2016
ANNUAL REPORT

NOVO BANCO

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I. MANAGEMENT REPORT

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1. Message from the Chief Executive Officer

2016 was naturally a transition year for NOVO BANCO. The natural transition as a bank after the closure of the definition of the scope of the Resolution that gave rise to it, the transition due to the re-launch of the sale process non concluded in 2015 and transition due to the additional group of commitments to be completed between 2016 and June 2017.

Maybe due to the multiple requirements which were imposed to the bank by the circumstances, NOVO BANCO always looked to this transition period as an opportunity and as a challenge.

As an opportunity the Bank opted (i) to reduce its operating costs in a decisive way (a reduction of 21.7% or €164 million), (ii) to register an amount of impairments which was seen as necessary (€1,375 million or 30% more than in the previous year) and (iii) to reduce the size of the so called side bank to €8.7 billion (less €2.1 billion than in the previous year).

As a challenge, the Bank focused on three main pillars. In its retail activity, which was reflected both in the growth of €832 million in deposits, which partially offset the decrease in large depositors that occurred at the beginning of 2016 as well as in the production of residential mortgage loans which increased by 110%. In its corporate activity, main activity of NOVO BANCO which allowed for an increase in medium term credit lines, as well as in factoring (+ 35%) while maintaining its relevant role in the trade finance (with a market share of 23%). In order to pursue a policy of recovering its image as a trustworthy and transparent bank – maintaining sustainability criteria as a concern (equal gender, social and environmental well being) with the creation of an innovative model of Social Dividend.

This focus on opportunities and challenges arising from the transition allowed NOVO BANCO to return in a natural way to normality, without forgetting its main objective of ensuring all the conditions for a new sale process to be carried out successfully.

The fact that after the close of this exercise it was taken the decision to sell the majority of the capital of NOVO BANCO, turns 2016 into an even more successful year in the management of the transition, of opportunities and challenges.

Naturally these contributions for the normalization do not lead us to forget the long NOVO BANCO rehabilitation work with which we are committed to. The negative net income of €788 million (with an improvement of 15.2% from last year) and a banking income still below €1 billion (€978 million) show a correct trend but lead to the forecast of a exigent recovery period.

All of this was only possible due to the exigent loyalty of our customers (corporate and retail), due to the evident quality of our employees and due to the excellent and transparent relationship with our regulators and with our shareholder.

NOVO BANCO is already a success case due to the resistance and the management of successive challenges and all points to the fact that after this transitory period, it may finally repossess its top role in the support of corporate and retail clients which are value the quality of service, which the bank never lost.

As Chief Executive Officer I do not want to forget the fact that I shared this responsibility with Mr. Eduardo Stock da Cunha and his team and that I share with them, I am certain, the same feeling of gratitude with all that worked intensely to transform the transition into opportunity and the challenges in normality.

A special thank you to all.

António Manuel Palma Ramalho

Chief Executive Officer

2. Main Indicators

MAIN INDICATORS	31-Dec-15*	31-Dec-16
ACTIVITY (million of Euros)		
Assets	57 517	52 333
Gross Loans	37 417	33 750
Customer Deposits	27 364	25 585
Total Equity	5 935	5 148
SOLVENCY (1)		
Common EquityTier I /Risk Weighted Assets	13.5%	12.0%
Tier I /Risk Weighted Assets	13.5%	12.0%
Total Own Funds/Risk Weighted Assets	13.5%	12.0%
LIQUIDITY (million of Euros)		
ECB Funds (net) (2)	7 040	5 123
Eligible Assets for repo operations (ECB and other)	12 740	13 139
(Total Credit - Credit Provisions)/ Customer Deposits (1)	113%	110%
Liquidity Coverage Ratio (LCR)	77%	107%
Net Stable Funding Ratio (NSFR)	87%	99%
ASSET QUALITY		
Overdue Loans > 90 days / Gross Loans	14.5%	17.0%
Overdue and Doubtful Loans / Gross Loans (1)	15.8%	18.7%
Overdue and Doubtful Loans, net of impairments / Total Net Loans (1)	0.2%	2.6%
Credit at Risk / Gross Loans (1)	22.8%	25.6%
Credit at Risk, net / Net Loans (1)	8.6%	10.9%
Restructured Credit (1) / Gross Loans	17.7%	23.7%
Restructured Credit not included in Credit at Risk(1) / Gross Loans	10.5%	11.9%
Credit Provisions / Overdue Loans > 90 days	107.8%	97.2%
Credit Provisions / Gross Loans	15.6%	16.5%
Cost of Risk	1.98%	1.99%
PROFITABILITY		
Net Income (million of Euros)	-929.5	-788.3
Income before Taxes and Non-controlling interests / Average Net Assets (1)	-1.6%	-1.9%
Banking Income / Average Net Assets (1)	1.4%	1.8%
Income before Taxes and Non-controlling interests / Average Equity (1)	-17.4%	-17.0%
EFFICIENCY		
General Admin Costs + Depreciation / Banking Income (1)	85.8%	60.4%
Staff Costs / Banking Income (1)	45.2%	31.0%
EMPLOYEES (n.)		
Total	7 311	6 096
- Domestic	6 571	5 687
- International	740	409
BRANCH NETWORK (n.)		
Total	635	537
- Domestic	596	507
- International	39	30

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

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3. NOVO BANCO

3.1. Origin

NOVO BANCO, S.A. is the main entity of the financial Group NOVO BANCO focused in the banking activity, and was incorporated on 3 August 2014 by deliberation of the Banco de Portugal's Board of Directors of 3 August 2014 (8 p.m.) under the terms of article 145-G/5 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 the 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 in point two of the resolution of Banco de Portugal's Board of Directors of 3 August 2014 (8 p.m.), drafted according to this Board of Directors' resolution of 11 August (5 p.m.) (hereafter "Deliberation of 3 August 2014"), under the terms and for the purposes of article 145-H/1 of the RGICSF, the majority of the assets, liabilities, off-balance-sheet items and assets under management of BES were transferred to NOVO BANCO, S.A., as per the criteria established 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), recorded in the accounting records, which are subject to transfer to NOVO BANCO, SA, in accordance with the following criteria:*

(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);

[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.

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

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

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

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

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

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

(i) Liabilities to (a) the respective shareholders, whose participation is equal to or higher than 2% of the share capital or to persons or entities which in the two years preceding the transfer held a participation equal to or higher than 2% of the share capital of BES, members of the management and supervisory bodies, statutory auditors or statutory audit firms, or persons with similar status in other companies that are in a control or group relationship with the institution, (b) persons or entities that have been shareholders, performed the functions or provided the services referred to in the foregoing subparagraph in the four years prior the setting-up of NOVO BANCO, SA, and whose action or omissions was at the origin of the financial difficulties experienced by the credit institution or which contributed to aggravate that situation; (c) the spouses, first degree natural or in-law relatives or third parties acting on behalf of the persons or entities referred to in the preceding paragraphs, (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 responsibilities, according to Banco de Portugal's understanding;

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

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

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

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

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

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

(viii) Effective as from 29 December 2015, all the rights and responsibilities of NOVO BANCO, arising from the non-subordinated debt instruments listed in Annex 2B (excluding those held by NOVO BANCO), together with all the liabilities, contingencies and off-balance sheet elements, to the extent they are related to said debt instruments (including (i) the issuing, trading and sale of same and (ii) arising from any contractual documents or other instruments celebrated or issued by the Bank, and connected with those instruments, including 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, with effect from 29 December 2015, to BES Finance, Limited;*

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

(f) *All the employees and service providers of BES are transferred to NOVO BANCO, SA;*

(g) *Any guarantee related to any obligation transferred to NOVO BANCO, SA is also transferred to NOVO BANCO, SA. Any guarantee related to any obligation not transferred to NOVO BANCO, SA will, likewise, not be transferred to NOVO BANCO, SA.*

2. *After the transfer referred to in the foregoing sub-paragraphs, the Banco de Portugal may at any time transfer or re-transmit assets, liabilities, off-balance-sheet items and assets under management between BES and NOVO BANCO, SA, in accordance with Article 145-H (5) of the Legal Framework.*

3. *BES will sign an agreement with NOVO BANCO, SA, confirming the transfer of the assets and liabilities governed by foreign law and/or located abroad, under the terms defined by the Banco de Portugal. This will include BES obligation to ensure that it will comply with all the formalities and procedures necessary for that purpose.*

4. *Considering that all the rating procedures within the scope of the permission under the IRB approach granted to BES on a consolidated basis, as from 31 March 2009, are fully transferred to NOVO BANCO, SA, 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 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 circumstances the professional activities of the persons in question, their degree of dependence on the persons referred to in the foregoing points, their income level and the deposited amount; c) demonstration of evidence shall be supported by documents and archived so that the decisions taken can be controlled and verified. Until such decisions are taken, the operational measures implementing the present deliberation remain in force.*

9. *The transfer ordered (and, as applicable, confirmed by the conclusion of the contract confirming the transfer determined by Banco de Portugal) is not intended to confer on any counterparties and third parties any new rights nor to enable the exercise of any rights that in the absence of such transfer would not exist or could not be exercised on or in relation to the assets, liabilities, off-balance sheet items and assets under the management of BES, S.A., thus transferred, including any rights of termination, resolution or rights to order early redemptions, close-out netting or netting/set-off, nor to result in (i) any default, (ii) change in conditions, rights or obligations, or (iii) subjecting to approval, or (iv) right to enforce guarantees, (v) right to make retentions or netting/set-off between any payments or claims under such assets, liabilities, off-balance sheet items and assets under management transferred.*

10. *Any credits already constituted or to be constituted related to tax facts occurring prior to 3 August 2014, whether or not recorded in the accounts of BES are transferred to NOVO BANCO.*

11. *The provision in subparagraphs (v) to (vii) of paragraph (b) of no. 1 of the present Annex shall be interpreted in light of the clarifications contained in Annex 2C.*

According to the announcement of Banco de Portugal of 29 December 2015, "this set of decisions comprises the final and definitive change of the perimeter of assets, liabilities, off-balance sheet elements and assets under management transferred to NOVO BANCO, which transfer is now definitively fixed".

Under the terms of Article 3 of its by-laws the purpose of NOVO BANCO, S.A., is to operate in the banking industry, including all operations compatible for such activity and permitted by law. While operating as a transition bank NOVO BANCO, S.A. must (a) manage the assets, liabilities, off-balance sheet items and assets under management transferred from Banco Espírito Santo, S.A., to NOVO BANCO, S.A., under the terms of the decisions of the resolution authority and carry on the transferred activities, while complying with the legal framework of the resolution and for the purposes laid down in it; (b) comply with management criteria ensuring that low risk levels are maintained and the value of the transferred assets is maximized.

The Resolution Fund ("Fundo de Resolução") is the sole owner 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 (see 3.2. Developments – Developments in 2017, regarding the signature of an agreement to sell NOVO BANCO's Share Capital.

As a transition bank, NOVO BANCO has a limited duration of two years, extendable for periods of a year according to RGICSF. However, according to the commitments assumed by the Portuguese Republic with the European Commission, the sale of NOVO BANCO should occur within a maximum period of two years from its date of incorporation, but such term was extended by decision of the European Commission announced on 21 December 2015. The signing on 31 March 2017 by the Resolution Fund of the contractual documents for the sale of NOVO BANCO enabled the fulfilment of the term for the sale established on the commitments assumed by the Portuguese Republic with the European Commission.

3.2. Developments

Main Developments in 2017

- On 1 May in accordance and for the purposes of article 248 of the Portuguese Securities Code, NOVO BANCO, S.A. informed that it entered into a sale and purchase promissory contract with the BANCAMIGA, Banco Microfinanciero, C.A., in Venezuela, in respect of the assets and liabilities of the NOVO BANCO, S.A., branch in Venezuela. The completion of such promissory contract is conditioned to the fulfillment of certain conditions and obtaining the required authorizations from the relevant authorities, including Banco de Portugal and the Venezuelan financial sector regulatory authority. With the completion of the transaction under the agreed terms and conditions the NOVO BANCO banking activities in Venezuela will terminate.

- With the verification of the conditions for the completion of the sale operation of .NB Ásia, namely the authorization from Autoridade Monetária de Macau of 28 April 2017, it was concluded the sale of 75% of the share capital of NB Ásia by NOVO BANCO.

- On 20 April NOVO BANCO informed that the Rating Agency Dagong Europe had taken a rating action on NOVO BANCO. On that date Dagong Europe affirmed the Long-Term Credit Rating at 'CCC+' and ShortTerm Credit Rating at 'C' of NOVO BANCO and its subsidiaries/branches and removed the stable outlook and assigned a watch 'Evolving' to all ratings. The rating action followed the release of NOVO BANCO's unaudited results for the financial year 2016 and the announcement on 31 March 2017 of the terms of the sale agreement of NOVO BANCO that includes a liability management exercise (LME) involving non-subordinated bondholders. The watch 'Evolving' will be resolved dependent on additional information related to the closing of the sale process and the conditions of the LME not yet disclosed.

- On 13 April NOVO BANCO informed that the Rating Agency DBRS had taken a rating action on NOVO BANCO. On that date DBRS placed the senior ratings of NOVO BANCO Under review with Negative Implications (URN). These include the Issuer, Senior Long-Term Debt and Deposits rating of CCC (high), and the Short-Term & Deposit rating of R-5. DBRS has confirmed the Critical Obligations Ratings (COR) at BB (low) / R-4, with Stable Trend. The rating action followed the announcement on 31 March 2017 of a liability management exercise (LME) involving senior bondholders as part of the agreement to sale NOVO BANCO. Separately, DBRS has also withdrawn the BBB (low) rating on the Senior and Unsubordinated Notes Guaranteed by the Republic of Portugal as this debt has been repaid and/or cancelled.

- On 9 April NOVO BANCO informed the market about the new management and executive committee structure. The management structure is composed by a Board of Directors (comprising a Chairman, Mr. Rui Cartaxo, and an Executive Committee, led by Mr. António Ramalho. The new Executive Committee of seven members was appointed by the Resolution Fund on 21 December 2016 and at the date of this report it has already received the European Central Bank's approval for all its members. On 8 May the

Bank was informed about the approval by the European Central Bank for a further member for the Board of Directors, the seventh member of the Executive Committee.

- On 8 April.NOVO BANCO informed that, following the deliberation of its sole shareholder Fundo de Resolução, it has amended articles 1, 3, 6, 7, 8 to 14, 16, 17 to 23 and added articles 7-A, 7-B, 14-A, 16-A and 24 of its Company bylaws. The announcement highlights that in line with Governance's best practices, it stands out that its management and supervisory structure changes to a Board of Directors (comprising a Chairman, an Executive Committee and an Audit Committee), and a Statutory Auditor.

- On 5 April NOVO BANCO informed that the Rating Agency Moody's had taken a rating action on NOVO BANCO. The rating action followed the announcement by Banco de Portugal on 31 March 2017 that as part of NOVO BANCO's sale process, a liability management exercise on senior bonds would be undertaken with the aim of recapitalising the Bank. Moody's placed on review for downgrade NOVO BANCO's Caa1 long-term deposit ratings, downgraded the long-term senior unsecured debt rating to Caa2 from Caa1, and placed it on review for further downgrade. At the same time, Moody's downgraded the Bank's: (i) standalone Baseline Credit Assessment (BCA) to ca from caa2; and (ii) Counterparty Risk Assessment (CRA) to B3(cr) from B2(cr), and placed it on review for further downgrade. The outlook on the long-term deposit and debt ratings was changed to 'Ratings under Review' from 'Developing'. The Not-Prime short-term deposit and senior debt ratings and Not-Prime(cr) short-term CRA were unaffected by this rating action.

- On 31 March Banco de Portugal informed the market it had selected LONE STAR to complete the sale of NOVO BANCO and that the Resolution Fund had signed the operation's contract documents. The signature of the contract allowed the deadline for the sale agreed in the commitments assumed by the State before the European Commission to be met. Upon completion of the operation, the transition institutions regime will cease to apply to NOVO BANCO. Under the terms of the agreement, LONE STAR will make capital injections in NOVO BANCO for a total amount of €1,000 million, of which €750 million upon conclusion of the transaction and €250 million within three years. Through the capital injection, LONE STAR will hold 75% of the share capital of NOVO BANCO and the Resolution Fund will maintain the remaining 25%. The conditions agreed also include the setting up of a contingent capitalisation mechanism, under which the Resolution Fund, as a shareholder, undertakes to make capital injections in the event of certain cumulative conditions being met, related to: i) the performance of a defined set of assets of NOVO BANCO and ii) the evolution of the Bank's capitalisation levels. Any capital injections to be carried out pursuant to this contingent mechanism benefit from a capital buffer resulting from the injection to be made under the terms of the transaction and are subject to an absolute ceiling. The agreed conditions also provide for the existence of mechanisms to safeguard the interests of the Resolution Fund and to align incentives, as well as supervision mechanisms, notwithstanding the limitations arising from the application of State aid rules. The completion of the sale is subject to the usual regulatory authorisations (including by the European Central Bank and the European Commission) being obtained, as well as to a liability management exercise, which will cover the non-subordinated bonds of NOVO BANCO.

- On 17 February, on maturity of the €1.5 billion issue, NOVO BANCO ceased to have any kind of debt instrument guaranteed by the State.

- On 25 January, NOVO BANCO informed that Mr. Francisco Cary had resigned to the position as Member of the Board of Directors.

Main Developments in 2016

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

- On 19 December NOVO BANCO informed that it had on that date cancelled 14,000 senior bonds guaranteed by the Republic of Portugal amounting to €700 million.

- On 23 November NOVO BANCO informed that Mr. Francisco Vieira da Cruz had resigned to the position as Member of the Board of Directors. Mr. Francisco Vieira da Cruz remained in office until 31 December 2016.

- On 18 November NOVO BANCO informed it had launched and priced LUSITANO SME NO. 3, its third securitisation transaction of credit rights in relation to SME Receivables. Deutsche Bank AG, London Branch and J.P. Morgan Securities plc acted as Joint Arrangers and Joint Lead Managers. NOVO BANCO successfully placed the entire amount of €385.6 million of the Class A Notes with institutional investors. The transaction was approved by CMVM and settlement occurred on 22 November 2016.

- On 11 November NOVO BANCO informed that it had on that date cancelled 20,000 senior bonds guaranteed by the Republic of Portugal amounting to €1 billion.

- In a press release dated 4 November 2016, Banco de Portugal announced that the period for investors meeting the eligibility criteria for the sale process of NOVO BANCO to submit their offers ended on that day. Five offers were received, under the two sale methods - Strategic Sale Procedure or Market Sale Procedure.

- In July NOVO BANCO was elected 'best trade finance bank in Portugal' by the Trade & Forfaiting Review international magazine. This award translates the international recognition of NOVO BANCO's capabilities in this important business area, where it is domestic market leader and where it has been asserting its position as the Portuguese financial group with the largest and best offer in support to international trade.

- On 13 July NOVO BANCO informed that on 12 July Banco de Portugal had decided, based on a proposal by the Resolution Fund, to appoint Mr. António Manuel Palma Ramalho as Chairman of the Board of Directors of NOVO BANCO, following the resignation by Mr. Eduardo Stock da Cunha. The appointment of Mr. António Ramalho was effective from 19 August 2016 onwards, following the authorization of the appointment by the European Central Bank.
- On 6 July NOVO BANCO informed that Mr. Eduardo Stock da Cunha, and Mr. José João Guilherme resigned to the positions as Chairman of the Board of Directors and Member of the Board of Directors, respectively. Mr. Eduardo Stock da Cunha remained in office until 31 July 2016 and Mr. José João Guilherme remained in office until 31 August 2016
- On 30 June 2016 Banco de Portugal informed it had received four offers for the acquisition of NOVO BANCO.
- In May NOVO BANCO was named the best provider of Securities and Custody services in Portugal (2016) by the Global Finance international magazine. The choice was based on the following main selection criteria: customer relations, quality of service, knowledge of local regulations and practices, the scope of global coverage, competitive pricing, and continued investment in the development of this business line.

- On 31 March Banco de Portugal issued a press release where it disclosed the terms of the new procedure to sell the stake held by the Resolution Fund in NOVO BANCO, following the re-launch of the sale process announced on 15 January 2016.

- On 30 March NOVO BANCO informed that the Rating Agency Dagong Europe had taken a rating action on NOVO BANCO. Dagong Europe decided to downgrade NOVO BANCO's long-term credit rating to CCC+ from B- and its short-term credit rating to C from B. The watch Evolving was removed and a Stable outlook was assigned for all the ratings. On the same date Dagong Europe decided to withdraw the rating of the following entities: Espírito Santo, plc (Ireland), Banco Espírito Santo North American Cap. LLC and NOVO BANCO's New York Branch. NOVO BANCO informed on that date that there were no debt securities issued by Espírito Santo, plc (Ireland) and that the entities Banco Espírito Santo North American Cap. LLC and Novo Banco New York Branch had been closed.

- At the end of January 2016 NOVO BANCO took notice of two lawsuits submitted to the Venezuela Supreme Court ("*Supremo Tribunal de Justicia de Venezuela*") by Banco de Desarrollo Económico y Social de Venezuela and Fondo de Desarrollo Nacional against Banco Espírito Santo, S.A. (BES) and NOVO BANCO, regarding the sale of debt securities issued by entities that belonged to Grupo Espírito Santo, in the amount of US$37 million and US$335 million, respectively, and requesting the repayment of the amounts invested, plus interest, compensation due to inflation and related expenses. Under the terms of the resolution applied to BES by Banco de Portugal these liabilities were not transferred to NOVO BANCO. Nevertheless a precautionary measure of seizure of assets of BES and NOVO BANCO was enacted in the first half of 2016. The execution of the measure and a decision by the Court to the objection submitted by NOVO BANCO is now pending.

- In January NOVO BANCO was considered the 'best trade finance bank" in Portugal by the Global Finance internat*ional magazine. The main criteria for thi*s award were transaction volume, scope of global coverage, customer service, competitive pricing and innovative technologies.
- On 15 January 2016 Banco de Portugal announced the re-launch of the sale process of the Resolution Fund's holding in NOVO BANCO.
- On 7 January 2016, following the announcement by Banco de Portugal on 29 December 2015, NOVO BANCO informed that the Rating Agency DBRS had taken a rating action on NOVO BANCO. DBRS decided to downgrade NOVO BANCO's senior long-term debt and deposits rating to CCC (high) from B and its short-term debt & deposits rating to R-5 from R-4. The outlook on the long-term ratings is Negative and on the short-term ratings is Stable. The Agency confirmed the rating on NOVO BANCO's senior bonds guaranteed by the Republic of Portugal at BBB (low) with Stable outlook.
- On 4 January 2016 NOVO BANCO informed the market that, following the announcement by Banco de Portugal on 29 December 2015, the Rating Agency Moody's had taken a rating action on NOVO BANCO and its supported entities. On this date Moody's decided to confirm NOVO BANCO's Baseline Credit Assessment (BCA) at caa2 and to downgrade its senior debt and long-term deposit ratings to Caa1 from B2 and its counterparty risk assessment (CRA) to B2(cr) from B1(cr). The Agency affirmed NOVO BANCO's short-term deposit and senior debt ratings at Not-Prime and the short-term CRA at Not-Prime(cr). The outlook on NOVO BANCO's deposit and senior debt ratings is now Developing. The Ba1 rating of NOVO BANCO's senior bonds guaranteed by the Republic of Portugal was unaffected by this decision.

3.3. 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 (article 145-G/11 of the RGICSF).

On 8 April NOVO BANCO, SA informed on changes to the Company Bylaws, which includes, among others, the change of the management and supervisory structure to a Board of Directors (comprising an Audit Committee), and a Statutory Auditor.

Hence, the corporate bodies of NOVO BANCO are the General Meeting, the Board of Directors and the Audit Committee. At the time of publishing this document the process of appointing all the new members of the corporate bodies as well as its registration in the commercial registry was not yet closed.

Board of Directors

The management of NOVO BANCO is entrusted to a Board of Directors, whose authority is defined by law and the Bank's Bylaws, considering its nature as a transition bank. Point 9. Corporate Governance presents detailed information about the authority and functions of the Board of Directors.

Composition of the Corporate Bodies of NOVO BANCO at the date of signing this Report:

Board of the General Meeting

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

Board of Directors

- Chairman: Rui Manuel Janes Cartaxo
- Chief Executive Officer (CEO): António Manuel Palma Ramalho
- Member: Jorge Telmo Maria Freire Cardoso
- Member: Vítor Manuel Lopes Fernandes
- Member: Isabel Maria Ferreira Possantes Rodrigues Cascão
- Member: Luísa Marta Santos Soares da Silva Amaro de Matos
- Member: Rui Miguel Dias Ribeiro Fontes
- Member: José Eduardo Fragoso Tavares de Bettencourt

Executive Committee:

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

Statutory Supervisory Board

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

The Statutory Supervisory Board remains in office while the Audit Committee is not appointed.

Statutory Auditor

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

Company Secretary

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

4. NOVO BANCO Group

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

The NB 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.

4.1. 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 acts upon the following guiding principles:

- **Leadership**, with particular focus on commercial banking, to reach a leading position in each segment where it operates;
- **Strength**, by maintaining high liquidity and solvency levels;
- **Profitability**, by striving for ever better profitability levels, with low market risks, and through the selective asset divestment;
- **Simplicity**, in processes and through an efficient customer service.

4.2. 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 NB 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.

4.2.1. Domestic Commercial Banking

In Portugal, NB Group operates through a single-brand network of 507 branches, 21 Corporate Centres and 13 Private Banking Centres. Given the environment surrounding the creation of NOVO BANCO Group, the commercial dynamism of staff was key to the resilience of the Bank's competitive positioning, in extremely adverse market conditions.

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

Retail 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 invests in differentiated value propositions adjusted to the various Client profiles:

- For the affluent clients segment, the NB 360° service is a reference proposition in customer monitoring, offering the support of a specialised account manager who seeks to pre-empt and provide the best answer to their requests;
- The Small Businesses segment is based on a specialised relationship service, where a permanent adaptation of the offer of products and services to the needs of the Clients has propelled its growth in terms of the customer base, customer funds and customer loans. A case in point is the offer of innovative cash management and payment and collection solutions which allow the clients to manage their working capital requirements more effectively;

- In the mass market segment, the Bank reinforced its offer of credit products, in particular of residential mortgage loans and personal loans, but also of saving products, and everyday protection and insurance products;
- Across all client segments, NOVO BANCO stressed its character of a bank focused on forward-looking solutions, continuously developing self-banking solutions, where we highlight the smart app, in order to meet the needs of its Clients anytime, anywhere.

The Private Banking segment continues to provide a dedicated service to the high net worth individuals, focusing on an asset allocation adjusted to the risk profile of each client, and taking advantage of the scope and diversification of its product offer.

In retail, 2016 was characterized by a strengthening of individual clients' confidence in NOVO BANCO, driving a EUR €832 million increase in new deposits compared to 2015. Structured Deposits production, which reached €138 million, gave a significant boost to this growth. Actually in 2016 NOVO BANCO was awarded the "Best Performance Distributor" prize by Structured Retail Products (SRP), a division of the Euromoney Group, which distinguishes performance in the marketing of structured products. It is also noteworthy that the growth of the deposits portfolio was achieved while significantly reducing its cost (- 45bps vs. Dec. 2015).

In Private Banking, the expansion of the offer of investment solutions to include investment funds from the best international fund managers, under an open architecture rationale, permitted to reinforce customer funds acquisition.

Loans to individuals also showed very positive results: residential mortgage loans production grew by 110%, bolstered by the introduction of a commitment to respond to loan requests within 24 hours. Thanks to this new facility NOVO BANCO managed to obtain higher spreads than the competition in residential mortgage loans. Consumer loans production soared by 104% year-on-year. This increase was driven, among others, by the growth of sales through the digital channels.

The Protection and Safety solutions offered by NOVO BANCO also saw an increase in customer preference, with more than 86 thousand Non-Life and Life Risk insurance products sold to retail clients, including Health Insurance production growth of 91% over 2015.

The number of credit card holders increased by 8.2% compared to the previous year.

