if they remained in service until the next bonus payment date.

At 31 December 2015 and 2014, the Bank's liabilities with this benefit amount to Euros 28 396 thousand and Euros 29 057 thousand, respectively (see Note 35). The costs incurred during the 2015 with long-term service bonuses amounted to Euros 1 478 thousand (4 August through 31 December 2014: Euros 428 thousand) (see Note 12).

The actuarial assumptions used in the calculation of these liabilities are those used for the calculation of retirement pensions (when applicable).

NOTE 14 – GENERAL AND ADMINISTRATIVE EXPENSES

The breakdown of this caption is as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Rentals and hires	43 549	17 052
Advertising	11 539	6 705
Communication	18 617	7 905
Maintenance and repairs	10 318	5 855
Travelling and representation	5 148	2 373
Transportation of valuables	4 975	2 020
Insurance	4 633	2 183
IT services	53 628	23 588
Independent work	5 728	2 154
Temporary work	3 414	1 507
Electronic payment systems	9 265	2 930
Legal costs	21 271	8 597
Consultancy and audit fees	17 127	16 263
Water, energy and fuel	7 610	3 285
Consumables	2 620	1 204
Cleaning expenses	4 856	2 244
Security and surveillance	3 125	1 848
Other costs	37 334	18 506
	264 757	**126 219**

The caption Other costs includes costs incurred with training and services rendered by the Joint Ventures (ACEs) in which NOVO BANCO participates.

The fees invoiced during 2015 and the period between 4 August and 31 December 2014 by the Statutory Audit Firm, disclosed in accordance with article 508-F of the Commercial Companies Code, have the following breakdown:

(in thousands of Euros)

	31.12.2015	31.12.2014
Statutory audit fees	2 100	1 271
Audit related fees	787	835
Tax consultancy services	53	63
Other services	156	85
Amount of Services Invoiced	**3 096**	**2 254**

NOTE 15 –EARNINGS PER SHARE

Basic earnings per share

The basic earnings per share is calculated dividing the net profit attributable to the shareholders of the Bank by the weighted average number of ordinary shares in circulation during the period.

(thousands of Euros)

	31.12.2015	31.12.2014
Net profit / (loss) attributable to shareholders of the Bank	**(1 115 660)**	**(648 620)**
Weighted average number of ordinary shares issued and outstanding (thousands)	4 900 000	4 900 000
Basic earnings per share attributable to shareholders of NOVO BANCO (in Euros)	**(0.23)**	**(0.13)**

Diluted earnings per share

The diluted earnings per share is calculated considering the 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 16– CASH AND DEPOSITS WITH CENTRAL BANKS

As at 31 December 2015 and 2014, this caption is analysed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Cash	174 223	178 943
Demand deposits with Central Banks		
Bank of Portugal	544 814	707 465
Other Central Banks	19 323	1 838 476
	564 137	2 545 941
	738 360	**2 724 884**

As at 31 December 2015, the caption Demand deposits with Banco de Portugal includes mandatory deposits, intended to satisfy the minimum legal cash requirements, in an amount of Euros 228.6 million (31 December 2014: Euros 201 million). According to European Central Bank Regulation no. 1348/2011, of 12 December 2011, minimum cash requirements deposited 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 debt securities of institutions subject to the European System of Central Banks minimum reserve requirements. At 31 December 2015, the average interest rate on these deposits was 0.05% (31 December 2014: 0.17%).

Compliance with minimum cash requirements, for a given observation period, is monitored considering the average amount of the deposits with Banco de Portugal over said period. The balance of the Bank's account with Banco de Portugal at 31 December 2015, was included in the observation period running from 9 December 2015 to 26 January 2016, to which corresponded an average minimum cash requirement of Euros 228.2 million.

NOTE 17 – DEPOSITS WITH OTHER BANKS

As at 31 December 2015 and 2014, this caption is analysed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Deposits with banks in Portugal		
Uncollected cheques	87 875	93 032
Repayable on demand	12 274	14 633
	100 149	**107 665**
Deposits with banks abroad		
Repayable on demand	32 604	106 593
	32 604	**106 593**
	132 753	**214 258**

Uncollected cheques in Portugal and abroad were sent for collection during the first business days subsequent to the balance sheet days.

NOTE 18 – FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

As at 31 December 2015 and 2014, the caption Financial assets and liabilities held for trading has the following breakdown:

(thousands of Euros)

	31.12.2015	31.12.2014
Financial assets held for trading		
Securities		
Bonds and other fixed income securities		
Issued by government and public entities	1 128	51 557
Issued by other entities	30	102 737
Shares	14 550	36 515
Other variable income securities	76	119
	15 784	**190 928**
Derivatives		
Derivative financial instruments with a positive fair value	771 299	1 104 563
	787 083	**1 295 491**
Financial liabilities held for trading		
Derivados		
Derivative financial instruments with a negative fair value	758 446	1 078 260
	758 446	**1 078 260**

As at 31 December 2015 and 2014, the analysis of the securities held for trading, by residual maturity period, is as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Up to 3 months	1 096	982
3 months to 1 year	-	5 148
1 to 5 years	-	33 156
More than 5 years	62	115 007
Undetermined	14 626	36 635
	15 784	**190 928**

As at 31 December 2015 and 2014, the caption Financial assets held for trading, split between quoted and unquoted securities, and has the following breakdown:

(thousands of Euros)

	31.12.2015			31.12.2014		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Bonds and other fixed income securities						
Issued by government and public entities	1 128	-	1 128	51 557	-	51 557
Issued by other entities	-	30	30	39	102 698	102 737
Shares	299	14 251	14 550	3 647	32 868	36 515
Other variable income securities	76	-	76	119	-	119
	1 503	**14 281**	**15 784**	**55 362**	**135 566**	**190 928**

A breakdown of the securities held for trading, by fair value, is presented in Note 41.

As at 31 December 2015 and 2014, the exposure to sovereign debt of "peripheral" Eurozone countries is analysed in Note 42 – Risk management.

During 2015, the Bank reclassified the bonds of the subsidiary NB Finance that were registered in financial assets held for trading to available-for-sale financial assets, given that the resolution of BES (unique and exceptional event) led to the change in the liquidity these bonds, and that no customers have revealed interest in the transaction of same at this date. This can be evidenced by the absence of purchases and sales of these bonds with customers from the date of the resolution of BES up to the present date. On 31 December 2014, these bonds were recorded on the balance sheet at Euros 102 668 thousand.

As at 31 December 2015 and 2014, derivative financial instruments are analysed as follows:

(thousands of Euros)

	31.12.2015			31.12.2014		
	Notional	Fair value		Notional	Fair value	
		Assets	Liabilities		Assets	Liabilities
Trading derivatives						
Exchange rate contracts						
Forwards						
- buy	604 212	8 576	13 926	759 821	9 543	9 287
- sell	609 382			760 384		
Currency Swaps						
- buy	850 591	393	204	212 388	92	64
- sell	845 685			211 511		
Currency Futures [a)]						
- buy	1 998	-	-	1 748	-	-
- sell	-			-		
Currency Interest Rate Swaps						
- buy	28 946	23 927	23 900	32 310	24 282	11 061
- sell	28 931			29 525		
Currency Options						
- buy	410 392	7 246	5 969	1 505 368	50 856	24 574
- sell	229 544			1 399 200		
		40 142	**43 999**		**84 773**	**44 986**
Interest rate contracts						
Forward Rate Agreements						
- buy	-	-	-	-	-	23
- sell	-			200 000		
Interest Rate Swaps						
- buy	8 915 266	706 128	684 712	11 275 527	904 299	907 442
- sell	8 939 736			11 299 486		
Interest Rate Caps & Floors						
- buy	35 314	1 563	1 597	173 639	14 294	14 190
- sell	38 556			210 051		
		707 691	**686 309**		**918 593**	**921 655**
Equity / Index contracts						
Equity / Index Swaps						
- buy	14 283	386	54	310 169	46 659	39 940
- sell	14 283			301 646		
Equity / Index Options						
- buy	191 097	1 683	11 519	147 816	29 733	57 909
- sell	232 021			847 081		
Equity / Index Futures [a)]						
- buy	21 527	-	-	17 288	-	-
- sell	462			92 456		
Future Options [a)]						
- buy	325 160	-	-	-	-	-
- sell	-			-		
		2 069	**11 573**		**76 392**	**97 849**
Credit default contracts						
Credit Default Swaps						
- buy	327 429	21 397	16 565	594 218	24 805	13 770
- sell	327 429			594 218		
		21 397	**16 565**		**24 805**	**13 770**
Total		**771 299**	**758 446**		**1 104 563**	**1 078 260**

a) Derivatives traded on organised markets, which 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, on 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 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 the 2015 financial period, the Bank recognised a loss of Euros 45.9 million related with the CVA of the derivative instruments (31 December 2014: loss of Euros 11.1 million).

As at 31 December 2015 and 2014, the analysis of derivative financial instruments held for trading, by residual maturity period, is as follows:

(thousands of Euros)

	31.12.2015			31.12.2014		
	Notional		Fair value (net)	Notional		Fair value (net)
	Buy	Sell		Buy	Sell	
Up to 3 months	1 892 243	1 599 155	(41 257)	2 788 922	2 821 675	(39 598)
3 months to 1 year	774 329	494 107	3 643	2 420 001	3 100 692	39 597
1 to 5 years	2 662 353	2 727 178	(1 311)	2 458 397	2 620 388	(40 306)
More than 5 years	6 397 290	6 445 589	51 778	7 362 972	7 402 803	66 610
	11 726 215	**11 266 029**	**12 853**	**15 030 292**	**15 945 558**	**26 303**

NOTE 19– OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The breakdown of this caption is as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Bonds and other fixed income securities		
Issued by government and public entities	-	3 401
Issued by other entities	1 785	20 072
Shares and other variable income securities	225 608	1 222 409
	227 393	**1 245 882**

The Bank's option, in light of 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 evaluated on a fair value basis and / or (ii) have embedded derivative instruments.

As at 31 December 2015 and 2014, the analysis of the financial assets at fair value through profit or loss, by residual maturity period, is as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Up to 3 months	62	202
3 months to 1 year	-	89 382
1 to 5 years	-	-
More than 5 years	1 552	23 114
Undetermined	225 779	1 133 184
	227 393	**1 245 882**

The balance split between quoted and unquoted securities, has the following breakdown:

(in thousands of Euros)

	31.12.2015			31.12.2014		
	Quoted	**Unquoted**	**Total**	**Quoted**	**Unquoted**	**Total**
Bonds and other fixed income securities						
Issued by government and public entities	-	-	-	3 401	-	3 401
Issued by other entities	1 615	170	1 785	-	20 072	20 072
Shares and other variable income securities	6 053	219 555	225 608	4 897	1 217 512	1 222 409
	7 668	**219 725**	**227 393**	**8 298**	**1 237 584**	**1 245 882**

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 2015 and 2014, this balance 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	**5 161 091**	**6 943**	**(5 639)**	**-**	**5 162 395**
Resident	2 206 472	4 066	(2 801)	-	2 207 737
Non-resident	2 954 619	2 877	(2 838)	-	2 954 658
Issued by other entities	**2 441 964**	**9 736**	**(40 934)**	**(159 417)**	**2 251 349**
Resident	1 160 555	7 856	(22 527)	(131 183)	1 014 701
Non-resident	1 281 409	1 880	(18 407)	(28 234)	1 236 648
Shares	**1 389 910**	**61 302**	**(12 498)**	**(534 786)**	**903 928**
Resident	602 995	2 275	(12 498)	(420 461)	172 311
Non-resident	786 915	59 027	-	(114 325)	731 617
Other variable income securities	**2 840 242**	**72 360**	**(2 676)**	**(632 667)**	**2 277 259**
Resident	2 768 268	71 213	(2 562)	(608 777)	2 228 142
Non-resident	71 974	1 147	(114)	(23 890)	49 117
Balance as at 31 December 2015	**11 833 207**	**150 341**	**(61 747)**	**(1 326 870)**	**10 594 931**
Bonds and other fixed income securities					
Issued by government and public entities	**2 069 339**	**17 611**	**(6 906)**	**-**	**2 080 044**
Resident	781 655	14 543	(37)	-	796 161
Non-resident	1 287 684	3 068	(6 869)	-	1 283 883
Issued by other entities	**3 181 842**	**60 397**	**(27 244)**	**(46 110)**	**3 168 885**
Resident	1 894 405	1 743	(24 864)	(23 866)	1 847 418
Non-resident	1 287 437	58 654	(2 380)	(22 244)	1 321 467
Shares	**1 009 736**	**35 886**	**(1 614)**	**(185 251)**	**858 757**
Resident	249 976	2 267	(1 614)	(90 628)	160 001
Non-resident	759 760	33 619	-	(94 623)	698 756
Other variable income securities	**2 050 301**	**2 969**	**(2 899)**	**(593 387)**	**1 456 984**
Resident	2 007 897	1 657	(2 899)	(570 454)	1 436 201
Non-resident	42 404	1 312	-	(22 933)	20 783
Balance as at 31 December 2014	**8 311 218**	**116 863**	**(38 663)**	**(824 748)**	**7 564 670**

[1] Acquisition cost relating to shares and other equity instruments and amortised cost in respect of debt securities

As at 31 December 2015, this caption includes assets amounting to Euros 2 918 thousand measured at acquisition cost net of impairment (31 December 2014: Euros 2 593 thousand).

In accordance with the accounting policy presented in Note 2.5, the Bank performs periodic assessments as to the existence of objective evidence of impairment in its portfolio of Available-for-salefinancial assets, applying the judgment criteria described in Note 3.1.

As at 31 December 2015 and 2014, the exposure under this caption, to sovereign debt of the Eurozone "peripheral" countries is presented in Note 42 –risk management.

The changes occurred in the impairment losses of Available-for-sale financial assets are presented as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Balance at the beginning of the period	824 748	642 411
Allocation for the period	238 692	201 549
Utilisation during the period	(57 045)	(13 948)
Write-back for the period	(28 872)	(7 436)
Foreign exchange differences and other [a]	349 347	2 172
Balance at end of period	**1 326 870**	**824 748**

[1] At 31 December 2015, includes Euros 360 842 thousand of impairment of securities transferred to NOVO BANCO in the scope of the Avistar merger

At 31 December 2015 and 2014, the analysis of Available-for-sale financial assets, by residual maturity period, is presented as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Up to 3 months	800 925	1 491 186
3 months to 1 year	2 570 338	1 201 147
1 to 5 years	1 796 545	179 225
More than 5 years	2 214 628	2 320 341
Undetermined	3 212 495	2 372 771
	10 594 931	**7 564 670**

Available-for-sale financial assets, split between quoted and unquoted securities, are as follows:

(thousands of Euros)

	31.12.2015			31.12.2014		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Bonds and other fixed income securities	4 719 553	442 842	5 162 395	2 051 822	28 222	2 080 044
Issued by government and public entities	129 485	2 121 864	2 251 349	111 224	3 057 661	3 168 885
Issued by other entities						
	83 141	820 787	903 928	6 157	852 600	858 757
Shares						
	-	2 277 259	2 277 259	61 139	1 395 845	1 456 984
Other variable income securities						
	4 932 179	5 662 752	10 594 931	2 230 342	5 334 328	7 564 670

A breakdown of the available-for-sale securities, by fair value, is presented in Note 41.

NOTE 21 –LOANS AND ADVANCES TO BANKS

At 31 December 2015 and 2014, this caption is analysed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Loans and advances to banks in Portugal		
Deposts with Banco de Portugal	-	
Deposits with banks	1 102 676	271 517
Loans	29 339	50 753
Interbank money market	-	-
Very short-term deposits	-	585 756
Operations with repos	13 226	-
Other loans and advances	50 010	50 562
	1 195 251	**958 588**
Loans and advances to banks abroad		
Deposits with banks	534 780	874 847
Very short-term deposits	71 495	241 522
Loans	485 872	408 667
Operations with repos	-	34 941
Other loans and advances	447 650	421 033
	1 539 797	**1 981 010**
	2 735 048	**2 939 598**
Impairment losses	(186 900)	(108 813)
	2 548 148	**2 830 785**

Operations with repurchase agreements, at 31 December 2015, relate to operations with a maturity of up to 5 years (31 December 2014: up to 3 months).

During October 2014, Banco Nacional de Angola (BNA – the Angolan Central Bank) made several financial restructuring decisions in respect of BES Angola (now Banco Económico) with an impact on the NOVO BANCO loan. In this context, it was constituted (i) a new senior loan in an amount equivalent to USD 425 million (Euros 390 million at 31 December 2015), maturing in April 2016, 50% of which covered by Angolan sovereign debt securities for which a negotiation process with Banco Económico has already started in order to evaluate the possible need to redefine the reimbursement conditions, and (ii) a subordinated loan of USD 425 million (Euros 390 million at 31 December 2015), maturing on 30 October 2024, and (iii) USD 52 million of debt were converted into 9.7% of Banco Económico's share capital. The difference to the original debt, amounting to Euros 2 750.4 million, fully provided in the opening balance sheet, was derecognised and the referred provision was used.

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

	Amount (thousand millions of kwanzas)	%
GENI	14,3	19,9
LEKTRON CAPITAL	22,3	31,0
SONANGOL EP	11,5	16,0
SONANGOL VIDA	11,5	16,0
SONANGOL HOLDINGS	5,3	7,4
NOVO BANCO	7,0	9,7
	72,0	100,0

Taking into account (i) the implicit haircut of 80% as a result of the restructuring measures applied by BNA, which resulted in an impairment already recognised by NOVO BANCO of Euros 2,750.4 million, (ii) the capital inflow (new money) referred to above made by the new Banco Económico shareholder structure and (iii) the current performance of the loans from NOVO BANCO and (iv) the inexistence of audited financial information of Banco Económico for the 2014 and 2015 financial periods, an impairment of Euros 83 million was set up during the 2015 financial period for the above mentioned exposure.

At 31 December 2015 and 2014, the analysis of loans and advances to banks, by residual maturity period, is presented as follows:

(thousands of Euros)

	31.12.2015	**31.12.2014**
Up to 3 months	1 370 220	2 130 398
3 months to 1 year	424 541	56 544
1 to 5 years	880 218	387 860
More than 5 years	10 069	314 757
Undetermined (overdue credit)	50 000	50 039
	2 735 048	**2 939 598**

The changes occurred during 2015 and the period from 4 August to 31 December 2014 in the impairment losses of loans and advances to banks are presented as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Balance at beginning of period	108 813	2 750 883
Allocation for the period	82 322	107 124
Utilisation during period	-	(2 940 961)
Write-back for the period	(3 166)	-
Foreign exchange differences and other [(a)]	(1 069)	191 767
Balance at end of period	**186 900**	**108 813**

(a) at 31 December 2014, includes Euros 190 580 thousand in foreign exchange variations in the provision for the exposure to Banco Económico, which was utilised in the month of October, as previously referred

NOTE 22 – LOANS AND ADVANCES TO CUSTOMERS

As at 31 December 2015 and 2014, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Domestic loans and advances		
Corporate		
Current account loans	2 303 912	3 613 971
Loans	10 216 410	11 737 270
Discounted bills	127 387	190 821
Factoring	787 999	758 445
Overdrafts	21 388	16 207
Financial leases	1 653 040	1 933 695
Other loans and advances	30 598	39 723
Private Indivduals		
Residential Mortgage loans	6 556 856	6 804 771
Consumer credit and other loans	849 304	1 090 244
	22 546 894	**26 185 147**
Foreign loans and advances		
Corporate		
Loans	3 346 951	3 685 714
Commercial lines of credit	632 859	868 334
Overdrafts	88 953	289 793
Discounted bills	549 775	395 560
Finance leases	50 232	72 115
Factoring	82 385	76 025
Other loans and advances	8 336	107 353
Private Indivduals		
Residential Mortgage loans	741 422	764 769
Consumer credit and other loans	311 145	315 197
	5 812 058	**6 574 860**
Overdue loans and advances and interest		
Up to 3 months	261 941	340 654
3 months to 1 year	1 280 658	581 459
1 to 3 years	2 050 641	1 494 908
More than 3 years	1 758 184	1 091 494
	5 351 424	**3 508 515**
	33 710 376	**36 268 522**
Impairment losses	**(5 437 793)**	**(4 926 735)**
	28 272 583	**31 341 787**

As at 31 December 2015, loans and advances to customers include Euros 4 233.6 million (31 December 2014: Euros 5 359.3 million) in mortgage loans that collateralise the issue of covered debt securities (see Note 32).

This balance includes, as at 31 December 2015, Euros 430 560 thousand (31 December 2014: Euros 322 967 thousand) recorded in the balance sheet at fair value through profit or loss (see Note 41).

As at 31 December 2015, the amount of interest income and commission fees recorded in the balance sheet relating to credit operations amounts to Euros 367 thousand (31 December 2014: Euros 24 629 thousand).

The caption Residential Mortgage loans includes Euros 72 533 thousand with a negative fair value relating to the fair value adjustments of covered items (see Note 23).

As at 31 December 2015 and 2014, the analysis of loans and advances to customers, by residual maturity date, is as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Up to 3 months	3 570 552	5 906 072
3 months to 1 year	2 928 249	3 559 702
1 to 5 years	6 905 157	6 716 797
More than 5 years	14 954 994	16 577 436
Undetermined (overdue loans)	5 351 424	3 508 515
	33 710 376	**36 268 522**

The changes occurring in the impairment losses of loans and advances to customers are presented as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Balance at the beginning of the period	4 926 735	4 606 762
Allocation for the period	2 032 350	950 253
Utilisation during the period	(163 363)	(134 841)
Write-back for the period	(1 562 740)	(503 532)
Foreign exchange differences and other	204 811	8 093
Balance at the end of the period	**5 437 793**	**4 926 735**

As at 31 December 2015, the Bank has Euros 267 225 thousand in provisions for general credit risk (31 December 2014: Euros 323 901 thousand) which, according to NCAs are presented under liabilities (see Note 33).

Loans and advances to customers by interest rate type are analysed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Fixed interest rate	3 512 286	2 823 413
Variable interest rate	30 198 090	33 445 109
	33 710 376	**36 268 522**

With the objective of mitigating credit risk, credit operations are collateralised, namely with mortgages and pledges. The fair value of that collateral is determined at the date the loans and advances are granted to customers, being re-evaluated periodically. The loans and advances to customers and respective collateral is presented as follows:

(in thousands of Euros)

	31.12.2015	
	Book value	Fair value of collateral
Residential - Mortgage Loans		
Mortgages	7 181 457	7 155 457
Pledges	57 571	57 418
Not collateralised	159 936	-
	7 398 964	7 212 875
Other Loans to Individuals		
Mortgages	276 166	279 591
Pledges	184 549	101 061
Not collateralised	1 057 114	-
	1 517 829	380 652
Corporate loans		
Mortgages	4 511 814	3 916 028
Pledges	4 765 686	3 556 957
Not collateralised	15 516 083	-
	24 793 583	7 472 985
Total	**33 710 376**	**15 066 512**

The details of the mortgage collateral is as follows:

(in thousands of Euros)

	Residential Mortgage Loans		Other Loans to Individuals		Corporate loans		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
<0.5M€	146 899	7 022 918	4 110	204 223	17 687	676 885	168 696	7 904 026
>= 0.5M€ and <1.0M€	187	99 681	76	27 133	2 366	411 169	2 629	537 983
>= 1.0M€ and <5.0M€	29	32 858	48	42 899	4 290	1 208 527	4 367	1 284 284
>= 5.0M€ and <10.0M€	-	-	-	-	830	535 594	830	535 594
>= 10.0M€ and <20.0M€	-	-	-	-	43	350 917	43	350 917
>= 20.0M€ and <50.0M€	-	-	70	5 336	2 898	544 034	2 968	549 370
>=50M€	-	-	-	-	1 569	188 902	1 569	188 902
	147 115	**7 155 457**	**4 304**	**279 591**	**29 683**	**3 916 028**	**181 102**	**11 351 076**

In assessing the risk of an operation or set of operations the Bank takes into account the associated credit risk mitigation elements, according with the internal rules and procedures implemented that comply with the requirements defined by Banco de Portugal.