The commercial activity with the small and micro companies included in the retail banking segment also expanded in the period. Production of medium and long term loans and current account loans sharply increased, growing by 49% year-on-year.

In 2016, 805 companies obtained or renewed the 'SME Leader' ("PME Líder") status through NOVO BANCO, increasing the bank's market share by 2 pp comparing to 2015, a feat that illustrates the quality of the micro and small companies banking with NOVO BANCO and the trust they placed in the bank.

The result of this renewed confidence and the successful commercial efforts undertaken is also patent in the expressive growth of deposits of micro and small companies, which increased by 12% compared to 2015 (+ €293 million).

Alongside the positive evolution of the main commercial indicators, in 2016 NOVO BANCO also intensified its nature of a bank geared towards solutions for the future, focusing on the digital self-service experience as a means of permanent proximity between clients and their bank. The results of this bet are clearly visible:

- in the record 480 thousand frequent digital clients reached in December, which represents a year-on-year increase of 5%;
- in the dynamism of the mobile channel, which at the end of the year exceeded 175 thousand frequent users (61% YoY increase); we highlight in particular the 112% increase in the small trades segment, a sign that the use of apps for business management is also in rapid acceleration;
- in the broadening of the channels' offer through the launch in the NB smart app of a large set of new options that aimed to respond to customer requests and further enhance the relationship through the mobile channel. Within this offer, we stress functionalities such as the subscription and management of saving products, the "view only" facility and download of Account Statements, client-customised notifications or the MB NET Virtual Cards, the Certification of Transfer Beneficiaries, in addition to the entire range of business-specific options of the NB smart app, such as the signing of operations submitted through the NBnetwork, Multi-company Access and access to a Consolidated Balance of the accounts of an economic group.

Thanks to the dynamism of the mobile offer, at the end of the year the NB smart app remained the client satisfaction leader in term of banking apps in the domestic market, a position confirmed both by average client assessments in app stores and by Marktest indicators.

In terms of the international recognition for retail customer services, NOVO BANCO was named the best provider of Securities and Custody services in Portugal (2016) by the Global Finance international magazine. This award provides international recognition to the Bank's capabilities and performance in this important business area.

The results of the 2016 Service Quality survey illustrate the overall positive evolution of individual clients' activity indicators, with the percentage of clients 'very satisfied' with customer service reaching 89.0% in Retail and 88.5% in Private Banking.

Specialised Offer

To build a strong and lasting relationship with the clients, it is not enough to continuously reinforce their trust in the Bank; it is also essential to provide simple banking services adapted to the needs of the clients, and specialised services that seek to integrate social and environmental concerns, namely:

· Saving Products;

· Microcredit;

· New Residents;

· Universities; and

· Environmental Products and Services (e.g. Account NB 18.31 carbon neutral).

Saving Products;

The attention paid to the needs of its clients and the growing need to adapt savings solutions to family budgets and the concerns of the Portuguese population led NOVO BANCO to offer a package of saving solutions that adequately addresses the current socio-economic context.

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.	308,000 clients **€1,018 million in savings**
Micro Saving	The Micro Saving solution allows any client to start saving money by small amounts through the rounding up of debits of day-to-day expenses (such as residential mortgage loan instalments or personal loan repayments, insurance premiums, or direct debits), which are transferred to a savings account.	Used by ca. 39 thousand clients **€11.2 million 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.	13 private social solidarity institutions (IPSS) received donations from 133 clients.

The Planned Saving (*Poupança Programada*) and Micro Saving (*Micro Poupança*) solutions continued to be strongly promoted by the commercial network during 2016, allowing the Bank to help its customers hoard savings amounting to circa €73 million.

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

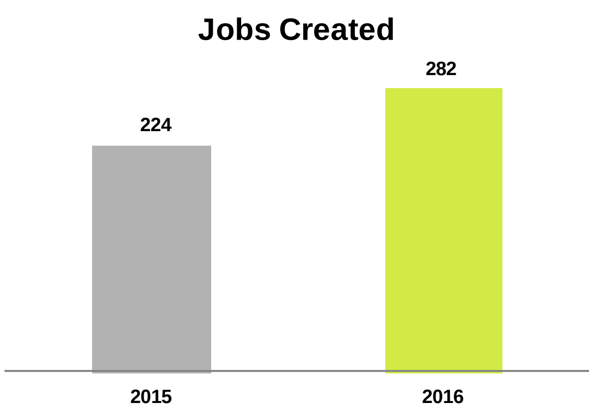
Microcredit

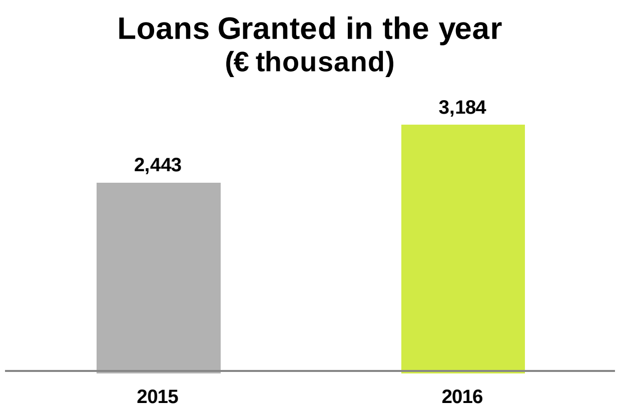
Addressing the current socio-economic context and in line with its strategy for entrepreneurship, NOVO BANCO Group offers Microcredit in its branch network. This product aims to assist people who are unemployed and thus incapable of otherwise obtaining credit from credit institutions due to their low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

The microcredit solution 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 2016 the NOVO BANCO Group financed 177 projects, corresponding to a total amount of credit of *circa* €3.2 million, which allowed the creation of 282 jobs.

Beneficiaries of Microcredit:

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





During 2016, the Bank opened 266 new processes under the Microcredit and Entrepreneurship lines, which represents an increase of 8% over 2015 and the number of operations approved increased by around 29%.

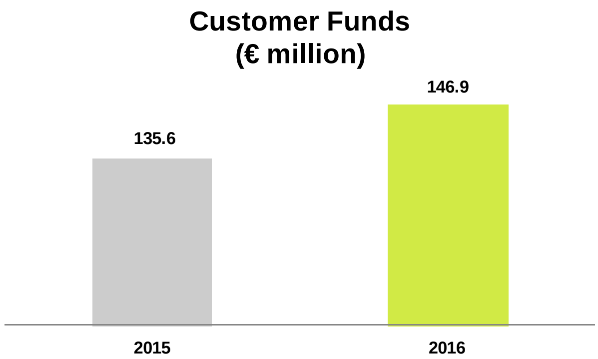
Currently, NOVO BANCO Group’s Microcredit portfolio holds 1,307 financed projects, corresponding to total loans of €22.5 million (of which 24% were granted under the Microcrédito NB solution) that permitted the creation of more than 2,113 jobs. The average per loan is €8 thousand, for an investment of around €10 thousand.

The breakdown of these loans by activity sector shows that the most sought after businesses continue to be in the services sector (around 34%), followed by retail (25%), and hotels and restaurants (18%). Roughly 56% of the projects financed are individual initiatives, with 42% taking a corporate form.

The profile of clients with access to the Microcredit and Entrepreneurship lines shows that 51% are men, 65% are below 40 years old and 40% hold qualifications at secondary education level.

New Residents

Notwithstanding the consolidation of the downward trend in foreign residents in Portugal, in December 2016 total customer funds of this segment reached €146.9 million, and the loan portfolio amounted to €619.9 million.



NOVO BANCO's services to this segment emphasises non-discrimination and by 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 solutions for different needs, namely for small businesses, that always fit the profile of this segment.

In 2016 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 socio-economic 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

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 several initiatives, including:

- **Patronage and Sponsorships**: several donations and sponsorships that allowed 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 2016 – curricular, introduction to working life and summer internships -, which gave them a meaningful experience in a professional context during their higher education period;

- **Grants and merit awards**: within the scope of the existing partnerships with higher education institutions, in 2016 NOVO BANCO awarded 45 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 establishments are represented in the jury of the awards.

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

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 2016, NOVO BANCO had 105,838 NB 18.31 Accounts with offset emissions.

In 2016 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 corporate website.

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

NOVO BANCO dos Açores

NOVO BANCO dos Açores, which continues to be the only bank with its head office in the Autonomous Region of the Azores, has developed several protocols and actions with its clients with the objective of reinforcing the quality and safety of its offer of products and services. Customer deposits increased by 3.2% in 2016, while customer loans registered a small decrease of 0.2%. Provisions for credit amounted to €24.6 million, €0.3 million more than in 2015, with overdue loans amounting to €18.9 million an increase of €0.4 million in the period. At year-end NB Açores had total assets of €648.6 million and posted a net profit for the year of €1.7 million, underpinned by the increase in banking income (+9.9%) and the reduction in operating costs (-4.2%).

Banco Best

In 2016 the Banco Best pursued its strategy of innovation leader in the offer of financial products and services in Portugal. Accordingly, it has launched the most comprehensive banking app in the market for Apple Watch - Best Watch -, through which clients can access securities, funds and index prices and their investment portfolio through their smartwatch, or at any time view their account balances, movements and overall portfolio, and check the detail of their credit card movements, among others. This launch earned Banco Best the W3 Awards' Silver award, in the Mobile Apps/Sites-Finance category. The bank also made available bond trading through the mobile channel, which allows clients access, through their smartphone, to the largest offer of bonds in Portugal, including national and international sovereign and corporate debt. Customer loans contracted by 13% relative to December 2015, while customer funds increased by 27%. Banco Best posted a net profit for the year of €2.7 million.

Corporate Banking

In Corporate Banking NOVO BANCO has segmented the network as follows:

- 20 Corporate Centres distributed throughout the country, with dedicated teams that serve Medium-Sized Companies with turnover of more than €2.5 million and less than €50 million; at the end of 2016 there were more than 15 thousand such clients, accounting for circa €7 billion of financial flow (the sum of the total volume of resources and credit including guarantees);
- Corporate segment that serves companies with turnover of more than €50 million; at the end of 2016 there were more than 2.8 thousand clients, accounting for circa €8.5 billion of financial flow;

NOVO BANCO Group maintains its commitment to support the companies based in Portugal, placing a particular focus to companies presenting better risk, to SMEs and to exporting and innovative companies that compete in the global markets, which make it one of the main players in the financing of companies in Portugal. The relevance of this segment for NOVO BANCO is also shown by the share of corporate loans in the total credit granted by the Bank, which was around 68% in December 2016.

As regards the day-to-day support provided to companies, through Treasury Solutions, NOVO BANCO boasts a complete and innovative offer tailored to the needs of each client, which includes factoring solutions, the management of payments to suppliers and the NB Express Bill. In this regard, we highlight the 35% increase during 2016 in the factoring portfolio for the corporate and medium-sized companies segments.

In a context where spurring investment is of utmost importance, NB supported national companies in pursuing their growth, innovation and internationalisation strategies, notably through credit lines that provide funding to SMEs under very favourable conditions. Noteworthy the production in the 'PME Crescimento 2015' line of €203 million, the 'FEI Inovação II' (agreed with the European Investment Fund), €160 million and the BEI line (agreed with the European Investment Bank), whose production reached €260 million. Within the scope of the accelerated implementation of the Portugal 2020 programme, these financing instruments help to carry forward important investment projects and back up companies' growing working capital requirements.

NOVO BANCO obtained international recognition for its trade finance business, which earned it the awards for "Best Trade Finance Bank in Portugal" from the *Global Finance* international magazine, and for "Best Trade Bank in Portugal" from the *Trade & Forfaiting Review* international magazine. This is an important business area of NOVO BANCO, which provides a wide range of products and specialised advice designed to support international trade. The Bank's expertise and know-how in this segment is evidenced by its market share in this area, which reached 23% in 2016.

In 2016 NOVO BANCO was also named the best provider of Securities and Custody services in Portugal by the *Global Finance* international magazine. The choice considered institutions providing safe and consistent services in local markets to global custodians, based on criteria such as customer relations, quality of service, and knowledge of local regulations and practices.

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

During 2016 NOVO BANCO promoted several initiatives aimed at companies, namely:

- 'Portugal Exporter', the largest national event dedicated to business internationalisation, under a partnership with AIP (*Associação Industrial Portuguesa – Portuguese Industrial Association*) and AICEP (*Agência para o Investimento e Comércio Externo de Portugal* – Portugal Global Trade & Investment Agency); the purpose of this event is to promote capacity building and assert the exporting skills of Portuguese companies in international markets;

- The Export & Internationalization Awards, an initiative of NOVO BANCO and *Jornal de Negócios* (in partnership with Ignios) that aims to distinguish SMEs and Large Companies in different areas, namely successful internationalisation and best exporting performance.

- The National Innovation Awards, an initiative that combines the most important entities in Portugal in the areas of Science, Technology and Innovation, at both academic and business level, with the objective of rewarding excellence and spreading the results of results of research, technological development and innovation projects with application to the endogenous resources of the country and aimed at improving the products, processes or services of companies or any other organisations with activity in these areas.

The importance that the Social Economy has been gaining in Portugal over the last decades, in terms of assistance to 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 establish valuable commercial conditions for these institutions, their associates and employees. In 2016 the financial flow associated with the social economy totalled €218 million.

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 solid investment in this segment, which has an important weight in the Portuguese economy, makes the NOVO BANCO a reference partner for the sector, as shown by its loan book of €70.2 million.

4.2.2. International Commercial Banking

NOVO BANCO Group's international activity in 2016 was marked by the implementation of the restructuring plan for its international units, which namely entailed the sale and discontinuation of some international units as well as the operational optimisation of the branches in Spain, London and Luxembourg.

The restructuring in **Spain** involved the closure of several business centres and the simplification and reshaping of the business model around three customer segments: corporate, retail, and private banking. This restructuring permitted to reduce operating costs by 16.9% year-on-year, with staff costs contracting by 23.3%. During the year there was an overall contraction in business, with a decrease in the volume of assets, assets under management and the number of clients. However, the strong commercial effort undertaken in December permitted to soften the negative performance experience during the year.

In the **United Kingdom** the referred restructuring of the international business permitted to slash operating costs by 29% compared to the previous year. Total assets amounted to €3.8 billion, of which 43% correspond to the loan portfolio.

In **Luxembourg**, the restructuring and strategic reorientation process was concluded, with operating costs decreasing by 14.6% year-on-year. Total assets amounted to €3.0 billion at the end of 2016.

Concerning to the Venezuela branch, with activity in commercial banking, on 1 May 2017 NOVO BANCO informed the market that it has entered into a sale and purchase promissory contract in respect of the assets and liabilities of this Branch. As of the date of this report, the completion of such promissory contract is conditioned to the fulfilment of certain conditions and obtaining the required authorizations from the relevant authorities, including Banco de Portugal and the Venezuelan financial sector regulatory authority. With the completion of the transaction under the agreed terms and conditions the NOVO BANCO will start a process to close the Branch in Venezuela and will cease to have any banking activities in Venezuela.

4.2.3. Asset Management

GNB - Gestão de Ativos, which mainly operates in Portugal, Luxembourg and Spain, had at the end of 2016 total assets under management of EUR €11.9 million, with the area of Real Estate Investment Funds showing an increase of 8.3% in Portugal.

The net profit for the year was €8.6 million. In 2016 several extraordinary events had a significant impact on results, which we highlight (i) in the first half of 2016 GNB - Gestão de Ativos acquired 50% of the stake held in the unit in Spain, which as from July is fully held and consolidated, and (ii) the year's results were negatively impacted by costs incurred in connection with the restructuring process (€1.5 million). Note that if the impact of redundancy payments and consolidation of the unit in Spain is excluded, operating costs register a decrease of 13% that reflects the reorganisation and cost-cutting plan.

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 (NBG), through Banco Best, sells responsible investment funds from third party asset managers with a diversified investment strategy and geographic allocation. In 2016 client subscriptions of Banco Best's range of 125 responsible investment funds totalled approximately €6.2 million.

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

www.novobanco.pt/institucional, in the Climate Change pages, under the Sustainability area.

4.2.4. Life Insurance

Over the last two years GNB Seguros Vida implemented new investment rules for its portfolios, leading to significant capital gains and losses, part of which were previously reflected in the revaluation reserve and were now transferred to the income statement.

GNB Seguros Vida posted a net profit of €98 million in 2015 and a net loss of €85.5 million in 2016. Its solvency margin (Solvency II) increased from 110.1% in 2014 to 116.9% in 2015 and 169.3% on 31 December 2016 (provisional value subject to external validation).

The financial assets are fully marked to market while liabilities are recorded at historical cost (according to applicable standards). If liabilities were marked to market, the company's net results in both 2015 and 2016 would be significantly lower (in absolute terms) and positive in both years. The insurance market maintained the trend seen since 2015, with a decrease in sales volumes that is in closely linked to an environment of low interest rates that strongly discouraged the sale of products with guaranteed capital or guaranteed interest rate, as well as to the regulations currently in force (Solvency II), which entail high capital requirements.

GNB Seguros Vida's production totalled €153.1 million in 2016, while the volume of funds under management amounted to €4,528 thousand (€5,232 thousand on 31 December 2015). The volume of new contracts for life risk products grew by roughly 25% year-on-year, with life risk premia totalling €57.3 million.

Operating costs were reduced by 27%, to €8.2 million (from €11.3 million in 2015), thanks to the successful cost-cutting and streamlining efforts undertaken.

4.2.5. Markets

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

4.2.6. 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 NB 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, Corporate Communication, Internal Audit, Organisation and Quality, amongst others.

4.3. Corporate Responsibility

4.3.1. Involvement with Stakeholders

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 contribute to the definition of policies, principles, strategies and transformation processes.

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

Main communication channels with the stakeholders

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

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

Regulatory Entities – Channels
- Mandatory Reports
- Voluntary Communications
- Regular Meetings

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

Suppliers
- Meetings and Regular Contacts
- Suppliers Portal

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

4.3.1.1. Employees

Human capital is considered by NOVO BANCO Group to be one of the key drivers to achieve its objective of increasing turnover and creating value.

The NB Group's human capital is inclusive, well-structured and diversified and its management is focused on the performance, quality and continuous improvement of its employees, innovating and making the best decisions towards the development of its activity, which has allowed establishing strong bonds with all its clients.

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

- Merit-driven approach: to encourage professional development on the basis of ethics, commitment, professionalism, ability, dedication and performance.
- Sense of belonging: provide a set of benefits to the employees that will tighten and humanise their bond to the Bank.
- Relationship and Communication: ensure that each employee has access to a dedicated manager, and all relevant human resources information is available to him/her in an area specifically created for the purpose in the NB Group's intranet.

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

The Human Capital Department is responsible for the formal definition and oversight of policies and practices in the various geographies in which the NB Group operates, ensuring not only compliance with the general principles established in terms of Equality and Non-Discrimination, Human Rights, Health, Training, Mobility, and Internal Social Responsibility, but also the group-wide, uniform and transparent implementation of its human capital management practices. In 2016 the NB Group reinforced its NB Equal Gender and NB Work & Life programmes by defining a new set of social objectives.

Objectives 2020

***Equal Gender* – Women's Representation**	
Board of Directors	28%
Managing Directors	34.4%
Management	40%
Wage gap between genders	- 5%
Succession Policy	1/3

Work & Life - Reconciling Professional with Personal Life

(see details in page 44)

Flexible Working Hours

NB Early Friday or NB Late Monday

Human Capital

At 31 December 2016 NOVO BANCO Group had 6,096 employees, of whom 5,687 in Portugal.

Distribution of Employees as of 31 December 2016:

Region / Country	
Portugal	**5,687**
Other European countries	**346**
Spain	303
United Kingdom	16
Luxembourg	14
Switzerland	9
France	4
Africa - South Africa	**2**
South America - Venezuela	**59**
Asia - Shanghai	**2**
TOTAL	**6,096**

Gender	
Men	49.7%
Women	50.3%
Employment contract	
Permanent - Men	97.5%
Permanent - Women	96.2%
Average Hours of Training per employee	27
Absenteeism rate (excluding parental leave)	1.8%

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 and enhance the performance of their functions.
- **Performance** - to ensure that the performance of the employees is managed with fairness and impartiality and is regularly monitored, at both individual and collective level, ensuring that team work and the work of each employee are perfectly aligned to human development, an essential factor for the growth of the Bank.
- **Talent Management** – to develop a model permitting to identify and retain talent.
- **Internal Social Responsibility and Benefits** - To allow employees (active or retired) to benefit from a set of good practices that are beyond legal impositions in matters ranging from providing and advising a healthy diet to facilitating greater balance between Work Life and Personal/ Family Life. This includes supporting the employees in unexpected situations that may occur in their lives and provide a set of other benefits directed to the education of their children or stepchildren.

- **Health and Safety in the Workplace -** to ensure compliance with the legislation on this matter, while promoting the well-being and health of the employees, the improvement of working and environmental conditions, and the increase in employees' satisfaction and motivation levels.

Training

As part of the Human Resources development policy, the focus placed 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. Developing the skills of employees and preparing them for the correct performance of their duties has been a constant concern. For this reason, and also taking into account the various regulatory changes that have occurred in the banking sector in recent years, we believed it was important to reinforce their technical skills, in particular of those who interact with clients on a daily basis. To address this need, we developed a training programme that combines technical and behavioural issues. Thus, in 2016 we provided face-to-face training modules in Financial Analysis, Risk Management, Banking Techniques and Financial Markets, Sales and Negotiation Techniques and Activity Planning and Management. Each of these modules lasted for 2 days and covered 2,680 participants. This training programme was designed for the Retail Network employees, including the NOVO BANCO 360 and NOVO BANCO Small Business segments, and was also attended by some employees from the Corporate Banking areas.

In addition to this Training Programme, the NOVO BANCO Group maintained its investment in the School Branch training programme, which uses an on-the-job methodology and is supported by NOVO BANCO's Corporate University:

School Branch

A pioneering project in the Portuguese banking sector, the School Branch focuses its activity on reinforcing the skills of the Retail Network staff. This training methodology is used not only for the employees of the commercial segments but also for central departments' staff. The main objective of the programmes designed for the central departments' employees is to allow them to learn about the clients' needs and expectations and the constraints faced by the various teams to solve customer requests and problems, and to show them the importance of the support and contribution of the various central departments for the development of the commercial activity and the improvement of the quality of the service provided to the clients.

To support the work carried out by the School Branches, the Bank developed training programmes that respond with objectivity to the needs identified by its various areas, implementing methodologies and processes that accurately assess training needs, as well as post-training knowledge gains, and monitor the effectiveness of the training provided. NOVO BANCO's 28 School Branches, one in each of the Regional Divisions, are a key asset to the reinforcement of employees' skills.

NOVO BANCO Corporate University

Within the scope of its strategy of promoting, developing and retaining employees, NOVO BANCO gives its employees the possibility to attend its Corporate University, a project based on partnerships with renowned universities and higher education institutes that involves a significant number of Bank employees in the design and execution of the programmes. The goal of this project is to boost NOVO BANCO Group's competitiveness, innovation and growth.

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.

Talent Management

Identifying and managing high-performance employees are essential to achieve human capital management's objective of conciliating employees' ambitions and expectations with the needs of the business. The NOVO BANCO Group has created a specific area, the Talent Management area, to develop the work involved in the identification, development and retention of employees. This area uses an assessment model to track employees with the greatest potential to progress in the career, and to take on functions of greater complexity and/or higher responsibility.

This model permits to recognise the employees with higher performance levels and those with greater potential to evolve and to assess the level of development of their skills and spot those that need to be further improved. In addition, by providing the Bank with comprehensive knowledge about the employees and their expectations, the model permits to provide a better response to internal mobility requests.

Performance

NOVO BANCO Group’s performance assessment model is fundamental to building a culture based on merit whilst fostering the engagement of all through targets set for each function and team. In 2016 the Bank made the following promotions:

- 288 on merit;
- 38 due to change of function;
- 110 based on length of service.

Benefits and Internal Social Responsibility - NB Work & Life Programme

Showing its permanent concern for the well-being of its employees, NOVO BANCO has a set of internal social responsibility benefits and initiatives that were developed based on the constant diagnosis of the main challenges faced and the search for solutions to better conciliate the professional and private life of its employees. One of the more recent of these initiatives is the NB Work & Life programme, which not only contributes to increase employee satisfaction and motivation but also supports talent management and retention.

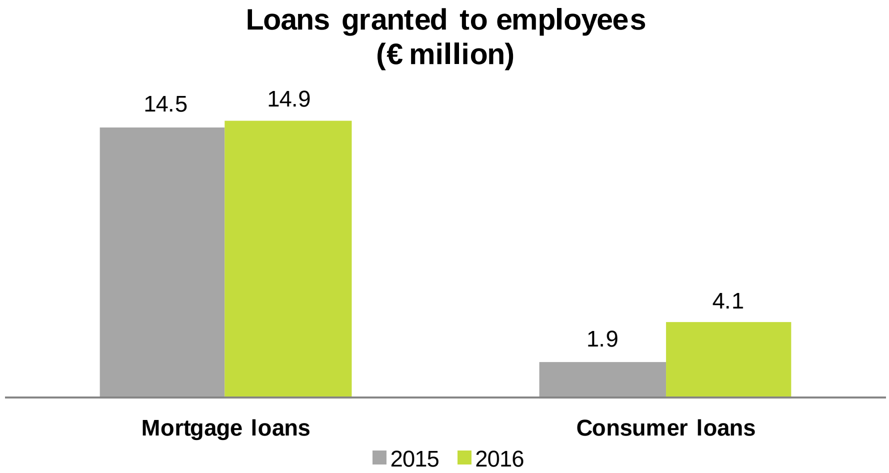
NOVO BANCO makes available to its employees a set of non-cash benefits as part of the overall value package offered by the company, which have a positive impact in terms of savings and personal satisfaction.

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

Allowances	Performance in 2016
Current Employees - Education Support	
Attribution of child benefits, school grants, scholarships and support to children and youths with special needs.	✓ 383 child benefits worth €512,400; ✓ 206 scholarships worth €164,100; ✓ 268 school grants worth €37,500; ✓ 91 children with special needs allowances worth €91,000.
Retired employees - Support for basic needs	
Co-payment of expenses with senior residences, day-centres, home support, drugs and other staple goods.	✓ 53 allowances worth €126,900;

In line with the essential principle of valorisation of Human Capital, in 2016 NOVO BANCO revised and enhanced its policy on the attribution of these supports through a number of measures that permitted to benefit 192 more employees than in the previous year

The employees may also benefit from special conditions in the Bank's commercial offer, including loans at reduced rates. In 2016 the Bank granted mortgage and consumer loans to its employees for a total of €19 million. The accumulated value of these loans reached approximately €331.5 million on 31 December 2016.



Also included in its internal responsibility programme, every year the Bank offers a Christmas present to all its employees' children aged 12 or less. In 2016 the total value of these gifts was €110,000, distributed by 2,997 children.

NOVO BANCO has in its premises 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 NB Group was the first entity in Portugal to adopt the concept of 'nutrition traffic light'. In 2016 the Bank's canteens served 238,144 meals to NOVO BANCO Group's employees. With the objective of giving the employees of NOVO BANCO Group more time for themselves and their family, at the end of 2016 and already included in the new Work & Life programme, the Bank set up a TakeAway service in its canteens, which, after a pilot phase, should be reinforced and made available to as many employees as possible.

Having a holistic view of this group of stakeholders, the Bank also seeks to afford them the conditions to enjoy special 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.

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 valorisation of human resources;

• Scrupulously comply with all relevant laws and regulations in terms of the environment, and health and safety in the workplace;

• Monitor the health and well-being of all employees;

• Enter examination protocols 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 NB Group companies with its own healthcare services through existing clinical services in Lisbon, Porto and Oeiras (Tagus Park). These clinical services provide consultations and examinations of occupational medicine, curative medicine and nursing. In 2016, a total of 3,387 occupational medical exams (initial, regular, and one-off), 27,651 medical procedures (appointments and prescriptions) and 7,623 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 sight screenings for all employees and medical check-ups of senior management (Executive check-up).