Relevant collaterals are, essentially, the following:

- Real estate property, where the value considered is that corresponding to the latest available appraisal;
- 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 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 exposure of said collateral. As an approach to this matter, the Bank stipulated a number of procedures applicable to collateral (namely the financial collateral and real estate collateral), covering, amongst others, the volatility of the value of the collateral, its liquidity as well as indication of 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 exposure of said collateral, including the risks of liquidity and volatility."

The real estate property revaluation process is conducted by valuation experts registered with CMVM, and is based on the methodology described in point 2.11.

The analysis of finance lease loans, by residual maturity period, is presented as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Gross investment in finance leases receivable		
Up to 1 year	282 384	332 154
1 to 5 years	845 363	953 895
More than 5 years	855 776	1 002 031
	1 983 523	2 288 080
Unrealised finance income in finance leases		
Up to 1 year	47 881	56 476
1 to 5 years	127 548	139 498
More than 5 years	66 621	43 072
	242 050	239 046
Present value of minimum lease payments receivable		
Up to 1 year	234 503	275 678
1 to 5 years	717 815	814 397
More than 5 years	789 155	958 959
	1 741 473	2 049 034
Impairment	(287 191)	(299 609)
	1 454 282	**1 749 425**

NOTE 23 –DERIVATIVES HELD FOR RISK MANAGEMENT PURPOSES

As at 31 December 2015 and 2014, the fair value of the derivatives held for risk management purposes on the balance sheet is analysed as follows:

(thousands of Euros)

	31.12.2015			31.12.2014		
	Hedging	**Risk management**	**Total**	**Hedging**	**Risk management**	**Total**
Derivatives held for risk management purposes						
Derivatives held for risk management purposes - assets	90 648	231 407	322 055	153 100	252 135	405 235
Derivatives held for risk management purposes - liabilities	(75 806)	(2 040)	(77 846)	(100 587)	(4 082)	(104 669)
	14 842	**229 367**	**244 209**	**52 513**	**248 053**	**300 566**
Fair value component of assets and liabilities hedged or recorded at fair value through profit or loss						
Financial assets						
Loans and advances to banks	-	-	-	1 143	-	1 143
Loans and advances to customers	72 533	-	72 533	76 800	-	76 800
	72 533	**-**	**72 533**	**77 943**	**-**	**77 943**
Financial liabilities						
Deposits from banks	(80 949)	-	(80 949)	(90 571)	-	(90 571)
Due to customers	-	(22 017)	(22 017)	-	(41 970)	(41 970)
Debt securities issued	(767)	(1 395)	(2 162)	(12 871)	(4 334)	(17 205)
	(81 716)	**(23 412)**	**(105 128)**	**(103 442)**	**(46 304)**	**(149 746)**
	(9 183)	**(23 412)**	**(32 595)**	**(25 499)**	**(46 304)**	**(71 803)**

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 hedge 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 2015 and 2014, fair value hedging operations may be analysed as follows:

(thousands of Euros)

31.12.2015							
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 of hedged item in period [2]
Interest Rate Swap / Currency Interest Rate Swap	Loans and advances to customers	Interest and exchange rates	619 572	(72 217)	9 116	72 533	(4 266)
Interest Rate Swap	Deposit from banks	Interest rate	348 000	86 206	(10 205)	(80 949)	8 407
Interest Rate Swap	Due to customers	Interest rate	-	-	-	-	-
Interest Rate Swap	Debt securities issued	Interest rate	80 000	853	(4 396)	(767)	4 070
			1 047 572	**14 842**	**(5 485)**	**(9 183)**	**8 211**

[1] Includes accrued interest
[2] Attributable to hedged risk

(thousands of Euros)

31.12.2014							
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 of hedged item in period [2]
Interest Rate Swap / Currency Interest Rate Swap	Loans and advances to customers	Interest and exchange rates	1 030 205	(80 167)	(18 537)	77 943	17 246
Interest Rate Swap	Deposit from banks	Interest rate	348 000	96 414	20 637	(90 571)	(20 562)
Interest Rate Swap	Due to customers	Interest rate	-	-	(180)	-	180
Interest Rate Swap	Debt securities issued	Interest rate	3 561 300	36 266	(7 307)	(12 871)	4 646
			4 939 505	**52 513**	**(5 387)**	**(25 499)**	**1 510**

[1] Includes accrued interest
[2] Attributable to hedged risk

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 under Net gains / (losses) from financial assets and liabilities at fair value through profit or loss (See Note 7).

As at 31 December 2015, the ineffective portion of the fair value hedging operations resulted in a gain of Euros 2.7 million that was recognised in the income statement (4 August through 31 December 2014: a gain of Euros 3.9 million). The Bank periodically evaluates the effectiveness of the hedges.

As at 31 December 2015, the fair value component of the financial liabilities at fair value through profit or loss includes a positive cumulative effect of Euros 161.0 million (31 December 2014: positive cumulative effect of Euros 137.2 million) attributable to the Bank's own credit risk. The change in fair value attributable to the Bank's own credit risk resulted in the recognition, in 2015, of a gain amounting to Euros 23.9 million (31 December 2014: gain ofEuros 27.5 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 carrying value of financial assets and liabilities at fair value through profit or loss may be analysed as follows:

(thousands of Euros)

31.12.2015		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	Book value	Redemption amount at maturity
	Assets							
Credit Default Swap	Loans and advances to customers	266 230	102 797	-	-	-	-	266 230
	Liabilities							
Interest Rate Swap	Deposit from banks	468 494	99 613	6 195	-	-	166 552	234 168
Interest Rate Swap	Due to customers	1 120 000	21 965	5 055	(22 017)	19 961	1 038 486	1 016 470
Interest Rate Swap / FX Forward / Index	Debt securities issued	439 581	4 992	869	(1 395)	2 938	73 605	74 999
		2 294 305	**229 367**	**12 119**	**(23 412)**	**22 899**	**1 278 643**	**1 591 867**

(thousands of Euros)

31.12.2014		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	Book value	Redemption amount at maturity
	Assets							
Credit default swaps	Loans and advances to customers	267 783	69 939	-	-	-	-	267 783
	Liabilities							
Interest Rate Swap	Deposit from banks	468 494	122 138	16 952	-	-	207 239	234 168
Interest Rate Swap	Due to customers	6 360 000	49 151	(15 183)	(41 970)	13 092	3 811 411	3 769 441
Interest Rate Swap/ FX Forward	Debt securities issued	627 731	6 825	(18 740)	(4 334)	971	79 334	75 000
		7 724 008	**248 053**	**(16 971)**	**(46 304)**	**14 063**	**4 097 984**	**4 346 392**

The credit default swaps associated with loans and advances to customers are part of synthetic securitisation operations, as mentioned in Note 40.

The changes in the fair value of the assets and liabilities mentioned above and of the respective hedging derivatives are recognised in the income statement under Net gains / (losses) from financial assets and liabilities at fair value through profit or loss (See Note 7).

At 31 December 2015 and 2014, the analysis of derivatives held for risk management purposes, by residual maturity period, may be analysed as follows:

(in thousands of Euros)

	31.12.2015			31.12.2014		
	Notional		Fair value (net)	Notional		Fair value (net)
	Buy	Sell		Buy	Sell	
Up to 3 months	215 621	215 714	875	2 719 997	2 718 760	23 835
3 months to 1 year	12 736	12 962	83	1 317 979	1 317 231	2 833
1 to 5 years	491 160	491 160	16 777	1 145 240	1 145 240	46 430
More than 5 years	951 262	951 262	226 474	1 149 550	1 149 516	227 468
	1 670 779	**1 671 098**	**244 209**	**6 332 766**	**6 330 747**	**300 566**

NOTE 24 – NON-CURRENT ASSETS HELD FOR SALE

This balance as at 31 December 2015 and 2014, is analysed as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Tangible fixed assets held for sale		
Property held for sale	1 642 904	1 737 191
Equipment held for sale	25 490	12 263
Other tangible assets held for sale	12 874	7 368
	1 681 268	**1 756 822**
Other non-current assets held for sale	**1**	**416 103**
Impairment losses	(429 219)	(459 196)
	1 252 050	**1 713 729**

The amounts presented relate to property and equipment acquired in exchange for loans and discontinued facilities available for immediate sale. At December 2015, the amount relating to discontinued facilities ascends to Euros 17 497 thousand (31 December 2014: Euros 39 565 thousand), the Bank having registered impairment losses on these assets in a total amount of Euros 8 495 thousand (31 December 2014: Euros 9 757 thousand).

The Bank implemented a plan aiming the immediate sale of all non-current assets held for sale. However, due to delays in updating the Property Registrars and given current market conditions, it has been unable to sell some of the assets within the expected time frame. However, the Bank continues its efforts to meet the sale programme established, 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 centres. The Bank, despite its intention to sell these assets, regularly requests Banco de Portugal's authorisation, under article 114 of RGICSF, to extend the time period the Bank has to hold foreclosed assets.

In the beginning of December 2014, NOVO BANCO agreed with Haitong International Holdings Limited, a contract for the sale of 100% of the share capital of its subsidiary Banco Espírito Santo Investimento, SA (BESI), in consequence of which, under IFRS 5, it reclassified the shareholding, in the amount of Euros 416 103 thousand at 31 December 2014as a non-current asset held for sale.On 7 September 2015, the transaction was finalised after having received the approval of all the authorities involved, and the impairment losses of Euros 37 108 thousand (see Note 27) were utilised. In addition, provisions for contingencies were recorded in the amount of Euros 4.7 million.

In December 2015, the subsidiary Banco Internacional de Cabo Verde, SA, was transferred, under IFRS 5, to non-current assets held for sale, for an amount of Euros 1 000 (see Note 27).

The changes occurring in impairment losses are presented as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Balance at beginning of period	459 196	435 532
Allocation / write-back for the period	67 473	(4 694)
Utilisation during the period	(97 452)	(8 752)
Transfers **(a)**	-	37 108
Foreign exchange rate differences and other	2	2
Balance at the end of the period	**429 219**	**459 196**

(a) At 31 December 2014, relates to the provision created for BES Investimento, transferred together with the respective percentage of the investment portfolio in subsidiaries to Non-current assets held for sale

The changes occurring in non-current assets held for sale are as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Balance at beginning of period	2 172 925	1 602 704
Transfers	1	416 103
Additions	275 420	188 808
Disposals	(767 078)	(34 690)
Other	1	-
Balance at end of period	**1 681 269**	**2 172 925**

As at 31 December 2015 and 2014, the detail of the real estate property included in non-current assets held for sale, by type, is as follow:

(in thousands of Euros)

	31.12.2015				
	Number of properties	**Gross value**	**Impairment**	**Net Value**	**Fair value of asset (b)**
Land					
Urban	1 751	316 557	76 076	240 481	291 469
Rural	521	207 401	59 113	148 288	175 753
	2 272	523 958	135 189	388 769	467 222
Buildings under construction					
Commercial	188	19 902	6 653	13 249	17 468
Residential	812	107 996	26 588	81 408	95 457
Other	61	56 013	20 194	35 819	45 690
	1 061	183 911	53 435	130 476	158 615
Buildings constructed					
Commercial	1 252	256 536	77 675	178 861	210 502
Residential	5 222	488 414	79 979	408 435	392 826
Other	632	177 488	45 320	132 168	160 990
	7 106	922 438	202 974	719 464	764 318
Other [(a)]	**-**	**12 597**	**27 822**	**(15 225)**	**(14 160)**
	10 439	**1 642 904**	**419 420**	**1 223 484**	**1 375 995**

(a) The carrying value of this caption is negative due to the imputation of costs incurred with the sale of real estate
(b) Determined in accordance with accounting policy 2.11

(in thousands of Euros)

	31.12.2014				
	Number of properties	**Gross value**	**Impairment**	**Net Value**	**Fair value of asset (b)**
Land					
Urban	1 755	322 896	80 614	242 282	279 159
Rural	524	197 504	56 643	140 861	158 509
	2 279	520 400	137 257	383 143	437 668
Buildings under construction					
Commercial	181	16 073	3 648	12 425	15 373
Residential	531	84 448	17 555	66 893	75 252
Other	61	61 477	15 851	45 626	53 134
	773	161 998	37 054	124 944	143 759
Buildings constructed					
Commercial	1 157	240 196	83 133	157 063	195 535
Residential	6 298	629 700	87 646	542 054	625 805
Other	643	183 086	46 291	136 795	170 790
	8 098	1 052 982	217 070	835 912	992 130
Other [(a)]	**-**	**1 811**	**20 967**	**(19 156)**	**(19 156)**
	11 150	**1 737 191**	**412 348**	**1 324 843**	**1 554 401**

(a) The carrying value of this caption is negative due to the imputation of costs incurred with the sale of real estate
(b) Determined in accordance with accounting policy 2.11

The analysis of real estate included in non-current assets held for sale, by ageing, is as follows:

(in thousands of Euros)

	31.12.2015				
	Up to 1 year	1 to 2.5 years	2.5 to 5 years	More than 5 years	Total Net Value
Land					
Urban	25 329	73 971	119 058	22 123	240 481
Rural	9 547	90 575	37 410	10 756	148 288
	34 876	164 546	156 468	32 879	388 769
Buildings under construction					
Commercial	1 293	1 994	6 204	3 758	13 249
Residential	10 836	8 235	48 130	14 207	81 408
Other	7 951	13 066	10 354	4 448	35 819
	20 080	23 295	64 688	22 413	130 476
Buildings constructed					
Commercial	42 126	42 516	62 488	31 731	178 861
Residential	68 166	123 239	162 551	54 479	408 435
Other	31 111	38 861	41 741	20 455	132 168
	141 403	204 616	266 780	106 665	719 464
Other [(a)]	**(15 225)**	**-**	**-**	**-**	**(15 225)**
	181 134	**392 457**	**487 936**	**161 957**	**1 223 484**

(a) the net value of this caption is negative due to the imputation of costs incurred with the sale of real estate

(in thousands of Euros)

	31.12.2014				
	Up to 1 year	1 to 2.5 years	2.5 to 5 years	More than 5 years	Total Net Value
Land					
Urban	42 665	107 603	79 143	12 871	242 282
Rural	47 759	67 913	22 999	2 190	140 861
	90 424	175 516	102 142	15 061	383 143
Buildings under construction					
Commercial	523	3 293	7 073	1 536	12 425
Residential	2 403	10 043	47 830	6 617	66 893
Other	26 296	12 576	5 866	888	45 626
	29 222	25 912	60 769	9 041	124 944
Buildings constructed					
Commercial	37 397	43 237	61 839	14 590	157 063
Residential	129 844	183 148	190 602	38 460	542 054
Other	30 829	56 734	34 644	14 588	136 795
	198 070	283 119	287 085	67 638	835 912
Other [(a)]	**(19 156)**	**-**	**-**	**-**	**(19 156)**
	298 560	**484 547**	**449 996**	**91 740**	**1 324 843**

(a) the net value of this caption is negative due to the imputation of costs incurred with the sale of real estate

NOTE 25 – OTHER TANGIBLE ASSETS

As at 31 December 2015 and 2014, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Real Estate Property		
For own use	268 443	319 843
Improvements in leasehold property	178 684	183 966
	447 127	**503 809**
Equipment		
Computer equipment	213 360	253 901
Fixtures	124 119	125 195
Furniture	111 226	113 455
Security equipment	33 954	34 050
Office equipment	27 657	29 376
Motor vehicles	870	1 939
Other	573	4 842
	511 759	**562 758**
Other	-	24
	958 886	**1 066 591**
Work in progress		
Improvements in leasehold property	177	400
Real Estate Property	61	45
Equipment	199	1 416
	437	**1 861**
	959 323	**1 068 452**
Accumulated depreciation	(729 763)	(763 563)
	229 560	**304 889**

The movement in this caption is as follows:

(in thousands of Euros)

	Real Estate Property	Equipment	Other	Work in progress	Total
Acquisition cost					
Balance at 4 August 2014	**517 182**	**562 607**	**21**	**943**	**1 080 753**
Acquisitions	140	11 089	-	2 419	13 648
Disposals / write-offs	(3 449)	(15 913)	-	-	(19 362)
Transfers **(a)**	(22 918)	643	-	(1 501)	(23 776)
Foreign exchange differences and other	12 854	4 332	3	-	17 189
Balance at 31 December 2014	**503 809**	**562 758**	**24**	**1 861**	**1 068 452**
Acquisitions	2 190	6 695	-	3 115	12 000
Disposals / write-offs	(5 504)	(43 204)	-	-	(48 708)
Transfers **(b)**	(6 096)	3 163	-	(4 539)	(7 472)
Foreign exchange differences and other	(47 272)	(18 006)	-	-	(65 278)
Other	-	329	-		329
Balance at 31 December 2015	**447 127**	**511 735**	**24**	**437**	**959 323**
Accumulated depreciation					
Balance at 4 August 2014	**268 538**	**496 904**	**-**	**-**	**765 442**
Depreciation	6 889	10 040	-	-	16 929
Disposals / write-offs	(3 448)	(14 452)	-	-	(17 900)
Transfers **(a)**	(3 823)	(40)	-	-	(3 863)
Foreign exchange differences and other	817	2 138	-	-	2 955
Balance at 31 December 2014	**268 973**	**494 590**	**-**	**-**	**763 563**
Depreciation	11 800	18 087	-	-	29 887
Disposals / write-offs	(5 504)	(43 739)	-	-	(49 243)
Transfers **(b)**	(2 468)	(197)	-	-	(2 665)
Foreign exchange differences and other	(3 690)	(8 417)	-	-	(12 107)
Other	-	328		-	328
Balance at 31 December 2015	**269 111**	**460 652**	**-**	**-**	**729 763**
Balance at 31 December 2015	**178 016**	**51 083**	**24**	**437**	**229 560**
Balance at 31 December 2014	**234 836**	**68 168**	**24**	**1 861**	**304 889**

(a) Includes Euros 23 776 thousand in property and equipment and Euros 3 863 thousand in accumulated depreciation relating to bank branches discontinued that were transferred at their carrying value to the appropriate captions of the balance sheet
(b) Includes Euros 7 472 thousand in property and equipment and Euros 2 665 thousand in accumulated depreciation relating to bank branches discontinued that were transferred at their carrying value to the appropriate captions of the balance sheet

NOTE 26 – INTANGIBLE ASSETS

As at 31 December 2015 and 2014, this caption is analysed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Internally developed		
Software - Automatic data processing system	76 610	90 327
Acquired from third parties		
Software - Automatic data processing system	638 319	623 661
Work in progress	12 207	19 165
	727 136	**733 153**
Accumulated amortisation	(658 667)	(633 235)
	68 469	**99 918**

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 is as follows:

(thousands of Euros)

	Software	Work in progress	Total
Acquisition cost			
Balance at 4 August 2014	**688 198**	**25 736**	**713 934**
Acquisitions:			
Internally developed	(219)	3 621	3 402
Acquired from third parties	4 228	5 857	10 085
Disposals / write-offs	(4)	-	(4)
Transfers **(a)**	15 572	(16 049)	(477)
Foreign exchange differences and other	6 213	-	6 213
Balance at 31 December 2014	**713 988**	**19 165**	**733 153**
Acquisitions:			
Internally developed	26	6 840	6 866
Acquired from third parties	5 132	7 255	12 387
Disposals / write-offs	(175)	-	(175)
Transfers **(b)**	16 933	(21 053)	(4 120)
Foreign exchange differences and other	(20 975)	-	(20 975)
Balance at 31 December 2015	**714 929**	**12 207**	**727 136**
Accumulated amortisation			
Balance at 4 August 2014	**611 891**	-	**611 891**
Amortisation	18 424	-	18 424
Foreign exchange differences and other	2 920	-	2 920
Balance at 31 December 2014	**633 235**	**-**	**633 235**
Amortisation	36 517	-	36 517
Disposals / write-offs	(168)	-	(168)
Foreign exchange differences and other	(10 917)	-	(10 917)
Balance at 31 December 2015	**658 667**	**-**	**658 667**
Carrying value at 31 December 2015	**56 262**	**12 207**	**68 469**
Carrying value at 31 December 2014	**80 753**	**19 165**	**99 918**

(a) Includes Euros 477 thousand of discontinued investment projects that were taken to costs

(b) Includes Euros 4 120 thousand of discontinued investment projects that were taken 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)

	31.12.2015				31.12.2014			
	No. Shares	Direct Participation %	Nominal value (Euros)	Cost of shareholding	No. Shares	Direct Participation %	Nominal value (Euros)	Cost of shareholding
NB AÇORES	2 144 191	57.52%	5.00	10 308	2 144 191	57.52%	5.00	10 308
BES FINANCE **(1)**	-	-	-	-	100 000	100.00%	1.00	25
NB ÁSIA	200 000	100.00%	115.06	21 341	199 500	99.75%	103.18	21 341
GNB Vida	50 000 000	100.00%	1.00	620 472	50 000 000	100.00%	1.00	620 472
NB FINANCE	100 000	100.00%	17	1 700	-	-	-	-
BESNAC **(2)**	-	-	-	-	1 000	100.00%	0.82	36
BEST	62 999 700	100.00%	1.00	100 418	47 249 700	75.00%	1.00	77 837
BES VÉNÉTIE	2 244 082	44.81%	15.00	55 070	2 244 082	44.81%	15.00	55 070
AVISTAR **(3)**	-	-	-	-	300 000 000	100.00%	1.00	300 000
BIBL	10 200 000	100.00%	1.00	224 197	10 200 000	100.00%	1.00	224 197
ES Plc	29 994	99.98%	5.00	38	29 994	99.98%	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
ESAF SGPS	2 114 700	89.99%	5.00	60 388	2 114 700	89.99%	5.00	60 388
ES 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
Esgest **(2)**	-	-	-	-	20 000	100.00%	5.00	100
E.S. REPRESENTAÇÕES	49 995	99.99%	0.23	14	49 995	99.99%	0.31	39
LOCARENT	525 000	50.00%	5.00	2 967	525 000	50.00%	5.00	2 967
QUINTA DOS CONEGOS	599 400	81.00%	5.00	4 893	599 400	81.00%	5.00	4 893
SCI GEORGES MANDEL	15 750	22.57%	152.45	2 401	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	2 634 739	100.00%	0.40	1 057	2 634 739	100.00%	0.40	1 057
NOVO ACTIVOS FINANCIEROS	975 000	50.00%	10.00	42 765	975 000	50.00%	10.00	42 765
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	3 185 000	100.00%	4.99	27 724
OBLOG	199 900	66.63%	5.00	-	199 900	66.63%	5.00	-
NB ÁFRICA	13 300 000	100.00%	5.00	66 500	13 000 000	100.00%	5.00	65 000
BANCO DELLE TRE VENEZIE SPA	8 926	20.00%	1 000.00	8 926	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%	85.76	12 362	122 499	35.00%	93.68	12 362
EDENRED PORTUGAL	101 477 601	50.00%	0.01	4 984	101 477 601	50.00%	0.01	4 984
BANCO INTERNACIONAL DE CABO VERDE **(4)**	-	-	-	-	150	0.01%	9.06	1
NANIUM	6 158 777	41.06%	6 159	1 481	-	0.00%	0.00	-
MULTIPESSOAL	20 000	22.52%	5.00	100	20 000	22.52%	5.00	100
				1 752 613				**2 025 538**
Impairment losses				(336 850)				(642 863)
				1 415 763				**1 382 675**

(1) Company retransmitted to the consolidation perimeter of BES underBanco de Portugal deliberation of 29 December 2015

(2) Company liquidated during 2015

(3) In June2015 the merger by incorporation of Avistarin NOVO BANCO took place

(4) Shareholding transferred to non-current assets held for sale, under the agreement to sell celebrated in December 2015 (see Note 24). BICV is 99.9% held by NB África, entity 100% held by NB.

The movement occurring in this caption is as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Balance at the beginning of the period	642 863	642 824
Allocation/ (Write-back) for the period	(7 497)	37 147
Transfers (1)	-	(37 108)
Other (2)	(298 516)	-
Balance at the end of the period	**336 850**	**642 863**

(1) on 31 December 2014, relates to the provision created for BESI, given the sales value agreed, w hich w as transferred together w ith the respective participation to the caption Non-current assets held for sale

(2) Includes the provision existing at 31 December 2014 of Euros 300 000 thousand for the financial participation in Avistar w hich, due to the merger of this company in the Bank, w as annulled (see Note 46)

NOTE 28 – OTHER ASSETS

At 31 December 2015 and 2014, the caption Other assets is analysed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Collateral deposits placed	948 293	1 236 757
Derivative products	*617 850*	*863 452*
Collateral CLEARNET, VISA and EBA	*40 835*	*77 948*
Collateral deposits relating to reinsurance operations	*289 608*	*295 357*
Recoverable government subsidies on mortgage loans	10 806	20 677
Public sector	165 732	153 121
Other debtors	739 377	1 107 631
Income receivable	37 134	41 121
Deferred costs	97 755	107 022
Precious metals, numismatics, medal collection and other liquid assets	9 423	9 522
Stock exchange transactions pending settlement	10 334	14 858
Other transactions pending settlement	95 457	18 725
Other assets	200 037	210 157
	2 314 348	**2 919 591**
Impairment losses	(196 142)	(300 305)
	2 118 206	**2 619 286**

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 in over-the-counter (OTC) markets (Contract Support Annex – CSA).

The Other debtors amount includes, amongst others:

- Euros 112.9 million of shareholder loans and supplementary capital resulting from the assignment of loans and advances, which were totally provided against (31 December 2014: Euros 112.9 million, of which Euros 110.8 million were provided against); and
- Euros 100 million relating to shareholder loans granted to Locarent – Companhia Portuguesa de Aluguer de Viaturas, S.A. (31 December 2014: Euros 100 million) and Euros 132.3 million to ES Concessões (31 December 2014: Euros 131.3 million).

As at 31 December 2014, Other debtors included Euros 325 million in supplementary capital granted to the subsidiary Avistar, SGPS, SA, that was merged into the Bank in June 2015.

As at 31 December 2015, the caption Deferred costs includes an amount of Euros 70 790 thousand (31 December 2014: Euros 75 483 thousand) relating to the difference between the nominal amount of the loans and advances granted to the Bank's employees under the Collective Labour 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 pending settlement, recorded at the trade date, in accordance with the accounting policy described in Note 2.5.

The movements in impairment losses are presented as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Balance at beginning of period	300 305	195 912
Allocation in the period	60 264	104 077
Utilisation for the period	(27 425)	-
Write-back fo the period	(597)	(452)
Foreign exchange differences and other [1]	(136 405)	768
Balance at end of period	**196 142**	**300 305**

(1) at 31 December 2015, includes Euros 156 977 thousand relating to the provision against the supplementary capital granted to Avistar, which due to the merger of this company into the Bank, was annulled (see Note 46)

NOTE 29 – DEPOSITS FROM CENTRAL BANKS

The balance Deposits from Central Banks is presented as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
From the European System of Central Banks		
Deposits	145 794	331 659
Other funds	7 340 000	8 140 000
	7 485 794	**8 471 659**

As at 31 December 2015, the caption Other funds from the European System of Central Banks includes Euros 7 340 million, collateralised by Bank financial assets (31 December 2014: Euros 8 146 million) (see Note 38).

As at 31 December 2015 and 2014, the analysis of deposits from Central Banks, by residual maturity period, is as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Up to 3 months	5 342 613	6 830 982
3 months to 1 year	500 010	-
1 to 5 years	1 643 171	1 640 677
	7 485 794	**8 471 659**

Deposits from Central Banks are renewable after the maturity date.

NOTE 30 – DEPOSITS FROM BANKS

The balance Deposits from banks is presented as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Domestic		
Deposits	753 738	511 199
Very short-term funds	27 785	33 357
Repurchase agreements	39 977	140 882
Other funds	4 177	3 107
	825 677	**688 545**
International		
Deposits	830 658	1 591 869
Loans	1 164 434	1 133 101
Very short-term funds	75 801	9 849
Repurchase agreements	2 103 659	892 765
Other funds	129 631	31 810
	4 304 183	**3 659 394**
	5 129 860	**4 347 939**

As at 31 December 2015, this caption includes funds in the amount of Euros 421 501 thousand recorded in the balance sheet at fair value through profit or loss (31 December 2014: Euros 561 055 thousand) (see Note 41).

The balance of 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 2015 and 2014, the analysis of Deposits from banks, by residual maturity period, is as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Up to 3 months	2 339 555	1 389 993
3 months to 1 year	586 897	778 245
1 to 5 years	1 058 664	1 270 354
More than 5 years	1 144 744	909 347
	5 129 860	**4 347 939**

The maturities of sales operations with repurchase agreements (repos) are as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Domestic		
Up to 3 months	39 977	140 882
International		
Up to 3 months	1 409 937	193 737
1 to 5 years	693 722	699 028
	2 103 659	892 765

NOTE 31 – DUE TO CUSTOMERS

The balance Due to customers has the following breakdown:

(thousands of Euros)

	31.12.2015	31.12.2014
Repayable on demand		
Demand deposits	7 882 099	8 429 829
Time deposits		
Time deposits	16 245 677	16 179 095
Other	719	5 560
	16 246 396	**16 184 655**
Savings accounts		
Pensioners	436 478	458 947
Other	2 465 137	1 908 204
	2 901 615	**2 367 151**
Other funds		
Sales operations with repurchase agreements	44 864	111 450
Other	162 900	745 739
	207 764	**857 189**
	27 237 874	**27 838 824**

As at 31 December 2015, this caption includes funds in the amount of Euros 1 038 486 thousand recorded in the balance sheet at fair value through profit or loss (31 December 2014: Euros 3 811 411 thousand) (see Note 41).

The balance of the caption 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 2015, from the total sales operations with repurchase agreements, around Euros 43.7 million have a maturity period of under 3 months, and Euros 1.2 million with a maturity of between 3 months and one year (31 December 2014: Euros 111.5 million with a maturity of under 3 months).

As at 31 December 2015 and 2014, the analysis of Due to customers, by residual maturity period, is as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Repayable on demand	**7 882 099**	**8 429 829**
With agreed maturity		
Up to 3 months	9 223 020	10 825 004
3 months to 1 year	7 702 959	6 336 416
1 to 5 years	2 052 611	1 927 224
More than 5 years	377 185	320 351
	19 355 775	**19 408 995**
	27 237 874	**27 838 824**

NOTE 32 – DEBT SECURITIES ISSUED

The balance Debt securities issued has the following breakdown:

(thousands of Euros)

	31.12.2015	31.12.2014
Euro Medium Term Notes (EMTN)	3 272 563	6 751 845
Certificates of deposit	4 615	9 903
Bonds	93 351	57 545
Covered bonds	40 855	884 722
Other	78 181	81 126
	3 489 565	**7 785 141**

As at 31 December 2015, debt securitiesissued include an amount of Euros 3 500 million in debt securities issued with a guarantee from the Portuguese Government, of which Euros 3 407 million had been acquired by the Bank at the Balance Sheet date (31 December 2014: nominal amount of Euros 3 500 million, fully acquired). In 2015, the Bank extended the maturity of these bonds, guaranteed by the Portuguese Government in the amount of Euros 3 500 million.

Under the Covered Bonds Programme ("Programa de Emissão de ObrigaçõesHipotecárias"), which has a maximum amount of Euros 10 000 million, the Bank issued covered bonds of which an amount of Euros 3 740 million remained in its portfolio as at 31 December 2015 (31 December 2014: Euros 4 040).

The main characteristics of the outstanding issues as at 31 December 2015 and 2014 are as follows:

31.12.2015								
Description	Nominal value (thousands of Euros)	Book value (thousands of Euros)	Issue date	Maturity date	Interest payment	Interest rate	Rating	
							Moody's	DBRS
BES Covered bonds DUE 4.6%	40 000	40 855	15-12-2010	26-01-2018	Annually	Fixed rate 4.6%	Baa3	AL
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
	3 740 000	**40 855**						

31.12.2014								
Description	Nominal value (thousands of Euros)	Book value (thousands of Euros)	Issue date	Maturity date	Interest payment	Interest rate	Rating	
							Moody's	DBRS
BES Covered bonds 3.375%	1 000 000	843 250	17-11-2009	17-02-2015	Annually	3.375%	Baa3	AL
BES Covered bonds DUE JUL 17	1 000 000	-	07-07-2010	09-07-2017	Half-yearly	Euribor 6 Months + 0.60%	Baa3	AL
BES Covered bonds 21/07/2017	1 000 000	-	21-07-2010	21-07-2017	Half-yearly	Euribor 6 Months + 0.60%	Baa3	AL
BES Covered bonds DUE 4.6%	40 000	41 472	15-12-2010	26-01-2018	Annually	Fixed rate 4.6%	Baa3	AL
BES Covered bonds HIPOT. 2018	1 000 000	-	25-01-2011	25-01-2018	Half-yearly	Euribor 6 Months + 0.60%	Baa3	AL
	4 040 000	**884 722**						

These covered bonds are guaranteed by a cover assets pool, comprising residential mortgage and other assets, segregated in NOVO BANCO'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 foreseen in Decree-Law no. 59/2006, and in Notices 5, 6, 7 and 8 and Instruction 13 of Banco de Portugal.

As at 31 December 2015, the assets that collateralise these covered debt securities amount to Euros 4 233.6 million (31 December 2014: Euros 5 359.3 million) (see Note 22).

The movement occurring in debt securities issued, during the periods ended on 31 December 2015 and 2014, is as follows:

(in thousands of Euros)

	Balance at 31.12.2014	Issues	Retransmission to BES	Repayments	Net purchases	Other movements [a]	Balance at 31.12.2015
Euro Medium Term Notes (EMTN)	6 751 845	-	(1 923 496)	(1 596 160)	245 259	(204 885)	3 272 563
Certificates of deposit	9 903	4 593 [b]	-	-	-	(9 881)	4 615
Bonds	57 545	-	-	(46 000)	93 000	(11 194)	93 351
Covered bonds	884 722	3 700 000	-	(4 516 850) [c]	-	(27 017)	40 855
Other	81 126	-	-	-	-	(2 945)	78 181
	7 785 141	**3 704 593**	**(1 923 496)**	**(6 159 010)**	**338 259**	**(255 922)**	**3 489 565**

[a] Other movements include accrued interest, corrections for hedging operations, fair value adjustments and foreign exchanges differences
[b] Certificates of deposit are presented net of repayments, considering their short-term maturity
[c] Includes Euros 3 700.0 million relating to early repayments

(in thousands of Euros)

	Balance at 04.08.2014	Issues	Retransmission to BES	Repayments	Net purchases	Balance at 31.12.2014
Euro Medium Term Notes (EMTN)	6 461 582	-	(50 000)	185 094	155 169	(6 751 845)
Certificates of deposit	326 616	-	(314 949)	-	(1 764)	(9 903)
Bonds	56 665	-	-	-	880	(57 545)
Covered bonds	881 608	-	-	(44)	3 158	(884 722)
Other	200 912	-	(116 938)	-	(2 848)	(81 126)
	7 927 383	**-**	**(481 887)**	**185 050**	**154 595**	**(7 785 141)**

[a] Other movements include accrued interest, corrections for hedging operations, fair value adjustments and foreign exchanges differences

Following on from the deliberation of Banco de Portugal of 29 December 2015, as referred to in Note 1, non-subordinated debt instruments, along with the liabilities, contingencies and off-balance sheetitemsrelating to such debt instruments were retransferred to BES. The impact of this deliberation was a decrease of Euros 1 923 million in the debt securities issued by NOVO BANCO (see Note 37).

In accordance with the accounting policy described in Note 2.7, debt securities issued repurchased by the Bank are derecognised from the balance sheet and the difference between the carrying value of the liability and its acquisition cost is recognised in the income statement. As a result of repurchases made during the year ended on 31 December 2015, the Bank recognised a gain of Euros 9 570 thousand (31 December 2014: a gain of Euros 9 thousand) (see Note 11).

As at 31 December 2015 and 2014, the analysis of Debt securities issued, by residual maturity period, is as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Up to 3 months	419 040	1 298 085
3 months to 1 year	82 796	1 105 086
1 to 5 years	1 682 663	4 074 058
More than 5 years	1 305 066	1 307 912
	3 489 565	**7 785 141**

The main characteristics of the Liabilities for debt securities, at 31 December 2015 and 2014, are as follows:

(thousands of Euros)

Entity	Description		31.12.2015				
			Currency	Issue Date	Book value	Maturity	Interest Rate
Novo Banco	BES DUE 4.6%	a)	EUR	2010	40 855	2018	Fixed rate 4.6%
Novo Banco	BES 4 YEARS 7%		EUR	2012	142 627	2016	Fixed rate 7%
Novo Banco	BES GUAR FEB 16		EUR	2012	93 351	2017	Euribor 3m + 1.5%
NB (Spain Branch)	Mortgage bonds	a)	EUR	2006	78 181	2016	Fixed rate 4.25%
NB (London Branch)	Certificates of deposit		USD	2015	4 615	2016	Fixed rate 1.10%
NB (London Branch)	EMTN Series 2		EUR	2012	136 037	2016	Fixed rate 7%
NB (London Branch)	EMTN Series 3		EUR	2012	118 196	2022	Fixed rate 5%
NB (London Branch)	EMTN Series 5		EUR	2012	47 025	2016	Fixed rate 7%
NB (London Branch)	EMTN Series 6		EUR	2012	174 840	2022	Fixed rate 5%
NB (London Branch)	EMTN Series 7		EUR	2012	178 990	2019	Fixed rate 5%
NB (London Branch)	EMTN Series 10		EUR	2012	580 775	2019	Fixed rate 5%
NB (London Branch)	EMTN Series 12		EUR	2012	363 844	2019	Fixed rate 5%
NB (London Branch)	EMTN Series 13		EUR	2012	257 340	2019	Fixed rate 5%
NB (London Branch)	EMTN Series 14		EUR	2012	241 091	2019	Fixed rate 5%
NB (Luxembourg Branch)	BES Luxembourg 5.75% 28/06/17		EUR	2012	19 768	2017	Fixed rate 5.75%
NB (Luxembourg Branch)	BES Luxembourg 3% 21/06/22		USD	2012	133 761	2022	Fixed rate 3%
NB (Luxembourg Branch)	BES Luxembourg 3.5% 02/01/43		EUR	2013	54 526	2043	Fixed rate 3.5%
NB (Luxembourg Branch)	BES Luxembourg 3.5% 23/01/43		EUR	2013	106 628	2043	Fixed rate 3.5%
NB (Luxembourg Branch)	BES Luxembourg 3.5% 19/02/2043		EUR	2013	82 057	2043	Fixed rate 3.5%
NB (Luxembourg Branch)	BES Luxembourg 3.5% 18/03/2043		EUR	2013	58 127	2043	Fixed rate 3.5%
NB (Luxembourg Branch)	BES Luxembourg ZC		EUR	2013	39 412	2048	Zero Coupon
NB (Luxembourg Branch)	BES Luxembourg ZC 22/01/2049		EUR	2014	32 036	2049	Zero Coupon
NB (Luxembourg Branch)	BES Luxembourg ZC 29/01/2049		EUR	2014	42 635	2049	Zero Coupon
NB (Luxembourg Branch)	Banco Esp San Lux ZC 05/02/49		EUR	2014	42 617	2049	Zero Coupon
NB (Luxembourg Branch)	Banco Esp San Lux ZC 12/02/49		EUR	2014	46 448	2049	Zero Coupon
NB (Luxembourg Branch)	Banco Esp San Lux ZC 19/02/49		EUR	2014	45 778	2049	Zero Coupon
NB (Luxembourg Branch)	Banco Esp San Lux ZC 27/02/51		EUR	2014	39 266	2051	Zero Coupon
NB (Luxembourg Branch)	BES Luxembourg ZC 06/03/2051		EUR	2014	39 170	2051	Zero Coupon
NB (Luxembourg Branch)	BES Luxembourg ZC 13/03/48		EUR	2014	33 676	2048	Zero Coupon
NB (Luxembourg Branch)	BES Luxembourg ZC 25/03/50		EUR	2014	39 465	2050	Zero Coupon
NB (Luxembourg Branch)	BES Luxembourg ZC 27/03/47		EUR	2014	48 322	2047	Zero Coupon
NB (Luxembourg Branch)	BES Luxembourg ZC 03/04/48		EUR	2014	42 161	2048	Zero Coupon
NB (Luxembourg Branch)	BES Luxembourg ZC 09/04/52		EUR	2014	38 996	2052	Zero Coupon
NB (Luxembourg Branch)	BES Luxembourg ZC 16/04/46		EUR	2014	46 949	2046	Zero Coupon
					3 489 565		

a) Liabilities at fair value through profit or loss or with embedded derivatives

(thousands of Euros)

Entity	Description		31.12.2014				
			Currency	Issue Date	Book value	Maturity	Interest Rate
Novo Banco	BES 3.375%		EUR	2009	843 250	2015	Fixed rate 3.375%
Novo Banco	BES DUE 3.875%		EUR	2010	403 673	2015	Fixed rate 3.875%
Novo Banco	BES DUE 4.6%		EUR	2010	41 472	2017	Fixed rate 4.6%
Novo Banco	BES DUE JULY 16		EUR	2011	59 948	2016	Fixed rate 6.875%
Novo Banco	BES 4 YEARS 7%		EUR	2012	133 882	2016	Fixed rate 7%
Novo Banco	BES 6.9% 2024		EUR	2012	70 611	2024	Fixed rate 6.9%
Novo Banco	BES 5.875% 2015		EUR	2012	755 133	2015	Fixed rate 5.875%
Novo Banco	BES 4.75% 2018		EUR	2013	522 275	2018	Fixed rate 4.75%
Novo Banco	BES 4%		EUR	2014	775 757	2019	Fixed rate 4%
Novo Banco	BES 2.625%		EUR	2014	719 770	2017	Fixed rate 2.625%
Novo Banco	BEF 2005/2015		EUR	2005	10 008	2015	Fixed rate 0.781%
NB (Cayman Branch)	BIC CAYMAN 27 2001		EUR	2001	47 537	2015	Fixed rate - 6.09%
NB (Spain Branch)	Mortgage bonds	a)	EUR	2008	81 128	2016	Fixed rate 4.25%
NB (London Branch)	Certificates of deposit		USD	2014	4 140	2015	Fixed rate 1.25%
NB (London Branch)	Certificates of deposit		USD	2014	5 763	2015	Fixed rate 1.12%
NB (London Branch)	EMTN Series 2		EUR	2012	127 467	2016	Nominal rate 7%
NB (London Branch)	EMTN Series 3		EUR	2012	112 574	2022	Nominal rate 5%
NB (London Branch)	EMTN Series 5		EUR	2012	43 605	2016	Nominal rate 7%
NB (London Branch)	EMTN Series 6		EUR	2012	168 831	2022	Nominal rate 5%
NB (London Branch)	EMTN Series 7		EUR	2012	171 234	2019	Nominal rate 5%
NB (London Branch)	EMTN Series 8		EUR	2012	45 401	2015	Nominal rate 6.75%
NB (London Branch)	EMTN Series 9		EUR	2012	221 273	2015	Nominal rate 6.75%
NB (London Branch)	EMTN Series 10		EUR	2012	553 955	2019	Nominal rate 5%
NB (London Branch)	EMTN Series 11		EUR	2012	66 995	2015	Nominal rate 6.75%
NB (London Branch)	EMTN Series 12		EUR	2012	346 913	2019	Nominal rate 5%
NB (London Branch)	EMTN Series 13		EUR	2012	246 527	2019	Nominal rate 5%
NB (London Branch)	EMTN Series 14		EUR	2012	231 395	2019	Nominal rate 5%
NB (Luxembourg Branch)	BES Luxembourg 5.75% 28/06/17		EUR	2012	18 730	2017	Nominal rate - 5.75%
NB (Luxembourg Branch)	BES Luxembourg 3% 21/06/22		USD	2012	115 498	2022	Nominal rate - 3%
NB (Luxembourg Branch)	BES Luxembourg 3.5% 02/01/43		EUR	2013	54 082	2043	Fixed rate - 3.5%
NB (Luxembourg Branch)	BES Luxembourg 3.5% 23/01/43		EUR	2013	105 922	2043	Fixed rate - 3.5%
NB (Luxembourg Branch)	BES Luxembourg 3.5% 19/02/2043		EUR	2013	81 386	2043	Fixed rate - 3.5%
NB (Luxembourg Branch)	BES Luxembourg 3.5% 18/03/2043		EUR	2013	57 667	2043	Fixed rate - 3.5%
NB (Luxembourg Branch)	BES Luxembourg ZC		EUR	2013	37 475	2048	Fixed rate - 7%
NB (Luxembourg Branch)	BES Luxembourg ZC 22/01/2049		EUR	2014	29 939	2049	Fixed rate - 7%
NB (Luxembourg Branch)	BES Luxembourg ZC 29/01/2049		EUR	2014	39 845	2049	Fixed rate - 7%
NB (Luxembourg Branch)	Banco Esp San Lux ZC 05/02/49		EUR	2014	39 829	2049	Fixed rate - 7%
NB (Luxembourg Branch)	Banco Esp San Lux ZC 12/02/49		EUR	2014	43 780	2049	Fixed rate - 7%
NB (Luxembourg Branch)	Banco Esp San Lux ZC 19/02/49		EUR	2014	43 095	2049	Fixed rate - 7%
NB (Luxembourg Branch)	Banco Esp San Lux ZC 27/02/51		EUR	2014	36 902	2051	Fixed rate - 7%
NB (Luxembourg Branch)	BES Luxembourg ZC 06/03/2051		EUR	2014	36 810	2051	Fixed rate - 7%
NB (Luxembourg Branch)	BES Luxembourg ZC 13/03/48		EUR	2014	31 472	2048	Fixed rate - 7%
NB (Luxembourg Branch)	BES Luxembourg ZC 25/03/50		EUR	2014	36 882	2050	Fixed rate - 7%
NB (Luxembourg Branch)	BES Luxembourg ZC 27/03/47		EUR	2014	45 160	2047	Fixed rate - 7%
NB (Luxembourg Branch)	BES Luxembourg ZC 03/04/48		EUR	2014	39 402	2048	Fixed rate - 7%
NB (Luxembourg Branch)	BES Luxembourg ZC 09/04/52		EUR	2014	36 873	2052	Fixed rate - 7%
NB (Luxembourg Branch)	BES Luxembourg ZC 16/04/46		EUR	2014	43 875	2046	Fixed rate - 7%
					7 785 141		

a) Liabilities at fair value through profit or loss or with embedded derivatives

This balance includes Euros 42 635 thousand in liabilities for debt securities recorded in the balance sheet at fair value through profit or loss (31 December 2014: Euros 1 488 125 thousand).