	Cardiovascular screenings	Cancer screenings		Sight screenings	Executive Check-ups
		Mammo-graphy	PSA screenings		
NOVO BANCO	2,262	347	727	3,135	268
NB Açores	35	7	21	53	0
Banco BEST	30	5	0	67	6
GNB G. Ativos	32	2	4	47	13

As regards curative medicine, several specialised medical appointments are available, namely during 2016 the following were performed:

- General Practice – 13,828 medical appointments
- Mental Health (psychiatry and psychology) - 760 psychiatric and 328 psychological medical appointments.
- Smoking Cessation - 5 medical appointments
- Nutrition - 928 medical 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. During 2016 the following assessments were made at the workplace and respective environment:

- 190 Safety audits of the facilities
- 13 Ergonomic assessments of workstations
- 13 Identification of hazards and activity's risk assessments (*IPAR - Identificação de Perigos e Avaliação de Riscos*)
- 187 Assessments of thermal conditions
- 188 Assessments of light conditions

Diversity, Equality and Human Rights - NB Equal Gender Programme

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

Approximately 90.53% of NOVO BANCO Group's employees are unionised and covered by collective bargaining agreements.

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

- Prohibition of direct or indirect discriminatory practices based on gender, race, colour, creed, socio-economic conditions, health, disability, sexual orientation, political or ideological beliefs or trade union membership;

- Adequate working conditions for employees with disabilities;
- Prevention and control of practices that may give rise to discriminatory situations of any kind.

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

Human Capital Ethics, Principles and Values

For NOVO BANCO Group the existence of a framework of values and principles that guide its actions and the standards that govern the manner in which it conducts its business and runs its activity is fundamental. Accordingly, in 2016 the NB Group reinforced its commitment to ensure the integrity of its activity by publishing its Code of Conduct and its Policy on Conflicts of Interest.

NOVO BANCO Group's Code of Conduct

NOVO BANCO Group's Code of Conduct, which entered into force in 2015, applies to all the employees, including the members of the Board of Directors, all entities integrating the NOVO BANCO Group (NBG or "NB Group"), and also all third parties which subscribed to this policy at the request of NOVO BANCO. The Code of Conduct 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:

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

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

Policy on Conflicts of Interest

The Policy on Conflicts of Interest establishes rules for the identification, management and monitoring of potential conflicts of interest in the various activities of NOVO BANCO and NOVO BANCO Group, in compliance with applicable legal and regulatory provisions, as well as the recommendations of Banco de Portugal and the European Central Bank. It applies to all NB Group Employees, including members of the Board of Directors, of the Supervisory Body (Statutory Supervisory Board during 2016), Advisors and General Managers.

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

- Definition of rules and mechanisms to prevent, identify and manage any potential or actual situations of conflicts of interest;
- Ensure compliance with current legal and regulatory rules regarding the prevention and management of conflicts of interest to which NOVO BANCO and its employees may be subject;
- Increase the employees' knowledge and awareness in the area of conflicts of interest;

By December 2016 several notifications and questions related to the internal regulations had been received, mainly concerning conflicts of interest and professional secrecy issues. 36 violations of the Bank’s internal regulations were detected, which resulted in the following sanctions:

- 9 Dismissals without any indemnity or compensation;
- 7 Temporary suspensions with loss of pay and seniority;
- 1 Temporary suspension with no loss of pay or seniority;
- 8 Disciplinary written warnings;
- 2 Other sanctions
- 9 violations still pending for a decision.

Prevention of Money Laundering and Terrorist Financing

A banks' ability to detect and prevent activities capable of constituting money laundering is directly linked to their knowledge 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 terrorist financing activities, which is a risk inherent to its presence and activity in the national and international financial markets.

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

- Opening of a contract or change of the account holder of a existing contract, which is referenced through KYC (Know Your Customer) - the identity of contract holders, representatives and beneficiaries must be effectively established;
- Monitoring contracts' transnationality - 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 assessment models that will ensure that greater scrutiny is applied where this proves more necessary.

NOVO BANCO Group, complying with its regulatory obligations, develops training exercises in preventing money laundering and terrorist financing for all its employees (commercial and central structures, including senior management). Training can be remote or face-to-face, the latter mainly directed to new employees, and the objective is to equip them with skills that enable them to collaborate with the control functions in mitigating the risks inherent to the execution of their functions. In 2016, the NB Group provided 14,163 hours of online training (including 1,148 hours for senior management) and 903 hours of face-to-face training (of which 76 hours for senior management), making a total of 15,066 hours of training in money laundering and terrorist financing prevention.

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

In 2016 the NOVO BANCO Group examined 5,579 new contracts. Of these, 53 were rejected and 1,956 had their ownership changed. It also analysed 17,783 transactions under existing contracts, of which 529 were reported to the competent authorities.

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

Consciousness of behavioural responsibilities and prevention of misselling risk

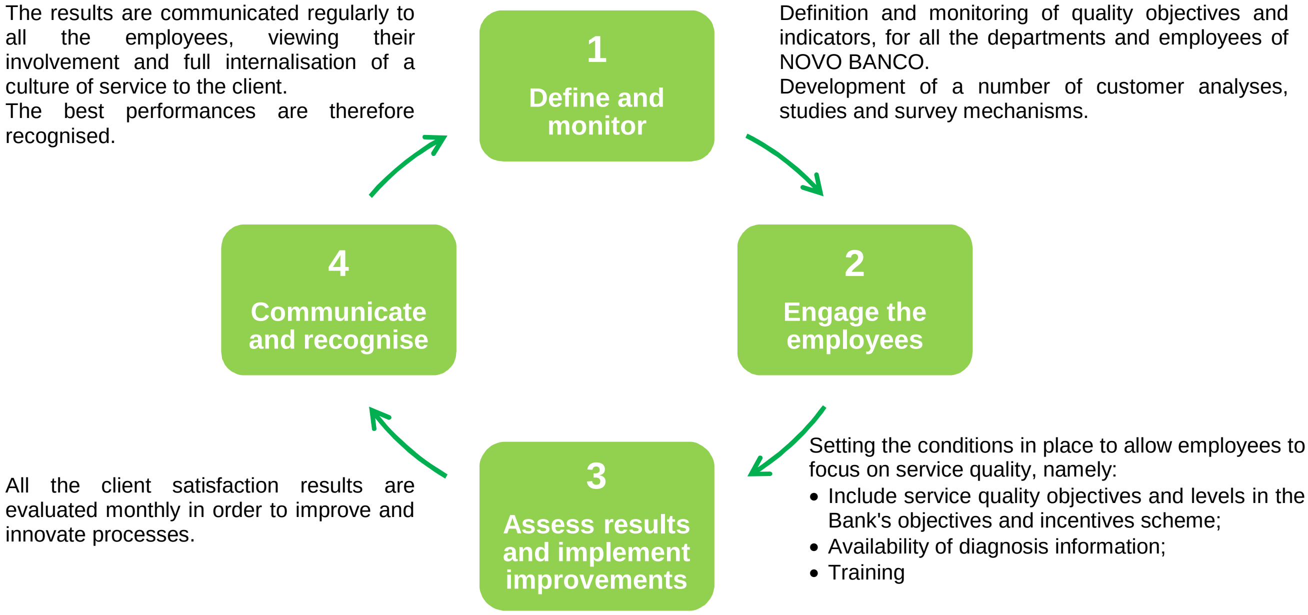
The ethical behaviour and the priority of client interests is a major guideline in NOVO BANCO's practices. The focus on having a wide offer of products and services for clients does not constrain, but it implies a cautious pre-valuation of such products and services, with the objective of guaranteeing that such offer is adequate to clients actual needs. Simultaneously, the valuation of commercialization conditions and the training of employees are the pillars of the prevention of misselling risk.

Through the actions of the Product Committee and the internal procedures of transaction monitoring and also by the onsite training of staff on compliance on financial intermediation activities (that involved more than 2,000 employees), NOVO BANCO reinforces its concerns with the performance of staff and its permanent training update, and with the exigent scrutiny of its commercial offer.

4.3.1.2. Clients

NOVO BANCO is proud to establish lasting relationships with its clients, and its business model, which focuses on meeting their needs, is a key factor in the results achieved. In order to live up to clients' expectations and considering that they are the gravity centre of all the activity developed, NOVO BANCO is committed to providing them a safe and transparent banking service, based on the highest standards of integrity and confidence. This is ensured through the development of mechanisms to assess service quality and customer satisfaction.

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



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

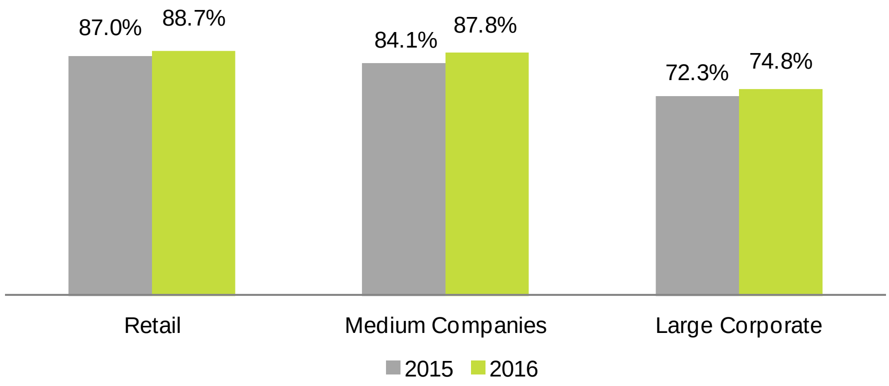
Aware of the importance of feedback concerning the activity developed, in 2016 NOVO BANCO carried out the following service quality surveys:

Mystery Client	Assessment of customer service quality in the commercial network	*1,485 Visits*
Customer satisfaction surveys	Assessment of customer service quality in the various segments of the bank	*85,321 customer surveys*
Internal customer survey	Assessment of the quality of central services	*65,676 surveys*

Source: Surveys carried out by NOVO BANCO's Operations Department

According to the service quality satisfaction surveys conducted in 2016 to the clients of the Bank's various segments, 8.7 in every 10 medium-sized corporate clients are very satisfied, which is a sharp improvement relative to the previous year, while the large corporate clients segment also registered a similar recovery. Customer satisfaction in the retail segment also increased, reaching the highest value of all segments, with 8.8 in every 10 clients saying they are very satisfied.

Very Satisfied Clients



Source: Satisfaction surveys carried out by NOVO BANCO's Operations 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 implementation of corrective and preventive measures, to avoid the recurrence of the complaint. In 2016, the rate of complaints per 1,000 active clients was 0.7.

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

- NB Net
- NB Direto – + 351 707 24 7 365
- NOVO BANCO Branches, Corporate Centres and Private Banking Centres
- E-mail: satisfacao@novobanco.pt

4.3.1.3. Suppliers

The NOVO BANCO Group, as a relevant buyer of products and services in the market in which it operates, has since 2007 established a relationship model with its suppliers (around 9 thousand in 2016), which is based on a commitment to follow good international practices and principles. This model was developed based on the recognition of the importance of the economic, environmental and social impacts produced by this group of stakeholders. This relationship is oriented by two main elements:

1. The NOVO BANCO Group Code of Conduct, which determines, among other factors, that the supplier assessment and selection process must be conducted with rigour and according to the highest standards of **transparency and ethics**; and
2. A set of **Principles of Relationship with the Suppliers of NOVO BANCO Group** that describe the minimum requirements to be met by suppliers and by the NB Group concerning business practices, health and safety in the workplace, ethics and environmental management. These Principles are fully aligned with the OECD Guidelines for Multinational Enterprises and the United Nations Global Pact. Available at NOVO BANCO's website, link: http://www.novobanco.pt/fornecedores

NOVO BANCO Group Suppliers' Platform

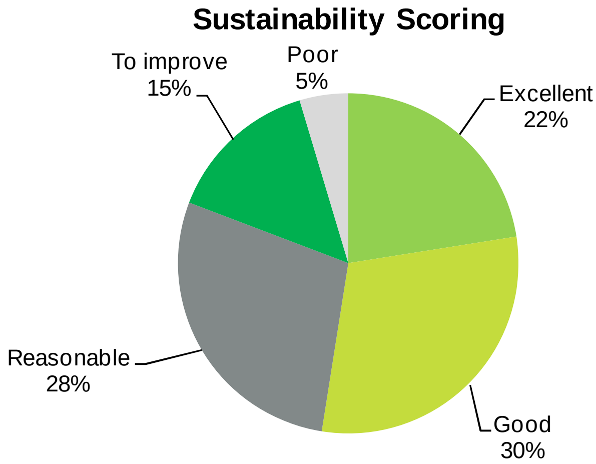
NOVO BANCO Group's responsible and consistent attitude in the selection of suppliers starts in the open and totally available way in which it receives all presentations and proposals from the most varied entities that wish to provide services or goods to the NB Group.

In this context, the NBG Supplier Platform (https://fornecedores.novobanco.pt/), is the place for current and potential suppliers to register in and is the NB Group's sourcing basis for market consultation processes. As a database of all suppliers' characteristics and skills, the platform allows the NB Group to ensure meeting its requirements for levels of service.

On 31 December 2016, 3,666 entities had applied for registration in the NBG Supplier Platform, of which 690 are registered suppliers with their process duly completed and updated. On that date the share of suppliers that had completed their registration or were in the process of registering (pre-registered) in the Supplier Platform corresponded to 93.7% of total suppliers turnover with the NB Group.

Sustainability Scoring

For a more rigorous selection of suppliers, and based on information provided by each element in this value chain, NOVO BANCO Group calculates the "sustainability score" which takes into consideration labour and ethical aspects, hygiene and safety at the workplace and environmental aspects. About 22% of NOVO BANCO Group's suppliers registered in the Platform have a score of excellent/good and 80% 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 agreed 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 2016, the "average supplier payment period" was 19 days.

4.3.2. 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

After conducting an environmental diagnosis, the NOVO BANCO Group defined new environmental targets to consolidate its responsible management and reduce the environmental footprint of its activity. In order to achieve the defined targets, the Bank defined measures and actions for implementation, as well as a half-yearly monitoring of results.

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

Objectives 2020

Photocopy Paper	*-50%*
Document Dematerialisation	*-+10%*
Energy	*-40%*
CO_2 Emissions (from company cars emissions)	*-50%*
(from electricity consumption)	*-20%*
Water	*-16%*
Waste Separation	*100%*

Base Year: 2015

Paper Consumption

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

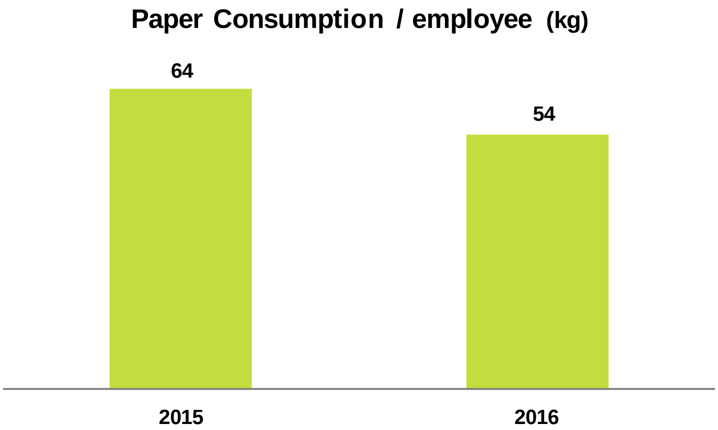
This commitment mainly implies raising awareness and changing habits among employees and clients, along with the progressive dematerialisation of processes.

In 2016 NOVO BANCO continued to raise awareness of these two groups of stakeholders to the importance of making a more efficient use of printed paper.

Internal paper consumption values in 2016 were as follows:

- White paper for internal use - 266.0 tonnes;
- Forms and account statements – 126.7 tonnes;
- Recycled paper for internal use - 0.3 tonnes;

In 2016, each employee consumed *circa* 54 kilograms of paper.



Several measures will be implemented or reinforced in 2017, namely:

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

Taking into account the reduction and reuse of its waste, in 2016 NOVO BANCO sent for recycling approximately 75.9 tonnes of paper (*circa* 28% of all paper consumed) and 74.4 tonnes of cardboard.

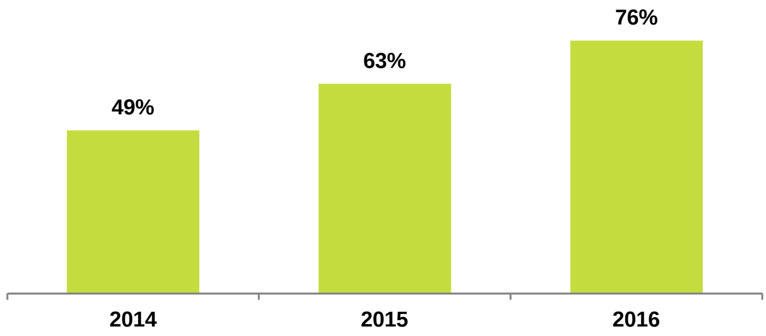
Dematerialisation of communication to Clients

2016 was a year of consolidation of the strategy of optimization of communication to clients in NOVO BANCO, reinforcing the strategy of dematerialisation and consequently contributing to the improvement of environmental quality.

NOVO BANCO reached the record value of more than one million current accounts with digital statement (1,030 thousand accounts).

In addition to the account statements, NOVO BANCO also sends most other banking documents to its clients in digital format (credit card statements, deposit certificates, account entry notices, integrated billing notices, and sundry notices), which in 2016 permitted to reach an overall level of dematerialisation in communication to clients of more than 75%, which compares with less than 50% in 2014.

Overall Dematerialisation %



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

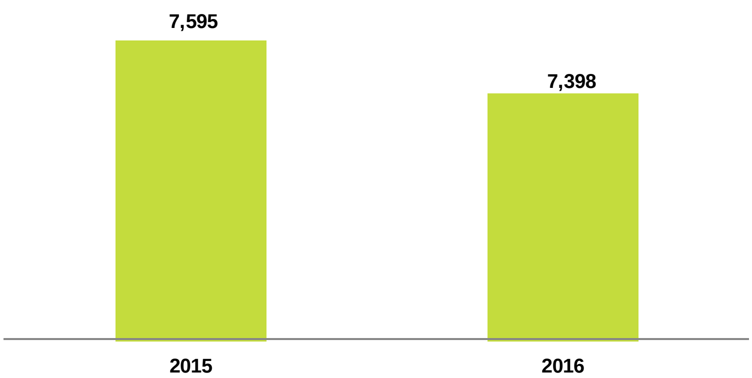
Energy Consumption

To reduce its electricity consumption, the Bank has implemented 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.

In 2016 NOVO BANCO consumed about 36,448,556 kWh of electricity, of which 9,258,905 kWh were consumed by the data centre. Consumption per employee was 7,398 kWh.

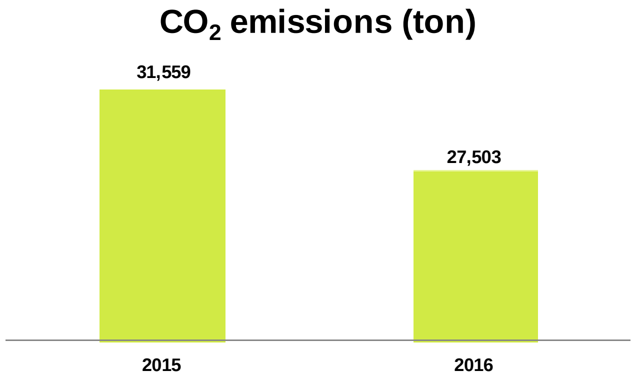
Electricity Consumption / employee (kWh)



To reach the 40% reduction target, NOVO BANCO will keep the procedures already in place and also implement a series of new measures, including: switching off the lights and HVAC systems in central buildings from 9:00 pm onwards; launching a new awareness campaign targeting its employees on consumption reduction; and reinforcing the consumption monitoring programme and taking preventive and corrective measures.

CO_2 Emissions

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



In 2016 emissions of CO2 totalled 27,503 tonnes (scopes 1, 2 and 3), with the consumption of electricity and fossil fuels representing the largest sources of greenhouse gas emissions.

Origin	Tonnes	Tonnes / employee
Electricity	15,988	3.24
Fossil fuels	6,274	1.27

In order to achieve the objectives of reducing CO_2 emissions from the car fleet by 40%, NOVO BANCO has introduced an innovative measure in the financial sector, namely to gradually replace its company cars by electric vehicles which, in 2020, should represent approximately 25% of the Bank's total fleet.

Water Consumption

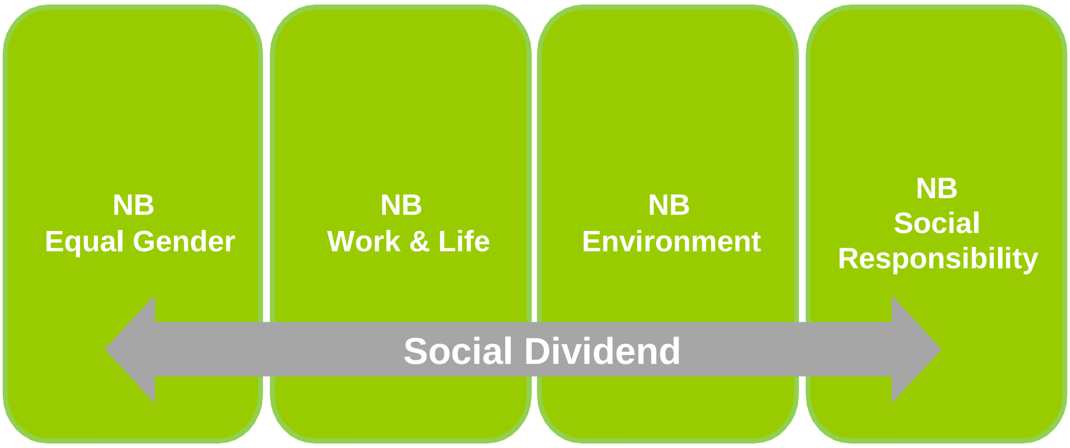
NOVO BANCO Group has implemented various measures to reduce water consumption, namely replacing traditional taps for taps with timers and raising the awareness of employees to the importance of reporting any detected anomalies. In 2016 water consumption totalled 73,721 m^3, which corresponds to approximately 14.96 m^3 per employee.

Waste Separation

The Bank has set as an objective to extend waste separation to all its activity, reaching a separation level of 100% in 2020.

4.3.3. Social Responsibility

In 2016, after carrying out a diagnosis of its Corporate Social Responsibility (CSR) programme, NOVO BANCO established a new CSR policy, to be deployed in 2017, and for this purpose created a new concept, namely the concept of **Social Dividend**. The Bank's new policy, which includes three new programmes, undertakes to give back to society and its employees what the Bank originates through its activity, setting concrete objectives until 2020, and the goal to play a leading role in this area. For more information please refer to page 40 (employee objectives) and page 55 (environmental objectives).



During 2016 NOVO BANCO continued to build on the previously defined architecture of its NB Responsibility programme, with the aim of helping devise solutions for important issues in the community in which it operates. This programme is based on four areas, 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

NOVO BANCO's cultural patronage policy promotes public access to national culture, with a focus on Contemporary Photography, namely through the following initiatives: NOVO BANCO Photo; NOVO BANCO REVELAÇÂO, REFLEX CAIS/NOVO BANCO; Espaço NOVO BANCO; NOVO BANCO Collection of Contemporary Photography. In addition to intervention in the field of photography, the Bank also has the NOVO BANCO Numismatic Collection and the Library of Humanistic Studies.

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

The NOVO BANCO National Innovation Awards aims to reward and make know research projects applied to critical sectors for the future of the Portuguese economy. Under this initiative, now in its twelfth edition, the

Bank has already rewarded 56 projects in various sectors, from a total of 1,663 submitted to the contest, with prizes amounting to €3.34 million. Some of these projects became real business success stories, such as EBRD, Medbone and Feedzai.

Financial Inclusion - Training, 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 stronger analysis and decision making capacity. The program is based on three essential pillars, namely: pedagogical; personal finances and commercial offer.

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

Within the scope of its social Solidarity Programme 'NOVO BANCO Solidário' developed its own actions as well as actions in partnership with social welfare institutions. As part of this programme, we highlight the NOVO BANCO Crowdfunding - an online fundraising platform, which in December 2016 had around 7,390 donors and had raised more than €286,000.

In 2016, the Bank gave back to society around €920,000 in donations, through the various areas of its social responsibility programme, and assumed the commitment to pursue its CSR programme, fostering responsible intervention towards the construction of a fairer society.

4.4. Outlook for NOVO BANCO Main Risks and Uncertainties

On 31 March 2017, Banco de Portugal and the Government announced that the Resolution Fund had signed the contract documents for the sale of part of the share capital of NOVO BANCO. The completion of the transaction is pending several conditions, including authorisations of the regulatory authorities, namely the European Central Bank and the European Commission. Once the conditions set forth in the contract documents have been met, Lone Star will hold 75% of the share capital of NOVO BANCO and the Resolution Fund will retain a stake of 25%. After 970 days, is the end of a stage started on 3 August 2014, during which NOVO BANCO as a transition bank implemented a deep restructuring programme. The Bank will be capitalized with €1 billion to be injected by Lone Star and the operation will also include a liability management exercise, which will generate at least €500 million of eligible own funds for the calculation of Common Equity Tier 1. The agreement also provides for contingent capital mechanism, under the terms of which the Resolution Fund, as shareholder, undertakes to make capital injections under certain special conditions. It is thus important to stress:

a) the Bank's capitalisation will allow absorbing the impacts of an ongoing transformation process.

b) That the offer to be made to the bondholders is being drawn up and will be presented as soon as possible;

C) that the expected capitalisation levels permit to look at the future with a medium-term perspective ensuring to NOVO BANCO a decisive role in supporting companies and the Portuguese families.

The new shareholder Lone Star believes "in the strong and unique franchise of NOVO BANCO and intends to strengthen and grow its core business to ensure that the Bank remains focused on its domestic activity and thus remains a strong pillar of the Portuguese financial system."

The NOVO BANCO Group will thus develop its activity in 2017 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, to increase deposits and credit, to increase residential mortgage loan production, and continue to post solvency levels permitting the sustained development of the business.

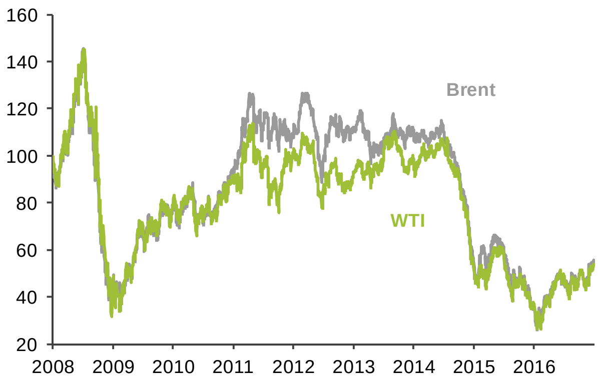
The pursuit of these objectives is conditioned by the completion of the sale operation which is now dependent on the success of the liability management exercise above-mentioned and of a set of necessary procedures and authorisations which are expected to be achieved in the coming months.

5. Economic Environment

The early part of 2016 was marked by instability and risk aversion in financial markets, mainly associated with a sharp decline in oil prices but also with signs of deceleration of China's economy, fuelling capital outflows and a devaluation of the renminbi. The drops in the price of oil and in the Chinese currency spawned global deflationary pressures as well as risk-off reactions in financial markets. These concerns abated during the second half of the year, as the price of crude picked up and China's growth gave signs of stabilisation. After hitting a low of US $26/barrel, the price of Brent rallied to US $55.4/barrel in December, having risen by 55% year-on-year. This movement was supported by expectations of a gradual rebalancing between supply and demand, reinforced in November by an agreement between OPEC and Russia for a cut of 1.8 million barrels per day in production. The increase in commodity prices was also visible in other sectors, with the Commodity Research Bureau's metal price index rising by 45% in 2016. After a 27% rise through September, gold was penalized at the end of the year by a rapid appreciation of the dollar. Even so, gold gained 10% in 2016 as a whole.