NOTE 33 – PROVISIONS

During 2015 and in the period from 4 August through 31 December 2014, the caption Provisions presents the following movements:

(thousands of Euros)

	Provision for general credit risks	Other provisions	Total
Balance at 4 August 2014	**359 428**	**905 625**	**1 265 053**
Increase / (write-backs) for the period	(36 485)	(333 044)	(369 529)
Utilisation during period	-	(69 426)	(69 426)
Foreign exchange differences and other	958	(1 109)	(151)
Balance at 31 December 2014	**323 901**	**502 046**	**825 947**
Increase / (write-backs) for the period	(59 427)	100 691	41 264
Utilisation during period	-	(180 848)	(180 848)
Foreign exchange differences and other	2 751	238	2 989
Balance at 31 December 2015	**267 225**	**422 127**	**689 352**

Other provisions, amounting to Euros 422.1 million (31 December 2014: Euros 502.0 million), are intended to cover certain duly identified contingencies related to the Bank's activities, the most relevant of which being:

- Provision amounting to Euros 295.8 million (31 December 2014: Euros 454.8 million) to cover for costs resulting from commercial offers approved by the Board of Directors of NOVO BANCO, aimed at retail customers who hold NOVO BANCO unsubordinated bonds. During 2015, taking into account the experience gained in implementing these commercial offers, provisions were used in the amount of Euros 159.1 million. 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 regarding the bonds and financial instruments subscribed by customers;
- Contingencies for ongoing tax processes. To cover these contingencies, the Bank maintains provisions of Euros 7.1 million (31 December 2014: Euros 4.4 million);
- The remaining balance, of circa Euros 119.2 million (31 December 2014: Euros 42.7 million), is maintained to cover potential 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 – TAXES

NOVO BANCO is subject, individually, to taxation in accordance with the Corporate Income Tax Code (IRC Code).

For the 2014 period, NOVO BANCO was subject to corporate income tax (IRC) at the IRC rate of 23% approved by Law no. 2/2014, of 16 January. For the 2015 year, NOVO BANCO was subject to corporate income tax (IRC) at the rateof 21% approved by Law no. 82-B/2014, of 31 December (State Budget Law for 2015),which changed the IRC Code.
Income taxes (current or deferred) are recognised in the income statement except in cases where the underlying transactions have been reflected under equity captions. 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 at 31 December 2015 and 2014, the following aspects were taken into consideration:

- The transfer operation involving the assets, liabilities, off-balance sheet elements and assets under management of BES, made under the deliberation of Banco de Portugal of 3 August 2014, constitutes an asset contribution operation, under article 73 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 Authority and is foreseen in article 145-AU of the RGICSF.
- In conformity with that referred to in the previous paragraph, 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 resolutions 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. Accordingly, the corresponding deferred tax assets were transferred to NOVO BANCO. An application was submitted to the Ministry of Financeunder no. 4 of article 145-AU of the RGICSF, requesting the confirmation that the tax losses generated by BES and subject to carry forward can be transmitted to NOVO BANCO. No response was obtained to the application and, consequently, in the 2015 financial year deferred tax assets amounting to Euros 159 756 thousand, corresponding to those tax losses, were written-off.
- 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 from the accounting policy change on recognising previously deferred actuarial gains and losses, which were previously deferred, will be fully

deductible in equal parts over 10 years (counting from the financial period that 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 period that 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 to, 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 period in the event of a tax loss.
- Considering the previous paragraphs:
  - As at 31 December 2014, 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 159 988 thousand, respectively, are therefore recoverable over the minimum periods of 13 and 7 years.
  - 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 159 988 thousand, respectively, are therefore recoverable over the minimum periods of 12 and 6 years. These periods may be extended in the event of tax losses being determined and by the application of the Special Regime applicable to Deferred Tax Assets approved by Law no. 61/2014, of 26 August, on the terms previously referred.
- The merger by incorporation of Avistar SGPS, with accounting impacts as at 30 June 2015, is subject to the special regime of tax neutrality foreseen in article 73 *et sec* of the IRC Code.

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, at 31 December 2015 and 2014:

- the deferred tax relating to tax losses carried forward was specifically determined using the IRC rate of 21% approved by Law no. 82-B/2014, of 31 December, which changed the IRC Code;
- the deferred tax relating to timing differences was determined based on an aggregate rate of 29%, resulting from the sum of the IRC rate of 21%, the Municipal Surcharge of 1.5% and an average rate of State Surcharge of 6.5%.

Pursuant to Law no. 55-A/2010, of 31 December, a Banking Levy (Contribuiçãosobre o Sector Bancário) was created, which is not eligible as a tax cost, and which 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 and by Law no. 82-B/2014, of 31 December. At 3 August 2014, and as a result of the transfer operation involving the assets, liabilities, off-balance sheet elements and assets under management of BES, to NOVO BANCO, S.A., made in accordance with the terms of the deliberation of Banco de Portugal of 3 August 2014, NOVO BANCO continued to recognise in assets, as a deferred cost, the amount of Euros 12 952 thousand. This amounts was recognised as a cost of NOVO BANCO during the period 4 August through 31 December 2014. At 31 December 2015, NOVO BANCO recognised Banking Levy charges, in the amount of Euros 31 159 thousand, as a cost.

The deferred tax assets and liabilities recognised in the balance sheet at 31 December 2015 and 2014, may be analysed as follows:

(in thousands of Euros)

	Assets		Liabilities		Net	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Financial instruments	182 266	140 676	(58 970)	(48 473)	123 296	92 203
Impairment losses on loans and advances to customers	853 914	974 541	-	-	853 914	974 541
Other tangible assets	17 340	-	(15 807)	(20 897)	1 533	(20 897)
Intangible assets	-	-	-	-	-	-
Investments in subsidiaries and associated companies	5 535	-	(989)	(4 103)	4 546	(4 103)
Provisions	109 897	127 148	-	-	109 897	127 148
Pensions	203 737	211 951	-	-	203 737	211 951
Seniority bonuses	8 248	8 427	-	-	8 248	8 427
Other	3 104	4 794	(3 190)	(3 623)	(86)	1 171
Tax losses for carry forward	1 182 903	1 064 894	-	-	1 182 903	1 064 894
Net Deferred tax asset / (liability)	**2 566 944**	**2 532 431**	**(78 956)**	**(77 096)**	**2 487 988**	**2 455 335**

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available allowing for the utilisation of the deductible timing differences. The Bank has evaluated the recoverability of the deferred tax assets considering its expectations of future taxable profits up until 2027.

As at 31 December 2015, deferred tax assets related to tax losses by statutory limitation period (in thousands of euros):

(thousands of Euros)

Use by date	Amount
2026	902 660
2027	280 243

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 recoverability of the deferred tax assets was made based on the business plan approved by the Board of Directors for the period 2016-2020 and considering a constant activity growth after that date and up to the expiry of the deferred tax assets generated in 2014 and 2015 (12 years).

The expectation of generating future taxable income in Portugal is supported fundamentally on the favourable evolution of:

- net interest income, reflecting the positive impact of the expected lower cost of term deposits and the reduction of the funding cost;
- the reduction of operating costs, reflecting the favourable impact of the reduction in the number of employees and bank branches;
- loans impairment in line with the evolution of the activity of the Bank based on macroeconomic projections;
- fees and commissions, reflecting a growth with the expectation of the end of the guarantee from the Portuguese Government over the Bank's debt securities issues, with an annual cost higher than of Euros 30 million.

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

The movements in the deferred tax captions were recognised as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Balance at beginning of period	2 455 335	2 611 666
Recognised in Results for the period	15 159	(129 808)
Recognised in Fair value reserves	(5 401)	(21 903)
Recognised in Reserves - Other comprehensive income / (loss)	21 576	(5 231)
Foreign exchange differences and other	1 319	611
Balance at end of period (Assets / (Liabilities))	2 487 988	2 455 335

Current tax assets and liabilities recognised in the balance sheet at 31 December 2015 and 2014, may be analysed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Assets		
Corporate tax recoverable	19	13 083
Other	1 510	1 845
	1 529	14 928
Liabilities		
Corporate tax payable	26 371	21 874
Other	3 432	3 663
	29 803	25 537

The current and deferred taxes recognised in the income statement and in reserves, during the year ended 31 December 2015 and the period from 4 August to 31 December 2014, is analysed in the following table:

(in thousands of Euros)

	31.12.2015		31.12.2014	
	Recognised in the income statement	Recognised in reserves	Recognised in the income statement	Recognised in reserves
Financial Instruments	(36 639)	5 401	(2 275)	21 903
Impairment losses on loans and advances to customers	120 627	-	564 553	-
Other tangible assets	(854)	(21 576)	(610)	5 231
Intangible assets	-	-	-	-
Investments in subsidiaries and associated companies	(8 649)	-	(191 048)	-
Provisions	17 251	-	124 395	-
Pensions	8 214	-	19 598	-
Long term-service bonuses	179	-	167	-
Tax losses for carry forward	(118 009)	-	(391 341)	-
Other	2 721	-	6 369	-
Deferred taxes	**(15 159)**	**(16 175)**	**129 808**	**27 134**
Current taxes	**12 178**	**-**	**16 395**	**-**
Total tax recognised	**(2 981)**	**(16 175)**	**146 203**	**27 134**

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)

	31.12.2015		31.12.2014	
	%	Amount	%	Amount
Loss before tax		**(1 118 641)**		**(502 417)**
Banking levy		31 159		12 952
Net profit/ (Loss) before tax for the tax rate reconciliation		**(1 087 482)**		**(489 465)**
Tax rate	21.0		23.0	
Income tax calculated based on the tax rate		(228 371)		(112 577)
Tax-exempt dividends	0.6	(6 540)	0.1	(716)
Gains in units with a more favourable tax regime	(0.0)	100	-	7 080
Impairment in equity holdings not subject to "Participation exemption"		(12 697)	-	-
Impairment in equity holdings subject to "Participation exemption"	(3.8)	41 325	32.6	(159 761)
Non-deductible costs	(1.5)	16 803		-
Taxes of Branches and tax withheld abroad	(0.9)	9 560	(3.0)	14 890
Effect of the change in the corporate tax rate on the deferred tax rate	-	-	(26.4)	129 442
Tax losses without expectation of use	-	-	(47.8)	233 758
Differences in tax rates on the generation / reversal of temporary differences	(0.1)	1 607	(6.0)	29 169
Elimination of DTA associated with tax losses of 2013 not transferred from BES	(14.7)	159 756	-	-
Other	(1.4)	15 476	(1.0)	4 917
Total tax recognised	**0.3**	**(2 981)**	**(29.9)**	**146 203**

During 2015, tax losses available for carry forward from financial period 2013, in the amount of Euros 159 756 thousand, were annulled.

NOTE 35 – OTHER LIABILITIES

At 31 December 2015 and 2014, the caption Other liabilities is analysed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Public sector	46 683	51 416
Security deposit accounts	122 589	75 252
Suppliers	218 610	277 710
Long-term service bonuses (see Note 13)	28 396	29 057
Retirement pensions and health-care benefits (see Note 13)	31 670	60 146
Other accrued expenses	75 521	88 951
Deferred income	10 971	19 529
Stock exchange transactions pending settlement	36 412	22
Other transactions pending settlement	47 166	85 457
	618 018	**687 540**

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

Aa at 31 December 2015 and 2014, the Bank's share capital, in the amount of Euros 4 900 000 000, is represented by 4 900 000 000 registered shares, with a nominal value of Euro 1 per share, fully subscribed and realised by the Fundo de Resolução (Resolution Fund).

Under Law No. 61/2014, of 26 August, NOVO BANCO adhered to the special regime applicable to deferred tax assets (DTA) relating to impairment losses on loans and advances to customers and employee benefits, which entered into force on 1 January 2015. This regime provides that those assets can be converted into tax credits when the taxable entity reports a net loss or when it enters into liquidation through voluntary dissolution, insolvency decreed by a court or, where applicable, with the revocation of the respective authorisation by the competent supervisory authority.

The net loss determined for 2015 at the individual level, after approval by the corporate bodies of NOVO BANCO, implied:

- The conversion of the eligible deferred tax assets into tax credits;
- The simultaneous constitution of a special reserve and of conversion rights of same into shares representative of share capital attributable to the State.

The conversion of the eligible deferred tax assets into tax credits resulting from the determination of a net loss in the 2015 accounts should be made in function of the proportion of the amount of said loss and total equity at the individual level.

The special reserve shall be constituted with the same amount of the tax credit determined, increased by 10%, and is intended to be incorporated in the share capital.

The conversion rights are securities which give 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 Resolution Fund, as sole shareholder of NOVO BANCO, has the unilateral right to acquire the conversion rights from the State.

The amount of deferred tax assets converted into tax credits, the creation of the special reserve and the issue and allocation to the State of conversion rights must be certified by the statutory auditor.

It is estimated that the amount of deferred tax assets to be converted into tax credit amounts, at the most, to Euros 173 million, that the special reserve amounts to Euros 190 million and the conversion rights to be issued and allocated to the State will confer to it a shareholding of up to 3% of the share capital of NOVO BANCO.

NOTE 37 – RESERVES, RETAINED EARNINGS, OTHER COMPREHENSIVE INCOME

Originating reserve

The originating reserve, in the amount of Euros 2 704 713 thousand (31 December 2014: Euros 756 477 thousand), 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 amendments) and those of the conclusions reached through the audit conducted by the independent auditor appointed by Banco de Portugal.

Fair value reserves

The fair value reserves represents 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, having a nil balance in the opening balance sheet.

The movements in these captions may be presented as follows:

(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 4 August 2014	**-**	**-**	**-**	**-**	**773 192**	**773 192**	**773 192**
Changes in fair value	78 109	(21 903)	56 206	-	-	-	56 206
Actuarial deviations	-	-	-	(256 906)	-	(256 906)	(256 906)
Pensions - transitory regime	-	-	-	-	(2 282)	(2 282)	(2 282)
Changes in originating reserve **(a)**	-	-	-	-	(16 711)	(16 711)	(16 711)
Foreign exchange differences	-	-	-	-	12 807	12 807	12 807
Other	-	-	-	-	(5)	(5)	(5)
Balance at 31 December 2014	**78 109**	**(21 903)**	**56 206**	**(256 906)**	**767 001**	**510 095**	**566 301**
Actuarial deviations	-	-	-	(47 361)	-	(47 361)	(47 361)
Changes in fair value	23 666	(4 997)	18 669	-	-	-	18 669
Appropriation of the Net profit / (loss) of the previous year to Retained earnings	-	-	-	-	(648 620)	(648 620)	(648 620)
Revaluation reserves of Avistar	(13 322)	-	(13 322)	-	-	-	(13 322)
Reserve arising on merger of Avistar	-	-	-	-	(13 316)	(13 316)	(13 316)
Changes in originating reserve **(b)**	-	-	-	-	1 948 236	1 948 236	1 948 236
Foreign exchange differences	-	-	-	-	(83 183)	(83 183)	(83 183)
Other	-	-	-	-	4	4	4
Balance at 31 December 2015	**88 453**	**(26 900)**	**61 553**	**(304 267)**	**1 970 122**	**1 665 855**	**1 727 408**

(a) Results from the clarifications of the Resolution Measure made by Banco de Portugal following the publication of the opening balance sheet
(b) Results from the deliberation of Banco de Portugal published on 29 December 2015 on the resolution measure applied to BES

Considering the provisions of paragraph 26 of IAS 21 - Effects of exchange rate changes - "when several exchange rates are available, the rate used is that in which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date", NOVO BANCO Group, on 31 December 2015, began to use in the translation of the financial statements of the Venezuelan Branch, the SIMADI exchange rate published by the Central Bank of Venezuela.

The movement in fair value reserves, net of deferred taxes, impairment losses and non-controlling interests may be analysed as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Balance at beginning of period	56 206	-
Changes in fair value	(81 786)	(93 629)
Disposals during period	(13 908)	(22 375)
Impairment recognised during period (see Note 20)	106 038	194 113
Deferred taxes recognised in reserves during period (see Note 34)	(4 997)	(21 903)
Balance at end of period	**61 553**	**56 206**

NOTE 38 – CONTINGENT LIABILITIES AND COMMITMENTS

As at 31 December 2015 and 2014, and in addition to derivative financial instruments, off-balance sheet elements are as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Contingent liabilities		
Guarantees	5 101 998	6 970 536
Financial assets pledged as collateral	15 408 961	20 655 967
Open documentary credits	1 035 580	2 383 602
Other	11 631	83 304
	21 558 170	**30 093 409**
Commitments		
Revocable commitments	5 854 980	6 374 295
Irrevocable commitments	1 435 670	1 905 638
	7 290 650	**8 279 933**

Guarantees provided are banking operations that do not imply any cash outflow for the Bank.

As at 31 December 2015, the caption financial 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 14.5 billion (31 December 2014: Euros 19.1 billion);
- Securities pledged as collateral to the Portuguese Securities and Exchange Commission ("Comissão do Mercado de ValoresMobiliários" (CMVM)) in the scope of the Investors Indemnity System (Sistema de Indemnização aos Investidores) in an amount of Euros 13.2 million (31 December 2014: Euros 18.6 million);
- Securities pledged as collateral to the Deposits Guarantee Fund (Fundo de Garantia de Depósitos) in an amount of Euros 78.9 million (31 December 2014: Euros 91.9 million); and
- Securities pledged as collateral to the European Investment Bank in an amount of Euros 740.4 million (31 December 2014: Euros 1 388.0 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 instruct to pay a certain amount to a supplier of goods or services, within a determined period, against 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 lines of credit), 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 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 cash outflows.

Additionally, the off-balance sheet elements related to banking services provided are as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Deposit and custodianship of securities and other items for customers	41 835 867	51 795 771
Assets received for subsequent collection on behalf of clients	178 939	209 452
Securitised loans under management (servicing)	4 444 600	4 753 977
Other responsibilities related with banking services	2 199 566	3 198 244
	48 658 972	**59 957 444**

Under the resolution measure applied to BES per deliberation of Banco de Portugal of 3 August 2014, (point 1., paragraph b), subparagraph (vii) of Annex 2), as altered by deliberation of Banco de Portugal of 11 August 2014, the "*Liabilities Excluded*" 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 (…)*". Considering the above mentioned, any liabilities relating to products issued by entities that integrate Espírito Santo Group, including those resulting from their trading, if any, remained in BES'scope.

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 (20 hours), with the wording given it by the Deliberation of Banco de Portugal of 11 August 2014 (17 hours)*". Through this deliberation, Banco de Portugal:

a) Clarified the treatment to be given to 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, labour, 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

b) In particular, it 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 20hours 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.

c) 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' legal sphere, said liabilities will be retransmitted from NOVO BANCO to BES, with effect as at 20hours of 3 August 2014.

In preparing its separate financial statements, 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 neutralise, at 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 materialisation of liabilities and contingencies which, according to the transfer perimeter to NOVO BANCO as defined by Banco de Portugal, should remain in the BES sphere 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 granted by Oak Finance to BES (deliberation of Banco de Portugal of 22 December 2014 that determined that that responsibility remained in BES, not having therefore been transferred to NOVO BANCO), 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 in disputes relating to the definition of the perimeter of the assets, liabilities, off-balance sheet elements and assets under management transferred to NOVO BANCO.

In preparing the consolidated financial statements of the Bank as at 31 December 2015, the Board of Directors reflected the Resolution Deliberation and related decisions made by Banco de Portugal, in particular the decisions of 29 December 2015, both as regarding the clarification of contingencies, as well as regarding the neutralisation of risks related to the resolution measure in respect of liabilities and contingencies not transferred to NOVO BANCO, but that may materialise in its legal sphere. In this context, the present financial statements 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 to the current legal bases and the information available at the present date.

Relevant lawsuits

For the purpose of determining the contingent liabilities, 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., Insolvent Estate of Espírito Santo Financial Group, S.A. and Insolvent Estate of 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 SegurosTranquilidade, 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 favour 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 SegurosTranquilidade, 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 sales price (EUR 25 000 000, susceptible of a positive adjustment) on the sale of the shares of Companhia de SegurosTranquilidade, S.A.. NOVO BANCO challenged judicially, on 19 December 2015, the resolution act, with this process running its course appended to the insolvency proceedings of Partran, SGPS, S.A.

Fundo de Resolução / Resolution Fund

a) Fundo de Resolução (Resolution Fund) is a public law legal person with administrative and financial autonomy, being governed by the General Law on Credit Institutions and Financial Companies ("RGICSF") and its internal regulation, which has as its object to provide financial assistance to financial institutions in difficulties, applying the measures decided by Banco de Portugal. In this context, and in accordance with what is defined in the RGICSF, the funding sources of Fundo de Resolução are: (i) the revenue from the banking sector levy; (ii) the initial contributions of the participating institutions; (iii) the periodic contributions of the participating institutions; (iv) amounts obtained by way of loans; (v) income from investment / application of the funds; (vi) donations; and (vii) any other income, revenue or amounts resulting from its activity or allocated to same by law or contract, including the amounts received from the credit institution object of the resolution or the transitional institution.

   The Bank, as with the majority of financial institutions operating in Portugal, is one of the institutions participating in Fundo de Resolução, making the contributions that result from the application of a rate set annually by Banco de Portugal based, essentially, on the amount of liabilities. In 2015, the periodic payment made by the Group amounted to Euros 6 591 thousand.

b) As part of its responsibility as the supervisory and resolution authority of the Portuguese financial sector, Banco de Portugal decided to apply, on 3 August 2014, a resolution measure to BES, under no. 5 of article 145-G of the RGICSF, with the wording at the time, which consisted of the transfer of most of its activity to a transition bank, called NOVO BANCO, S.A., especially created for the purpose.

To realise the share capital of NOVO BANCO, Fundo de Resolução made available Euros 4 900 million. Of this amount, Euros 377 million are own funds of Fundo de Resolução. In addition, a loan was granted by a banking syndicate to Fundo de Resolução, of Euros 700 million, with the share of each credit institution having been weighted depending on various factors, including its size. The remaining amount came from a loan granted by the Portuguese Government, which will be reimbursed and remunerated by Fundo de Resolução.

Recently, on 29 December 2015, Banco de Portugal, as resolution authority, determined the retransmission, from NOVO BANCO to BES of five issues of non-subordinated debt instruments, made the final adjustment of the perimeter of the assets, liabilities, off-balance sheet elements and assets under management transferred to NOVO BANCO, and also clarified, as mentioned above, that it is the responsibility of Fundo de Resolução to neutralise, by compensating NOVO BANCO, the possible negative effects of future judicial decisions arising from the resolution process that result in liabilities or contingencies.

c) Also during the month of December, 2015, the national authorities decided to sell the activity and most of the assets and liabilities of Banif - Banco Internacional do Funchal, SA ("Banif") to Banco Santander Totta, for Euros 150 million, in the framework of the application of a resolution measure. According to information provided by Banco de Portugal, this operation involved an estimated Euros 2 255 million in public funding, aimed at covering future contingencies, financed in Euros 489 million by Fundo de Resolução and in Euros 1 766 million directly by the Portuguese State, as a result of the options agreed to between the Portuguese authorities, the European authorities and Banco Santander Totta, for the delimitation of the perimeter of the assets and liabilities to be sold.

d) As a result of the deliberations referred to above, the risk of litigation involving Fundo de Resolução may also be materially significant.

At the date of approval of the attached financial statements, the Board of Directors has no information allowing it to estimate with reasonable reliability if, due to the ongoing process of the disposal of NOVO BANCO, the outcome of ongoing lawsuits and other contingent liabilities that can also result from the recent resolution measure applied to Banif, these could result in an insufficient funding of Fundo de Resolução and, if so, how this will be resolved.

In these circumstances, it is not possible to assess whether these situations can, and to what extent, have any impact on the future financial statements of the Bank.

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 companies that, on the one hand, the Bank controls, directly or indirectly, or has an interest that gives it significant influence over the management, i.e. joint ventures and subsidiary and associated companies and, on the other hand, the entities having a significant influence on the Bank's management, namely the shareholders and members of key management personnel and their immediate families.

The amounts of the transactions between the Bank and its related parties as at 31 December 2015 and 2014, is summarised as follows:

(thousands of Euros)

	31.12.2015					31.12.2014				
	Assets	**Liabilities**	**Guarantees**	**Income**	**Expenses**	**Assets**	**Liabilities**	**Guarantees**	**Income**	**Expenses**
Shareholder										
FUNDO DE RESOLUÇÃO	-	-	-	-	6 591	-	-	-	-	3 448
Associated companies										
GNB RECUPERAÇÃO DE CRÉDITO	-	417	-	176	4 495	-	443	-	-	1 924
ES CONCESSÕES	105 196	821	9 422	1 375	-	104 550	8	23 053	585	-
NB ACE	-	954	-	889	5 397	-	404	-	358	1 732
ESAF SGPS	1 348	108 922	4 020	5 831	179	2 001	32 984	4 024	2 731	72
NOVO ACTIVOS FINANCIEROS	583	47 556	-	5 929	397	721	54 176	-	2 951	166
NOVO BANCO SERVICIOS	64 799	45	-	1 907	1 785	69 028	4 643	-	828	783
NBGest	-	-	-	-	-	-	229	-	-	-
BESI	-	-	-	-	-	741 291	19 892	-	-	-
BES GMBH	-	5 082	-	-	-	-	5 882	-	-	2
BESIL	-	24	-	145	-	-	28	-	70	-
NB Ásia	10 387	3 864	341	2	106	85	6 008	-	-	835
BES FINANCE	-	-	-	-	-	172 298	1 212 908	1 129 980	4 120	26 613
NBI Plc	694 855	2 786	27 556	325 763	248 875	938 687	104 562	-	3 733	1 137
ES TECH VENTURES	46 732	28 051	-	-	208	46 732	39 544	-	-	78
BEST	4 053	240 768	-	388	2 441	31 226	230 628	-	148	490
NB AÇORES	352 901	313 989	1 456	2 435	2 590	95 838	19 537	1 205	161	13
QUINTA DOS CONEGOS	1 048	-	-	36	-	1 091	-	-	16	-
BIBL	131 378	98 347	-	6 006	5 527	290 106	248 752	-	741	1 073
FCR PME	-	3 522	-	-	1	-	527	-	-	2
FCR VENTURES II	16 519	280	-	905	1	16 558	283	-	228	1
GNB SISTEMAS DE INFORMAÇÃO	-	724	-	210	9 003	-	1 551	-	-	2 748
FT LPF1	17 056	10 783	-	1 534	-	16 927	7 651	-	810	-
SPE-LM6	249 512	6 837	-	1 514	-	180 252	1 220	-	998	-
SPE-LM7	1 079 492	20	-	1 702	-	1 156 569	37	-	1 463	-
PRAÇA DO MARQUES	-	865	-	-	1 771	-	3 110	-	-	738
SPE-SME1	-	-	-	-	-	1 663	-	-	-	-
AVISTAR	-	-	-	700	405	438 611	189 721	-	1 187	654
FCR BES GROWTH	15 414	158	-	-	-	15 414	871	-	-	-
FCR VENTURES III	11 604	8	-	618	-	10 811	1	-	139	-
OBLOG	-	1 419	-	26	1	-	1 362	-	-	1
NB ÁFRICA	-	10 697	-	-	2	-	1 349	-	-	-
BANCO DE CABO VERDE	-	-	-	-	-	15	72 195	-	-	126
GNB Vida	112 387	302 212	-	22 235	10 840	1 979 960	825 849	-	7 872	546
NOVO VANGUARDA	-	117	-	-	1 989	-	155	-	-	987
FLITPTREL VIII	15 149	118	-	-	-	14 900	66	-	-	-
FUNGEPI	-	47 622	853	21	112	-	42 237	1 011	42	-
FUNGEPI_II	-	15 826	41	39	2	-	8 966	41	27	-
FUNGERE	-	31 254	185	26	73	-	29 312	467	30	-
IMOINVESTIMENTO	-	2 387	-	84	3	-	3 646	-	38	13
PREDILOC	-	333	-	-	3	-	215	-	-	-
IMOGESTÃO	-	1 127	883	17	-	-	1 300	3 278	7	-
ARRABIDA	-	1 521	-	-	21	-	2 120	-	-	17
INVESFUNDO VII	-	178	-	10	-	-	167	-	-	-
BES VÉNÉTIE	510 538	2 414	225 133	13 788	1 541	730 676	783	-	1 373	-
ES LOGÍSTICA	-	3 004	-	-	23	-	9 250	-	-	9
NB PATRIMÓNIO	39 417	-	387	3 054	6 051	-	-	-	-	-
FUNDES	-	27 782	-	-	-	-	-	-	-	-
AMOREIRAS	-	1 245	884	-	-	-	-	-	-	-
FIMES ORIENTE	60	462	114	-	-	-	-	-	-	-
NB ARRENDAMENTO	-	6 533	-	-	5	-	-	-	-	-
NB FINANCE	91 905	442 162	480 867	56 923	25 930	-	-	-	-	-
SOLID	573	-	-	-	-	-	-	-	-	-
	3 572 906	**1 773 236**	**752 142**	**454 288**	**336 368**	**7 056 010**	**3 184 572**	**1 163 059**	**30 656**	**44 208**
Associated companies										
ASCENDI GROUP SGPS	574 072	20 265	3 844	32 744	48	523 123	1 393	14 405	12 987	-
LOCARENT	100 549	506	-	2 198	7 618	100 495	816	-	810	3 892
NANIUM	31 018	5 602	188	143	12	26 057	3 516	188	34	4
ASCENDI PINHAL INTERIOR	155 810	23 748	7 639	15 530	29 978	152 525	15 815	7 935	1 847	-
PALEXPO	2 897	-	-	-	-	2 897	-	-	-	-
GNB SEGUROS	-	6 598	-	2 047	22	-	10 354	-	-	4
ESEGUR	6 871	-	941	4	1	5 869	10	1 008	40	-
ES CONTACT CENTER	-	227	-	1	-	60	238	-	1	-
UNICRE	8	13 882	-	1 197	1	11	-	-	-	-
MULTIPESSOAL	10 154	17	798	362	-	15 122	20	980	132	-
OTHER	63 646	77 184	9 973	1 111	446	59 271	49 052	5 242	515	138
	945 025	**148 029**	**23 383**	**55 337**	**38 126**	**885 430**	**81 214**	**29 758**	**16 366**	**4 038**
Other (*)	**2**	**694**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

(*) **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.

All the loans granted to related parties are included in the impairment model, being subject to the determination of impairment like any other loans and advances granted by the Bank in the scope of its activity.

As at 31 December 2015 (in accordance with the scope defined in IAS 24) credit granted to members of the Board of Directors and their direct relatives amounted to Euros 269 thousand; members of the Supervisory Board and their direct relatives had no credit granted to them; and the amount of credit extended to Other Key Management Personnel amounted to Euros 1 556 thousand.

NOTE 40 – SECURITISATION OF ASSETS

As at 31 December 2015 and 2014, the outstanding securitisation transactions realised by NOVO BANCO were as follows:

(thousands of Euros)

Issue	Start date	Original amount	Current amount		Asset securitised
			31.12.2015	31.12.2014	
Lusitano Mortgages No.1 plc	December 2002	1 000 000	270 081	298 553	Mortgage loans (subsidised regime)
Lusitano Mortgages No.2 plc	November 2003	1 000 000	271 697	299 387	Mortgage loans (general and subsidised regime)
Lusitano Mortgages No.3 plc	November 2004	1 200 000	409 651	444 692	Mortgage loans (general regime)
Lusitano Mortgages No.4 plc	September 2005	1 200 000	478 582	516 264	Mortgage loans (general regime)
Lusitano Mortgages No.5 plc	September 2006	1 400 000	675 212	725 295	Mortgage loans (general regime)
Lusitano SME No.1 plc	October 2006	862 607	118 038	137 923	Loans to small- and medium-sized companies
Lusitano Mortgages No.6 plc	July 2007	1 100 000	649 914	687 131	Mortgage loans (general regime)
Lusitano Project Finance No.1, FTC	December 2007	1 079 100	88 359	105 414	Project Finance
Lusitano Mortgages No.7 plc	September 2008	1 900 000	1 575 737	1 646 516	Mortgage loans (general regime)
Lusitano Leverage Finance No. 1 BV	February 2010	516 534	-	1 610	Leverage Finance
Lusitano Finance No. 3	November 2011	657 981	124 115	186 105	Consumer loans

In March 2015, Lusitano Leverage Finance No.1 BV was liquidated.

Additionally, as at 31 December 2015 and 2014, the following synthetic securitisation operations were in progress:

(thousands of Euros)

Issue	Start date	Initial amount of CDS	Current amount of CDS		Asset securitised
			31.12.2015	31.12.2014	
Lusitano Synthetic Limited	December 2012	1 000 000	889 397	1 000 000	M- /L -term Loans and advances (SMEs)
Lusitano Synthetic II Ltd.	December 2013	2 000 000	1 736 459	1 832 081	Current accounts

The loans and advances to customers covered by the securitisation operation Lusitano Finance No.3 was 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 securitisation 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 securitisation 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 Bank's balance sheet under the Loans and advances to customers' caption. At 31 December 2015, the fair value of the CDS of these transactions is a positive Euros 102 796 thousand (31 December 2014: positive fair value of Euros 69 939 thousand).

The main characteristics of these operations, at 31 December 2015 and 2014, may be analysed as follows:

(thousands of Euros)

31.12.2015														
Issue	Bonds issued	Initial nominal value	Current nominal value	Interest held by Bank (Nominal value)	Interest held by Bank (Carrying 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	173 402	-	-	December 2035	AAA	Aaa	AAA	-	A+	A1	BBB+	-
	Class B	32 500	32 500	-	-	December 2035	AA	Aa3	AA	-	A+	A1	BBB+	-
	Class C	25 000	25 000	-	-	December 2035	A	A2	A	-	A+	Baa2	BB-	-
	Class D	22 500	22 500	-	-	December 2035	BBB	Baa2	BBB	-	A	B1	B+	-
	Class E	5 000	5 000	-	-	December 2035	BB	Ba1	BB	-	BBB	Caa1	B-	-
	Class F	10 000	10 000	-	-	December 2035	-	-	-	-	-	-	-	-
Lusitano Mortgages No.2 plc	Class A	920 000	178 722	-	-	December 2036	AAA	Aaa	AAA	-	A+	A1	BBB+	-
	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+	Baa1	BB	-
	Class D	16 000	16 000	-	-	December 2046	BBB	Baa3	BBB	-	BBB+	Ba2	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	348 548	-	-	December 2047	AAA	Aaa	AAA	-	BBB+	A2	BBB+	-
	Class B	27 000	13 677	-	-	December 2047	AA	Aa2	AA	-	BBB	Ba2	BB-	-
	Class C	18 600	9 422	-	-	December 2047	A	A2	A	-	BB	B1	B	-
	Class D	14 400	7 294	-	-	December 2047	BBB	Baa2	BBB	-	B	B3	B-	-
	Class E	10 800	6 821	-	-	December 2047	-	-	-	-	-	-	-	-
Lusitano Mortgages No.4 plc	Class A	1 134 000	387 861	-	-	December 2048	AAA	Aaa	AAA	-	BBB-	A1	A-	-
	Class B	22 800	21 553	-	-	December 2048	AA	Aa2	AA	-	BB+	Ba1	BB	-
	Class C	19 200	18 150	-	-	December 2048	A+	A1	A+	-	B+	B3	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	563 470	-	-	December 2059	AAA	Aaa	AAA	-	BB+	Baa3	BB+	-
	Class B	26 600	25 494	-	-	December 2059	AA	Aa2	AA	-	B+	Caa1	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-	-	PIF	-	-	-
	Class B	40 974	15 602	-	-	December 2028	AAA	-	AAA	-	AAA	-	AAA	-
	Class C	34 073	22 046	-	-	December 2028	CCC	-	B	-	B-	-	B-	-
	Class D	28 035	18 139	-	-	December 2028	-	-	-	-	-	-	-	-
	Class E	8 626	4 313	-	-	December 2028	-	-	-	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943 250	461 224	99 140	89 038	March 2060	AAA	Aaa	AAA	-	BBB	A1	BBB+	-
	Class B	65 450	65 450	58 950	43 188	March 2060	AA	Aa3	AA	-	BB-	Baa3	BB+	-
	Class C	41 800	41 800	41 800	24 745	March 2060	A	A3	A	-	B-	B3	B	-
	Class D	17 600	17 600	17 600	8 114	March 2060	BBB	Baa3	BBB	-	CCC	Caa3	CCC	-
	Class E	31 900	31 900	31 900	10 186	March 2060	BB	-	BB	-	CC	-	D	-
	Class F	22 000	22 000	-	-	March 2060	-	-	-	-	-	-	-	-
Lusitano Project Finance No.1 FTC		198 101	104 497	30 009	15 398	March 2025	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1 425 000	1 075 646	1 075 647	968 340	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	156 943	125 697	113 278	November 2029	-	-	-	-	-	-	-	-
	Class C	24 800	10 000	10 000	8 436	November 2029	-	-	-	-	-	-	-	-
Lusitano Synthetic Limited	Senior	900 000	849 390	777 341	-	April 2034	-	-	-	-	-	-	-	-
	Mezzanine	80 000	80 000	-	-	April 2034	-	-	-	-	-	-	-	-
	Junior	20 000	15 827	9 570	-	April 2034	-	-	-	-	-	-	-	-
Lusitano Synthetic II Ltd.	Senior	1 800 000	1 694 842	1 575 080	-	November 2023	-	-	-	-	-	-	-	-
	Mezzanine	180 000	180 000	-	-	November 2023	-	-	-	-	-	-	-	-
	Junior	20 000	15 767	-	-	November 2023	-	-	-	-	-	-	-	-

(thousands of Euros)

31.12.2014

Issue	Bonds issued	Initial nominal value	Current nominal value	Interest held by Bank (Nominal value)	Interest held by Bank (Carrying 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	217 648	-	-	December 2035	AAA	Aaa	AAA	-	A+	A	A	-
	Class B	32 500	32 500	-	-	December 2035	AA	Aa3	AA	-	A+	Baa2	A-	-
	Class C	25 000	25 000	-	-	December 2035	A	A2	A	-	A+	Ba2	BB	-
	Class D	22 500	22 500	-	-	December 2035	BBB	Baa2	BBB	-	A	B2	BB-	-
	Class E	5 000	5 000	-	-	December 2035	BB	Ba1	BB	-	BBB	Caa1	B-	-
	Class F	10 000	10 000	-	-	December 2035	-	-	-	-	-	-	-	-
Lusitano Mortgages No.2 plc	Class A	920 000	215 483	-	-	December 2036	AAA	Aaa	AAA	-	A+	A3	A	-
	Class B	30 000	30 000	-	-	December 2046	AA	Aa3	AA	-	A+	Baa3	BBB+	-
	Class C	28 000	28 000	-	-	December 2046	A	A3	A	-	A+	Ba2	BB	-
	Class D	16 000	16 000	-	-	December 2046	BBB	Baa3	BBB	-	BBB+	B3	B	-
	Class E	6 000	6 000	-	-	December 2046	BBB-	Ba1	BB	-	BB	Caa2	B-	-
	Class F	9 000	9 000	-	-	December 2046	-	-	-	-	-	-	-	-
Lusitano Mortgages No.3 plc	Class A	1 140 000	399 561	-	-	December 2047	AAA	Aaa	AAA	-	A	Baa3	A-	-
	Class B	27 000	15 679	-	-	December 2047	AA	Aa2	AA	-	BBB	B2	BBB	-
	Class C	18 600	10 801	-	-	December 2047	A	A2	A	-	BB	Caa1	BB-	-
	Class D	14 400	8 362	-	-	December 2047	BBB	Baa2	BBB	-	B	Caa2	B-	-
	Class E	10 800	7 819	-	-	December 2047	-	-	-	-	-	-	-	-
Lusitano Mortgages No.4 plc	Class A	1 134 000	427 263	-	-	December 2048	AAA	Aaa	AAA	-	BBB-	Baa3	A-	-
	Class B	22 800	21 553	-	-	December 2048	AA	Aa2	AA	-	BB+	B3	BBB	-
	Class C	19 200	18 150	-	-	December 2048	A+	A1	A+	-	B+	Caa1	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	630 708	-	-	December 2059	AAA	Aaa	AAA	-	BB+	Ba1	BBB+	-
	Class B	26 600	25 494	-	-	December 2059	AA	Aa2	AA	-	B+	Caa1	B+	-
	Class C	22 400	21 469	-	-	December 2059	A	A1	A	-	CCC	Caa3	B-	-
	Class D	28 000	26 836	5 271	4 110	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	6 686	1 663	1 658	December 2028	A+	-	A-	-	A+	-	A-	-
	Class B	40 974	29 080	-	-	December 2028	AAA	-	AAA	-	AAA	-	AAA	-
	Class C	34 073	24 182	-	-	December 2028	CCC	-	B	-	CCC	-	B	-
	Class D	28 035	19 897	-	-	December 2028	-	-	-	-	-	-	-	-
	Class E	8 626	4 313	-	-	December 2028	-	-	-	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943 250	499 840	39 929	38 217	March 2060	AAA	Aaa	AAA	-	BBB	Baa3	BBB	-
	Class B	65 450	65 450	58 950	45 882	March 2060	AA	Aa3	AA	-	BB-	Ba3	B+	-
	Class C	41 800	41 800	31 800	21 803	March 2060	A	A3	A	-	B-	Caa1	B	-
	Class D	17 600	17 600	17 600	9 000	March 2060	BBB	Baa3	BBB	-	CCC	Caa3	CCC	-
	Class E	31 900	31 900	31 900	9 292	March 2060	BB	-	BB	-	CC	-	D	-
	Class F	22 000	22 000	-	-	March 2060	-	-	-	-	-	-	-	-
Lusitano Project Finance No.1 FTC		198 101	-	-	-	March 2025	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1 425 000	1 156 035	1 156 031	1 090 380	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 Leverage finance No. 1 BV	Class A	352 000	-	-	-	January 2020	-	-	AAA	-	-	-	-	-
	Class X	21 850	21 850	20 633	16 846	January 2020	-	-	-	-	-	-	-	-
	Class Sub	206 800	3 255	-	-	January 2020	-	-	-	-	-	-	-	-
Lusitano Finance No.3	Class A	450 700	-	-	-	November 2029	-	-	-	-	-	-	-	-
	Class B	207 200	197 929	197 930	197 930	November 2029	-	-	-	-	-	-	-	-
	Class C	24 800	10 000	10 000	12 233	November 2029	-	-	-	-	-	-	-	-
Lusitano Synthetic Limited	Senior	900 000	895 007	895 007	-	April 2034	-	-	-	-	-	-	-	-
	Mezzanine	80 000	80 000	-	-	April 2034	-	-	-	-	-	-	-	-
	Junior	20 000	16 671	13 337	-	April 2034	-	-	-	-	-	-	-	-
Lusitano Synthetic II Ltd.	Senior	1 800 000	1 797 941	1 797 941	-	November 2023	-	-	-	-	-	-	-	-
	Mezzanine	180 000	180 000	-	-	November 2023	-	-	-	-	-	-	-	-
	Junior	20 000	17 484	13 987	-	November 2023	-	-	-	-	-	-	-	-

NOTE 41 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

(thousands of Euros)

	Amortised Cost	At fair value: Quoted Market Prices (Level 1)	At fair value: Valuation models based on observable market information (Level 2)	At fair value: Valuation models based on unobservable market information (Level 3)	Carrying value	Fair value
31 December 2015						
Cash and deposits with Central Banks	738 360	-	-	-	738 360	738 360
Deposits with banks	132 753	-	-	-	132 753	132 753
Financial assets held for trading	-	1 503	771 299	14 281	787 083	787 083
Securities						
Bonds issued by government and public entities	-	1 128	-	-	1 128	1 128
Bonds issued by other entities	-	-	-	30	30	30
Shares	-	299	-	14 251	14 550	14 550
Other variable income securities	-	76	-	-	76	76
Derivatives						
Exchange rate contracts	-	-	40 142	-	40 142	40 142
Interest rate contracts	-	-	707 691	-	707 691	707 691
Credit default contracts	-	-	21 397	-	21 397	21 397
Other	-	-	2 069	-	2 069	2 069
Other Financial assets at fair value through profit or loss	-	7 668	-	219 725	227 393	227 393
Bonds issued by government and public entities	-	-	-	-	-	-
Bonds issued by other entities	-	1 615	-	170	1 785	1 785
Shares and other variable income securities	-	6 053	-	219 555	225 608	225 608
Available-for-sale financial assets	2 918	4 932 179	590 029	5 069 801	10 594 927	10 594 927
Bonds issued by government and public entities	-	4 719 553	438 890	3 952	5 162 395	5 162 395
Bonds issued by other entities	-	129 485	151 139	1 970 725	2 251 349	2 251 349
Shares	2 918 a)	83 141	-	817 869	903 928	903 928
Other variable income securities	-	-	-	2 277 255	2 277 255	2 277 255
Loans and advances to banks	2 548 148	-	-	-	2 548 148	2 548 148
Loans and advances to customers	27 842 023	-	430 560	-	28 272 583	27 432 800
Derivatives held for risk management purposes	-	-	322 055	-	322 055	322 055
Exchange rate contracts	-	-	295	-	295	295
Interest rate contracts	-	-	218 964	-	218 964	218 964
Credit default contracts	-	-	102 796	-	102 796	102 796
Financial assets	**31 264 202**	**4 941 350**	**2 113 943**	**5 303 807**	**43 623 302**	**42 783 519**
Deposits from Central Banks	7 485 794	-	-	-	7 485 794	7 485 794
Financial liabilities held for trading	-	-	758 446	-	758 446	758 446
Derivatives						
Exchange rate contracts	-	-	43 999	-	43 999	43 999
Interest rate contracts	-	-	686 309	-	686 309	686 309
Credit default contracts	-	-	16 565	-	16 565	16 565
Other	-	-	11 573	-	11 573	11 573
Deposits from banks	4 708 359	-	421 501	-	5 129 860	5 060 345
Due to customers and other loans	26 199 388	-	1 038 486	-	27 237 874	27 237 874
Debt securities issued	3 446 930	-	42 635	-	3 489 565	3 812 600
Financial liabilities associated with assets transferred	-	-	168 565	-	168 565	168 565
Derivatives held for risk management purposes	-	-	77 846	-	77 846	77 846
Exchange rate contracts	-	-	13	-	13	13
Interest rate contracts	-	-	77 833	-	77 833	77 833
Credit default contracts	-	-	-	-	-	-
Financial Liabilities	**41 840 471**	**-**	**2 507 479**	**-**	**44 347 950**	**44 601 470**