US$/CNY Exchange rate

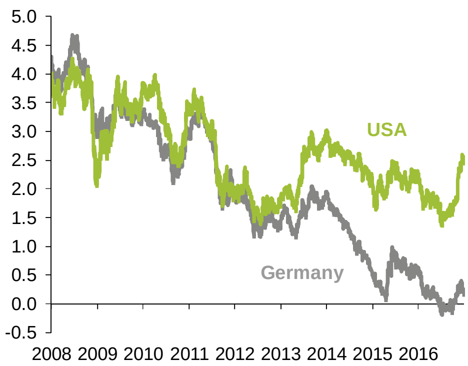
Price of Oil (Brent and WTI) (USD/Barrel)



Financial instability and risk aversion increased again at the end of the first semester, with the United Kingdom's vote to leave the EU. After a strongly negative initial reaction, financial markets stabilised again, but the expectations of "lower for longer" interest rates were reinforced as the main central banks stressed or maintained a strongly expansionary monetary policy stance. Market interest rates extended the declines observed since the first half of the year and yield curves flattened Between January and June the yields on the 10-year Treasuries and *Bunds* retreated from 2.27% to 1.47% and from 0.629% to -0.13%, respectively. Over the same period the 3-month Euribor fell from -0.131% to -0.286%.

The second half of the year brought about a change in the economic environment and in financial markets. The adoption of expansionary monetary and fiscal policies gradually translated into a recovery or stabilisation of demand in the main economic areas, including the US, Europe and China. In turn the rise in oil prices allowed for a recovery in industrial activity, particularly in the US mining sectors, and improved the terms of trade and growth prospects of the commodity exporting emerging economies. With the rise in oil prices and the rebound of the labour markets in the main developed economies, and in particular in the United States, deflationary pressures first subsided and then gave way to a moderately reflationary environment. This scenario was reinforced by the results of the US presidential elections in November and the expected announcement by the new Administration of aggressive fiscal policy stimuli protectionist measures and strong deregulation, in an economy already above its productive potential.

10-year Bunds and Treasuries yields (%)

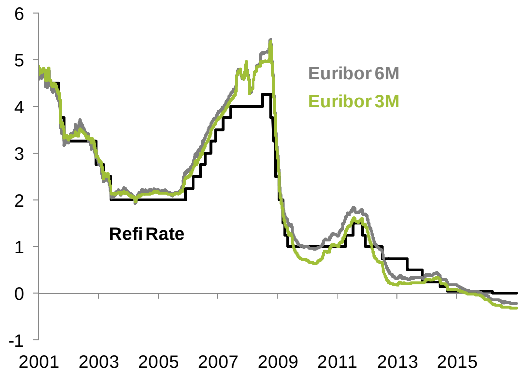


Selected stock market indices, January 2016=100

An environment of higher growth and inflation (more pronounced in the US) translated into a steepening of the yield curves, a widening spread between US and European debts, and also an appreciation of the dollar. In the second half of the year the yields on the 10-year Treasuries and *Bunds* rose from 1.47% to 2.45% and from -0.13% to 0.21%, respectively. After a downward movement until September, the dollar appreciated by 6.5% in the fourth quarter against the euro, closing the year at EUR/USD 1,054. In the full year the dollar gained nearly 3% against the euro. The main stock market indices posted annual gains in 2016, benefiting from a combination of expansionary monetary policies and a recovery in economic activity and corporate earnings. In the US, the Dow Jones, Nasdaq and S&P 500 indices gained 13.4%, 7.5% and 9.5%, respectively. In Europe, the DAX and CAC40 indices, which had fallen by 9.9% and 8.6% in the first half of the year, rebounded in the second half, reaching annual gains of 6.9% and 4.9%, respectively. The depreciation of the pound resulting from the Brexit decision (13% against the dollar and the euro) allied to the resilience of the British economy against the potential negative effects of this decision supported a 14.4% gain in the FTSE 100. In China, capital outflows contributed to a 12.3% fall in the Shanghai Composite index.

EUR/USD Exchange rate

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



Despite periods of political uncertainty and financial instability, 2016 was marked by relative stability in global economic growth, which slowed only marginally, from 3.2% to 3.1%. Overall, the developed economies saw a more marked slowdown, from 2.1% to 1.6%, partially offset by the more stable performance of the emerging markets, which grew by 4.1%. Despite China's slight deceleration from 6.9% to 6.7%, the emerging economies as a whole benefited from improved activity in commodity-exporting economies and easing recessions in economies such as Brazil and Russia. In the US, GDP grew by 1.6% in 2016, after expanding by 2.6% in 2016. After a weak start of the year, economic activity gradually strengthened, mainly supported by private consumption but also by a recovery of investment towards the end of the year. This improvement buoyed up labour market conditions, with the unemployment rate retreating from a peak of 5% in April to 4.7% in December, and the average hourly pay rising by 2.9% year-on-year (the steepest rise since 2009). In this context year-on-year inflation increased from a low of 0.8% in July to 2.1% in December and the Federal Reserve raised the target Fed Funds rate by 25 bps in December, to 0.5%-0.75%.

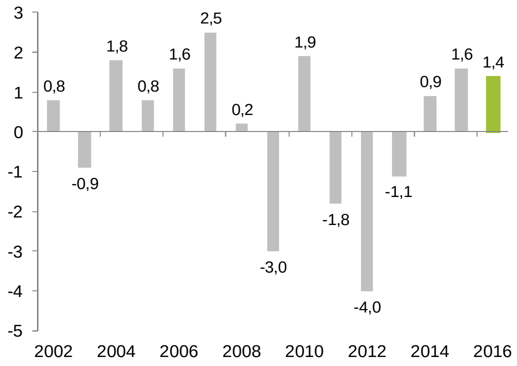
The Eurozone economy grew by 1.7% in 2016, slowing down from 2% in 2015, but outshining expectations and showing a resilient activity within a context of political uncertainty. Domestic demand was supported by the lagged effects of falling energy prices on consumers' purchasing power as well as by the expansionary nature of monetary and fiscal policies. The improvement in financing conditions enabled by the ECB's monetary stimuli drove a recovery in credit growth, despite concerns about the financial system in some economies in the region. The expansion of economic activity, however, proved insufficient to generate any relevant inflationary pressures. Favourable base effects from energy prices drove up the annual rate of inflation from a low of -0.2% in April to 1.1% in December, which is still far from the benchmark for price stability (inflation close to 2%). Core inflation inched up from 0.7% to 0.9% in the period. In this context, the ECB reinforced the expansionary nature of monetary policy twice in 2016. In March, among other measures, the ECB cut the main refinancing rate by 5 bps to 0% and the deposit facility rate by 10 bps to -0.4%; expanded the asset acquisition programme and increased the amount of monthly asset purchases from €60 billion to €80 billion; and announced four new Targeted Longer-Term Refinancing Operations. Again in December, the ECB announced an extension of the asset acquisition programme from March 2017 to at least

December 2017, although lowering the amount of monthly purchases to €60 billion. The 3-month Euribor prolonged its declining trend, reaching -0.319% in December.

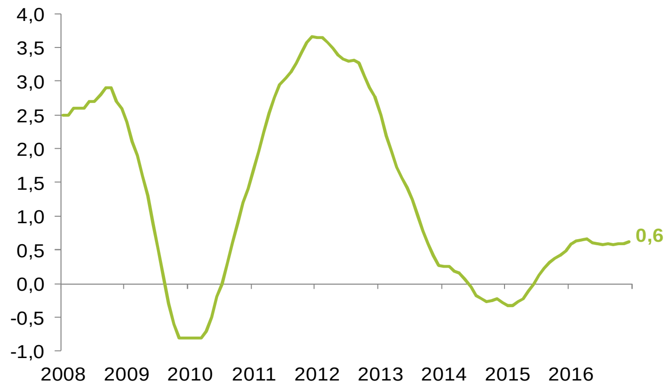
In spite of the political impasse that prevented the new Government from taking office until October (after the elections held in December 2015 and June 2016), Spain maintained a positive economic performance in 2016, with GDP expanding by 3.2%, repeating the previous year's reading. Net external demand increased its contribution to growth, with imports slowing down faster than exports. Domestic demand, though also decelerating, continued to grow at a strong pace, with private consumption rising by 3.1% (2.9% in 2015) and investment by 3.6% (6% in 2015). Overall, domestic demand benefited from an improvement in financing conditions, an expansionary monetary policy, the steps forward in deleveraging taken by economic agents, and the improvement of the labour market, where the unemployment rate retreated from 20.9% to 18.6%of the labour force. The good performance of the housing market should also be stressed, with prices rising by 4% year-on-year in the third quarter. Inflation rate rose in 2016, though remaining on negative ground (-0.2% versus -0.5% in 2015). With the10-year yield spread versus the German *Bunds* relatively stable, yields fell from 1.77% to 1.38% for the year as a whole, albeit with a rising trend from the 0.92% low observed in August.

In Portugal, economic activity increased by 1.4% in 2016, down from 1.6% in 2015 but slightly above expectations. Domestic demand lowered its contribution to growth, underpinned by the deceleration of private consumption, from 2.6% to 2.3%, and a 0.9% drop in investment. The second half of the year however, was marked by a recovery in household confidence and spending, supported by an increase in disposable income, which in turn benefited from higher wages, a lower tax burden and a slight increase in job creation. The unemployment rate retreated from 12.4% to 11.1% of the labour force, while inflation remained relatively stable, having risen from 0.5% to 0.6%. Net external demand increased its contribution to GDP growth, with imports slowing down faster than exports. The tourism sector maintained a strong momentum that reflected on the exports of goods. Even so, exports as a whole slowed from 6.1% to 4.4% in 2016.

Portugal - Annual GDP growth (%)



Portugal – Average inflation rate (%)



House prices continued to show a rising trend, growing by 7.6% year-on-year in the fourth quarter This movement was mainly driven by buoyancy of the higher value segments in the main cities. Economic activity also benefited from an improvement in financing conditions, mainly resulting from the expansionary nature of the monetary policy conducted by the ECB. However, constraints associated to the still high indebtedness levels and to the ongoing adjustments in the banking sector weighed down on credit and domestic demand growth. The public deficit retreated from 4.4% of GDP in 2015 (or 3.1% if excluding one-offs) to 2.1% in 2016. Public debt remained relatively stable, rising only slightly from 129% to 130.4% of GDP. In a global context of political uncertainty, rising inflation and a certain degree of speculation around a future tapering of the ECB's monetary stimuli, the 10-year Portuguese Government bond yields rose from 2.5% in 2015 to 3.8% in 2016, extending this trend in January 2017, to around 4%. The spread versus the German *Bunds* with the same maturity widened from 190 to 356 bps in 2016.

2 and 10 year
Treasury Bond Yields (%)

6. Liquidity Management and Funding

NOVO BANCO (the Bank) 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 stress) or the repercussions for the Bank of an economic crisis. 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 Banco de Portugal and to the European Central Bank (ECB).

During 2016 and on a weekly basis, the Board of Directors monitored 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 gap and the treasury gap evolution by business unit, as well as the defined warning signals.

In terms of the structural liquidity, NOVO BANCO prepares a monthly liquidity report (for more details see Chapter 7. Risk Management, namely the Liquidity Risk point), taking into account not only the effective maturity date but also behavioural maturity of the various products, which allows to determine the structural mismatches for each time bucket. Based on the medium term plan, the Bank prepares the activity liquidity and funding annual plan, which is regularly reviewed, and whenever possible and as long as the diversification of funding sources is guaranteed, favours medium / long-term funding instruments over short-term instruments.

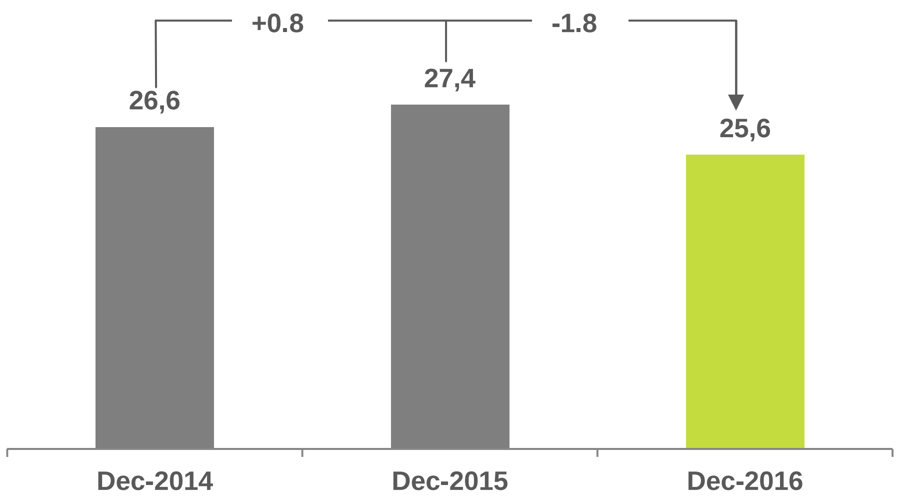
Moreover, the Capital, Assets and Liabilities Committee (CALCO), which meets monthly, also analyses the liquidity position of the Bank, namely the balance sheet evolution, performing a broad analysis of the gaps and key indicators of the activity: structural liquidity gap, commercial gap (difference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

The Bank has also a liquidity contingency plan (LCP), which defines a set of contingency liquidity sources (primary and secondary sources) that have the objective of addressing and/or minimising the effects of a liquidity crisis. These liquidity sources aim to meet the liquidity needs in stress scenarios. It is worth noting that the Bank maintains the liquidity contingency plan in force since its incorporation at the beginning of August 2014, to address the crisis that led to the resolution measure and the incorporation of the Bank.

NOVO BANCO, still in the scope of the liquidity contingency plan, has thus implemented internal procedures to increase its resilience under possible stress situations. These procedures aim to capture in a timely way and with precision early signs of a possible liquidity crisis which the Bank may face, either in an idiosyncratic scenario as well as in a systemic scenario.

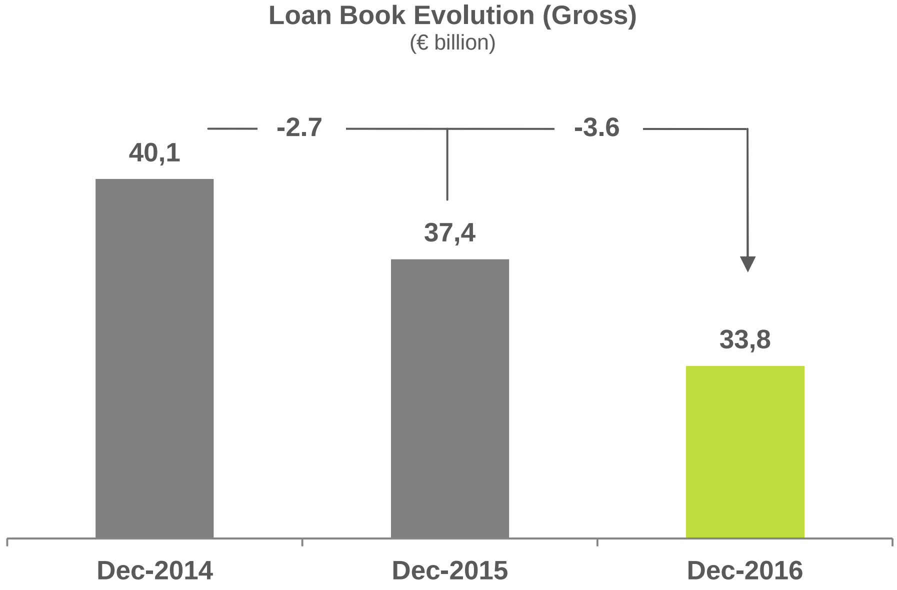
NOVO BANCO Group’s funding policy is one of the major components of the Bank’s liquidity risk management, which stresses the diversification of funding sources. Since its incorporation, NOVO BANCO's strategy has largely been based on boosting customer funds as its major source of funding, in so far as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

Customer Deposits Evolution
(€ billion)

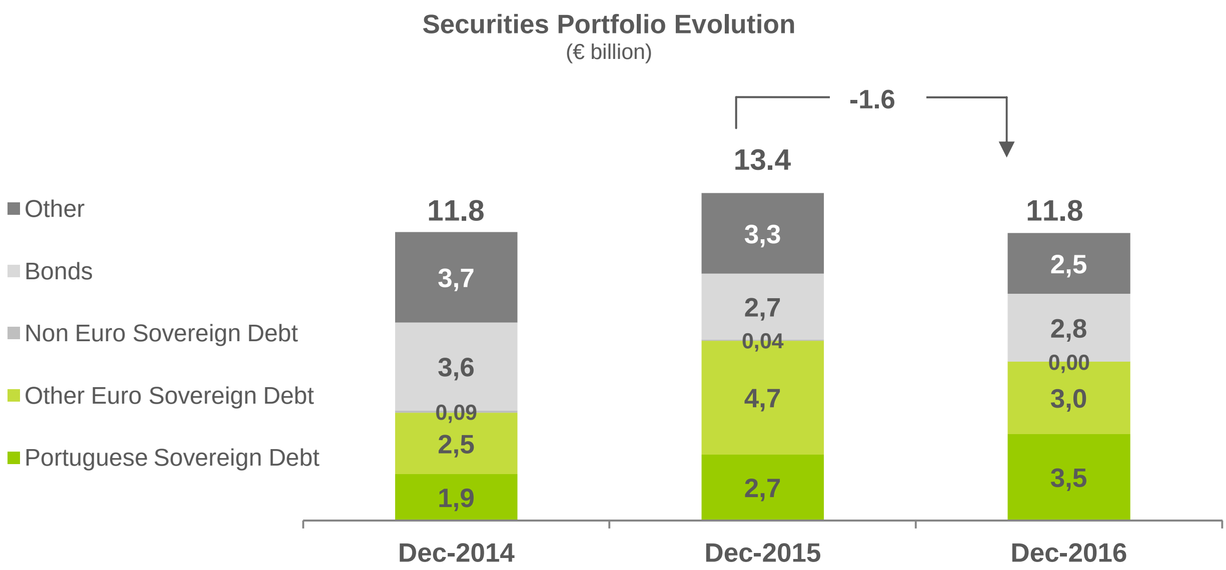


The Banco de Portugal's decision to re-transfer five senior bonds to BES at the end of 2015 had an adverseeffect on the perception of the Bank's risk and conditioned the performance of customer funds during 2016.

However, in the last quarter of the year, NOVO BANCO registered an increase in customer funds of around €1 billion. Going against the trend observed in the previous quarters, when the growth of customer funds had been supported by the retail segment (accumulated annual increase of around €1.1 billion), in the last quarter of the year the corporate clients segment was the main driver of this growth, with funds from this segment growing by €594 million while retail customer funds increased by €436 million.



The Bank's liquidity position was also positively influenced by the continuing deleveraging process of non-core assets from both the loan portfolio (€3.6 billion direct reduction) and the securities portfolio (€1.6 billion reduction), with the exception of the Portuguese sovereign debt portfolio that increased by around €800 billion.

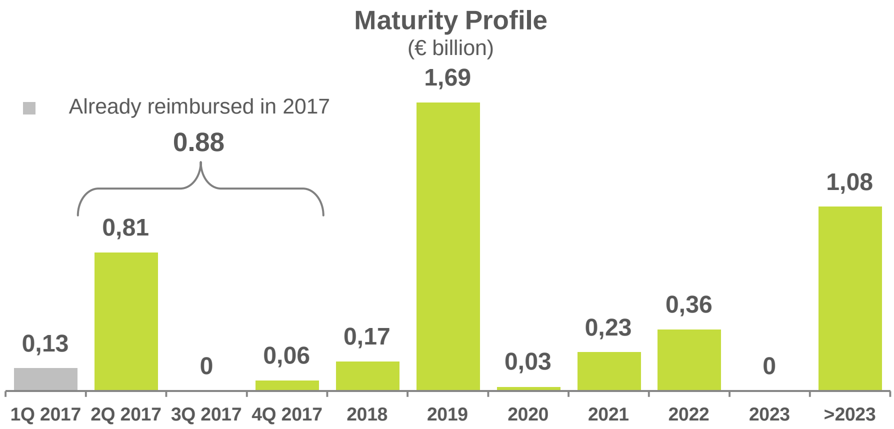


Despite a €1.6 billion reduction in the securities portfolio, its breakdown at the end of 2016 continues to show a higher weight of Portuguese and Eurozone sovereign debt securities - one of the main sources of eligible assets for funding with the ECB -, reflecting a more conservative portfolio management approach based on lower-risk, highly-liquid securities.

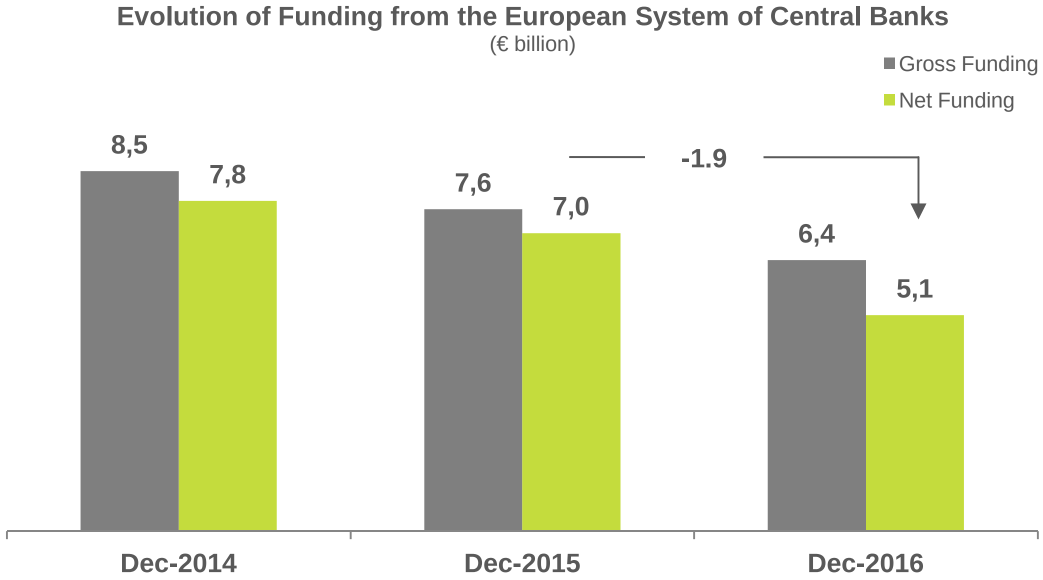
In 2016 NOVO BANCO repaid medium long-term debt placed with institutional investors in the amount of approximately €430 million. Moreover, this debt was further reduced during 2016 by €437 million (nominal value) through the repurchase of own bonds, including the senior debt tender offer launched in June with the objective of strengthening profitability and capital ratios. Despite the fact that access to the financial markets remained strongly conditioned, in November NOVO BANCO priced a securitisation of credit rights over SMEs receivables totalling approximately €725 million, raising market funding in the amount of €385 million through the placement in the market of subordinated Class A Notes.

In light of the improvement and recovery of its liquidity position, NOVO BANCO ceased to have any kind of debt instrument guaranteed by the Portuguese Republic, that at the time of its incorporation, it had three debt issues. In November 2016 the Bank cancelled in advance the entire €1.0 billion bond issue that matured in December. This was followed in December by the early cancellation of €0.7 billion of the €1.0 billion bond maturing in January 2017. Finally, the last bond issue, in the amount of €1.5 billion, matured on 17 February 2017.

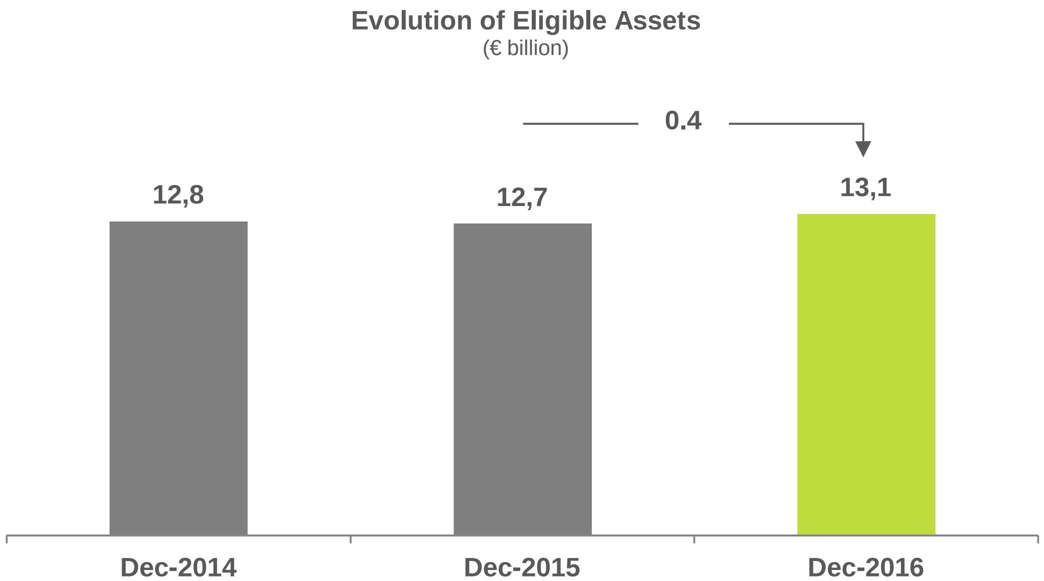
The amount of reimbursements of medium and long-term debt placed with institutional investors scheduled for 2017 is quite low, and mainly concentrated in the second quarter of the year.



Hence in 2016 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. Customer funds already account for 54% of the funding structure excluding Equity, compared with 53% at the end of 2015 and 44% at the end of 2014. In this context net funding from the European Central Bank sharply contracted in 2016, totalling €5.1 billion at the end of December, down by €1.9 billion from €7 billion at the end of 2015.



Alongside its deleveraging and funding policy, throughout the year NOVO BANCO streamlined its portfolio of assets eligible for rediscount with the European Central Bank. Hence in December the Bank launched a new covered bond issue in the amount of €450 million. At the end of 2016, NOVO BANCO's portfolio of eligible securities had increased to €13.1 billion, from €12.7 billion at the end of 2015.



7. Risk Management

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

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

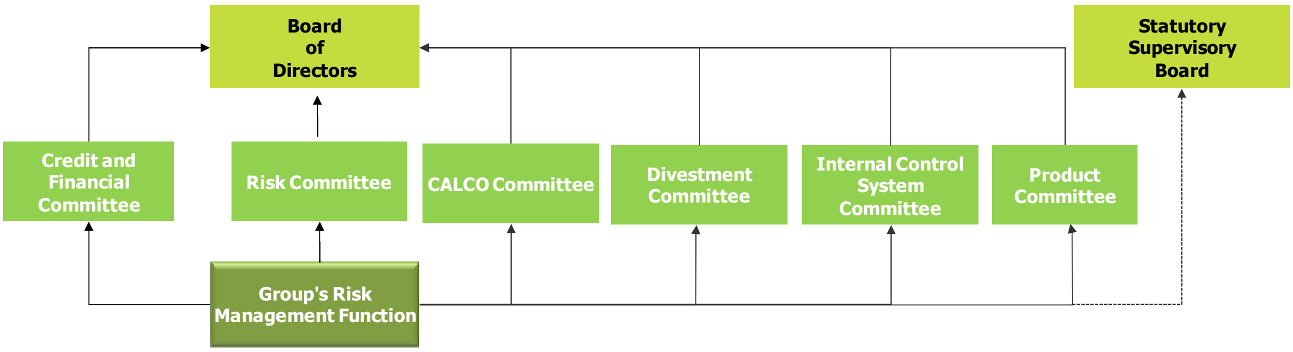
7.1. Organisation

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, thus managing the overall risk exposure, ensuring compliance with internal and regulatory rules, and promoting and monitoring mitigation actions;
- To implement the risk policies defined by the Board of Directors;
- To contribute to the value creation targets through the development and monitoring of methodologies for the identification and quantification of risks, such as internal rating models and liquidity ratios, and support tools for the structuring, pricing and approval of operations;
- To develop the risk component of the Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP) and stress tests.

The following chart presents NOVO BANCO Group's structure of the relevant risk function committees during 2016:



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 NOVO BANCO Group has the necessary skills and resources for that purpose.
Statutory Supervisory Board	Supervisory Body, responsible for assessing the functioning of the internal control system, the risk management system and the internal audit system.

In order to increase the efficiency of 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 control, in line with the decisions of the Board of Directors:

Specialised Committees	
Risk Committee	Responsible for monitoring and following up on the evolution of the NOVO BANCO Group's (NB Group or the Group) integrated risk profile, and for analysing and proposing methodologies, policies, procedures and instruments to deal with all types of risk, namely credit, operational, and market risks.
Financial and Credit Committee	Responsible for deciding the main credit operations in which the NB Group participates, in line with the risk policies defined for the NB Group.
Capital, Assets and Liabilities Committee – (CALCO)	Responsible for setting and monitoring growth targets for customer loans and deposits, defining the funding strategy (management of balance sheet mismatch) and price / margin strategy, as well as capital optimisation. It also approves the funding products offer and pricing. It also approves the funding products' offer and pricing.
Product Committee	Responsible for approving NB Group's units and commercial structures' products and services, including asset and liability products.
Divestment Committee	The Divestment Committee is responsible for the definition of the strategy as well as the policies of divestment and for the oversight of the divestment of the non-core assets of NB Group.
Internal Control System Committee	Responsible for the oversight and monitoring of the Internal Control System (ICS) of NB Group in a transversal and integrated way, notwithstanding the powers of the Corporate Bodies and of the other Committees of NB Group. The Committee has power granted by the Board of Director to take decisions related with the implementation of measures to promote the efficiency of the ICS and the improve the internal control environment in NB Group.

Support Committees	
Credit Risk Monitoring Committee (CRMC)	The main objective of the process developed by the Credit Risk Analysis Committee (CRMC) is the regular monitoring of current credit risk in the Retail segment. This process, which involves the analysis and assessment of clients that show signs of worsening creditworthiness, is conducted at least on an annual basis in each of the Regional Divisions. The analysis carried out throughout the CRMC process results in recommendations being issued per clien, intended to mitigate the risk associated to each credit.
Credit Risk Monitoring Group (CRMG)	Monthly process of analysis and assessment of clients showing signs of worsening credit quality and definition and monitoring of their strategic options, with the participation and intervention of technical areas of the Bank The clients analysed by the CRMG are monthly classified into three risk categories - Pre-Watchlist, Watchlist and Recovery – according to certain pre-defined risk measurement criteria. The CRMG issues recommendations and actions to be taken concerning the clients, also defining the structures responsible for managing these clients. This analysis covers the corporate commercial segment, and on a annual basis all corporate groups with liabilities above €15 million (including good risk clients).
Operational Risk Committee	Responsible for providing advices and recommendations to support the decision making by the Board of Directors, in accompanying its responsibilities about the strategy, model, policies and risks related with the Operational Risk in NB Group.

7.2. Credit Risk

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

• Organisational Adjustment

As referred in previous reports, in November 2014 NOVO BANCO created a Credit Department (CD). The mission of this CD is to execute NOVO BANCO's credit decision function. The CD's scope of action was successively extended, so much so that today it decides on the credit operations of all the Bank's commercial areas in general, namely retail and corporate loans, and those originating in NOVO BANCO Group's (NBG or the Group) international units.

The CD established the segregation 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 in the Bank's organisational structure reinforces the functional specialisation within the NB Group while increasing the weight of technical and risk analysis in the decision-making process.

After 2 and a half years since it started to operate, we may say that the activity of the CD and its alignment with the NB 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 (GRD). The current credit decision model thus includes a system of checks and balances that allocates the decision-making process to three distinctive areas with well-defined roles (commercial area, credit area and risk area).

In terms of the credit and risk policies and processes, the creation of the Credit Department was the development with greater structural implications and that most clearly set a difference since 2014/2015. 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, Residential 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, exposures to the Real Estate Sector, Project Finance and Acquisition Finance, among other portfolios.

Finally, NOVO BANCO also developed models of Loss Given Default (LGD) 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 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 the activity developed in 2016 by the Global Risk Department's team responsible for the models, we highlight the recalibration of the main PD rating models, with the corresponding filing of the application processes to the supervision authorities, under Commission Delegated Regulation no. 529/2014. The review of the LGD parameters began in late 2016 and should be concluded in 2017 and it will cover the parameters to be used in the impairment model (including parameters compliant with IFRS9) and also, if we judge it appropriate, for purposes of calculating regulatory capital.

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 the definition and implementation of particular measures to deal with specific situations where there is a sign of risk deterioration – with a view to mitigate potential loses -, as well as to outline global strategies for credit portfolio management.

The Credit Risk Monitoring Group (CRMG) was set up with the aim of creating synergies and increasing efficiency. It emerged from the integration of single-name monitoring processes for companies, namely the Risk Monitoring Group ("RMG"), which met on a monthly basis, and the Credit Risk Monitoring Committee ("CRMC") for companies, which met on an annual basis.

In so far as the purpose of the CRMC was the annual monitoring of current credit risk, and that of the RMG was to deepen the analysis already developed by the CRMC, the conditions were in place for merging the two processes.

The CRMG maintains the purpose of the processes that were at its origin and integrates their different credit risk monitoring mechanisms, converging towards the operating model of the RMG, meeting on a monthly basis, with levels of intervention according to responsibilities, and with the different stakeholders defined (Managers, Managing Directors and Board members).

The clients analysed by the CRMG are monthly classified into three risk categories - Pre-Watchlist, Watchlist and Recovery – according to certain pre-defined risk measurement criteria. The CRMG issues recommendations and actions to be taken concerning these clients, also defining the structures responsible for managing these clients: Corporate Clients Monitoring Department ("DSAE ") or Corporate Credit Recovery Department ("DRCE").

This analysis covers the corporate commercial segment and on an annual basis its intervention is extended to all corporate groups with liabilities above €15 million (including good risk clients).

The CRMC continues to operate for the retail commercial segment.

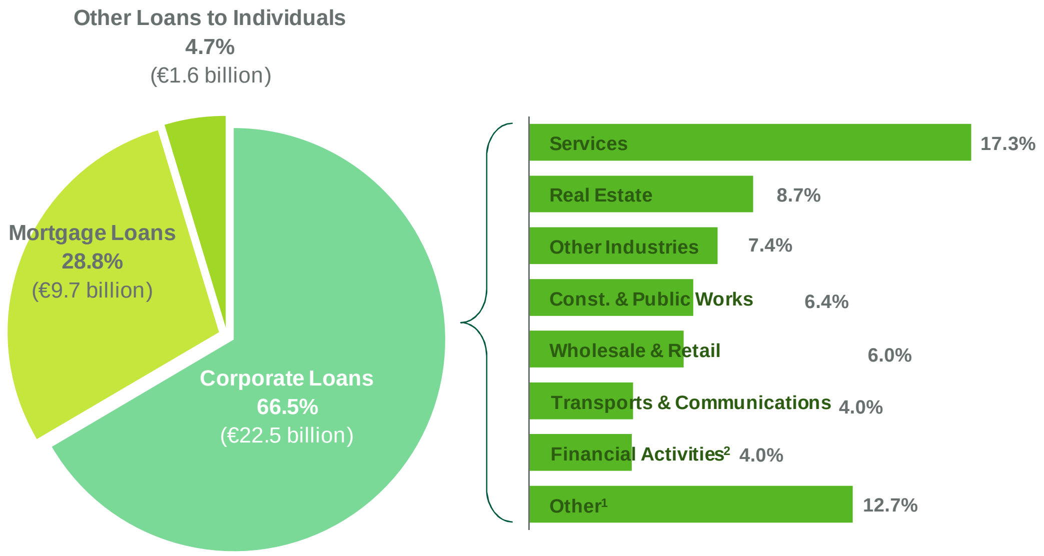
Global analysis of the credit portfolio risk profile

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

Credit Portfolio Breakdown by Industry Sector

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

Gross Loan Portfolio as of 31 December 2016
(€33.8 billion exposure,
excluding securitized loans)



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

Credit Portfolio Geographic Breakdown

In December 2016 the domestic activity accounted for an 86.2% share of the loan portfolio, and is mainly corporate credit.

€ million

	Domestic Activity			International Activity			Total NOVO BANCO Group		
	Dec-15	Dec-16	weight to total	Dec-15	Dec-16	weight to total	Dec-15	Dec-16	weight to total
Residential Mortgage	9,562	9,472	32.6%	280	254	5.5%	9,842	9,726	28.8%
Loans to Individuals (Other)	1,347	1,298	4.5%	319	276	5.9%	1,667	1,574	4.7%
Subtotal	**10,910**	**10,769**	**37.0%**	**599**	**530**	**11.4%**	**11,509**	**11,300**	**33.5%**
Corporate	20,036	18,325	63.0%	5,872	4,125	88.6%	25,908	22,451	66.5%
Total Loans	**30,946**	**29,095**		**6,471**	**4,656**		**37,417**	**33,750**	

Asset Quality

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

Credit Quality

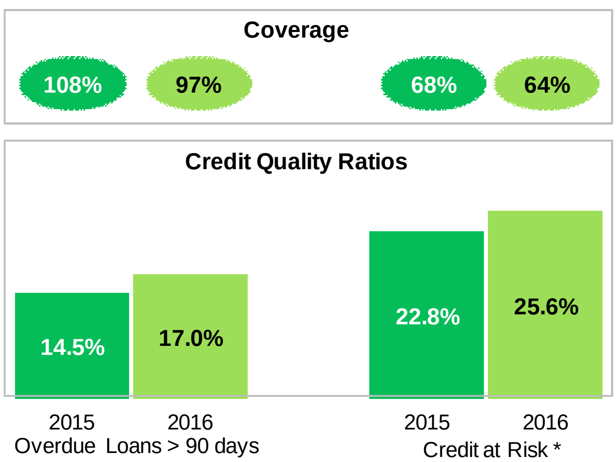
	Dec 2015	Dec 2016	Change	
			absolute	relative
Base Data (€ million)				
Gross Loans	37,416	33,750	-3,666	-9.8%
Overdue Loans	5,791	5,936	145	2.5%
Overdue Loans > 90 days	5,412	5,728	317	5.9%
Credit at Risk [1]	8,547	8,636	89	1.0%
Restructured Credit [2]	6,634	8,007	1,373	20.7%
Restructured Credit not included in Credit at Risk [2]	3,927	4,008	81	2.1%
Credit Provisions	5,833	5,566	-267	-4.6%
Additional Credit Provisions (accumulated)	739	673	-67	-9.0%
Indicators (%)				
Overdue Loans / Gross Loans	15.5%	17.6%	2.11	p.p.
Overdue Loans > 90 days / Gross Loans	14.5%	17.0%	2.51	p.p.
Credit at Risk [1] / Gross Loans	22.8%	25.6%	2.75	p.p.
Restructured Credit [2] / Gross Loans	17.7%	23.7%	5.99	p.p.
Restructured Credit not included in Credit at Risk [2]/ Gross Loans	10.5%	11.9%	1.38	p.p.
Credit Provisions / Overdue Loans	100.7%	93.8%	-6.9	p.p.
Credit Provisions / Overdue Loans > 90 days	107.8%	97.2%	-10.6	p.p.
Credit Provisions / Credit at Risk [1]	68.2%	64.5%	-3.8	p.p.
Credit Provisions / Gross Loans	15.6%	16.5%	0.90	p.p.
Cost of Risk	1.98%	1.99%	0.02	p.p.
Provision Charge Net of Recoveries	1.93%	1.90%	-0.03	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 outstanding amount of restructured credit in which payments of principal or interes, that were overdue by more than 90 days, have been capitalized, refinanced or rescheduled without the reinforcement of security (which shall be sufficient to cover the full outstanding amount of principal and interest) or the overdue interest fully repaid; and c) total outstanding credit with overdue instalments of principal or interest for a

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

The overdue loans by more than 90 days / gross loans ratio increased to 17.0%, from 14.5% in December 2015. Though decreasing by -10.6 pp compared to December 2015, the corresponding provision coverage ratio of overdue loans by more than 90 days is still high, at 97.2%.

Credit Quality Ratios and Provisions Coverage



* According to the definition included in Instruction nº23/2011 of Banco de Portugal.

Reflecting the deterioration of the overdue loans ratio, the credit at risk ratio increased from 22.8% to 25.6% in December 2016. This increase was mainly driven by corporate overdue loans (where the ratio rose from 28.1% to 33.4%) due to the weight of this segment in the total portfolio.

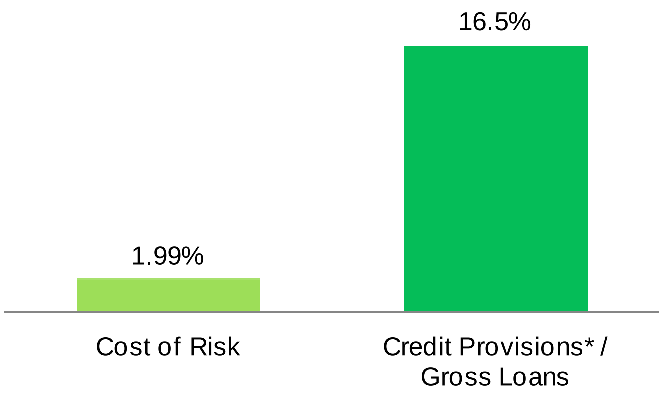
Credit at Risk* by Type of Credit

	Credit at Risk* (a)		Coverage (b)		Balance Sheet Provisions (c)	
	Dec-15	Dec-16	Dec-15	Dec-16	Dec-15	Dec-16
Total Loans	**22.8%**	**25.6%**	**68.2%**	**64.5%**	**15.6%**	**16.5%**
Corporate	28.1%	33.4%	73.5%	68.5%	20.7%	22.9%
Mortgage	7.5%	7.7%	24.9%	24.6%	2.0%	1.9%
Loans to Individuals (other)	28.3%	24.5%	58.8%	63.2%	16.6%	15.5%

* According to the definition included in Instruction nº23/2011 of Banco de Portugal.
(a) Credit at Risk / Gross Loans
(b) Credit Provisions / Credit at Risk
(c) Credit Provisions / Gross Loans

Credit provisions were reinforced by EUR 673 million, corresponding to a provision charge of 1.99%. The provision charge net of written-off credit recoveries was 1.90% in 2016.

Credit Provisions in 2016



* On Balance Sheet Credit Provisions / Gross Loans

7.3. 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.

The calculation of market risk is carried out within in a prudential scope.

- **Trading Book Risk**

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, or through sensitivity analysis, applying extreme individual shocks to risk factors.

NOVO BANCO Group's portfolios are subject to VaR and stop loss limits, in order to limit potential losses. There are pre-established limits for the trading areas and the liquidity management portfolio, which invest in Sovereign debt securities and other securities considered High Quality Liquid assets. The control of VaR and stop loss limits is made daily.

Market risk data 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 Risk Committee.

Market Risk Analysis

NOVO BANCO Group's value at risk (VaR) at 31 December 2016 was €27.0 million in its trading portfolio positions in equities, interest rate instruments, volatility and credit spreads, commodities as well as FX positions and liquidity management portfolios (mostly Sovereign debt booked as available-for-sale and fair value portfolios). This figure compares with €20.9 million as at 31 December 2015, the increase being mainly explained by the rise in the credit spread risk due to the extension of the portfolio's average maturity dates. The decrease in interest rate risk is explained by the lower volatility of Euro interest rates. Exchange rate risk also decreased as it ceased to include structural balance sheet positions in equity holdings, which are now analysed under the banking book risk.

€ million

Value at Risk 99% 10 days			
	Dec-15	**Dec-16**	**Change**
FX	8.3	1.9	-6.4
Interest Rate	16.2	10.4	-5.8
Equities and Commodities	0.8	2.6	1.8
Credit Spreads	10	29.5	19.5
Volatility	0.3	0.1	-0.2
Diversification Effects	-14.7	-17.6	-2.9
Total	**20.9**	**27.0**	**6.1**

The €27.0 million Total VaR mainly corresponds to the risk of the liquidity management portfolio, chiefly through credit risk and also, to a lesser extent, through interest rate risk.

- **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 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 the repricing of long-term fixed rate credit and bonds with the repricing of liabilities represented by long-term fixed-rate securities and of customer funds.

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

Additionally, NOVO BANCO Group measures the banking book interest rate risk based on the one-year historical VaR, with a 99.9% confidence level, and applying a floor on the simulation of rates. On 31 December 2016 this value was €197 million.

The balance sheet interest rate risk, which is an integral part of the risk appetite, is reported monthly to the business areas and respective managers, analysed at the CALCO meeting, and 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 value of bonds due to changes in that spread.

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

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

These risks are assessed in a situation of stress, calculating a stressed VaR at 99.9% based in the last 16-year records and considering a holding period of one year.

- **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, NOVO BANCO must cover the difference and incur in the respective loss (NOVO BANCO Group contributions to the fund).

NOVO BANCO Group's pension fund risk is measured based on the fund's asset portfolio and the estimated cash flows related to the fund's liabilities, assuming for these a stress scenario on the reference date. The value at risk of the assets and liabilities is determined by calculating the 16-year historical VaRs with a confidence level of 99.9%. 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.

7.4. Operational Risk

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

Consequently, Operational Risk is inherent to all the activities of the NOVO BANCO Group (NB Group or the Group), with no exception, i.e., to all businesses, processes, activities and systems. The 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 NB Group seeks to eradicate the inherent risk source. The Operational Risk Appetite established for the NB Group reflects this unquestionable reality in the management and control of this risk.

Management Practices

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

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

The operational risk management model implemented is supported by a specific structure within the Global Risk Department exclusively dedicated to designing, monitoring and maintaining the model. This structure ensures 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 is crucial that the responsible for the day-to-day management of Operational Risk within their sphere of responsibility, that is the operational risk representatives from the NB Group's departments, branches and subsidiaries and their teams, act in close coordination and with the active participation of the Global Risk Department, to ensure that the established procedures are implemented ,. The Operational Risk Control and Management Model complies with the 3 Lines of Defence principle.

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. For risk management the knowledge of these situations is essential to allow the respective control and mitigation of risk;
- To execute the control processes for the registration of events, in order to verify the effectiveness of the processes of risk identification implemented at each financial institution and at the same time ensure the recording and conformity of the information on incidents with financial impacts. The main control process consists in checking the financial movements booked under certain items against the incidents
  recorded in the database;
- Identification and systematisation of risk sources and potential incidents in order to define incident reporting responsibilities at each unit and thus promote a risk awareness culture and further improve the defined identification process;
- Regularly performing self-assessment exercises to identify the major risks and corresponding mitigation actions;
- Monitoring of Risk Appetite 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;
- To define and monitor the implementation of measures to remove or mitigate the risk sources identified by the analysis of incidents, self-assessments, KRI or workshops with different unit managers;

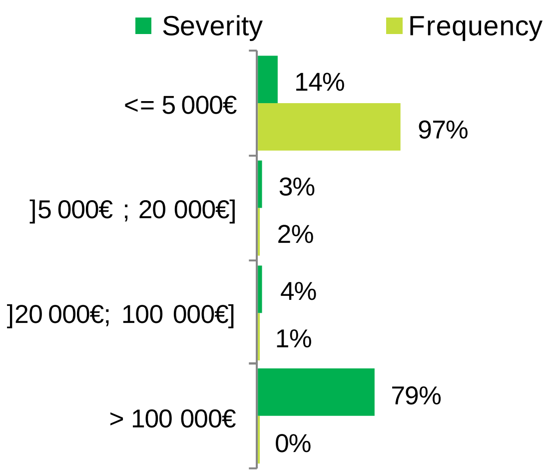
- Reporting of consolidated management information to NOVO BANCO Group's senior management, as well as specific reports to certain business units;
- Training and sharing of experiences in a "lessons learned" perspective and adoption of best practices by NOVO BANCO Group's different business units;
- Active participation in the process of signing off new products and services of NOVO BANCO; Monitoring of two types of exclusions to the sign off process of new products and services that enhance or generate Operational Risk;
- Development, dissemination and monitoring of the IT Risk Models adopted by the financial institutions of NOVO BANCO Group, namely in terms of the severity of the incidents detected.

In 2016 the NB Group took steps to strengthen its Government Model, namely in risk supervision, through the implementation of the Operational Risk Committee, developing specific Risk Policies, and initiating projects to ensure broader application of some international good practices in Operational Risk Management.

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.

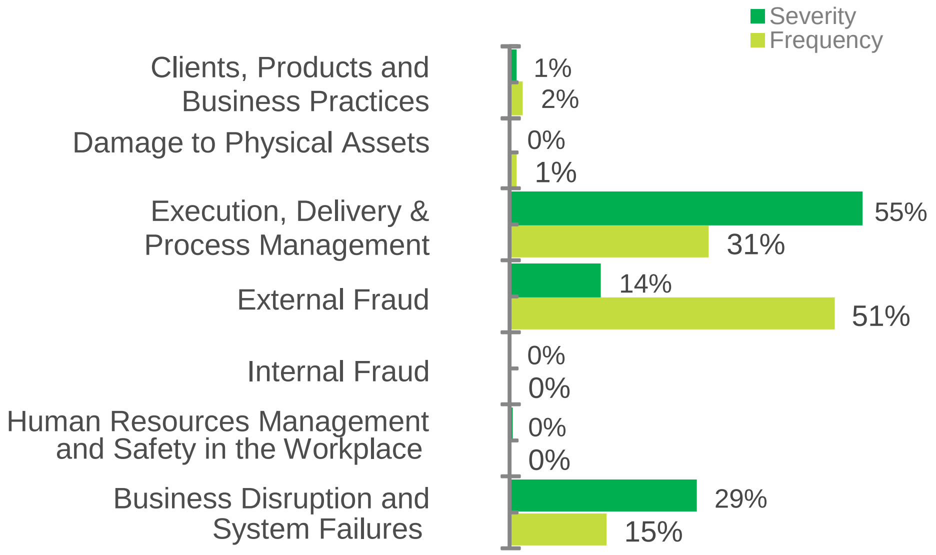
97% of the incidents had a net negative financial impact of less than €5 thousand each, representing 14% of the total reported losses related to Operational Risk. There were a few incidents with an impact above EUR 100 thousand that represented 79% of the total impact and measures were implemented to address the issues 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, and in the Basel' Business Lines and Types of Risk.

The 'External Fraud' incidents (mostly involving credit cards) registered the highest score in terms of frequency, with 51% of the incidents representing 14% of the negative financial impact, which is broadly in line with the average profile in the financial system.

The 'Execution, Delivery and Process Management' incidents registered the highest score in terms of severity with 55% of the incidents representing 43% of the negative financial impact. Uncharacteristically, the 'Business disruption and system failures' category presents a significant severity that was due to a single failure that was promptly investigated and corrected alongside the process of recovering the amounts involved, allowing for a significant recovery rate above 90%.



7.5. Liquidity Risk

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

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

Management Controls

In accordance with the current legislation issued by the European Central Bank and the European Banking Authority, NOVO BANCO has established an annual Internal Liquidity Adequacy Assessment Process (ILAAP) that defines the risk management structure and 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. The Bank also identifies the main liquidity and funding risks to which it exposed, defining the mitigation measures to deal with these risks as well as how they are monitored and reported.

NOVO BANCO's liquidity risk appetite is defined by the Board of Directors, and the corresponding limits are revised at least annually. Liquidity risk appetite is analysed on a monthly basis at the CALCO and reported to the Risk Committee.

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

Liquidity Risk Analysis

NOVO BANCO Group's liquidity risk registered positive developments in 2016: available net assets increased, while funding concentration risk decreased and stable funding increased. Asset deleveraging also had a positive impact.

In 2016 funding from the ECB decreased to €6.4 billion gross and €5.1 billion net, which comparing with 2015 represents a reduction of €1.2 billion and €1.9 billion respectively, There was also a decrease in the loan to deposit ratio from 113% in 2015 to 110% at the end of 2016.

At the end of 2016 the portfolio of assets eligible (after haircuts) for rediscounting operations with the ECB totalled €11.6 billion.

The liquidity coverage ratio (LCR) increased by 30 pp from 77% as at 31 December 2015 to 107% as at 31 December 2016. This positive development is explained, on the one hand, by the increase in net assets, and on the other by the reduction of net outflows at a 30 days period as a result of an increase in stable funding. Likewise, the Net Stable Funding Ratio (NSFR) rose from 87% as at 31 December 2015 to 99% as at 31 December 2016, also underpinned by the deleveraging of assets and the increase in stable funding.

7.6. Solvency

• Capital Management and Regulatory Solvency

The main objective of NOVO BANCO Group's capital management is to ensure compliance with the NB 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 NB 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 activity access criteria for credit institutions and investment firms and determine the prudential requirements for these institutions, and also in Regulation (EU) no. 2016/445, which regulates the transitional (phased-in) arrangements for own funds set forth in Regulation (EU) no.575/2013. NOVO BANCO Group is authorised to use the internal ratings based approach (IRB method) for the calculation of risk weighted assets for credit risk and the standardised approach for the calculation of risk weighted assets for market risk and for operational risk.

Under the terms of the above-mentioned rules, the capital ratios of NOVO BANCO Group, as at 31 December 2015 and 31 December 2016, were as follows:

Solvency

	31-Dec-15	31-Dec-16	
	Phased-in	Phased-in	Fully implemented
Common Equity Tier 1 Ratio	13.5%	12.0%	9.8%
Tier 1 Ratio	13.5%	12.0%	9.8%
Solvency Ratio	13.5%	12.0%	10.2%

The phased-in Common Equity Tier 1 (CET1) ratio for 31 December 2016 was 12.0%. This reflects the reduction of the CET1 caused by the 2016 phasing-in criteria and the results for the year, even if the activity contraction effort allowed to reduce risk weighted assets by €4.5 billion in 2016. The fully implemented CET1 ratio for 31 December 2016 was 9.8%.

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 1, Tier 1, Tier 2 and Total Equity.

NOVO BANCO Group's prudential capital is mainly composed of Common Equity Tier 1 elements.

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

€ million

	Consolidated	
	31-Dec-15	**31-Dec-16**
Realised ordinary share capital	4 900	4 900
Reserves and Retained earnings	2 293	1 289
Net income / (loss) for the period	(1 004)	(837)
Revaluation reserves	(197)	(275)
Non-controlling interests	(3)	55
A - Accounting Equity	**5 989**	**5 132**
Revaluation Reserves	(79)	(49)
Non-controlling interests	8	(24)
B - Prudential adjustments to Equity	**(71)**	**(73)**
Goodwill and other intangibles	(293)	(62)
Deferred taxes	(473)	(796)
Equity participations in financial entities	(49)	(146)
Other	39	(4)
C - Prudential deductions	**(776)**	**(1 008)**
D - Common Equity Tier 1 (A+B+C)	**5 142**	**4 051**
Eligible instruments for Tier 1	-	2
Deductions to Tier 1	-	(2)
E - Tier 1	**5 142**	**4 051**
Eligible instruments for Tier 2	108	127
Deductions to Tier 2	(108)	(127)
F - Tier 2	**-**	**-**
G - Eligible Own Funds	**5 142**	**4 051**

Risk Weighted Assets

As of 31 December 2016, risk weighted assets totalled €33,627 million, of which €32,026 million (95% of the total) resulted from credit and counterparty risk, €330 million from market risk and €1,272 million 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 2016 the 'corporate' risk class was the main contributor to risk weighted assets (61% of the total).

Risk Weighted Assets for Credit Risk by risk class

€ million

	31-Dec-15	31-Dec-16	
	Risk Weighted Assets	Risk Weighted Assets	Risk Weighting Factor (1)
Central Administrations or Central Banks	14	12	0%
Institutions	3,069	3,624	68%
Corporate	22,904	19,474	61%
Retail Portfolio	2,295	2,057	17%
Other	8,188	6,859	64%
Total	**36,469**	**32,026**	**48%**

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

Market Risk

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

As of 31 December 2016, market risk weighted assets amounted to €330 million, with the main contributors being the interest rate / debt instruments risk (45% of the total) and FX risk (30% of the total).