[a] Assets at acquisition cost net of impairment. These assets refer to equity instruments issued by unquoted entities in respect of which no recent transactions were identified and for which it is not possible to estimate fair value reliably

(thousands of Euros)

	Amortised Cost	At fair value: Quoted Market Prices (Level 1)	At fair value: Valuation models based on observable market information (Level 2)	At fair value: Valuation models based on unobservable market information (Level 3)	Carrying value	Fair value
31 December 2014						
Cash and deposits with Central Banks	2 724 884	-	-	-	2 724 884	2 724 884
Deposits with banks	214 258	-	-	-	214 258	214 258
Financial assets held for trading	102 668	55 362	1 104 577	32 884	1 295 491	1 295 491
Securities						
Bonds issued by government and public entities	-	51 557	-	-	51 557	51 557
Bonds issued by other entities	102 668	39	-	30	102 737	102 737
Shares	-	3 647	14	32 854	36 515	36 515
Other variable income securities	-	119	-	-	119	119
Derivatives						
Exchange rate contracts	-	-	84 773	-	84 773	84 773
Interest rate contracts	-	-	918 593	-	918 593	918 593
Credit default contracts	-	-	24 805	-	24 805	24 805
Other	-	-	76 392	-	76 392	76 392
Other Financial assets at fair value through profit or loss	2 112	8 298	55 211	1 180 261	1 245 882	1 245 882
Bonds issued by government and public entities	-	3 401	-	-	3 401	3 401
Bonds issued by other entities	2 112 a)	-	17 802	158	20 072	20 072
Shares and other variable income securities	-	4 897	37 409	1 180 103	1 222 409	1 222 409
Available-for-sale financial assets	2 593	2 230 342	2 082 342	3 249 393	7 564 670	7 564 670
Bonds issued by government and public entities	-	2 051 822	-	28 222	2 080 044	2 080 044
Bonds issued by other entities	-	111 224	1 922 459	1 135 202	3 168 885	3 168 885
Shares	2 593 a)	6 157	103 086	746 921	858 757	858 757
Other variable income securities	-	61 139	56 797	1 339 048	1 456 984	1 456 984
Loans and advances to banks	2 600 828	-	229 957	-	2 830 785	2 830 785
Loans and advances to customers	31 018 820	-	322 967	-	31 341 787	29 759 776
Derivatives held for risk management purposes	-	-	405 235	-	405 235	405 235
Exchange rate contracts	-	-	335	-	335	335
Interest rate contracts	-	-	334 961	-	334 961	334 961
Credit default contracts	-	-	69 939	-	69 939	69 939
Financial assets	**36 666 163**	**2 294 002**	**4 200 289**	**4 462 538**	**47 622 992**	**46 040 981**
Deposits from Central Banks	8 471 659	-	-	-	8 471 659	8 471 659
Financial liabilities held for trading	-	-	1 078 260	-	1 078 260	1 078 260
Derivatives						
Exchange rate contracts	-	-	44 986	-	44 986	44 986
Interest rate contracts	-	-	921 655	-	921 655	921 655
Credit default contracts	-	-	13 770	-	13 770	13 770
Other	-	-	97 849	-	97 849	97 849
Deposits from banks	3 786 885	-	561 055	-	4 347 940	4 300 409
Due to customers and other loans	24 027 413	-	3 811 411	-	27 838 824	27 838 824
Debt securities issued	6 297 016	-	1 488 125	-	7 785 141	8 758 365
Financial liabilities associated with assets transferred	-	-	230 555	-	230 555	230 555
Derivatives held for risk management purposes	-	-	104 669	-	104 669	104 669
Exchange rate contracts	-	-	176	-	176	176
Interest rate contracts	-	-	104 484	-	104 484	104 484
Credit default contracts	-	-	9	-	9	9
Financial Liabilities	**42 582 973**	**-**	**7 274 075**	**-**	**49 857 048**	**50 782 741**

[a] Assets at acquisition cost net of impairment. These assets refer to equity instruments issued by unquoted entities in respect of which no recent transactions were identified and for which it is not possible to estimate fair value reliably

The Bank determines the fair value of its Financial assets and liabilities at fair value in accordance with IFRS 13 – Fair Value Mensuration:

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, on the assumption that these act in 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 that which it considers most representative for the instrument under analysis. Additionally, when these 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 favour 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 quoted 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;
ii) OTC (over-the-counter) derivatives; and
iii) Commercial paper for which there are observable market inputs, namely interest rate curves and credit spreads, applicable to the issuer.

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

In this level, models relying on internal valuation techniques or quotations provided by third parties but which parameters imply the use of non-observable market information are used.

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; and
vi) Restructuring Funds.

The movement in financial assets valued based on non-observable market information, during the periods ended on 31 December 2015 and 2014, may be analysed as follows:

(in thousands of Euros)

	31.12.2015	31.12.2014
Balance at beginning of period	4 462 538	4 641 184
Acquisitions	1 018 338	923 206
Attainment of maturity	(1 025 239)	(702 057)
Settlement	(462 330)	(84 716)
Transfers in	1 449 593	28 050
Transfers out	-	(89 160)
Changes in value	(139 093)	(253 969)
Balance at end of period	**5 303 807**	**4 462 538**

The transfers that occurred in 2015 were mainly related to the end of observable market parameters.

The main parameters used in the valuation models during the periods ended on 31 December 2015 and 2014 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:

(%)

	31.12.2015			31.12.2014		
	EUR	USD	GBP	EUR	USD	GBP
Overnight	-0.3500	0.4100	0.3200	0.0100	0.1750	0.4500
1 month	-0.2050	0.6050	0.5750	0.0180	0.3100	0.5250
3 months	-0.1310	0.7550	0.6700	0.0780	0.1900	0.6000
6 months	-0.0400	0.9400	0.8250	0.1710	0.5000	0.7400
9 months	-0.0480	1.1200	0.9750	0.1662	0.6000	0.7393
1 year	-0.0569	0.8470	0.7261	0.1635	0.4325	0.6476
3 years	0.0590	1.3849	1.3026	0.2240	1.2610	1.1400
5 years	0.3280	1.7010	1.5920	0.3600	1.7900	1.4490
7 years	0.6210	1.9310	1.7990	0.5320	2.0390	1.6450
10 years	1.0000	2.1615	1.9931	0.8195	2.2790	1.8430
15 years	1.3990	2.3930	2.1606	1.1528	2.5020	2.0673
20 years	1.5670	2.5020	2.2010	1.3268	2.6160	2.1838
25 years	1.6040	2.6320	2.1800	1.4169	2.6660	2.2211
30 years	1.6100	2.5900	2.1550	1.4718	2.6910	2.2320

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 renowned international financial entities. The evolution of the main indexes, understood as being representative of the credit spread behaviour 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 2015						
CDX USD Main	**25**	-	59.38	88.41	109.54	126.65
iTraxx Eur Main	**24**	-	51.43	77.26	96.54	114.04
iTraxx Eur Senior Financial	**24**	-	-	76.87	-	107.11
31 December 2014						
CDX USD Main	**23**	-	38.57	66.09	88.32	107.10
iTraxx Eur Main	**22**	-	35.46	62.95	84.44	101.20
iTraxx Eur Senior Financial	**22**	-	-	67.38	-	99.77

Interest rate volatility

The values presented below represent the implicit volatilities (at the money) used for the valuation of interest rate options:

(%)

	31.12.2015			31.12.2014		
	EUR	USD	GBP	EUR	USD	GBP
1 year	31.65	50.93	44.44	283.60	69.94	49.46
3 years	58.65	46.06	53.36	102.30	57.67	61.19
5 years	78.45	46.29	54.11	94.22	49.13	59.26
7 years	83.60	43.95	51.72	84.35	44.41	55.17
10 years	84.47	39.50	47.70	67.52	40.68	49.61
15 years	80.90	-	42.18	53.72	35.58	41.94

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	31.12.2015	31.12.2014	1 month	3 months	6 months	9 months	1 year
EUR/USD	1.0887	1.2141	9.68	9.95	9.95	10.03	10.05
EUR/GBP	0.7340	0.7789	8.75	9.13	9.81	10.30	10.50
EUR/CHF	1.0835	1.2024	6.15	6.80	7.20	7.50	7.70
EUR/NOK	9.6030	9.0420	10.85	10.85	10.73	10.70	10.70
EUR/PLN	4.2639	4.2732	6.75	6.73	6.88	7.00	7.08
EUR/RUB	80.6736	72.3370	21.22	22.26	22.67	22.77	22.86
USD/BRL [a)]	3.9604	2.6527	23.59	22.81	21.78	21.53	21.29
USD/TRY [b)]	2.9177	2.3326	12.34	13.24	13.99	14.47	14.90

[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
	31.12.2015	31.12.2014	% change	1 month	3 months	
DJ Euro Stoxx 50	3 268	3 146	3.85	23.39	23.14	22.72
PSI 20	5 313	4 799	10.71	16.81	21.40	-
IBEX 35	9 544	10 280	-7.15	22.88	22.20	-
FTSE 100	6 242	6 566	-4.93	17.98	20.34	16.08
DAX	10 743	9 806	9.56	25.48	24.38	21.79
S&P 500	2 044	2 059	-0.73	16.33	18.56	15.58
BOVESPA	43 350	50 007	-13.31	25.68	27.27	25.38

The main methods and assumptions used in estimating the fair value of financial assets and liabilities recorded on the balance sheet at amortised cost are as follows:

Cash and deposits with Central Banks, Deposits with banks and Loans and advances to banks
Considering the short-term nature of these financial instruments, their carrying 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 residential mortgages, are estimated collectively on a portfolio basis. 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 banks
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 of these instruments 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 – ACTIVITY RISK MANAGEMENT

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

- Credit risk;
- Market risk;
- Liquidity risk; and
- Operating risk.

Credit risk

Credit Risk represents the potential financial loss arising from the failure of borrowers or counterparts to honour their contractual obligations established with the Bank in the scope of its credit granting activity. Credit risk is essentially present in traditional banking products – loans, guarantees provided and contingent liabilities. In the credit default swaps (CDS), the net exposure between selling and buying positions relating to each reference entity, is also considered a credit risk by the Bank. CDSs are recorded 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 assess and control risk, as well as in the procedures and decision making processes.

The risk profile of the Bank is analysed on a regular basis by the Risk Committee, especially regarding the evolution of the credit exposure and the monitoring of credit losses. The compliance with the approved credit limits and the correct functioning of the mechanisms associated with the approval of credit lines, under the current activity of commercial areas, are also subject to regular reviews.

NOVO BANCO's credit risk exposure is analysed as follows:

(thousands of Euros)

	31.12.2015	**31.12.2014**
Deposits with and loans and advances to banks	2 682 909	4 883 428
Financial assets held for trading	772 457	1 258 857
Other financial assets at fair value through profit or loss	1 785	23 473
Available-for-sale financial assets	7 413 744	5 248 929
Loans and advances to customers	28 272 583	31 341 787
Derivatives held for risk management purposes	322 055	405 235
Other assets	591 175	869 124
Guarantees and standby letters provided	5 101 998	6 970 536
Documentary credits	1 035 580	2 383 602
Irrevocable commitments	1 435 670	1 905 638
Credit risk associated with the credit derivatives' reference entities	-	30 591
	47 629 956	**55 321 200**

For financial assets recognised in the balance sheet, the maximum exposure to credit risk is represented by the carrying value net of impairment. For the off-balance sheet elements, the maximum exposure of the guarantees is the maximum amount that the Bank would have to pay if the guarantees were executed. For loan commitments and other credit-related commitments of an irrevocable nature, the maximum exposure is the total amount of the commitments assumed.

The Bank calculates impairment on an individual basis for all financial assets that are overdue. If the value of the collateral, net of haircuts, equals or exceeds the exposure, the impairment may be nil. Hence, the Bank does not have any overdue financial assets for which it has not performed a review as to its recovery and the subsequent recognition of impairment, when necessary.

As at 31 December 2015 and 2014, the analysis of the gross loans and advances to customers' exposure and impairmentby segment, is presented as follows:

(thousands of Euros)

Segment	31.12.2015													
	Credit not at risk						Credit at risk [(a)]						Total	
	Without impairment triggers		With impairment triggers		Total		Days overdue <= 90 days [(b)]		Days overdue >90 days		Total			
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	9 047 914	68 145	8 893 232	1 462 570	17 941 146	1 530 715	1 095 800	544 564	5 756 637	3 210 427	6 852 437	3 754 991	24 793 583	5 285 706
Mortgage loans	6 112 941	8 043	686 652	14 140	6 799 593	22 183	53 816	4 037	545 555	124 611	599 371	128 648	7 398 964	150 831
Consumer and other loans	699 594	7 094	356 515	38 643	1 056 109	45 737	57 221	13 983	404 499	208 761	461 720	222 744	1 517 829	268 481
Total	**15 860 449**	**83 282**	**9 936 399**	**1 515 353**	**25 796 848**	**1 598 635**	**1 206 837**	**562 584**	**6 706 691**	**3 543 799**	**7 913 528**	**4 106 383**	**33 710 376**	**5 705 018**

[(a)] Loans and advances to customers with principal and / or interest overdue 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

[(b)] Loans and advances to customers at risk correspond to the definition contained in Instruction no. 23/2011 of Banco de Portugal

(thousands of Euros)

Segment	31.12.2014													
	Credit not at risk						Credit at risk [(a)]						Total	
	Without impairment triggers		With impairment triggers		Total		Days overdue <= 90 days [(b)]		Days overdue >90 days		Total			
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	11 450 620	70 646	10 394 207	2 115 257	21 844 827	2 185 903	1 807 459	732 980	3 271 799	1 932 075	5 079 258	2 665 055	26 924 085	4 850 958
Mortgage loans	6 283 996	7 094	780 514	26 759	7 064 510	33 853	25 161	1 910	576 080	123 453	601 241	125 363	7 665 751	159 216
Consumer and other loans	884 401	9 116	363 396	27 039	1 247 797	36 155	42 310	14 102	388 579	190 205	430 889	204 307	1 678 686	240 462
Total	**18 619 017**	**86 856**	**11 538 117**	**2 169 055**	**30 157 134**	**2 255 911**	**1 874 930**	**748 992**	**4 236 458**	**2 245 733**	**6 111 388**	**2 994 725**	**36 268 522**	**5 250 636**

[(a)] Loans and advances to customers with principal and / or interest overdue 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

[(b)] Loans and advances to customers at risk correspond to the definition contained in Instruction no. 23/2011 of Banco de Portugal

As at 31 December 2015 and 2014, the analysis of the Loans and advances to customers' portfolio, by segment and by year of production, is presented as follows:

(thousands of Euros)

Year of production	31.12.2015											
	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	33 513	1 418 371	550 834	55 269	1 619 496	49 257	184 526	119 928	11 938	273 308	3 157 795	612 029
2005	5 163	410 680	137 374	7 240	361 744	10 933	34 154	48 826	14 641	46 557	821 250	162 948
2006	7 100	961 525	272 253	10 577	562 600	12 130	47 032	64 397	12 331	64 709	1 588 522	296 714
2007	11 964	1 062 538	285 736	17 679	832 479	19 677	61 686	94 588	27 349	91 329	1 989 605	332 762
2008	7 522	1 785 618	372 681	16 380	921 644	14 578	56 360	100 772	31 358	80 262	2 808 034	418 617
2009	8 423	1 731 790	484 576	13 522	779 292	14 245	43 776	100 110	24 873	65 721	2 611 192	523 694
2010	18 645	1 807 516	448 902	12 820	838 972	13 935	45 812	136 196	33 110	77 277	2 782 684	495 947
2011	11 142	1 661 961	394 693	7 899	411 598	6 486	39 640	152 589	27 406	58 681	2 226 148	428 585
2012	12 129	2 658 163	689 429	4 910	212 064	3 988	45 387	125 482	26 021	62 426	2 995 709	719 438
2013	31 921	3 321 047	634 596	5 543	294 718	3 176	42 935	180 375	30 750	80 399	3 796 140	668 522
2014	16 205	3 971 832	661 316	3 691	239 356	1 437	39 996	183 702	21 655	59 892	4 394 890	684 408
2015	47 425	4 002 542	353 316	4 508	325 001	989	44 469	210 864	7 049	96 402	4 538 407	361 354
Total	**211 152**	**24 793 583**	**5 285 706**	**160 038**	**7 398 964**	**150 831**	**685 773**	**1 517 829**	**268 481**	**1 056 963**	**33 710 376**	**5 705 018**

(thousands of Euros)

Year of production	31.12.2014											
	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	38 767	1 738 097	556 996	57 601	1 789 080	55 112	203 198	149 943	12 980	299 566	3 677 120	625 088
2005	6 766	599 403	143 451	7 643	397 340	12 579	43 803	59 513	13 906	58 212	1 056 256	169 936
2006	8 344	1 094 286	261 240	10 949	608 950	13 275	52 771	78 595	13 042	72 064	1 781 831	287 557
2007	13 135	1 476 493	276 020	18 248	894 702	19 712	69 688	121 484	38 267	101 071	2 492 679	333 999
2008	9 990	2 264 747	410 409	16 818	983 996	15 134	65 392	134 586	33 621	92 200	3 383 329	459 164
2009	10 443	2 072 626	416 210	13 951	837 491	15 205	50 731	138 846	24 415	75 125	3 048 963	455 830
2010	19 967	2 155 460	440 088	13 307	893 297	12 952	52 974	188 274	30 722	86 248	3 237 031	483 762
2011	13 320	2 141 846	402 298	8 318	448 454	6 507	45 186	175 542	23 298	66 824	2 765 842	432 103
2012	15 565	3 158 936	654 249	5 224	235 291	4 918	51 297	146 778	18 984	72 086	3 541 005	678 151
2013	34 676	4 534 910	584 174	5 779	321 218	2 872	49 117	220 806	23 158	89 572	5 076 934	610 204
2014	35 478	5 687 281	705 823	3 739	255 932	950	40 504	264 319	8 069	79 721	6 207 532	714 842
Total	**206 451**	**26 924 085**	**4 850 958**	**161 577**	**7 665 751**	**159 216**	**724 661**	**1 678 686**	**240 462**	**1 092 689**	**36 268 522**	**5 250 636**

As at 31 December 2015 and 2014, 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)

	31.12.2015					
	Individual Assessment [(1)]		Collective Assessment [(2)]		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	8 919 384	4 379 289	15 874 199	906 417	24 793 583	5 285 706
Mortgage loans	55 594	14 045	7 343 370	136 786	7 398 964	150 831
Consumer and other loans	371 656	111 451	1 146 173	157 030	1 517 829	268 481
Total	**9 346 634**	**4 504 785**	**24 363 742**	**1 200 233**	**33 710 376**	**5 705 018**

[(1)] Loans and advances to customers for which the final impairment was determined and approved by the Impairment Committee
[(2)] Loans and advances to customers for which the final impairment was determined automatically by the Impairment model

(in thousands of Euros)

	31.12.2014					
	Individual Assessment [(1)]		Collective Assessment [(2)]		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	8 776 246	3 751 827	18 147 839	1 099 131	26 924 085	4 850 958
Mortgage loans	46 213	10 886	7 619 538	148 330	7 665 751	159 216
Consumer and other loans	280 065	62 146	1 398 621	178 316	1 678 686	240 462
Total	**9 102 524**	**3 824 859**	**27 165 998**	**1 425 777**	**36 268 522**	**5 250 636**

[(1)] Loans and advances to customers for which the final impairment was determined and approved by the Impairment Committee
[(2)] Loans and advances to customers for which the final impairment was determined automatically by the Impairment model

The loans 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".