Change in the year of the Market Risk Weighted Assets

€ million

		31-Dec-15	31-Dec-16	Change
Debt Instruments	Specific Risk	0	3	3
	General Risk	258	146	-112
	Non-Delta Risk*	0	0	0
	CIE**	0	0	0
Equity Instruments	Specific Risk	0	1	0
	General Risk	4	67	62
	Non-Delta Risk*	24	13	-11
	CIE**	0	0	0
Commodity Risk	General Risk	1	0	-1
	Non-Delta Risk*	1	0	0
Foreign Exchange Risk	General Risk	231	97	-133
	Non-Delta Risk*	5	2	-3
Total		**526**	**330**	**-196**

* 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 significant reductions in the general interest rate risk and general FX risk.

Operational Risk

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

From December 2015 to December 2016, operational risk weighted assets increased by €100 million.

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

€ million

	31-Dec-15		31-Dec-16	
	Capital Requirements	Risk Weighted Assets	Capital Requirements	Risk Weighted Assets
NOVO BANCO Group	**94**	**1 173**	**102**	**1 272**
Corporate financing	0	0	0	0
Trading and sales	-80	-995	-64	-804
Retail brokerage	1	18	1	14
Commercial banking	122	1 521	119	1 485
Retail banking	43	534	40	501
Payment and setlement	0	0	0	0
Agency services	0	3	0	3
Asset management	7	91	6	73

8. Results and Activity

In 2016 NOVO BANCO Group resumed normal operation conditions as one of the more entrenched banks in the Portuguese business community, maintaining adequate liquidity and solvency levels, promoting the improvement of profitability and efficiency levels, simplifying processes and streamlining the organisational and functional structure.

8.1. Results

Despite the constraints resulting from the new sale process of NOVO BANCO initiated on 15 January 2016 and the still sluggish performance of the domestic economic activity and the very low or even negative level of interest rates, NOVO BANCO Group reported positive net operating income of €386.6 million at the end of 2016, which is higher than the 2015 result (€125.0 million).

€ million

	INCOME STATEMENT	2015*	2016	% Change
	Net Interest Income	450.7	514.5	14.2%
+	Fees and Commissions	355.6	277.1	-22.1%
=	**Commercial Banking Income**	**806.2**	**791.6**	**-1.8%**
+	Capital Markets	117.9	147.6	25.2%
+	Other Results	- 44.5	38.2	….
=	**Banking Income**	**879.6**	**977.5**	**11.1%**
-	Operating Costs	754.7	590.9	-21.7%
=	**Net Operating Income**	**125.0**	**386.6**	**209.3%**
-	**Net Provisions**	**1 057.9**	**1 374.7**	**29.9%**
	Credit	739.3	672.6	-9.0%
	Securities	236.2	315.9	33.7%
	Other Assets and Contingencies	82.4	386.2	….
=	**Income before Taxes**	**- 933.0**	**- 988.1**	**-5.9%**
-	Corporate Tax	- 20.1	- 227.6	….
-	Special Tax on Banks	31.4	37.0	17.6%
=	**Income after Taxes**	**- 944.3**	**- 797.5**	**15.5%**
-	Non-controlling Interests	- 14.8	- 9.1	38.0%
=	**Net Income**	**- 929.5**	**- 788.3**	**15.2%**

* Restated figures

The signs of recovery of operating performance are visible in the year's net earnings, which, although negative at €788.3 million, are lower than the €929.5 million loss recorded in 2015.

Main highlights of the activity developed in 2016:

- banking income totalled €977.5 million (+11.1% YoY), with a 52.6% contribution from net interest income and a 28.4% contribution from fees and commissions; capital markets results reached €147. million, and other results totalled €38.2 million;
- operating costs decreased by 21.7% YoY, to €590.9 million, underpinned by the staff cuts and the improvements achieved in terms of simplifying processes and streamlining the structures. In terms of efficiency, we highlight the fact that operating costs represented 60.4% of banking income, down from 85.8% in 2015;
- positive net operating income (before impairment and taxes) of €386.6 million surpassed the 2015 full year net operating income (€125.0 million), evidencing NOVO BANCO Group's income-generating capacity;
- the year's total provision charge of €1,374.7 million includes €672.6 million for credit, €315.9 million for securities, €134.5 million for the goodwill of the insurance business and €98.2 million for restructuring costs.

The result was influenced by non-recurring factors: (i) negatively by provisions, namely for restructuring and the goodwill of the insurance business and (ii) positively by the gains registered with the changes resulting from the entry into force of the new Collective Bargaining Agreement (ACT) for the banking sector and with the merger of VISA Europe into VISA Inc. (USA).

Net Interest Income

The performance of net interest income was impacted by the fact that benchmark interest rates remained on negative ground, and by the need to stabilise funding through customer funds. However, this objective was thwarted by the downgrade of the long-term deposit ratings that, combined with the postponement of the sale of NOVO BANCO on 15 September 2015, led to a reduction in the deposits of some large institutional and corporate clients.

Despite these constraints, net interest income grew by 14.2% year-on-year, reaching €514.5 million. This improvement not only reflects a lower level of annulment of overdue interest but also the positive impact of a larger reduction in the cost of liabilities (-54bps, to 1.39%, from 1.93% in Dec. 2016) than in the interest rate on assets (- 37 bps).

The net interest margin was 1.10%, underpinned by an average interest rate on financial assets of 2.48% and an average rate on liabilities of 1.39%, influenced by the decrease in the cost of deposits to 0.91% from 1.27% in 2015, which compares with an annual average 3-month Euribor in the year of -0.26%.

€ million

NET INTEREST INCOME AND NET INTEREST MARGIN	2015			2016		
	Average Balance	Avg Rate	NII	Average Balance	Avg Rate	NII
INTEREST EARNING ASSETS	48 694	2.85%	1 389	46 823	2.48%	1 166
Customer Loans	38 829	2.80%	1 088	34 695	2.68%	932
Money Market Placements	2 782	1.39%	39	2 480	2.31%	57
Securities and Other Assets	7 083	3.71%	263	9 647	1.84%	177
OTHER NON-INTEREST EARNING ASSETS	-	-	-	-	-	-
INTEREST EARNING ASSETS & OTHER	**48 694**	**2.85%**	**1 389**	**46 823**	**2.49%**	**1 166**
INTEREST BEARING LIABILITIES	47 455	1.98%	938	43 978	1.48%	652
Due to Customers	27 773	1.27%	352	25 123	0.91%	229
Money Market Funding	9 864	0.81%	80	11 442	0.36%	41
Other Liabilities	9 818	5.15%	506	7 413	5.15%	382
OTHER NON-INTEREST EARNING LIABILITIES	1 239	-	-	2 845	-	-
INTEREST BEARING LIABILITIES & OTHER	**48 694**	**1.93%**	**938**	**46 823**	**1.39%**	**652**
NIM / NII		**0.93%**	**451**		**1.10%**	**514**

The average rate on customer loans, the main component of financial assets (74.1%), was 2.68%. As to liabilities, the average balance of deposits was €25.1 billion, with an average interest rate of 0.91%.

Despite the unprecedented challenge to asset and liability management and to profitability of benchmark interest rates persistently on negative ground, the NB Group has achieved a sustained recovery of the net interest margin, which rose from 0.93% in 2015 to 1.10% in 2016.

Fees and Commissions

Fees and commissions on banking services contributed with €277.1 million to the results, which compares with €355.6 million in 2015.

€ million

FEES AND COMMISSIONS	2015	2016	Weight	
			2015	2016
Payments and Account Management	95.0	98.6	24.4%	31.8%
Comissions on Loans, Guarantees and Similar	171.5	128.0	44.0%	41.3%
Asset Management and Bancassurance	79.5	62.3	20.4%	20.1%
Advising, Servicing and Other	44.0	21.1	11.3%	6.8%
SUBTOTAL	**390.0**	**310.0**	**100.0%**	**100.0%**
Costs with State Guarantees	-34.4	-32.9		
TOTAL	**355.6**	**277.1**		

The 22.1% YoY reduction in fees and commissions reflects, on the one hand, the deleveraging difficulties in the private sector (households and corporate segment), and on the other the consequences of the reshaping of the NB Group's perimeter, which reduced the volume of its activity and business risk profile in certain sectors and regions.

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

- Support services to companies – including guarantees provided, documentary credits, and services related to loan management and other (41.3% of the total);
- Commissions on payment services (31.8% of the total) – cards and payment processing, namely cheques, transfers, payment orders, POS and ATMs, and also account management fees; and
- Asset management and bancassurance products, which accounted for 20.1% of total fees and commissions.

Fees and commissions include the negative effect of the €32.9 million fee paid by NOVO BANCO in connection to issuing of debt securities guaranteed by the Republic of Portugal (€34.4 million in 2015).

Capital Markets and Other Results

Capital market results amounted to €147.6 million, which compares with €117.9 million in 2015. The other operating results totalled €38.2 million, being positively influenced by the changes arising from the renegotiation of the ACT (+ €28.2 million), and on the negative side, by losses on real estate funds' assets recognised as investment property.

Operating Costs

Operating costs show a YoY reduction of 21.7%, reflecting the ongoing implementation of the restructuring measures that involved the downsizing of the distribution network and the simplification and scaling down of the organisational structure and processes, with the consequent reduction of the workforce.

€ million

OPERATING COSTS	2015	2016	% Change
Staff Costs	397.6	303.5	-23.7%
General and Administrative Costs	285.4	231.4	-18.9%
Depreciation	71.7	56.1	-21.8%
TOTAL	**754.7**	**590.9**	**-21.7%**

Staff costs decreased by 23.7% YoY, to €303.5 million, underpinned by a headcount reduction of 1,215 employees since 31 December 2015, of whom 176 resulting from discontinued activities. Compared to November 2015, the base date for the commitments assumed in the Restructuring Plan, there was an effective reduction of 1,312 employees.

General administrative expenses dropped by 18.9% YoY, to €231.4 million. This reduction, which occurred across most cost categories, reflects the rationalisation and streamlining policy under way.

The reduction in depreciation is explained, among others, by greater selectivity in IT investment, the rationalisation of equipment and the closure of facilities.

The contraction in operating costs also reflects the downsizing of the distribution network in line with the new business reality. In December 2016 NOVO BANCO had 537 branches, which is 98 fewer units than a year earlier.

Provisions

In 2016 the NOVO BANCO Group reinforced provisions by €1,374.7 million (+€316.8 million over December 2015), the bulk of which was allocated to credit and securities provisions.

€ million

PROVISIONS	2015	2016	% Change
Credit and Securities	975.5	988.5	1.3%
Real Estate and Equipment	81.1	126.3	55.8%
Other Assets and Contingencies	1.3	259.9	....
TOTAL	**1 057.9**	**1 374.7**	**29.9%**

The credit provision charge totalled €672.6 million, improving the loan coverage ratio to 16.5%, from 15.6% in December 2015.

Under IAS 37 the costs arising from the restructuring plan, totalling €98.2 million, were included in the provision for restructuring costs. The year's €88.6 million costs with early retirements, redundancy payments, and closure of facilities were considered against the said provision.

Restructuring Plan

The Restructuring Plan, submitted to the European Commission by NOVO BANCO's Board of Directors at the end of 2015 and implemented during 2016, was drawn up in close cooperation with Banco de Portugal. It comprised a set of measures, notably viewing concentration in banking and retail and corporate activities in Portugal and Spain, divestment from non-strategic assets and a €150 million reduction in recurring operating costs (excluding the restructuring costs) through staff cuts of 1,000 employees and the downsizing of the distribution network to 550 branches.

On 31 December 2016 the staff cutting target had been met (reduction of 1,312 employees since November 2015), the downsizing of the branch network was well advanced (537 branches closed vs. the target of 550) and the reduction of operating costs surpassed the established target (-€150 million).

At the end of November 2016, the Board of Directors of NOVO BANCO issued a set of new measures aimed at further simplifying the structure of the organisation at the level of first-line managers, abolishing 10 central departments and thus reducing the Bank's top level structures by 25.6%. This simplification work was deployed across various areas, namely marketing, commercial and credit recovery.

Side Bank

As an integral part of this Restructuring Plan and as agreed between the Portuguese Government and the Directorate-General for Competition (DG Comp), a virtual division has been established between the strategic assets, defined as Core assets, and the non-strategic assets, which were included in a so-called Side Bank and are intended for gradual and orderly divestment, aiming at organisational simplification and the preservation of NOVO BANCO Group's capital.

Concerning these assets and the concept of Side Bank it was established and agreed that (i) as a rule the exposure to such assets could not increase, save in the case of a marginal increase to support preserving sale value, (ii) they should be sold, discontinued or liquidated but taking into account the maximisation of their value, viewing an estimated reduction in 2016 to €9 billion or less.

Under this exercise the value of non-strategic assets on 31 December 2016 was €8,737 million, net of provisions (Dec. 15: €10,843 million). The reduction achieved (which met the established target) was sharpest in equity holdings and real estate.

8.2. Activity

Funding

The steps taken towards resuming normal operating conditions and consolidating the relationship with the clients positively influenced the recovery of funding. Deposits totalled €25.6 billion on 31 December 2016, having dropped by €1.8 billion (-6.5%) since December 2015. This reduction was more noticeable in the large depositors and reflects the impact of the re-transfer of bonds and the transfer of BESV and NB Asia to assets being discontinued (€-0.4 billion). The last quarter of the year saw a positive trend in deposits, which grew by around €0.9 million.

€ million

CUSTOMER FUNDS	31-Dec-15	30-Sep-16	31-Dec-16	YTD Change		4Q2016 absolute change
				absolute	relative	
Deposits	27 364	24 657	25 585	-1 779	-6.5%	928
Other Customer Funds (1)	218	302	404	186	85.1%	102
Debt Securities place with Clients	1 331	998	996	- 335	-25.2%	- 2
Life Insurance Products	5 388	4 895	4 730	- 658	-12.2%	- 165
Off-Balance Sheet Funds	5 642	5 121	5 069	- 573	-10.1%	- 52
Total Customer Funds	**39 943**	**35 973**	**36 784**	**-3 158**	**-7.9%**	**811**

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

Customer Loans

NOVO BANCO's strategy of support to the domestic business community was underlined by its strict and selective lending policy. This support has been provided across all industry sectors and all companies, regardless of size, placing a particular focus on the exporting small and medium-sized companies and those that incorporate innovation in their products, services or production systems. Corporate loans account for a 66.5% share of the total loan book.

€ million

CUSTOMER LOANS	31-Dec-15	30-Sep-16	31-Dec-16	YTD Change		4Q2016 absolute change
				absolute	relative	
Corporate Lending	**25 908**	**22 830**	**22 451**	**- 206**	**-13.3%**	**- 379**
Loans to Individuals	**11 509**	**11 315**	**11 300**	**- 209**	**-1.8%**	**- 15**
Residential Mortgage	9 842	9 742	9 726	- 116	-1.2%	- 16
Other Loans	1 667	1 573	1 574	- 93	-5.5%	1
Customer Loans (Gross)	**37 417**	**34 145**	**33 750**	**-3 667**	**-9.8%**	**- 395**
Domestic	*30 946*	*29 549*	*29 095*	*-1 851*	*-6.0%*	*- 454*
International	*6 471*	*4 596*	*4 656*	*-1 815*	*-28.0%*	*60*
Provisions	**5 833**	**5 630**	**5 566**	**- 267**	**-4.6%**	**- 64**
Customer Loans (Net)	**31 584**	**28 515**	**28 184**	**-3 399**	**-10.8%**	**- 331**

Gross customer loans contracted by €3.7 billion in 2016, of which €1.9 billion (-6.0%) in the domestic activity and €1.8 billion (-28.0%) in the international activity (where the reduction mainly reflects the transfer of BESV and NB Asia to discontinued assets). In the 4th quarter this reduction amounted to €0.4 billion, with residential mortgage loans and other loans to individuals remaining flat compared to the end of the 3rd quarter.

Securities Portfolio

The securities portfolio, the main source of eligible assets for funding operations with the European Central Bank (ECB), totalled €11.8 billion on 31 December 2016 and represented 22.4% of assets.

The breakdown of the securities portfolio reflects a portfolio management approach based on securities with lower risk and higher liquidity, namely sovereign debt of Eurozone countries, which account for roughly 55.3% of the total available securities. In the last quarter of the year the overall value of the portfolio remained relatively unchanged. The securities portfolio has a positive fair value reserve of €151.4 million (Dec. 2015: €104.3 million).

net of impairments | € million

SECURITIES PORTFOLIO	31-Dec-15	30-Sep-16	31-Dec-16	YTD Change		4Q2016 absolute change
				absolute	relative	
Portuguese Sovereign Debt	2 685	2 945	3 538	853	31.8%	593
Other Sovereign Debt	4 689	3 430	2 971	-1 718	-36.6%	- 459
Bonds	2 671	2 748	2 775	104	3.9%	27
Other	3 307	2 729	2 478	- 829	-25.1%	- 251
Total	**13 352**	**11 852**	**11 762**	**-1 590**	**-11.9%**	**- 90**

Liquidity

The strategy of liquidity enhancement pursued, with particular focus on the recovery of customer funds and on asset deleveraging supported a €0.9 million increase in customer deposits in the last quarter of the year.

During the year NOVO BANCO repaid medium long-term debt placed with institutional investors in the amount of approximately €0.4 billion. Moreover, in 2016 the medium long-term debt was further reduced by €0.4 billion (nominal value) through the repurchase of own bonds, including under the senior debt tender offer performed in June. Despite the fact that access to the financial markets remained strongly conditioned, in November NOVO BANCO priced a securitisation of credit rights over SME receivables amounting to approximately €0.7 billion, raising market funding in the amount of €0.4 billion through the placement in the market of the Class A Notes, the Notes of lower subordination.

In November, in view of the improvement and recovery of its liquidity position, the Bank cancelled in advance the entire €1.0 million issue (that was scheduled to mature in December). This was followed in December by the partial early cancellation of €0.7 billion of the €1.0 billion bonds maturing in January 2017. On 17 February 2017, as the €1.5 billion issue matured, NOVO BANCO ceased to have any kind of debt instrument guaranteed by the Portuguese Republic.

In this context net funding from the European Central Bank sharply contracted in 2016, totalling €5.1 billion at the end of December, down by €1.9 billion from €7 billion at the end of 2015.

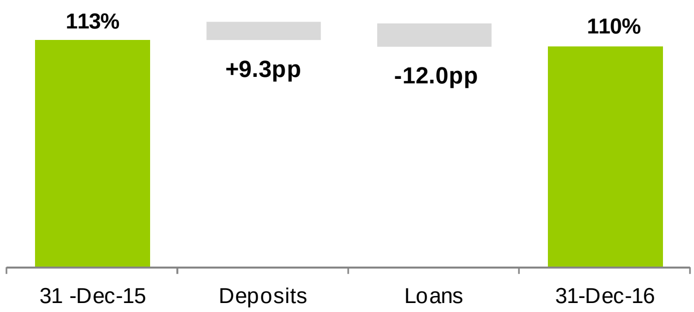
Alongside its deleveraging and funding policy, NOVO BANCO continued to optimise its portfolio of assets eligible for rediscount with the European Central Bank (ECB). Hence in December the Bank launched a new covered bond issue in the amount of €0.5 billion. At the end of the year, the portfolio of eligible securities totalled €13.1 billion, which compares with €12.7 billion at the end of 2015.

The sovereign debt portfolio (excluding exposure to sovereign debt related to the insurance activity) decreased by around €0.3 billion, to €4.4 billion, being concentrated in European countries. The exposure to Portuguese sovereign debt totalled €2.2 billion. As to the exposure to other European peripheral countries, in the amount of €2.5 billion, €1.5 billion concerned Italian sovereign debt and €1.0 billion was Spanish sovereign debt.

At the end of the year the Liquidity Coverage Ratio (LCR) was 107% (up from 77% at the end of December 2015).

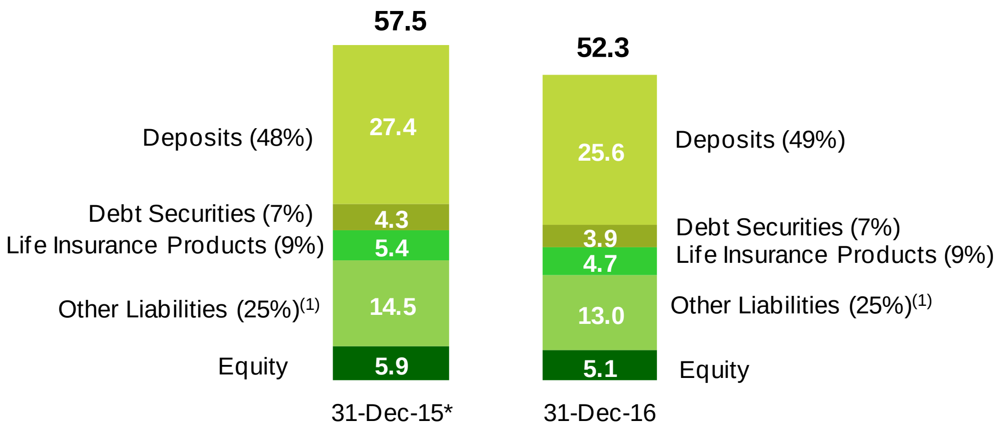
The loan to deposit ratio decreased by 3pp, to 110%, since December 2015, the result of a sharper reduction in customer loans than in customer deposits.

Loan to Deposit Ratio



Customer deposits, representing 49% of total assets, not only remained the main source of funding but also increased their weight in the total.

FUNDING STRUCTURE
(figures in € billion)



(1) Includes ECB Funding *Restated figures

Equity

The changes in equity in 2016 mainly reflect the losses reported in 2015 and 2016 and the negative value of the revaluation reserves (securities portfolio fair value reserves and actuarial deviations in the Pension Fund). On 31 December 2016 the NB Group's equity was approximately €5.1 billion.

€ million

EQUITY	31-Dec-15*	31-Dec-16	Absolute Change
Share Capital	4 900	4 900	0
Revaluation Reserves	- 250	- 289	- 39
Other Reserves and Retained Earnings	2 158	1 244	- 914
Profit / (loss) for the period	- 930	- 788	142
Non-controlling interest	57	81	24
Total	5 935	5 148	- 787

* Restated figures

The reduction in revaluation reserves is related with gains / losses realised in sales in the available-for-sale securities portfolio and the recognition of €82.5 million negative actuarial deviations in the Pension Fund.

8.3. NOVO BANCO Results and Activity (Separate)

Results

Signs of recovery in operating performance are visible in the year's net results, which, although negative at €744.7 million, are lower than the €1,064.7 million loss reported in 2015. We should note that provision charges (€1,232.3 million) and operating costs (€556.3 million) together exceeded the year's banking income (€874.2 million).

Operating costs decreased by 16.3% YoY, to €556.3 million, underpinned by the staff cuts and the improvements achieved in terms of simplifying processes and streamlining the structures. In terms of efficiency, we highlight the fact that operating costs represented 63.6% of banking income, down from 133.8% in December 2015.

€ million

INCOME STATEMENT	2015 *	2016	Relative Change
Net Interest Income	247.7	374.8	51.3%
+ Fees and Commissions	307.4	252.9	-17.7%
= Commercial Banking Income	**555.1**	**627.7**	**13.1%**
+ Capital Markets and Other Results	-58.3	246.5	....
= Banking Income	**496.8**	**874.2**	76.0%
- Operating Costs	664.8	556.3	-16.3%
= Net Operating Income	**-168.0**	**317.9**	....
- Net Provisions	919.5	1232.3	34.0%
Credit	411.4	555.9	35.1%
Securities	213.6	326.6	52.9%
Other Assets and Contingencies	294.5	349.9	18.8%
= Income before Taxes	**-1087.5**	**-914.4**	15.9%
- Corporate Tax	-54.0	-206.0	....
- Special Tax on Banks	31.2	36.3	16.6%
= Net Income	**-1064.7**	**-744.7**	30.0%

* Restated figures

Activity

NOVO BANCO's activity in 2016 was developed under the same guidelines already referred to for the NOVO BANCO Group (NB Group or the Group).

€ million

ACTIVITY	31-Dec-2015*	31-Dec-2016	Change absolute	Change relative
Assets	**50 996**	**46 843**	**-4 153**	**-8.1%**
Gross Loans	**33 710**	**31 414**	**-2 296**	**-6.8%**
Loans to Individuals	8 917	8 855	- 62	-0.7%
- Residential Mortgage	7 399	7 412	13	0.2%
- Other Loans to Individuals	1 518	1 443	- 75	-4.9%
Corporate Loans	24 793	22 559	-2 234	-8.7%
On-Balance Sheet Customer Funds	**28 120**	**26 220**	**-1 900**	**-6.8%**
- Deposits	27 030	25 201	-1 829	-6.8%
- Other Customer Funds (1)	208	399	191	92.2%
- Debt Securities placed with Clients	882	620	- 262	-29.7%

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

* Restated figures

The deleveraging measures taken with a view to shrinking the balance sheet caused an 8.6% contraction in assets, which totalled €46.8 billion at the end of 2016, while deposits stabilised at around €25 billion.

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 €2.3 billion, this reduction being almost exclusively concentrated in corporate loans, which contracted by €2.2 billion.

The Overdue loans by more than 90 days / Gross loans ratio increased to 18.0%, with the corresponding coverage ratio standing at 97.7%. The Provisions for Credit / Gross Loans ratio improved, reaching 17.5% at the end of 2016 (16.9% on 31 December 2015).

CREDIT QUALITY	31-Dec-2015*	31-Dec-2016	Change	
			absolute	relative
BASE DATA (€ million)				
Gross Loans	33 710	31 414	- 2 296	-6.8%
Overdue Loans	5 351	5 711	360	6.7%
Overdue Loans > 90 days	5 089	5 639	550	10.8%
Credit Provisions	5 705	5 508	- 197	-3.5%
INDICATORS (%)				
Overdue Loans / Gross Loans	15.9	18.2	2.3 p.p.	
Overdue Loans > 90 days / Gross Loans	15.1	18.0	2.9 p.p.	
Credit Provisions / Overdue Loans	106.6	96.5	-10.1 p.p.	
Credit Provisions / Overdue Loans > 90 days	112.1	97.7	-14.4 p.p.	
Credit Provisions / Gross Loans	16.9	17.5	0.6 p.p.	

Activity of the International Branches

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

A brief description the activity of NOVO BANCO’s International Branches is presented in Chapter 4.2.2. International Commercial Banking.

9. Corporate Governance

Information on Corporate Governance

A - Qualified holdings in NOVO BANCO's share capital

Qualified holdings in NOVO BANCO's share capital as at 31 December 2016

Shareholder	Number of shares	% share capital with voting rights
Fundo de Resolução (Resolution Fund)		
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 management 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 articles 145 - P the *RGISF - Regime Geral das Instituições de Crédito e Sociedades Financeiras* (General Law on Credit Institutions and Financial Companies)].

Said members may, at any time, be replaced by the Banco de Portugal, and the new members that will replace them will be appointed by Banco de Portugal 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 management and supervisory bodies is provided under point 3. NOVO BANCO.

E - Powers of the management body

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

The 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., of 3 August 2014, as amended in December 2015.

Accordingly, in addition to normal management powers, under the Bylaws of NOVO BANCO and the regulations of transition banks, the Board of Directors is specifically empowered to:

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

b) Manage the assets, liabilities, off-balance sheet items and assets under management transferred from Banco Espírito Santo, S.A., to NOVO BANCO, S.A., under the terms of the decisions of the resolution authority and carry on the transferred activities, while complying with the legal framework of the resolution and for the purposes laid down in it.

c) Respect management criteria that ensures the maintenance of low levels of risk and the maximization of the value of the transferred 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

Summary of the main items regarding to the internal control and risk management systems implemented at the company concerning the process of disclosure of financial reporting.

The Internal Control System (ICS) is defined as the set of strategies, systems, processes, policies and procedures, defined by the management body, as well as the actions undertaken by this body and the institution's remaining staff, for the purpose of ensuring:

- **Strategic and Operational Performance Objectives** - the efficiency and profitability of the NB 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 valuation of assets and liabilities, and the implementation of mechanisms to prevent errors and fraud;

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

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

The ICS is consistently implemented across all the entities of the NOVO BANCO Group (NB Group, the Group or NBG) designated in the scope of the standard, without prejudice to additional requirements of host territories and of the specificities of the functions involved in the ICS.

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

- **Adequate control environment** reflecting the importance of internal control and establishing the discipline and structure of the remaining elements of the internal control system;

- **Solid risk management system**, designed to identify, assess, monitor and control all risks that may influence the strategy and objectives of the NB Group, ensuring that the strategy and objectives are pursued and that the necessary steps are taken to respond adequately to undesired deviations;

- **Efficient information and communication system** that guarantees the collection, treatment and exchange of relevant, comprehensive and consistent information, in a timely manner and in a way that allows effective and timely management and control of the activity and the inherent risks;

- **Effective monitoring process**, implemented to ensure the adequacy and effectiveness of the internal control system over time, ensuring in particular the timely identification of potential or actual deficiencies and opportunities for improvement allowing to strengthen the ICS, and ensuring that corrective actions are triggered.

Under NBG's Internal Control System, policies, processes, procedures, systems and controls are formalized in internal standards, process catalogues, internal control manuals, presentations supporting the main committees involved in the management of risk, information and communication, control function reports, and in the internal control report itself. In addition, for the design and assessment of its ICS, the NBG adopted COSO (Committee of Sponsoring Organizations of the Treadway Commission) and COBIT (Control Objectives for Information and related Technology) methodologies.

The Board of Directors is responsible for maintaining an adequate and effective ICS, which is based on the Three Lines of Defence model. The Three Lines of Defence 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 ICS. The model thus establishes the following:

Business and Operational Functions (1st Line of Defence):

- Assume risk within pre-defined limits;
- Are responsible for the continuous identification, assessment and control of the risks to the business/process.

Control and Support Functions (2nd Line of Defence):

- Define risk management and control policies, methodologies and tools, exercising functional supervision to support and monitor the effectiveness of the 1st Line;
- Monitor and report on regulatory compliance;
- Responsible for information management and reporting to senior management.

Internal Audit (3rd Line of Defence):

- Provide for the assessment of the appropriateness and effectiveness of the governance, risk management and internal control systems under the responsibility of the 1st and 2nd Lines of Defence;
- Focus in particular on the assessment of the effectiveness of the 2nd Line of Defence.

In 2016, NBG's internal control governance model was reviewed and a new model was designed, with the following new features:

- The Internal Control function (previously included in the Compliance Function) gained an autonomous status under a specific department; the purpose was to upgrade the internal control activity, reinforcing the 2nd line of defence and providing support to the Board of Directors and the Supervisory Body (Statutory Supervisory Board during 2016) in the monitoring of NBG's ICS.
- Setting up of an Internal Control System Committee, with powers to follow-up and monitor the NBG's ICS, in a group-wide and integrated manner.

The mission of the Internal Control Department is to ensure the existence of an adequate and effective Internal Control System in NBG, through a hierarchical and functional relationship with the Board of Directors and support to the Supervisory Body (Statutory Supervisory Board during 2016), in compliance with national regulations and in line with best international practices, namely those issued by the European Banking Authority (EBA). The purpose of a dedicated department specifically dedicated to and cutting across the ICS was to eliminate possible conflicts of interest through the independence of the remaining functions - Compliance, Risk Management and Internal Audit -, whose activities are subject to systematisation and control assessment by the Internal Control Department, and also to increase the robustness and specialisation of internal control issues, allowing to the Board of Directors and the Supervisory Body (Statutory Supervisory Board during 2016) a more integrated and consistent view of the ICS.

Detailed information on risk management function at NOVO BANCO is presented in point 7. Risk Management.

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

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

NOVO BANCO, S.A.
Art. 85/9 of RGICSF - Credit to members of the Corporate Bodies - Amount outstanding (excluding interest) as at 31.12.2016*

Name / Denomination	Role	Amount (in €)
António Manuel Palma Ramalho	Chairman of the Board of Directors	78.25
Jorge Telmo Maria Freire Cardoso	Member of the Board of Directors	0
Related companies		1,327.41
Vítor Manuel Lopes Fernandes	Member of the Board of Directors	0
Francisco Ravara Cary**	Member of the Board of Directors	0
Closely related people		245.30
Related companies		2,070.05
Francisco Marques da Cruz Vieira da Cruz**	Member of the Board of Directors	95,363.59

* The amount of credit outstanding from entities of the NOVO BANCO Group and related entities is detailed in Note 39 – Related Party Transactions, of the Notes to the Separate Financial Statements.

** Mr. Francisco Ravara Cary resigned as member of the Board of Directors on 25 January 2017. Mr. Francisco Marques da Cruz Vieira da Cruz resigned as member of the Board of Directors on 23 November 2016.

Note: The amounts in the table above concern exclusively Residential 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, upon on a proposal from the Management Committee of the Resolution Fund (article 145 - P of the RGICSF - *Regime Geral das Instituições de Crédito e Sociedades Financeiras* - General Law on Credit Institutions and Financial Companies).

H 2 – Remunerations in 2016

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

The annual amount of remuneration received, on an individual and aggregate basis, by the Members of the Corporate Bodies of NOVO BANCO in 2016 was the following:

(€)

Board of Directors	Role	Paid by NOVO BANCO	Total
António Manuel Palma Ramalho	Chairman of the Board of Directors	121,285.02	121,285.02
Jorge Telmo Maria Freire Cardoso	Member of the Board of Directors	232,828.44	232,828.44
Vítor Manuel Lopes Fernandes	Member of the Board of Directors	232,828.44	232,828.44
Francisco Ravara Cary (a)	Member of the Board of Directors	232,828.44	232,828.44
Francisco Marques da Cruz Vieira da Cruz (b)	Member of the Board of Directors	231,881.66	231,881.66
Eduardo José Stock da Cunha (c)	ex-Chairman of the Board of Directors	183,916.04	183,916.04
José João Guilherme (c)	ex-Member of the Board of Directors	150,089.68	150,089.68
		1,385,657.72	**1,385,657.72**

Statutory Supervisory Board (d)	Role	Paid by NOVO BANCO	Total
José Manuel de Oliveira Vitorino	Chairman of the Statutory Supervisory Board	87,310.92	87,310.92
José António Noivo Alves da Fonseca	Member of the Statutory Supervisory Board	62,221.56	62,221.56
José Francisco Claro	Member of the Statutory Supervisory Board	62,221.56	62,221.56
		211,754.04	**211,754.04**

(a) Resigned in January 2017 (b) Resigned in November 2016 (c) Resigned in July 2016

(d) given the change in Bylaws in 8 April 2017 the Supervision of NOVO BANCO, S.A. was transferred to an Audit Committee and a Statutory Auditor.

Note: In 2016 the members of the corporate bodies of NOVO BANCO were not paid any amounts by other NB Group companies.

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

Nothing to report

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

Nothing to report

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

Nothing to report

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

Nothing to report

I – Securities held by Members of the Corporate Bodies

For compliance with Article 447 of the Commercial Companies Code (Announcement of securities held by members of the management and supervisory bodies), the members of the Board of Directors and of the Statutory Supervisory Board of NOVO BANCO have nothing to report concerning the situations described in this Article, namely concerning the holding as at 31 December 2016 of or trading during 2016 in shares or bonds.

10. Financial Statements

10.1 Consolidated Financial Statements

NOVO BANCO, S.A.

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

€ thousand

	31.12.2016	31.12.2015*
ASSETS		
Cash and deposits with Central Banks	1 469 259	775 608
Deposits with banks	370 918	340 209
Financial assets held for trading	656 722	775 039
Other financial assets at fair value through profit or loss	1 203 807	1 526 193
Available-for-sale financial assets	10 557 972	11 810 712
Loans and advances to banks	724 167	1 690 628
Loans and advances to customers	28 184 426	31 583 759
Financial Assets held to maturity	-	-
Assets with Repurchase Agreement	-	-
Derivatives held for risk management purposes	222 769	318 596
Non-current assets held for sale	7 764	3 182 479
Non-current assets held for sale - Discontinued operations	1 217 371	40 327
Investment properties	1 206 355	54 625
Other tangible assets	206 459	312 437
Intangible assets	44 663	221 168
Investments in associated companies	158 650	405 486
Current tax assets	30 620	38 848
Deferred tax assets	2 603 979	2 523 154
Technical reserves of reinsurance ceded	6 355	7 696
Other assets	3 460 416	1 910 126
Debtors for direct and indirect insurance	1 086	3 019
Other assets	3 459 330	1 907 107
TOTAL ASSETS	**52 332 672**	**57 517 090**
LIABILITIES		
Deposits from Central Banks	6 410 033	7 632 794
Financial liabilities held for trading	632 831	743 860
Other financial liabilities at fair value through profit or loss	-	-
Deposits from banks	3 577 914	4 157 132
Due to customers	25 989 719	27 582 142
Debt securities issued	3 817 801	4 224 658
Financial liabilities related to transferred assets	-	-
Derivatives held for risk management purposes	108 265	77 846
Investment contracts	3 396 425	4 043 488
Non-current liabilities held for sale	1 821	162 709
Non-current liabilities held for sale - Discontinued operations	748 807	92 893
Provisions	364 615	465 114
Technical reserves	1 333 567	1 344 216
Current tax liabilities	16 972	38 643
Deferred tax liabilities	19 301	12 336
Equity Instruments	-	-
Subordinated debt	48 100	56 260
Other liabilities	718 548	947 625
Creditors for direct and indirect insurance	10 945	17 301
Other liabilities	707 603	930 324
TOTAL LIABILITIES	**47 184 719**	**51 581 716**
EQUITY		
Share Capital	4 900 000	4 900 000
Share premium	-	-
Other equity instruments	-	-
Treasury stock	-	-
Revaluation Reserves	(289 082)	(249 748)
Other Reserves and Retained Earnings	1 244 028	2 158 080
Profit / (loss) for the period	(788 330)	(929 539)
Interim Dividends	-	-
Non-controlling Interests	81 337	56 581
TOTAL EQUITY	**5 147 953**	**5 935 374**
TOTAL LIABILITIES AND EQUITY	**52 332 672**	**57 517 090**

* Restated figures

The Chief Accountant The Board of Directors

NOVO BANCO, S.A.

CONSOLIDATED INCOME STATEMENT AS AT 31 DECEMBER 2015 AND AS AT 31 DECEMBER 2016

€ thousand

	31.12.2016	31.12.2015*
Interest and similar income	1 193 354	1 443 156
Interest expense and similar charges	678 870	992 504
Net Interest Income	**514 484**	**450 652**
Dividend income	37 832	11 531
Fee and Commission income	378 370	471 499
Fee and Commission expense	113 003	133 454
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	22 905	(84 161)
Net gains / (losses) from available-for-sale financial assets	116 429	230 761
Net gains / (losses) from foreign exchange revaluation	(6 576)	30 092
Net gains/ (losses) from the sale of other assets	(51 736)	(12 341)
Insurance earned premiums, net of reinsurance	49 201	38 326
Claims incurred, net of reinsurance	167 744	237 016
Change in technical reserves, net of reinsurance	105 345	166 092
Other operating income and expenses	37 041	(103 701)
Operating Income	**922 548**	**828 280**
Staff costs	303 463	397 564
General and administrative expenses	231 352	285 384
Depreciation and amortisation	56 061	71 713
Provisions, net of reversals	52 319	(54 512)
Impairment losses on loans, net of reversals and recoveries	672 578	739 323
Impairment losses on other financial assets, net of reversals and recoveries	365 883	313 049
Impairment losses on other assets, net of reversals and recoveries	283 929	60 072
Operating Costs	**1 965 585**	**1 812 593**
Sale of subsidiaries and associates	24 325	33
Negative consolidation differences	-	222
Results from associated companies consolidated by the equity method	4 074	16 648
Profit / (loss) before income tax	**(1 014 638)**	**(967 410)**
Corporate tax		
Current tax	16 330	58 583
Deferred tax	(243 924)	(78 674)
	(227 594)	(20 091)
Income from continuing activities	**(787 044)**	**(947 319)**
Income from discontinued operations	(10 427)	3 026
Net Income for the period	**(797 471)**	**(944 293)**
Attributable to shareholders of the Bank	**(788 330)**	**(929 539)**
Attributable to Non-controlling interests	(9 141)	(14 754)
	(797 471)	(944 293)

* Restated figures

The Chief Accountant

The Board of Directors

10.2. Separate Financial Statements

NOVO BANCO, S.A.

SEPARATE BALANCE SHEET AS AT 31 DECEMBER 2015 AND AS AT 31 DECEMBER 2016

€ thousand

	31 December 2016			31.12.2015*
	Amount before provisions, impairments and depreciation	Provisions, impairment and depreciation	Net amount	
ASSETS				
Cash and deposits with Central Banks	1 464 402	-	1 464 402	738 360
Deposits with banks	116 774	-	116 774	132 753
Financial assets held for trading	665 364	-	665 364	787 083
Other financial assets at fair value through profit or loss	4 876	-	4 876	227 393
Available-for-sale financial assets	11 479 651	1 508 952	9 970 699	10 594 931
Loans and advances to banks	1 798 037	472 414	1 325 623	2 548 148
Loans and advances to customers	31 413 542	5 508 133	25 905 409	28 005 358
Financial Assets held to maturity	-	-	-	-
Assets with Repurchase Agreement	-	-	-	-
Derivatives held for risk management purposes	223 583	-	223 583	322 055
Non-current assets held for sale	94 868	10 394	84 474	1 252 050
Investment properties	-	-	-	-
Other tangible assets	913 371	713 688	199 683	229 560
Intangible assets	728 641	686 316	42 325	68 469
Investments in associated companies	1 430 681	263 236	1 167 445	1 415 763
Current tax assets	10 201	-	10 201	1 528
Deferred tax assets	2 636 686	-	2 636 686	2 554 675
Other assets	3 571 169	545 402	3 025 767	2 118 206
TOTAL ASSETS	**56 551 846**	**9 708 535**	**46 843 311**	**50 996 332**
LIABILITIES				
Deposits from Central Banks	6 410 033	-	6 410 033	7 485 794
Financial liabilities held for trading	645 359	-	645 359	758 446
Other financial liabilities at fair value through profit or loss	-	-	-	-
Deposits from banks	4 694 253	-	4 694 253	5 129 860
Due to customers	25 599 957	-	25 599 957	27 237 874
Debt securities issued	3 025 503	-	3 025 503	3 489 565
Financial liabilities related to transferred assets	685 588	-	685 588	168 565
Derivatives held for risk management purposes	108 263	-	108 263	77 846
Non-current liabilities held for sale	-	-	-	-
Provisions	334 546	-	334 546	422 127
Current tax liabilities	12 852	-	12 852	29 803
Deferred tax liabilities	87 979	-	87 979	78 956
Equity Instruments	-	-	-	-
Other subordinated debt	-	-	-	-
Other liabilities	564 272	-	564 272	618 018
TOTAL LIABILITIES	**42 168 605**	-	**42 168 605**	**45 496 854**
EQUITY				
Share Capital	4 900 000	-	4 900 000	4 900 000
Share premium	-	-	-	-
Other equity instruments	-	-	-	-
Treasury stock	-	-	-	-
Revaluation Reserves	(340 618)	-	(340 618)	(242 714)
Other Reserves and Retained Earnings	860 068	-	860 068	1 906 833
Profit / (loss) for the period	(744 744)	-	(744 744)	(1 064 641)
Interim Dividends	-	-	-	-
TOTAL EQUITY	**4 674 706**	-	**4 674 706**	**5 499 478**
TOTAL LIABILITIES AND EQUITY	**46 843 311**	**-**	**46 843 311**	**50 996 332**

* Restated figures

The Chief Accountant

The Board of Directors

NOVO BANCO, S.A.

SEPARATE INCOME STATEMENT AS AT 31 DECEMBER 2015 AND AS AT 31 DECEMBER 2016

€ thousand

	31.12.2016	31.12.2015 *
Interest and similar income	973 798	1 148 168
Interest expense and similar charges	598 964	900 486
Net Interest Income	**374 834**	**247 682**
Dividend income	159 838	50 832
Fee and Commission income	335 932	392 745
Fee and Commission expense	91 136	98 228
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	101 210	(55 961)
Net gains / (losses) from available-for-sale financial assets	11 593	(13 625)
Net gains / (losses) from foreign exchange revaluation	5 004	(7 445)
Net gains/ (losses) from the sale of other assets	(15 558)	10 030
Other operating income and expenses	(43 861)	(60 367)
Operating Income	**837 856**	**465 663**
Staff costs	267 424	333 650
General and administrative expenses	234 903	264 757
Depreciation and amortisation	53 958	66 404
Provisions, net of reversals	50 902	(18 163)
Impairment losses on loans, net of reversals and recoveries	555 873	529 037
Impairment losses on other financial assets, net of reversals and recoveries	379 035	288 976
Impairment losses on other assets, net of reversals and recoveries	246 522	119 643
Profit / (loss) before income tax	**(950 761)**	**(1 118 641)**
Corporate tax	(206 017)	(54 000)
Current tax	6 888	12 179
Deferred tax	(212 905)	(66 179)
Net Income for the period	**(744 744)**	**(1 064 641)**
o.w.: Income after taxes from discontinued operations	(8 642)	6 865

* Restated figures

The Chief Accountant

The Board of Directors

11. Final Notes

11.1. Declaration of Conformity with the Financial Information Reported

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

(i) the separate and consolidated financial statements of NOVO BANCO, for the year ended on 31 December 2016 were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted in the European Union;

(ii) to the best of their knowledge the financial statements referred to in (i) 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

(iii) the management report describes accurately the evolution of the business, the performance and the financial position of NOVO BANCO and of NOVO BANCO Group in the year ended 31 December 2016, and includes a description of the main risks and uncertainties faced.

11.2. Proposal for the Distribution of NOVO BANCO Results

Under the terms of Article 66 - 5 - f) and for the purposes of Article 376 - 1 - b) of the Portuguese Commercial Companies Code, and pursuant to Article 11 - 2 – 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 2016, in the amount of €744,743,998.37 be allocated to the "Other Reserves and Retained Earnings" caption on the balance sheet.

11.3. 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 the cooperation of the Governmental and Supervisory Authorities.

Lisbon, 22 May 2017

The Board of Directors *

Rui Manuel Janes Cartaxo

António Manuel Palma Ramalho

Jorge Telmo Maria Freire Cardoso

Vítor Manuel Lopes Fernandes

Isabel Maria Ferreira Possantes Rodrigues Cascão

Luísa Marta Santos Soares da Silva Amaro de Matos

Rui Miguel Dias Ribeiro Fontes

José Eduardo Fragoso Tavares de Bettencourt

* pending of commercial registry.

Annex I - Alternative Performance Measures

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

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

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

I – Reconciliation of the Income Statement

Reconciliation between the Official Consolidated Income Statement and the Management Consolidated Income Statement used by NOVO BANCO's Management in the analysis of the NB Group's performance:

€ thousand

Official Consolidated Income Statement		Management Consolidated Income Statement										
		Net Interest Income	Fees and Commissions	Capital Markets	Other Results	Operating Costs	Net Provisions - Credit	Net Provisions - Securities	Net Provisions - Other Assets and Contingencies	Corporate Tax	Special Tax on Banks	Non-controlling Interests
		514 484	**277 140**	**147 619**	**38 243**	**590 876**	**672 578**	**315 884**	**386 247**	**(227 594)**	**36 966**	**(9 141)**
Interest and similar income	1 193 354	1 193 354										
Interest expense and similar charges	678 870	678 870										
Net Interest Income	**514 484**											
Dividend income	37 832			37 832								
Fee and Commission income	378 370		378 370									
Fee and Commission expense	113 003		113 003									
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	22 905			22 905								
Net gains / (losses) from available-for-sale financial assets	116 429			116 429								
Net gains / (losses) from foreign exchange revaluation	(6 576)			(6 576)								
Net gains/ (losses) from the sale of other assets	(51 736)				(51 736)							
Insurance earned premiums, net of reinsurance	49 201				49 201							
Claims incurred, net of reinsurance	167 744				167 744							
Change in technical reserves, net of reinsurance	105 345				105 345							
Other operating income and expenses	37 041		11 773	(22 971)	85 205						(36 966)	
Operating Income	**922 548**											
Staff costs	303 463											
General and administrative expenses	231 352											
Depreciation and amortisation	56 061											
Provisions, net of reversals	52 319								52 319			
Impairment losses on loans, net of reversals and recoveries	672 578						672 578					
Impairment losses on other financial assets, net of reversals and recoveries	365 883							315 884	49 999			
Imparidade de outros ativos líquida de reversões e recuperações	283 929								283 929			
Operating Costs	**1 965 585**											
Sale of subsidiaries and associates	24 325				24 325							
Negative consolidation differences	-											
Results from associated companies consolidated by the equity method	4 074				4 074							
Profit / (loss) before income tax	**(1 014 638)**											
Corporate tax												
Current tax	16 330									16 330		
Deferred tax	(243 924)									(243 924)		
	(227 594)											
Income from continuing activities	**(787 044)**											
Income from discontinued operations	(10 427)				(10 427)							
Net Income for the period	**(797 471)**											
Attributable to shareholders of the Bank	**(788 330)**											
Attributable to Non-controlling interests	(9 141)											(9 141)
	(797 471)											

II - Alternative Performance Measures

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

ALTERNATIVE PERFORMANCE MEASURES

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

ALTERNATIVE PERFORMANCE MEASURES

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

Annex II - The Sustainability Accounts

• Reading Guide to the Sustainability Information

About this Report

The scope of the sustainability information reported covers the NOVO BANCO Group in Europe, namely NOVO BANCO, S.A., NOVO BANCO dos Açores S.A., NOVO BANCO Branch in Spain, GNB Gestão de Ativos S.G.P.S., S.A., and Banco Best, S.A.. The environmental indicators refer only to NOVO BANCO as at 31 December 2016. For greater detail concerning the indicators see below the "Sustainability Accounts" tables.

The report was prepared in accordance with the Global Reporting Initiative (GRI) guidelines on sustainability reporting and the principles of standard AA1000APS, as was the case in the 2015 Report. The report also followed the reporting principles set out in the International Integrated Reporting Council (IICC)'s framework for integrated reporting.

This is the third sustainability report of NOVO BANCO, a transition bank created by resolution of 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 third sustainability report should be in accordance with version 4 of the GRI (GRI 4 "Core"). The GRI4 version helped NOVO BANCO to focus on the communication of the issues (social, environmental and economic) considered more relevant to the business and its stakeholders during 2016.

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

The information on the sustainability management and performance of NOVO BANCO is reported in this 2016 Annual Report, in the Sustainability Review available in the corporate website and in the corporate website itself in the sustainability pages.

Structure of the Sustainability Report

The reporting structure of NOVO BANCO Group's sustainability information was defined in accordance with the relevance of the various issues, based on a set of values announced by the Board of Directors. These values, which should guide NOVO BANCO, are explicit in the mission and guiding principles of NOVO BANCO Group. This report therefore addresses NOVO BANCO's treatment of all the issues considered material during 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 the page where NOVO BANCO's response to each material issue is reported, as well as the correspondence between the material issues and the material aspects of the GRI4.

MATERIAL ISSUES	CORRESPONDENCE WITH GRI14 MATERIAL ISSUES	LOCATION IN THE REPORT	PAGE
Customer Satisfaction **Leadership,** with full focus on commercial banking, to reach a leading position in each segment where it operates**;** **Simplicity,** in processes and through an efficient customer service.	Products and Services	*Corporate Responsibility* *Clients*	51-53
Financial inclusion of people and companies **Leadership,** with full focus on commercial banking, to reach a leading position in each segment where it operates**;** **Simplicity,** in processes and through an efficient customer service.	• Indirect Economic Impacts; • *Portfolio* of Products	*Saving Products* *Microcredit* *Minimum Banking Services* *Environmental Products and Services*	28-32
Human Capital development Mission and objectives of the Human Capital Department Non-discrimination and Equality Policy Human Rights Policy	• Employment • Training and Education • Diversity and Equal Opportunities	*Corporate Responsibility* *Employees*	39-51
Relations with Stakeholders Code of Conduct Money Laundering Policy on Conflicts of Interest	• Ethics and Integrity • Involvement with Stakeholders • Non-discrimination • Combat to corruption	*Corporate Responsibility* *Involvement with the Stakeholders* *Employees* *Suppliers*	39-51 53-54

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

- AR - 2016 Annual Report
- 2016 Sustainability Review
- GRI Table
- Reading Guide

The Sustainability Accounts:

Environmental Indicators

Environmental	2015	2016	Change 2015/2016
Energy (G4-EN3, G4-EN5)			
Total electricity consumption (GJ)*	149,938	131,215	-12.5%
Total electricity consumption (kWh)*	41,649,568	36,448,556	-12.5%
Data centre electricity consumption (kWh)	10,397,699	9,258,905	-11.0%
Data centre electricity consumption (GJ)	37,432	33,332	-11.0%
Electricity consumption (kwh/employee)	7,595	7,398	-2.6%
Natural gas consumption (GJ)	466	498	6.9%
Natural gas consumption (N.m^3)	12,113	12,956	7.0%
Butane gas consumption (Kg)	1,980	1,890	-4.5%
Butane gas consumption (GJ)	96	92	-4.2%
Generator diesel consumption (Litres)	3,554	2,850	-19.8%
Generator diesel consumption (GJ)	126	101	-19.8%
Vehicle diesel consumption (Litres)	2,161,035	1,867,537	-13.6%
Vehicle diesel consumption (GJ)	76,640	66,231	-13.6%
Vehicle gasoline consumption (Litres)	7,263	5,672	-21.9%
Vehicle gasoline consumption (GJ)	239	187	-21.8%
Total energy consumption (GJ)	**227,505**	**198,324**	**-12.8%**
Number of vehicles	1,118	941	-15.8%
Number of flights	707	553	-21.8%
Water (G4-EN8)			
Water consumption from public supply network (m^3)	82,705	73,721	-10.9%
Water consumption per employee (m^3/employee)	15.1	14.9	-1.2%
Greenhouse gases emission (tCO_2e) (G4-EN15, G4-EN16, G4-EN17)			
Emissions from trips in company cars	5,658	4,560	-19.4%
Emissions from natural gas and butane gas kitchen equipment	32.0	33.4	4.3%
Emissions from emergency generators	9.3	7.5	-19.5%
Direct emissions (Scope 1)	**5,699.3**	**4,600.9**	**-19.3%**
Emissions from the production of electricity purchased	18,269.0	15,998.0	-12.4%
Indirect emissions (Scope 2)	**18,269.0**	**15,998.0**	**-12.4%**
Total (Scopes 1 and 2)	23,968.3	20,598.9	-14.1%
Emissions from Employees' business trips, including flights	543.9	459.0	-15.6%
Emissions from Employees' home/ work daily trips	6,854.6	6,274.0	-8.5%
Emissions from wastewater treatment	192.7	171.0	-11.3%
Indirect emissions (Scope 3)	**7,591.2**	**6,904.0**	**-9.1%**
Consumption of materials (G4-EN1, G4-EN2)			
White paper for internal use (tonnes)	351	266	-24.3%
White paper for internal use (ton/employee)	0.064	0.054	-15.7%
Recycled paper for internal use (tonnes)	1	0.31	-69.0%
Forms - *printing* and *finishing* (tonnes)	147	127	-13.6%
Toner and inkjet cartridges (units)	303	131	-56.8%
Waste management (G4-EN23)			
Paper sent for recycling (tonnes)	156	76	-51.1%
Cardboard sent for recycling (tonnes)	94	74	-21.1%
Consumables collected (units)	12,523	8,672	-30.8%

NOVO BANCO Scope

* includes Data Centre

Social Indicators

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

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

Employees by Gender	2015	2016
Men	3,207	2,742
Women	3,032	2,771

Employees by Region	2015	2016
Europe	7,226	6,036
America	64	56
Africa	2	2
Asia	19	2

Distribution of employees by gender and age per professional category (%) (G4-LA12)	2015	2016
Management		
Men	68.9	67.5
Women	31.1	32.4
< 30 years old	0.2	0
30 to 50 years old	69.7	71.1
> 50 years old	30.1	28.9
Heads of Department		
Men	63.7	64.6
Women	36.3	35.4
< 30 years old	0.5	0.3
30 to 50 years old	79.6	80.9
> 50 years old	20.0	18.8
Specific		
Men	47.5	45.4
Women	52.5	54.6
< 30 years old	5.2	4.2
30 to 50 years old	79.6	82.7
> 50 years old	15.2	13.1
Administrative		
Men	47.3	44.9
Women	52.7	55.1
< 30 years old	6.4	5.7
30 to 50 years old	65.5	68.0
> 50 years old	28.0	26.3
Auxiliary		
Men	27.7	45.5
Women	72.3	54.5
< 30 years old	0	0
30 to 50 years old	21.3	27.3
> 50 years old	78.7	72.7

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

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

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

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

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

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

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

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

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

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

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

Health (quantity)	2015	2016
Medical exams	3,755	3,387
Medical acts	28,808	27,651
Nursing acts	5,066	7,623
Total	37,629	38,661

Training hours per employee (G4-LA9)	Total Hours 2015	Average (Hours/Employee) 2015	Total Hours 2016	Average (Hours/Employee) 2016
Gender				
Women	64,036	21.1	73,889	26.7
Men	69,332	21.6	75,466	27.5
Professional Category				
Management	5,961	10.1	5,829	11.5
Heads of Department	23,964	29.7	27,321	38.6
Specific	61,303	23.7	69,188	30.5
Administrative	42,122	19.1	46,992	23.4
Auxiliary	18	0.4	21	1

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

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

Scope:
NOVO BANCO Group (Europe – Portugal and Spain: NB PT; NB Açores; NB Spain, Banco BEST; GNB GA).