The analysis of risk exposure by sector of activity, at 31 December 2015 and 2014, is presented as follows:

(thousands of Euros)

	31.12.2015							
	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 standby letters provided
	Gross amount	Impairment [a]	Gross amount	Gross amount	Gross amount	Gross amount	Imparidade	
Agriculture, Forestry and Fishery	413 904	(54 817)	3 071	-	-	-	-	21 463
Mining	165 143	(10 155)	-	-	-	-	-	7 340
Food, Beverages and Tobacco	724 646	(78 441)	3 432	-	-	28 450	(473)	61 328
Textiles and Clothing	298 742	(59 031)	285	-	-	36 040	(2 105)	10 527
Leather and Shoes	72 351	(11 129)	108	-	-	499	(499)	1 350
Wood and Cork	134 760	(37 036)	366	-	-	1 329	(1 329)	4 580
Paper and Printing Industry	287 730	(45 405)	-	-	-	8 539	(5 440)	11 027
Refining of Petroleum	2 685	(561)	157	-	-	-	-	14 125
Chemicals and Rubber	396 248	(33 018)	4 392	-	-	11 741	(11 741)	66 544
Non-metallic Minerals	208 106	(51 671)	77	-	-	41 881	(5 376)	14 380
Metallurgical Industries and Metallic Products	1 051 810	(343 412)	181	-	-	3 912	(157)	66 082
Production of Machinery, Equipment and Electrical De	172 242	(19 365)	270	-	-	1 244	(596)	87 707
Production of Transport Material	69 285	(7 665)	-	-	-	31	(31)	15 852
Other Transforming Industries	215 928	(42 281)	-	-	-	1 520	-	23 845
Electricity, Gas and Water	647 446	(11 798)	54 163	-	-	147 696	-	104 613
Construction and Public Works	2 156 266	(663 792)	76 991	-	-	251 863	(555)	1 224 698
Wholesale and Retail Trade	2 102 102	(635 782)	1 450	-	-	53 257	(20 542)	325 386
Tourism	1 101 677	(123 528)	2 526	-	-	8 213	(8 023)	62 639
Transport and Communication	1 394 376	(112 130)	95 980	-	-	52 944	(20 677)	643 582
Financial Activities	2 098 830	(392 930)	497 610	63 896	322 055	4 695 403	(612 105)	636 910
Real Estate Activities	3 093 997	(788 566)	8 286	-	-	117 058	(11 793)	218 285
Services Provided to Companies	4 559 216	(1 145 356)	28 141	-	-	658 344	(455 532)	920 884
Public Administration and Services	887 153	(47 359)	1 287	-	-	4 799 469	-	35 418
Other activities of collective services	2 496 967	(569 579)	8 290	-	-	143 298	(73 567)	141 533
Mortgage Loans	7 398 964	(150 831)	-	-	-	-	-	294 184
Consumers Loans	1 517 829	(268 481)	-	-	-	-	-	87 669
Other	41 973	(899)	20	163 497	-	859 070	(96 329)	47
TOTAL	**33 710 376**	**(5 705 018)**	**787 083**	**227 393**	**322 055**	**11 921 801**	**(1 326 870)**	**5 101 998**

[a] includes impairment provision in the amount of Euros 5 437 793 thousand (see Note 22) and provision for general credit risks in the amount of Euros 267 225 thousand (see Note 33)

(thousands of Euros)

	31.12.2014							
	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 standby letters provided
	Gross amount	Imparidade [a]	Gross amount	Gross amount	Gross amount	Gross amount	Impairment	
Agriculture, Forestry and Fishery	440 915	(51 862)	2 346	-	-	4 986	-	21 807
Mining	192 438	(17 777)	432	-	-	2 760	(969)	7 024
Food, Beverages and Tobacco	757 388	(80 792)	5 817	-	-	29 653	(382)	72 759
Textiles and Clothing	355 979	(65 566)	573	-	-	33 806	(2 105)	11 237
Leather and Shoes	72 887	(10 148)	139	-	-	44	(44)	1 527
Wood and Cork	138 791	(43 217)	786	-	-	1 329	(1 329)	6 017
Paper and Printing Industry	305 537	(50 385)	764	-	-	13 716	(5 195)	38 688
Refining of Petroleum	4 349	(347)	521	-	-	-	-	5 413
Chemicals and Rubber	446 618	(34 251)	5 321	-	-	14 230	(11 344)	52 318
Non-metallic Minerals	218 775	(43 014)	107	-	-	42 645	(5 546)	15 724
Metallurgical Industries and Metallic Products	730 199	(119 283)	492	-	-	4 105	(68)	88 419
Production of Machinery, Equipment and Electrical De	194 398	(18 390)	103	-	-	2 710	(2 077)	123 759
Production of Transport Material	76 417	(5 671)	-	-	-	1 260	(31)	18 351
Other Transforming Industries	226 940	(45 700)	28	-	-	7 891	(6 371)	24 406
Electricity, Gas and Water	845 547	(12 737)	70 052	-	-	163 543	-	251 643
Construction and Public Works	2 384 313	(742 204)	203 225	-	-	243 275	(555)	1 461 536
Wholesale and Retail Trade	2 235 884	(628 092)	1 440	-	-	71 038	(19 872)	353 282
Tourism	1 223 083	(164 796)	3 166	-	-	8 167	(8 023)	75 511
Transport and Communication	1 386 707	(97 641)	44 222	-	-	22 071	(3 330)	639 925
Financial Activities	3 279 782	(312 824)	773 522	1 085 547	405 235	4 677 148	(651 119)	1 220 173
Real Estate Activities	3 562 588	(855 090)	9 720	68 658	-	160 592	(15 382)	214 453
Services Provided to Companies	4 216 559	(966 945)	77 950	88 275	-	742 966	(29 908)	1 255 353
Public Administration and Services	1 434 003	(47 878)	51 755	3 401	-	1 992 745	-	188 190
Other activities of collective services	2 513 552	(430 870)	42 900	-	-	140 207	(52 568)	109 020
Mortgage Loans	7 569 540	(159 216)	-	-	-	-	-	679 116
Consumers Loans	1 405 441	(240 462)	-	-	-	-	-	33 537
Other	49 892	(5 478)	110	1	-	8 531	(8 530)	1 348
TOTAL	**36 268 522**	**(5 250 636)**	**1 295 491**	**1 245 882**	**405 235**	**8 389 418**	**(824 748)**	**6 970 536**

[a] includes provision for impairment in the amount of Euros 4 926 735 thousands (see Note 22) and provision for general credit risks in the amount of Euros 323 901 thousands (see Note 33)

Regarding loans restructured due to financial difficulties of the client, as defined by Instruction no. 32/2013 of Banco de Portugal, the amounts involved as at 31 December 2015 and 2014 are as follows:

(thousands of Euros)

	31.12.2015	31.12.2014
Corporate	4 278 981	3 905 233
Mortgage loans	265 114	257 484
Consumer and others loans	106 175	116 629
Loans to non-resident	1 935 178	1 285 020
Total	**6 585 448**	**5 564 366**

Below are presented the details of the restructuring measures applied to restructured loans up until 31 December 2015 and 2014:

(thousands of Euros)

Measure	31.12.2015								
	Credit not at risk			Credit at risk[(a)]			Total		
	No. transactions	Exposure	Impairment	No. transactions	Exposure	Impairment	No. transactions	Exposure	Impairment
Principal or interest pardon	11	74 541	13 477	143	189 861	132 382	154	264 402	145 859
Capitalisation of interest	20	514 919	159 930	141	142 367	43 540	161	657 286	203 470
New loan in total or partial payment of existing loan	2 798	897 965	374 948	814	307 861	156 227	3 612	1 205 826	531 175
Extension of repayment period	1 569	980 696	191 739	675	692 793	263 087	2 244	1 673 489	454 826
Introduction of a grace period of principal or interest	1 312	431 438	39 518	292	366 178	140 915	1 604	797 616	180 433
Decrease in the interest rates	156	297 709	41 518	94	363 652	248 964	250	661 361	290 482
Change of the leasing payment plan	196	103 615	4 473	79	35 768	15 125	275	139 383	19 598
Change in the interest payment periods	15	209 934	87 506	27	195 801	61 517	42	405 735	149 023
Other	8 923	437 507	49 883	6 218	342 843	135 395	15 141	780 350	185 278
Total	**15 000**	**3 948 324**	**962 992**	**8 483**	**2 637 124**	**1 197 152**	**23 483**	**6 585 448**	**2 160 144**

[(a)] Loans and advances to customers at risk correspond to the definition contained in Instruction no. 23/2011 of Banco de Portugal

(thousands of Euros)

Measure	31.12.2014								
	Credit not at risk			Credit at risk[(a)]			Total		
	No. transactions	Exposure	Impairment	No. transactions	Exposure	Impairment	No. transactions	Exposure	Impairment
Principal or interest pardon	5	2 230	609	120	125 059	82 749	125	127 289	83 358
Capitalisation of interest	26	103 983	71 421	74	47 873	12 877	100	151 856	84 298
New loan in total or partial payment of existing loan	1 964	927 951	400 304	534	188 855	87 062	2 498	1 116 806	487 366
Extension of repayment period	1 102	1 087 135	185 830	590	498 138	187 944	1 692	1 585 273	373 774
Introduction of a grace period of principal or interest	1 182	601 039	60 128	206	301 844	113 107	1 388	902 883	173 235
Decrease in the interest rates	86	301 806	75 045	37	68 052	24 332	123	369 858	99 377
Change of the leasing payment plan	169	96 403	2 563	84	69 842	26 057	253	166 245	28 620
Change in the interest payment periods	25	197 418	50 270	27	144 170	23 309	52	341 588	73 579
Other	10 368	560 607	62 391	5 553	241 961	74 508	15 921	802 568	136 899
Total	**14 927**	**3 878 572**	**908 561**	**7 225**	**1 685 794**	**631 945**	**22 152**	**5 564 366**	**1 540 506**

[(a)] Loans and advances to customers 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, set 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 potential 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 business 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, permitting the evaluation of the impact of potential trigger losses than those considered by the VaR measurement.

(thousands of Euros)

	31.12.2015				31.12.2014			
	December	Period average	Maximum	Minimum	December	Period average	Maximum	Minimum
Exchange risk	8 594	15 924	21 792	8 594	14 320	8 821	8 678	14 419
Interest rate risk	1 473	12 376	12 983	1 473	7 514	23 661	29 981	5 301
Shares and commodities	1 114	8 895	17 986	1 114	33 230	22 728	25 329	40 319
Volatility	345	1 038	1 552	345	5 865	3 641	5 102	1 304
Credit spread	1 282	44 100	87 043	1 282	48 200	50 924	63 675	35 679
Diversification effect	(4 042)	(26 932)	(42 207)	(4 042)	(38 386)	(24 036)	(22 911)	(34 463)
Total	**8 765**	**55 400**	**99 148**	**8 765**	**70 743**	**85 739**	**109 854**	**62 559**

NOVO BANCO has a VaR of approximately Euros 8 765 thousand (31 December 2014: Euros 70 743 thousand), for its trading positions.

Following the recommendations of Basel II (Pillar 2) and Instruction no. 19/2005 of Banco de Portugal, the Bank calculates its 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.

(thousands of Euros)

	31.12.2015						
	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	3 542 200	262 099	2 341 267	403 886	8 968	100 814	425 166
Loans and advances to customers	33 684 409	-	17 780 879	6 939 878	2 148 766	5 946 096	868 790
Securities	12 225 939	4 838 336	2 039 545	967 562	2 198 155	1 829 246	353 095
Total			**22 161 691**	**8 311 326**	**4 355 889**	**7 876 156**	**1 647 051**
Deposits from Banks	12 596 211	-	9 147 932	170 786	227 633	2 467 257	582 603
Due to customers	26 984 499	-	10 310 891	4 145 629	5 491 428	6 733 862	302 689
Securities issued	3 357 788	-	412 027	76 494	4 599	1 624 385	1 240 283
Total			**19 870 850**	**4 392 909**	**5 723 660**	**10 825 504**	**2 125 575**
Balance sheet GAP (Assets - Liabilities)	1 413 615		2 290 841	3 918 417	(1 367 771)	(2 949 348)	(478 524)
Off-Balance sheet	-		(223 722)	(120 619)	209	461 160	(117 028)
Structural GAP	**1 413 615**		**2 067 119**	**3 797 798**	**(1 367 562)**	**(2 488 188)**	**(595 552)**
Accumulated GAP			**2 067 119**	**5 864 917**	**4 497 355**	**2 009 167**	**1 413 615**

(thousands of Euros)

	31.12.2014						
	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	5 822 972	271 974	4 737 209	27 139	34 776	368 582	383 292
Loans and advances to customers	36 228 032	-	21 062 862	7 613 017	2 269 924	4 427 693	854 536
Securities	10 341 949	5 087 528	3 218 846	1 045 836	409 245	189 378	391 116
Total			**29 018 917**	**8 685 992**	**2 713 945**	**4 985 653**	**1 628 944**
Deposits from Banks	12 695 867	-	8 706 506	185 528	719 840	2 442 028	641 965
Due to customers	26 645 273	-	12 503 222	2 849 992	5 048 401	6 083 076	160 582
Securities issued	7 537 612	-	1 269 751	284 899	799 710	3 941 800	1 241 452
Total			**22 479 479**	**3 320 419**	**6 567 951**	**12 466 904**	**2 043 999**
Balance sheet GAP (Assets - Liabilities)	154 699	-	6 539 438	5 365 573	(3 854 006)	(7 481 251)	(415 055)
Off-Balance sheet	(27 731)	-	(1 095 697)	(1 151 151)	1 191 400	1 115 240	(87 523)
Structural GAP	**126 968**	**-**	**5 443 741**	**4 214 422**	**(2 662 606)**	**(6 366 011)**	**(502 578)**
Accumulated GAP	**-**	**-**	**5 443 741**	**9 658 163**	**6 995 557**	**629 546**	**126 968**

Sensitivity analyses of the interest rate risk of the Bank's prudential portfolios are performed, based on the duration model approach and considering several scenarios of yield curve shifts at all interest rate levels.

(thousands of Euros)

	31.12.2015				31.12.2014			
	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
On 31 December	77 545	(77 545)	43 952	(43 952)	223 652	(223 652)	114 148	(114 148)
Average for period	158 173	(158 173)	77 486	(77 486)	194 879	(194 879)	108 290	(108 290)
Maximum for period	223 818	(223 818)	103 614	(103 614)	223 652	(223 652)	114 148	(114 148)
Minimum for period	77 545	(77 545)	43 952	(43 952)	176 646	(176 646)	100 498	(100 498)

The following table presents the average interest rates as well as the average balances and interest for the period, relating to the Bank's major financial asset and liability categories, for the periods ended on 31 December 2015 and 2014:

(in thousands of Euros)

	31.12.2015			31.12.2014
	Average balance for period	Interest for period	Average interest rate	Average interest rate
Monetary assets	2 958 774	112 904	3.76%	3.16%
Loans and advances to customers	33 689 309	875 960	2.56%	3.12%
Securities and other	8 509 268	97 375	1.13%	2.08%
Differential applications	-	-	-	-
Financial and differential assets	**45 157 351**	**1 086 239**	**2.37%**	**2.98%**
Monetary Liabilities	12 806 594	103 684	0.80%	0.91%
Due to customers	32 087 445	734 873	2.26%	2.81%
Differential liabilities	263 312	-	-	-
Financial and differential liabilities	**45 157 351**	**838 557**	**1.83%**	**2.11%**
Net interest income		**247 682**	**0.54%**	**0.87%**

Regarding the Foreign exchange risk, the breakdown of assets and liabilities, by currency, at 31 December 2015 and 2014, is analysed as follows:

(thousands of Euros)

		31.12.2015				31.12.2014			
		Spot	Forward	Other elements	Net exposure	Spot	Forward	Other elements	Net exposure
USD	UNITED STATES DOLLAR	(723 446)	731 290	13 446	21 290	(489 530)	(13 108)	365 996	(136 642)
GBP	GREAT BRITISH POUND	411 507	(404 466)	2 235	9 276	216 850	(210 201)	86	6 735
BRL	BRAZILIAN REAL	8 264	7	-	8 271	1 482	(59 865)	(48)	(58 431)
DKK	DANISH KRONE	7 107	(7 182)	-	(75)	(248)	-	-	(248)
JPY	JAPANESE YEN	1 888	(1 790)	-	98	(5 788)	2 702	(8 867)	(11 953)
CHF	SWISS FRANC	40 132	(36 364)	-	3 768	(546)	3 593	-	3 047
SEK	SWEDISH KRONE	1 931	(1 197)	6 014	6 748	1 541	(1 208)	-	333
NOK	NORWEGIAN KRONE	(22 581)	22 993	127	539	(29 403)	29 379	-	(24)
CAD	CANADIAN DOLLAR	(11 916)	12 536	-	620	-	-	-	-
ZAR	SOUTH AFRICAN RAND	(542)	(189)	-	(731)	-	-	-	-
AUD	AUSTRALIAN DOLLAR	(17 368)	18 326	-	958	(15 786)	16 759	-	973
VEB	VENEZUELAN BOLIVAR	62 501	-	-	62 501	64 469	-	-	64 469
MOP	MACAO PATACA	33 086	(22 817)	-	10 269	20 473	-	-	20 473
MAD	MOROCCAN DIRHAM	23	102	-	125	23	83 778	-	83 801
MXN	MEXICAN PESO	(1 433)	1 353	-	(80)	(1 041)	895	-	(146)
AOA	ANGOLAN KWANZA	47 351	-	-	47 351	55 950	-	-	55 950
	OTHER	28 103	(4 403)	(233)	23 467	22 055	(3 601)	315	18 769
		(135 393)	**308 199**	**21 589**	**194 395**	**(159 499)**	**(150 877)**	**357 482**	**47 106**

Note: asset / (liability)

Exposure to "peripheral" Eurozone countries' sovereign debt

As at 31 December 2015 and 2014, the Bank's exposure to public debt of "peripheral" Eurozone countries, is presented as follows:

(thousands of Euros)

31.12.2015	Loans and advances to customers	Financial assets held for trading and at Fair value	Derivative instruments [1]	Available-for-sale financial assets	Total
Portugal	925 835	1 128	4 760	2 207 737	3 139 460
Spain	53 363	-	-	936 679	990 042
Italy	-	-	-	1 964 058	1 964 058
	979 198	**1 128**	**4 760**	**5 108 474**	**6 093 560**

[1] Net values: receivable / (payable)

(thousands of Euros)

31.12.2014	Loans and advances to customers	Financial assets held for trading and at Fair value	Derivative instruments [1]	Available-for-sale financial assets	Total
Portugal	1 349 213	54 958	9 981	796 161	2 210 313
Spain	63 877	-	(18)	100 029	163 888
Greece	-	-	-	7 504	7 504
Italy	-	-	-	1 089 306	1 089 306
	1 413 090	**54 958**	**9 962**	**1 993 000**	**3 471 010**

[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 in the portfolios of Available-for-sale financial assets and Financial assets held for trading, is as follows:

(thousands of Euros)

31.12.2015	Nominal Amount	Market quotation	Accrued interest	Book value	Impairment	Fair value reserves
Available-for-sale financial assets						
Portugal	**2 093 213**	**2 185 365**	**22 372**	**2 207 737**	**-**	**1 265**
Maturity up to 1 year	724 200	726 022	3 610	729 632	-	58
Maturity exceeding 1 year	1 369 013	1 459 343	18 762	1 478 105	-	1 207
Spain	**918 622**	**934 260**	**2 419**	**936 679**	**-**	**(178)**
Maturity up to 1 year	818 500	819 129	462	819 591	-	(297)
Maturity exceeding 1 year	100 122	115 131	1 957	117 088	-	119
Italy	**1 963 000**	**1 964 018**	**40**	**1 964 058**	**-**	**1 610**
Maturity up to 1 year	1 138 000	1 138 247	-	1 138 247	-	549
Maturity exceeding 1 year	825 000	825 771	40	825 811	-	1 061
	4 974 835	**5 083 643**	**24 831**	**5 108 474**	**-**	**2 697**
Financial assets held for trading						
Portugal	1 050	1 070	58	1 128	-	-
	1 050	**1 070**	**58**	**1 128**	**-**	**-**

(thousands of Euros)

31.12.2014	Nominal Amount	Market quotation	Accrued interest	Book value	Impairment	Fair value reserves
Available-for-sale financial assets						
Portugal	**742 563**	**787 595**	**8 566**	**796 161**	**-**	**14 506**
Maturity up to 1 year	406 542	406 146	8	406 154	-	(21)
Maturity exceeding 1 year	336 021	381 449	8 558	390 007	-	14 527
Spain	**98 577**	**99 563**	**466**	**100 029**	**-**	**(237)**
Maturity up to 1 year	75 000	74 976	-	74 976	-	(16)
Maturity exceeding 1 year	23 577	24 587	466	25 053	-	(221)
Greece	**9 000**	**7 200**	**304**	**7 504**	**-**	**(1 940)**
Maturity exceeding 1 year	9 000	7 200	304	7 504	-	(1 940)
Italy	**1 090 000**	**1 089 306**	**-**	**1 089 306**	**-**	**432**
Maturity exceeding 1 year	-	-	-	-	-	-
	1 940 140	**1 983 664**	**9 336**	**1 993 000**	**-**	**12 761**
Financial assets held for trading						
Portugal	48 757	53 932	1 026	54 958	-	-
	48 757	**53 932**	**1 026**	**54 958**	**-**	**-**

Liquidity risk

Liquidity risk derives from an institution's current or future inability, to settle its liabilitiesd as they become due, without incurring into excessive losses.

Liquidity risk can be breakdown into two types:

- Market liquidity risk – the impossibility of selling an asset due to the lack of liquidity in the market leading to the widening of the bid or the application of a haircut on the market value;

- Funding liquidity risk – the impossibility to obtain market funding in the desired currency to finance assets and / or refinance debt coming to maturity. 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 the asset, even if incurring in significant losses. The risk of (re)financing should be minimised through an adequate diversification of funding sources and maturities.

At 31 December 2015, the value of the asset portfolio eligible as collateral for rediscounting operations with the ECB amounted to Euros 12.7 billion (31 December 2014: Euros 12.9 billion) This amount includes all the exposure to Portuguese sovereign debt, in the amount of approximately Euros 2.1 billion (of which Euros 0.6 billion with a maturity under 1 year.

In order to assess the global liquidity risk exposure, reports are prepared which allow not only the identification of negative mismatches, but also a dynamic coverage of these situations.

(millions of Euros)

	31.12.2015						
	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	262	262	-	-	-	-	-
Deposits with and loans and advances to banks and Central Banks	3 280	714	29	829	404	3	1 302
Loans and advances to customers	24 673	152	418	794	710	1 022	21 578
Securities	18 514	59	151	521	641	2 071	15 071
Other net assets	979	12	-	64	18	27	858
Off-balance sheet (Commitments and Derivatives)	176	5	22	20	65	65	-
Total		**1 204**	**620**	**2 228**	**1 838**	**3 188**	**38 809**
LIABILITIES							
Deposits from banks, Central Banks and Other loans	12 596	3 954	1 043	3 328	146	428	3 698
Due to customers	26 984	664	218	250	243	295	25 315
Debt securities issued	3 359	-	-	319	76	5	2 958
Other short-term liabilities	1 209	928	2	14	27	41	197
Off-balance sheet (Commitments and Derivatives)	7 448	40	42	75	99	113	7 079
Total		**5 586**	**1 305**	**3 986**	**591**	**882**	**39 247**
GAP (Assets - Liabilities)		**(4 382)**	**(684)**	**(1 759)**	**1 247**	**2 306**	
Accumulated GAP		**(4 382)**	**(5 066)**	**(6 826)**	**(5 578)**	**(3 273)**	
Net Assets Buffer > 12 months							**6 904**

(millions of Euros)

	31.12.2014						
	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	272	272	-	-	-	-	-
Deposits with and loans and advances to banks and Central Banks	5 551	3 861	101	736	27	29	796
Loans and advances to customers	27 032	376	1 055	727	964	1 668	22 242
Securities	18 871	117	295	1 128	1 336	808	15 187
Other net assets	1 284	121	-	-	9	108	1 046
Off-balance sheet (Commitments and Derivatives)	281	11	27	73	75	95	-
Total		**4 758**	**1 478**	**2 664**	**2 411**	**2 708**	**39 271**
LIABILITIES							
Deposits from banks, Central Banks and Other loans	12 807	1 007	1 995	5 270	161	770	3 605
Due to customers	26 534	1 511	523	742	280	437	23 041
Debt securities issued	7 538	-	395	864	295	800	5 185
Other short-term liabilities	2 029	1 733	2	9	39	47	198
Off-balance sheet (Commitments and Derivatives)	9 482	52	160	179	151	171	8 769
Total		**4 303**	**3 075**	**7 064**	**926**	**2 225**	**40 798**
GAP (Assets - Liabilities)		**457**	**(1 599)**	**(4 399)**	**1 484**	**483**	
Accumulated GAP		**457**	**(1 141)**	**(5 541)**	**(4 057)**	**(3 573)**	
Net Assets Buffer > 12 months							**8 047**

The one-year cumulative gap moved from Euros – 3 573 million as at 31 December 2014 to Euros – 3 273 million as at 31 December 2015, with the net assets buffer over 12 months attaining the amount of Euros 6 904 million (31 December 2014: Euros 8 047 million).

In order to try to anticipate possible constraints, extreme stress scenarios in terms of liquidity (moderate and severe), different timeframes and different impact areas (systemic, specific to the Bank and combined) are considered. For example, in the systemic scenario the closure of the wholesale market is simulated, whilst in the scenario specific to the Bank the run-off of customer deposits from retail and corporate is simulated, with different severity levels.

In December 2010, the Basel Committee on Banking Supervision (BCBS) announced the introduction of a liquidity coverage ratio (LCR) and a net stable funding ratio (NSFR), to be implemented in 2015 and 2018, respectively.

These regulatory developments are intended to address situations observed in banks during the 2008 crisis, namely inadequate funding structures and low liquidity buffers.

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 a sufficient value to survive a severe stress scenario over a period of 30 days.

The implementation of 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.

On 1 October 2015, the delegated European Union 2015/61regulation, detailing the calculation of the liquidity ratio, Liquidity Coverage Ratio (LCR) and by imposing limits on this ratio, entered into force. On 15 December 2015, the European Banking Authority issued a report on the NSFR. The Bank continues to follow all legislative changes in order to comply with regulatory obligations.

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 behaviour 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, it was developed and implemented a system that standardises, systematises and regulates the frequency of actions undertaken with the objective of identifying, monitoring, controlling and mitigating this risk. This system is supported by an organisational structure, integrated within the Global Risk Department, exclusively dedicated to this task, as well as by Operational Risk 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 Board of Directors and is integrated in the global definition of the Bank's 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.

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 risk classes of institutions, corporate and retail of both NOVO BANCO Portugal and NOVO BANCO’s London Branch. The shares’ risk classes and the positions taken in the form of securitisation are always handled by the IRB method regardless of the Bank branches 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. 75/2013 that regulate, in the European Union, respectively, 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, usually designated by Basel III.

Notice no. 6/2013, of 23 December, of Banco de Portugal regulated the transitory regime foreseen in that Regulation in matters pertaining to own funds, and established capital preservation measures.

The capital adequacy calculations of NOVO BANCO as at 31 December 2015 and 31 December 2014, based on information available, the Basel III European Regulatory Framework and considering the transitory period foreseen in the Notice referred to above, may be presented as follows:

(in millions of Euros)

		31.12.2015	31.12.2014
Realised ordinary capital		4 900	4 900
Reserves and Retained earnings		1 970	767
Net income / (loss) for the period		(1 115)	(649)
Revaluation reserves		(243)	(200)
A - Accounting Equity		**5 512**	**4 818**
Revaluation reserves		(41)	(61)
B - Prudential adjustments to Equity		**(41)**	**(61)**
Goodwill and other intangibles		(68)	(100)
Deferred taxes		(487)	(280)
Shareholdings in financial companies		(76)	(126)
Other		(42)	(36)
C - Prudential deductions		**(673)**	**(542)**
D - Common Equity Tier I (A+B+C)		**4 798**	**4 215**
Eligible instruments for Tier I		-	-
Deductions from Tier I		-	-
E - Tier I		**4 798**	**4 215**
Eligible instruments for Tier II		112	123
Deductions from Tier II		(112)	(123)
F - Tier II		**-**	**-**
G - Eligible Own Funds		**4 798**	**4 215**
H - Risk Weighted Assets		**37 906**	**44 768**
Prudential ratios			
Common Equity Tier I	**(D / H)**	**12.7%**	**9.4%**
Tier I	**(E / H)**	**12.7%**	**9.4%**
Solvency	**(G / H)**	**12.7%**	**9.4%**

NOTE 43 – RENDERING OF INSURANCE AND RE-INSURANCE BROKERING SERVICES

At 31 December 2015, services provided with insurance and re-insurance brokerage have the following composition:

(thousands of Euros)

	31.12.2015	31.12.2014
Life insurance		
Unit Link	4 303	1 424
Credit protection insurance (life part)	349	63
Traditional products	11 344	6 220
	15 996	**7 707**
Non-life insurance		
Insurance for individuals	6 045	2 435
Insurance for companies	992	631
Credit protection insurance (non-life part)	441	85
	7 478	**3 151**
	23 474	**10 858**

The Bank does not collect insurance premiums on behalf of the Insurance companies, nor does 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

Contract Support Annex (CSA)

NOVO BANCO has a number of contracts negotiated with counterparts with which it trades derivatives on the OTC market. The CSAs take the form of collateral agreements established between two parties negotiating derivatives with each other on this market, the main objective of which is to provide protection against credit risk, establishing 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 requirements that may change according to the ratings of the parties.

NOTE 45 – RECENTLY ISSUED ACCOUNTING STANDARDS AND INTERPRETATIONS

Impact of the adoption of standards and interpretations that became effective on 1 January 2015:

Standards

IFRS 1 (amendment), 'First-time adoption of IFRS'. The improvement to IFRS 1 clarifies that a first-time adopter can use either the previous version or the new version of the standard that, despite not being mandatory, is available for early adoption. The adoption of this amendment had no impact on the financial statements of the Bank.

IFRS 3 (amendment), 'Business combinations'. The Improvement to IFRS 3 clarifies that the standard is not applicable to the accounting of the creation of any joint agreement according to IFRS 11, in the financial statements of the joint agreement. The adoption of this amendment had no impact on the financial statements of the Bank.

IFRS 13 (amendment), 'Fair value: mensuration and disclosure'. The improvement clarifies that the exception to the fair value measurement of a portfolio on a net basis, is applicable to all types of contracts (including non-financial contracts) under IAS 39. The adoption of this amendment had no impact on the financial statements of the Bank.

IAS 40 (amendment), 'Investment properties' (to be applied in the European Union in the annual periods beginning on or after 1 January 2015). The improvement clarifies that IAS 40 and IFRS 3 are not mutually exclusive. It is necessary to use IFRS 3, when an investment property is acquired, to determine whether the acquisition is, or not, a business combination. The adoption of this amendment had no impact on the financial statements of the Bank.

Interpretations

IFRIC 21 (new), 'Levies'. IFRIC 21 is an interpretation of IAS 37 and of the recognition of liabilities, clarifying that the past event that result in an obligation to pay a levy or tax (other than corporate income tax - IRC) is the activity described in the relevant legislation that requires the payment. The adoption of this amendment had no impact on the financial statements of the Bank.

<u>Standards and amendments to existing standards which application is mandatory for annual periods starting on or after 1 February 2015, and that the Bank decided not to anticipate the adoption:</u>

Standards

IFRS 2 (amendment), 'Payment based on shares' (to be applied as from the annual periods beginning on or after 1 February 2015). The improvement to IFRS 2 amends the definition of vesting conditions, providing for two types of vesting conditions only, "conditions of service" and "performance conditions". The new definition of "performance conditions" provides that only conditions related to the entity are considered.The adoption of the amendment is not expected to produce a material impact on the financial statements of the Bank.

IFRS 3 (amendment), 'Business combinations' (to be applied as from the annual periods beginning on or after 1 February 2015). The improvement clarifies that an obligation to pay a purchase amount that is contingent is classified, in accordance with IAS 32, as a liability, or if it meets the definition of financial instrument as an equity instrument. Contingent payments classified as liabilities shall be measured at fair value through the income statement. The adoption of the amendment is not expected to produce a material impact on the financial statements of the Bank.

IFRS 8 (amendment), 'Operating segments' (to be applied as from the annual periods beginning on or after 1 February 2015). The improvement changes IFRS 8, which now requires the disclosure of judgments made by management for the aggregation of operating segments, requiring, too, the reconciliation between assets by segment and the overall assets of the Entity, when this information is reported. The adoption of the amendment is not expected to produce a material impact on the financial statements of the Bank.

IFRS 13 (amendment), 'Fair value: mensuration and disclosure' (to be applied as from the annual periods beginning on or after 1 February 2015). The Improvement to IFRS 13 clarifies that the standard does not remove the possibility of the measurement of current accounts receivable and payable based on the amounts billed, when the effect of discounting is not material. The adoption of the amendment is not expected to produce a material impact on the financial statements of the Bank.

IAS 16 (amendment), 'Tangible fixed assets' and **IAS 38** 'Intangible assets' (to be applied as from the annual periods beginning on or after 1 February 2015). The improvement to IAS 16 and IAS 38 clarifies the treatment to given to the gross amounts and to the accumulated depreciation / amortisation, when an Entity adopts the revaluation model for the subsequent measurement of tangible fixed assets and / or intangible assets, providing for 2 methods. This clarification is significant when either the useful lives or the methods of depreciation / amortisation are reviewed during the revaluation period. The adoption of the amendment is not expected to produce a material impact on the financial statements of the Bank.

IAS 24 (amendment), 'Related party disclosure' (to be applied as from the annual periods beginning on or after 1 February 2015). The improvement to IAS 24 changes the definition of a related party to include the Entities that provide management services to the Entity that reports, or the Parent-entity of the Entity that reports. The adoption of the amendment is not expected to produce a material impact on the financial statements of the Bank.

IAS 19 (amendment), 'Defined benefit plans – Employee contributions' (to be applied as from the annual periods beginning on or after 1 February 2015).The amendment to IAS 19 applies to contributions from employees or third parties to defined benefit plans, and intends to simplify their accounting, when the contributions are not associated with the number of years of service. The adoption of the amendment is not expected to produce a material impact on the financial statements of the Bank.

IAS 1 (amendment), 'Revision of disclosures' (to be applied as from the annual periods beginning on or after 1 January 2016). The amendment gives indications as to materiality and aggregation, the presentation of subtotals, the structure of the financial statements, the disclosure of accounting policies and the presentation of items of other comprehensive income generated by investments measured applying the equity method. The adoption of the amendment is not expected to produce a material impact on the financial statements of the Bank..

IAS 16 and IAS 38 (amendment), 'Accepted methods of calculating amortisation and depreciation (to be applied as from the annual periods beginning on or after 1 January 2016). The amendment clarifies that the use of methods of calculating depreciation / amortisation of assets based on revenue earned, are not, as a rule, considered suitable for the measurement of the consumption pattern of the economic benefits associated with the asset. The amendment has prospective application. The adoption of the amendment is not expected to produce a material impact on the financial statements of the Bank.

IAS 16 and IAS 41 (amendment), ‘Agriculture: plants that produce consumable biological assets’ (to be applied as from the annual periods beginning on or after 1 January 2016). This amendment defines the concept of a plant that produces consumable biological assets, and removes such assets from under the application of IAS 41 - Agriculture and into that of IAS 16 - Tangible fixed assets, with a consequent impact on the measurement. However, the biological assets produced by these plants, remain under IAS 41 – Agriculture. The adoption of the amendment is not expected to produce a material impact on the financial statements of the Bank.

IFRS 5 (amendment), ‘non-current assets held for sale and discontinued operational units’ (to be applied as from the annual periods beginning on or after 1 January 2016). The improvement clarifies that when an asset (or disposal group) has been reclassified from "held for sale" to "held for distribution" or vice-versa, this does not constitute a change to the plan to sell or distribute. The adoption of the amendment is not expected to produce a material impact on the financial statements of the Bank.

IFRS 7 (amendment), ‘Financial instruments: disclosure’ (to be applied as from the annual periods beginning on or after 1 January 2016). The improvement includes additional information about the meaning of continuing involvement in the transfer (derecognition) of financial assets for the purpose of the compliance with the disclosure obligations. The adoption of the amendment is not expected to produce a material impact on the financial statements of the Bank.

IAS 19 (amendment), ‘Employee benefits’ (to be applied as from the annual periods beginning on or after 1 January 2016). The improvement clarifies that in determining the discount rate of liabilities with post-employment defined benefit plans, it must meet the requirements of high quality securities in the same currency in which the liabilities are calculated. The adoption of the amendment is not expected to produce a material impact on the financial statements of the Bank.

IAS 34 (amendment), ‘Interim reporting’ (to be applied as from the annual periods beginning on or after 1 January 2016). The improvement clarifies the meaning of "information disclosed in another area of the interim financial statements”, and requires the inclusion of cross-references to this information. The adoption of the amendment is not expected to produce a material impact on the financial statements of the Bank.

IFRS 9 (new), ‘Financial instruments’ (to be applied as from the annual periods beginning on or after 1 January 2018). This standard is still subject to endorsement by the European Union. 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. The adoption of the amendment is not expected to produce a material impact on the financial statements of the Bank.

IFRS 15 (new), 'Revenue from contracts with customers' (to be applied as from the annual periods beginning on or after 1 January 2018). This standard is still subject to endorsement by the European Union. This new standard applies only to contracts for the delivery of products or services, and requires an entity to recognise revenue when the contractual obligation to deliver assets or services is satisfied and in an amount that reflects the consideration to which the entity has the right, as provided for in "the 5 steps methodology". The adoption of the amendment is not expected to produce a material impact on the financial statements of the Bank.

NOTE 46 – MERGER OF AVISTAR, SGPS, SA

On 30 June 2015, the merger by incorporation ofAvistar, SGPS, S.A.into NOVO BANCO, S.A. was realised.

The captions relating to the fair value reserve and other reserves and retained earnings of Avistar were added to the respective equity captions of NOVO BANCO, and net income for the period ended 30 June 2015 was added to the caption retained earnings. The difference between the amount of NOVO BANCO's involvement and the equity of Avistar, in the amount of Euros -13.3 million, was reflected as a merger reserve and written off against NOVO BANCO's equity.

Avistar's balance sheet at the date of the merger may be analysed as follows:

AVISTAR

BALANCE SHEET AT DATE OF MERGER

(thousands of Euros)

	30.06.2015
Assets	
Cash and deposits with Central Banks	81 353
Financial assets available-for-sale	86 438
Current tax assets	233
Total Assets	**168 024**
Liabilities	
Other liabilities	14
Total Liabilities	**14**
Equity	
Share capital	300 000
Other capital instruments	325 000
Reserves, Retained earnings and Other comprehensive income / (losses)	(404 706)
Profit / (loss) for the period	(52 284)
Total Equity	**168 010**
Total Equity and Liabilities	**168 024**

NOTE 47 – SUBSEQUENT EVENTS

- The Board of Directors of NOVO BANCO prepared a restructuring plan that was presented to the European Commission at the end of 2015. This restructuring plan was prepared in full cooperation with Banco de Portugal and comprises a number of measures, namely the focusing on the retail and corporate bankin activities in Portugal and Spain, the disinvestment in non-strategic assets and the reduction of Euros 150 million in recurring operating costs (excluding restructuring costs estimated in circa Euros 100 million), associated with the layoff of 1 000 employees and the decrease in the number of bank branches to 550. This plan is currently in the implementation phase;
- On 15 January 2016, Banco de Portugal informed, as agreed to between national authorities and the European Commission, on its decision to resume the sale of the shareholding of Fundo de Resolução in NOVO BANCO. Decisions as to the sales model, as well as to the terms of reference, will be made at a later stage;
- Following the press releases issued on 21 December 2015 by the European Commission and Banco de Portugal, on 15 February NOVO BANCO informed that it had extended for one year the maturity of its bond issues guaranteed by the Portuguese Government in the amount of Euros 3 500 million;
- In accordance with Article 2 of Notice No 5/2015 of Banco de Portugal, dated 7 December, as from 1 January 2016 the entities subject to the supervision of Banco de Portugal, are to prepare the financial statements on a separate basis, according to International Accounting standards (IAS), as adopted, at any time, by Regulation of the European Union and respecting the conceptual framework for the preparation and presentation of financial statements that meet those standards, as was already previously required for financial statements prepared on a consolidated basis, where applicable. The Bank's management believes that the application of IAS as from 1 January 2016 in its financial statements on a separate basis will not result in significant impacts.

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Audit Report for Statutory and Stock Exchange Regulatory Purposes on the Separate Financial Information

(Free translation from the original in Portuguese)

Introduction

1 As required by law, we present the Audit Report for Statutory and Stock Exchange Regulatory Purposes on the financial information included in the Directors' Report and in the attached financial statements of Novo Banco, S.A. ("Novo Banco" or "Bank"), comprising the balance sheet as at 31 December 2015 (which shows total assets of Euro 51.275.827 thousand and total shareholder's equity of Euro 5.511.748 thousand including a net loss of Euro 1.115.660 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 corresponding notes to the accounts. These financial statements were prepared in accordance with the Adjusted Accounting Rules ("NCA") defined in the Banco de Portugal Regulation nº 1/2005, which are based on the International Financial Reporting Standards ("IFRS") in force, as adopted by the European Union, with the exceptions defined in the Banco de Portugal Regulations nº 1/2005, nº 4/2005 and nº 7/2008.

Responsibilities

2 It is the responsibility of the Bank's Board of Directors (i) to prepare the Directors' Report and the financial statements which present fairly, in all material respects, the financial position of the Bank, the results and the comprehensive income of its operations, the changes in equity and the cash flows; (ii) to prepare historic financial information in accordance with the Adjusted Accounting Rules issued by the Banco de Portugal and which is complete, true, up-to-date, clear, objective and lawful, as required by the Portuguese Securities Market Code; (iii) to adopt appropriate accounting policies and criteria; (iv) to maintain an appropriate system of internal control; and (v) to disclose any significant matters which have influenced the activity, financial position or results of the Bank.

3 Our responsibility is to verify the financial information included in the financial statements referred to above, namely as to whether it is complete, true, up-to-date, clear, objective and lawful, as required by the Portuguese Securities Market Code, for the purpose of issuing an independent and professional report based on our audit.

Scope

4 Except as described in paragraph nr. 7 below, we conducted our audit in accordance with the Standards and Technical Recommendations issued by the Institute of Statutory Auditors which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Accordingly, our audit included: (i) verification, on a sample basis, of the evidence supporting the amounts and disclosures in the financial statements, and assessing the reasonableness of the estimates, based on the judgments and criteria of the Board of Directors used in the preparation of the financial statements; (ii) assessing the appropriateness of the

PricewaterhouseCoopers & Associados - Sociedade de Revisores Oficiais de Contas, Lda.
Sede: Palácio Sottomayor, Rua Sousa Martins, 1 - 3º, 1069-316 Lisboa, Portugal
Tel +351 213 599 000, Fax +351 213 599 999, www.pwc. pt
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accounting principles used and their disclosure, as applicable; (iii) assessing the applicability of the going concern basis of accounting; (iv) assessing the overall presentation of the financial statements; and (v) assessing the completeness, truthfulness, accuracy, clarity, objectivity and lawfulness of the financial information.

5 Our audit also covered the verification that the information included in the Directors' Report is consistent with the financial statements as well as the verification set forth in paragraphs nr. 4 and nr. 5 of Article 451º of the Companies Code.

6 We believe that our audit provides a reasonable basis for our opinion.

Qualifications

7 Novo Banco has at 31 December 2015 a total exposure of around Euro 838 million to Banco Económico, S.A., for which it has recorded an impairment of Euro 82.8 million, decomposed into a participation on its share capital of around Euro 47 million recorded in the caption of Available for sale financial assets and two loans, senior and subordinate, of respectively, around Euro 397 million and Euro 394 million, including accrued interests, recorded in the caption of Loans and advances to banks. Despite the loans being performing at 31 December 2015, considering the lack of 2014 and 2015 audited financial information for Banco Económico S.A., the unavailability of a business plan to allow us to appreciate its future capacity of generate free cash flows for the settlement of the mentioned loans, the current economic situation in Angola and the fact that, as referred in Note 21 of the notes to the accounts, there are, at the present date, ongoing negotiations on the potential need to redefine the reimbursement conditions of the senior loan, it is not possible for us to conclude, with reasonable assurance, on the recoverability of the above mentioned total exposure.

8 As referred in Note 34 of the notes to the accounts, the balance sheet of the Bank at 31 December 2015 includes Euro 1.183 million of deferred tax assets related to tax losses estimated in 2014 and 2015, for which, the effective recoverability is dependent on the generation of future taxable profit. Given that the maximum period for the use of these tax losses is 12 years, we consider that the estimated recoverability of the aforementioned deferred tax assets made by the Board of Directors based on a business plan covering the years 2016 through 2017, that assumes a stability of the results as from 2020, incorporates assumptions that we consider optimistic given the current economic situation and the fact that it is a bridge bank. Under these circumstances, the captions of Deferred tax assets, Reserves, retained earnings and other comprehensive income and Net income for the period, contained in the balance sheet of the Bank at 31 December 2015, are overstated by an amount that we are unable to quantify with reasonable assurance, taking into account the multiple underlying assumptions and respective correlations, as well as the potential impact deriving from the projected entry of a new shareholder in the Bank.

Opinion

9 In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary, if the scope limitation referred to in paragraph nr. 7 above had not existed and except for the effects on the financial statements of the matters referred to in paragraph nr. 8 above, the financial statements referred to above, present fairly in all material respects, the financial position of Novo Banco S.A. as at 31 December 2015, the results and the comprehensive income of its operations, the changes in equity and the cash flows for the year then ended, in accordance with the Adjusted Accounting Rules ("NCA") defined by the Banco de Portugal and the information included is complete, true, up-to-date, clear, objective and lawful.

Report on other legal requirements

10 It is also our opinion that the information included in the Directors' Report is consistent with the financial statements for the year and that its chapter related to the corporate governance includes the information required under Article 245º-A of the Portuguese Securities Market Code.

Emphasis

11 Without further qualifying our opinion expressed in paragraph 9 above, we draw attention to:

11.1 As disclosed in Note 1 of the notes to the accounts, the commitments of the Portuguese State before the European Commission foresee Novo Banco being sold within a maximum period of two years from its incorporation, having the European Commission extended the deadline in 21 December 2015. Nevertheless, from its incorporation the Bank's Board of Directors considers that, based on the business plan it has drawn up and the prospective information it has on profitability, cash flows and capital levels, the Bank has the means to continue to develop its activity in the foreseeable future, so much so that the accounts for the year ended on 31 December 2015 were prepared based on the going concern basis. We point out, however, that while the Bank is in a sale process, the compliance with the business plan presented by the Board of Directors, including, namely, the recoverability of the deferred tax assets recognized on the tax losses referred to in paragraph nr. 8 above, is necessarily conditioned by the future shareholder's strategy and by its ability to generate significant business for Novo Banco.

11.2 Given that the incorporation of the Bank resulted from the application of a resolution measure to BES, which originated material impacts on third parties, the risk of litigation involving Novo Banco, related to the Resolution Deliberation and the definition of the perimeter of assets, liabilities, off-balance sheet elements and assets under management transferred to the latter, is significant. In the preparation of the financial statements of the Bank at 31 December 2015, as referred to in Note 38 of the notes to the accounts, the Board of Directors took its account and reflected therein the Resolution Deliberation and related decisions taken by the Banco de Portugal, including the deliberation of 29 December 2015 related to the clarification of the contingencies and offsetting of risks related to the resolution measure regarding responsibilities and liabilities not transferred to Novo Banco, but that may be materialized in its juridical perimeter, therefore no material liabilities are expected for Novo Banco from said litigation, given the legal grounds and the information available at the present date.

12 April 2016

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

José Manuel Henriques Bernardo, R.O.C.

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NOVO BANCO