Economic Indicators

Stakeholders - Value creation (€ million)	2015*	2016
Shareholders (dividends)	_____	_____
Employees (remuneration and training)	397.6	303.5
Customers (loans granted)	37,417	33,750
Suppliers (general and administrative expenses)	285.4	231.4
Community (donations)	1.05	0.92
State (taxes)	-20.1	-227.6

* restated

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Independent Limited Assurance Report

(Free translation from the original in Portuguese)

To the Board of Directors,

Introduction

1 We were engaged by the Board of Directors of Novo Banco, S.A. ("Novo Banco" or "Company") to perform a limited assurance engagement on the sustainability information, available on the Management Report – 2016 Annual Report ("Report"), relating to 2016, prepared by the Company for the purpose of communicating its sustainability performance in the reference year.

Responsabilities

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

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

Scope

4 The work performed was conducted in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised) "Assurance engagements other than audits or reviews of historical financial information", issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. This standard requires that we plan and perform the assurance engagement to obtain limited assurance about whether sustainability information, for the year 2016, is free from material misstatement. Our limited assurance engagement also consisted in carrying out procedures with the objective of obtaining a limited level of assurance as to whether the Company applied, in the sustainability information included in the Report, the GRI G4 guidelines in an appropriate manner.

For this purpose the above mentioned work included:

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

(vi) Comparison of financial and economic data included in the sustainability information with the audited by PricewaterhouseCoopers & Associados, SROC, Lda, in the scope of the legal review of Novo Banco's financial statements for the year ended in December 31, 2016;

(vii) Verification that the sustainability information included in the Report complies with the requirements of GRI G4 guidelines.

5 In the limited assurance work, the procedures performed were more limited than those used in an engagement to obtain reasonable assurance and, therefore, less assurance was obtained than in a reasonable assurance engagement.

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

Quality control and independence

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

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

Conclusion

9 Based on the work performed, nothing has come to our attention that causes us to believe that the sustainability information, relating to 2016, was not prepared, in all material respects, in accordance with GRI G4 guidelines requirements and with the instructions and criteria disclosed in the Report.

Restriction on use

10 This report is issued solely for information and use of the Board of Directors of the Company for the purpose of communicating its annual sustainability performance in the Management Report – 2016 Annual Report, and should not be used for any other purpose. We will not assume any responsibility to third parties other than Novo Banco by our work and the conclusions expressed in this report, which will be attached to the Company's Management Report – 2016 Annual Report.

May 23, 2017

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

António Brochado Correia, R.O.C.

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

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 YEARS ENDED ON 31 DECEMBER 2016 AND 2015

(in thousands of Euros)

	Notes	31.12.2016	31.12.2015 *
Interest and similar income	5	1 193 354	1 443 156
Interest expense and similar charges	5	(678 870)	(992 504)
Net interest income		514 484	450 652
Dividend income	8	37 832	11 531
Fee and commission income	6	378 370	471 499
Fee and commission expenses	6	(113 003)	(133 454)
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	7	22 905	(84 161)
Net gains / (losses) from available-for-sale financial assets	8	116 429	230 761
Net gains / (losses) from foreign exchange differences	9	(6 576)	30 092
Net gains/ (losses) from the sale of other assets	10	(51 736)	(12 341)
Insurance earned premiums, net of reinsurance	11	49 201	38 326
Claims incurred, net of reinsurance	12	(167 744)	(237 016)
Change in technical reserves, net of reinsurance	13	105 345	166 092
Other operating income and expenses	14	37 041	(103 701)
Operating income		922 548	828 280
Staff costs	15	(303 463)	(397 564)
General and administrative expenses	17	(231 352)	(285 384)
Depreciation and amortisation	29 & 30	(56 061)	(71 713)
Provisions, net of reversals	39	(52 319)	54 512
Impairment losses on loans and advances, net of reversals and recoveries	25	(672 578)	(739 323)
Impairment losses on other financial assets, net of reversals and recoveries	23 & 24	(365 883)	(313 049)
Impairment losses on other assets, net of reversals and recoveries	27, 30, 31 & 33	(283 929)	(60 072)
Operating expenses		(1 965 585)	(1 812 593)
Disposal of subsidiaries and associated companies	1	24 325	33
Results from step acquisitions of control in subsidiaries	1	-	222
Results from associated companies under the equity method	31	4 074	16 648
Profit / (loss) before income tax and non-controlling interests		**(1 014 638)**	**(967 410)**
Income tax			
Current tax	40	(16 330)	(58 583)
Deferred tax	40	243 924	78 674
		227 594	**20 091**
Profit / (loss) from continuing activities		**(787 044)**	**(947 319)**
Profit / (loss) from discontinued operations	27 & 53	(10 427)	3 026
Net profit / (loss) for the period		**(797 471)**	**(944 293)**
Attributable to shareholders of the Bank		**(788 330)**	**(929 539)**
Attributable to non-controlling interests	44	**(9 141)**	**(14 754)**
		(797 471)	**(944 293)**
Basic earnings per share (in Euros)	18	(0.16)	(0.19)
Diluted earnings per share (in Euros)	18	(0.16)	(0.19)
Basic earnings per share of continuing activities (in Euros)	18	(0.16)	(0.19)
Diluted earnings per share of continuing activities (in Euros)	18	(0.16)	(0.19)

* restated

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

NOVO BANCO GROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED ON 31 DECEMBER 2016 AND 2015

(in thousands of Euros)

	Notes	31.12.2016	31.12.2015 *
Net profit / (loss) for the period			
Attributable to equity holders of the Bank		(788 330)	(929 539)
Attributable to non-controlling interests	44	(9 141)	(14 754)
		(797 471)	**(944 293)**
Other comprehensive income/(loss) for the period			
Items that will not be reclassified to results			
Remeasurement of defined benefit plans	16	(82 415)	(49 095)
Taxes on remeasurement of defined benefit plans	a)	2 852	191
		(79 563)	(48 904)
Items that may be reclassified to results			
Foreign exchange differences	a)	8 421	(145 373)
Taxes on foreign exchange differences	a)	(773)	21 576
Other comprehensive income appropriated from associated companies	a)	991	(3 655)
		8 639	(127 452)
Available-for-sale financial assets			
Potential gains and losses in the period	44	150 054	295 700
Gains and losses included in profit and loss for the period	44	(95 522)	(458 301)
Deferred taxes	44	(11 396)	32 013
		43 136	(130 588)
Total other comprehensive income/(loss) for the period		**(27 788)**	**(306 944)**
Total comprehensive income/(loss) for the period		**(825 259)**	**(1 251 237)**
Attributable to shareholders of the Bank		**(816 118)**	**(1 236 483)**
Attributable to non-controlling interests		**(9 141)**	**(14 754)**
		(825 259)	**(1 251 237)**

a) See Statement of Changes in Consolidated Equity

***** restated

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

NOVO BANCO GROUP

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2016 AND 2015

(in thousands of Euros)

	Notes	31.12.2016	31.12.2015 *	01.01.2015 *
Assets				
Cash and deposits with Central Banks	19	1 469 259	775 608	2 747 077
Deposits with banks	20	370 918	340 209	490 856
Financial assets held for trading	21	656 722	775 039	1 062 517
Other financial assets at fair value through profit or loss	22	1 203 807	1 526 193	2 230 388
Available-for-sale financial assets	23	10 557 972	11 810 712	9 478 469
Loans and advances to banks	24	724 167	1 690 628	1 044 286
(of which: Operations with reverse repurchase agreements)	24	*12 793*	*13 226*	*34 945*
Loans and advances to customers	25	28 184 426	31 583 759	34 929 314
Derivatives held for risk management purposes	26	222 769	318 596	404 582
Non-current assets held for sale	27	7 764	3 182 479	2 747 168
Non-current assets held for sale - discontinued operations	53	1 217 371	40 327	4 209 800
Investment properties	28	1 206 355	54 625	297 133
Other tangible assets	29	206 459	312 437	397 088
Intangible assets	30	44 663	221 168	253 732
Investments in associated companies	31	158 650	405 486	402 289
Current tax assets	40	30 620	38 848	29 962
Deferred tax assets	40	2 603 979	2 523 154	2 442 320
Technical reserves of reinsurance ceded	32	6 355	7 696	8 038
Other assets	33	3 460 416	1 910 126	2 179 173
Debtors for direct and indirect insurance		1 086	3 019	1 263
Other assets		3 459 330	1 907 107	2 177 910
Total Assets		**52 332 672**	**57 517 090**	**65 354 192**
Liabilities				
Deposits from Central Banks	34	6 410 033	7 632 794	8 611 709
Financial liabilities held for trading	21	632 831	743 860	1 045 648
Deposits from banks	35	3 577 914	4 157 132	2 623 864
(of which: Operations with repurchase agreements)		*1 625 020*	*2 143 635*	*1 032 690*
Due to customers	36	25 989 719	27 582 142	27 938 053
(of which: Operations with repurchase agreements)		*216 625*	*44 864*	*111 450*
Debt securities issued	37	3 817 801	4 224 658	9 032 956
Derivatives held for risk management purposes	26	108 265	77 846	104 140
Investment contracts	38	3 396 425	4 043 488	4 379 442
Non-current liabilities held for sale	27	1 821	162 709	330 903
Non-current liabilities held for sale - discontinued operations	53	748 807	92 893	3 072 720
Provisions	39	364 615	465 114	409 723
Technical reserves	32	1 333 567	1 344 216	1 461 070
Current tax liabilities	40	16 972	38 643	34 273
Deferred tax liabilities	40	19 301	12 336	50 309
Subordinated debt	41	48 100	56 260	54 794
Other liabilities	42	718 548	947 625	858 063
Creditors for direct and indirect insurance		10 945	17 301	10 132
Other liabilities		707 603	930 324	847 931
Total Liabilities		**47 184 719**	**51 581 716**	**60 007 667**
Equity				
Share capital	43	4 900 000	4 900 000	4 900 000
Reserves, Retained earnings and Other comprehensive income	44	954 946	1 908 332	317 079
Net profit / (loss) for the period attributable to shareholders of the Bank		(788 330)	(929 539)	-
Total Equity attributable to shareholders of the Bank		**5 066 616**	**5 878 793**	**5 217 079**
Non-controlling interests	44	81 337	56 581	129 446
Total Equity		**5 147 953**	**5 935 374**	**5 346 525**
Total Liabilities and Equity		**52 332 672**	**57 517 090**	**65 354 192**

* restated

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

NOVO BANCO GROUP

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY
FOR THE YEARS ENDED ON 31 DECEMBER 2016 AND 2015

(in thousands of Euros

	Share capital	Reserves, Retained earnings and Other comprehensive income			Net profit/ (loss) for the period attributable to shareholders of the Bank	Equity attributable to shareholders of the Bank	Non-controlling interests	Total Equity
		Fair value reserves	Other reserves, Retained earnings and Other comprehensive income	Total				
Balance as at 1 January 2015	**4 900 000**	**194 654**	**185 713**	**380 367**	**-**	**5 280 367**	**129 446**	**5 409 813**
Impact of restatement	-	-	(63 288)	(63 288)	-	(63 288)	-	(63 288)
Balance as at 1 January 2015 restated	**4 900 000**	**194 654**	**122 425**	**317 079**	**-**	**5 217 079**	**129 446**	**5 346 525**
Other comprehensive income								
Changes in fair value, net of tax	-	(130 588)	-	(130 588)	-	(130 588)	-	(130 588)
Remeasurement 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 profit / (loss) for the period	-	-	-	-	(929 539)	(929 539)	(14 754)	(944 293)
Total comprehensive income for the period	**-**	**(130 588)**	**(176 356)**	**(306 944)**	**(929 539)**	**(1 236 483)**	**(14 754)**	**(1 251 237)**
Adjustments to the originating reserve **(b)**	-	-	1 948 236	1 948 236	-	1 948 236	-	1 948 236
Changes in perimeter **(c)**	-	-	(26 200)	(26 200)	-	(26 200)	-	(26 200)
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**	**1 844 266**	**1 908 332**	**(929 539)**	**5 878 793**	**56 581**	**5 935 374**
Other comprehensive income								
Changes in fair value, net of tax	-	43 136	-	43 136	-	43 136	-	43 136
Remeasurement of defined benefit plans, net of tax	-	-	(79 563)	(79 563)	-	(79 563)	-	(79 563)
Other comprehensive income appropriated from associated companies	-	-	991	991	-	991	-	991
Foreign exchange differences, net of tax	-	-	7 648	7 648	-	7 648	-	7 648
Net profit / (loss) for the period	-	-	-	-	(788 330)	(788 330)	(9 141)	(797 471)
Total comprehensive income for the period	**-**	**43 136**	**(70 924)**	**(27 788)**	**(788 330)**	**(816 118)**	**(9 141)**	**(825 259)**
Changes in perimeter	-	-	-	-	-	-	41 864	41 864
Appropriation to retained earnings of net profit / (loss) of the previous period	-	-	(929 539)	(929 539)	929 539	-	-	-
Transactions with non-controlling interests	-	-	(7 410)	(7 410)	-	(7 410)	(15 286)	(22 696)
Other movements	-	-	11 351	11 351	-	11 351	-	11 351
Other changes in non-controlling interests (see Note 44)	-	-	-	-	-	-	7 319	7 319
Balance as at 31 December 2016	**4 900 000**	**107 202**	**847 744**	**954 946**	**(788 330)**	**5 066 616**	**81 337**	**5 147 953**

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

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

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

* - restated

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

NOVO BANCO GROUP

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEARS ENDED ON 31 DECEMBER 2016 AND 2015

(in thousands of Euros)

	Notes	31.12.2016	31.12.2015
Cash flows from operating activities			
Interest and similar income received		1 239 421	1 524 438
Interest expense and similar charges paid		(839 416)	(1 226 873)
Fees and commissions received		378 621	471 675
Fees and commissions paid		(117 259)	(139 498)
Insurance earned premiums, net of reinsurance		57 489	51 435
Claims incurred, net of reinsurance		(174 971)	(237 016)
Recoveries on loans previously written off		32 270	18 080
Contributions to the pension fund		(120 018)	(96 381)
Cash payments to employees and suppliers		(592 678)	(637 882)
		(136 541)	**(272 022)**
Changes in operating assets and liabilities:			
Deposits with / from Central Banks		(1 040 065)	(856 889)
Financial assets at fair value through profit or loss		259 372	524 610
Acquisition of available-for-sale financial assets		(21 096 305)	(47 976 830)
Sale of available-for-sale financial assets		22 170 396	45 714 174
Issue of investment contracts		(470 694)	(262 593)
Loans and advances to banks		532 267	(82 755)
Deposits from banks		186 229	1 542 301
Loans and advances to customers		1 219 831	2 532 879
Due to customers and other loans		(1 078 524)	(189 902)
Derivatives held for risk management purposes		(4 482)	20 983
Other operating assets and liabilities		450 421	58 733
Net cash from operating activities before corporate income tax		**991 905**	**752 689**
Corporate income taxes paid		(35 546)	(27 314)
Net cash from operating activities		**956 359**	**725 375**
Cash flows from investing activities			
Acquisitions of investments in subsidiaries and associated companies	1	-	(7 592)
Effect of changes in consolidation perimeter	53	-	(15 668)
Sale of investments in subsidiaries and associated companies	1 & 53	28 179	332 496
Dividends received		53 597	15 241
Acquisition of tangible fixed assets		(9 239)	(12 345)
Sale of tangible fixed assets		11 675	147
Acquisition of intangible assets		(6 419)	(10 579)
Sale of intangible assets		-	-
Acquisition of investment properties		(111)	(63)
Sale of investment properties		69 940	2 416
Net cash from investing activities		**147 622**	**304 053**
Cash flows from financing activities			
Issue of bonds and other debt securities		835 600	4 593
Reimbursement of bonds and other debt securities		(1 181 446)	(3 135 470)
Reimbursement of subordinated debt		-	(3 605)
Net cash from financing activities		**(345 846)**	**(3 134 482)**
Net changes in cash and cash equivalents		**758 135**	**(2 105 054)**
Cash and cash equivalents at the beginning of the period		**822 521**	**2 969 044**
Effect of exchange rate changes in cash and cash equivalents		(1 447)	(41 469)
Net changes in cash and cash equivalents		758 135	(2 105 054)
Cash and cash equivalents at the end of the period		**1 579 209**	**822 521**
Cash and cash equivalents include:			
Cash	19	180 431	179 701
Deposits with Central Banks	19	1 288 828	595 907
(of which, Restricted balances)		(260 968)	(293 296)
Deposits with banks	20	370 918	340 209
Total		**1 579 209**	**822 521**

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

NOVO BANCO Group

Notes to the Consolidated Financial Statements as at 31 December 2016

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

NOTE 1 – ACTIVITY AND GROUP STRUCTURE

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

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

In the ordinary meeting of the Board of Directors of Banco de Portugal on 29 December 2015, a deliberation was adopted (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), recorded in the accounting records, which are subject to transfer to NOVO BANCO, SA, in accordance with 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's responsibilities to third parties, that are liabilities or off-balance sheet items of BES, are fully transferred to NOVO BANCO, SA, except for those indicated below ("Excluded Liabilities"):*

(i) Liabilities to (a) the respective shareholders, whose participation is equal to or higher than 2% of the share capital or to persons or entities which in the two years preceding the transfer held a participation equal to or higher than 2% of the share capital of BES, members of the management and supervisory bodies, statutory auditors or statutory audit firms, or persons with similar status in other companies that are in a control or group relationship with the institution, (b) persons or entities that have been shareholders, performed the functions or provided the services referred to in the foregoing subparagraph in the four years prior the setting-up of NOVO BANCO, SA, and whose action or omissions was at the origin of the financial difficulties experienced by the credit institution or which contributed to aggravate that situation; (c) the spouses, first degree natural or in-law relatives or third parties acting on behalf of the persons or entities referred to in the foregoing subparagraphs, (d) those responsible for facts related to the credit institution, or that have profited from these facts, directly or through a third party, and which were at the origin of the financial difficulties or contributed to aggravate that situation, due to action or failure to act in the performance of their functions, according to Banco de Portugal's understanding;

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

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

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

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

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

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

(viii) Effective as from 29 December 2015, all the rights and responsibilities of NOVO BANCO, arising from the non-subordinated debt instruments listed in Annex 2B (excluding those held by NOVO BANCO), together with all the liabilities, contingencies and off-balance sheet elements, to the extent they are related to said debt instruments (including (i) the issuing, trading and sale of same and (ii) arising from any contractual documents or other instruments celebrated or issued by the Bank, and connected with those instruments, including 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, with effect from 29 December 2015, to BES Finance, Limited;

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

(f) *All the employees and service providers of BES are transferred to NOVO BANCO, SA;*

(g) *Any guarantee related to any obligation transferred to NOVO BANCO, SA is also transferred to NOVO BANCO, SA. Any guarantee related to any obligation not transferred to NOVO BANCO, SA will, likewise, not be transferred to NOVO BANCO, SA.*

2. *After the transfer referred to in the foregoing sub-paragraphs, the Banco de Portugal may at any time transfer or re-transmit assets, liabilities, off-balance-sheet items and assets under management between BES and NOVO BANCO, SA, in accordance with nº5 of Article 145-H (5) of the Legal Framework.*

3. *BES will sign an agreement with NOVO BANCO, SA, confirming the transfer of the assets and liabilities governed by foreign law and/or located abroad, under the terms defined by the Banco de Portugal. This will include BES obligation to ensure that it will comply with all the formalities and procedures necessary for that purpose.*

4. *Considering that all the rating procedures within the scope of the permission under the IRB approach granted to BES on a consolidated basis, as from 31 March 2009, are fully transferred to NOVO BANCO, SA, the Banco de Portugal, satisfied that the requirements provided for in Part II, Title II, Chapter 3 of Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013 (CRR) are met, and that the systems for the management and rating of credit risk exposures are sound and implemented with integrity, decides, under Article 143 (1) of the same Regulation to consent NOVO BANCO, S.A. to calculate its risk-weighted exposure amounts using the IRB methodology , with immediate effect and under the terms of the permission granted to BES.*

__5.__ The assets, liabilities and off-balance-sheet items are transferred at their book value, and the assets are adjusted in compliance with the values listed in Annex 2A, in order to ensure a conservative valuation, to be confirmed in the audit referred to in Point 3.

__6.__ Based on this valuation, the capital requirements for NOVO BANCO, SA, are calculated to be Euros 4 900 million.

__7.__ The operational and precautionary measures implementing the present deliberation remain in force for the persons that were members of the Board of Directors and Supervisory Board of BES during the mandates that started in or following 2012 and up to the conclusion of the inquiries, which prevent the transfer to NOVO BANCO S.A. of any liabilities to such persons.

__8.__ Demonstration of evidence that the persons referred to in sub-paragraph (b) (i) (c) of this Annex do not act on behalf of the persons or the entities referred to in the foregoing points and that, therefore, the right to the funds deposited belongs to the formal holder of the accounts shall comply with the following rules: a) demonstration of evidence is NOVO BANCO, S.A.'s responsibility; b) demonstration of evidence shall take into account, among other relevant circumstances the professional activities of the persons in question, their degree of dependence on the persons referred to in the foregoing points, their income level and the deposited amount; c) demonstration of evidence shall be supported by documents and archived so that the decisions taken can be controlled and verified. Until such decisions are taken, the operational measures implementing the present deliberation remain in force.

__9.__ The transfer ordered (and, as applicable, confirmed by the conclusion of the contract confirming the transfer determined by Banco de Portugal) is not intended to confer on any counterparties and third parties any new rights nor to enable the exercise of any rights that in the absence of such transfer would not exist or could not be exercised on or in relation to the assets, liabilities, off-balance sheet items and assets under the management of BES, S.A., thus transferred, including any rights of termination, resolution or rights to order early redemptions, close-out netting or netting / set-off, nor to result in (i) any default, (ii) change in conditions, rights or obligations, or (iii) subjecting to approval, or (iv) right to enforce guarantees, (v) right to make retentions or netting / set-off between any payments or claims under such assets, liabilities, off-balance sheet items and assets under management transferred.

10. *Any credits already constituted or to be constituted related to tax facts occurring prior to 3 August 2014, whether or not recorded in the accounts of BES are transferred to NOVO BANCO.*

11. *The provision in subparagraphs (v) to (vii) of paragraph (b) of no. 1 of the present Annex shall be interpreted in light of the clarifications contained in Annex 2C.*

According to the announcement of Banco de Portugal of 29 December 2015, “this set of decisions comprises the final and definitive change of the perimeter of assets, liabilities, off-balance sheet elements and assets under management transferred to NOVO BANCO, which transfer is now definitively fixed”.

Under the terms of Article 3 of its by-laws, the purpose of NOVO BANCO, S.A., is to operate in the banking industry, including all operations compatible with such activity and permitted by law. While operating as a transition bank, NOVO BANCO, S.A. must: (a) manage the assets, liabilities, off balance sheet items and assets under management transferred from Banco Espírito Santo, S.A., to NOVO BANCO, S.A., under the terms of the decisions of the resolution authority and carry on the transferred activities, while complying with the legal framework of the resolution and for the purposes laid down in it; (b) comply with management criteria ensuring that low risk levels are maintained and the value of the transferred assets is maximized.

The Resolution Fund (“Fundo de Resolução”) is the sole owner 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. (See Note 55 – Subsequent Events, regarding the signature of an agreement to sell the majority of NOVO BANCO’s Share Capital).

As a transition bank, NOVO BANCO has a limited duration of two years, extendable for periods of a year, according to RGICSF. However, according to the commitments assumed by the Portuguese Republic with the European Commission, the sale of NOVO BANCO should occur within a maximum period of two years from its date of incorporation, but such term was extended by decision of the European Commission announced on 21 December 2015. The signing on 31 March 2017 by the Resolution Fund of the contractual documents for the sale of NOVO BANCO enabled the fulfilment of the term for the sale established on the commitments assumed by the Portuguese Republic with the European Commission.

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

NOVO BANCO Group (hereinafter also designated as Group or NB Group) has a retail network comprising 537 branches in Portugal (31 December 2015: 635 branches) and abroad, including branches in London, Spain, Cayman Islands, Venezuela and Luxembourg, an offshore branch in the Madeira Free Trade Zone and 6 representative offices overseas (31 December 2015: 7 representative offices).

Group companies where NOVO BANCO (hereinafter also designated as 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:

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
Novo Banco Servicios Corporativos, SL	1996	1997	Spain	Insurance distrib. & real estate management	100.00%	Full consolidation
Novo Vanguarda, SL	2011	2011	Spain	Services provider	100.00%	Full consolidation
Novo Banco dos Açores, SA (NBA)	2002	2002	Portugal	Commercial banking	57.53%	Full consolidation
BEST - Banco Electrónico de Serviço Total, SA (BEST)	2001	2001	Portugal	Electronic banking	100.00%	Full consolidation
NB África, SGPS, SA	2009	2009	Portugal	Holding	100.00%	Full consolidation
BES Beteiligungs, GmbH (BES GMBH)	2006	2006	Germany	Holding	100.00%	Full consolidation
Praça do Marquês - Serviços Auxiliares, SA (PÇMARQUÊS)	1990	2007	Portugal	Management of real estate investments	100.00%	Full consolidation
Espírito Santo, plc. (ESPLC)	1999	1999	Ireland	Non-bank financing	100.00%	Full consolidation
GNB - Gestão de Ativos, SGPS, SA (GNB GA)	1992	1992	Portugal	Holding	100.00%	Full consolidation
ES Tech Ventures, S.G.P.S., SA (ESTV)	2000	2000	Portugal	Holding	100.00%	Full consolidation
NB Finance, Ltd. (NBFINANCE)	2015	2015	Cayman Islands	Issue and distribution of securities	100.00%	Full consolidation
GNB - Recuperação de Credito, ACE (GNBREC)	1998	1998	Portugal	Debt collection	99.15%	Full consolidation
GNB Concessões, SGPS, SA (GNB CONCESSÕES)	2002	2003	Portugal	Holding	71.66%	Full consolidation
GNB - Sistemas de Informação, ACE (GNB SI)	2006	2006	Portugal	Services	82.58%	Full consolidation
GNB - Serviços de Suporte Operacional, ACE (GNB ACE)	2006	2006	Portugal	Services	88.36%	Full consolidation
Espírito Santo Representações, Ltda. (ESREP)	1996	1996	Brazil	Representation services	99.99%	Full consolidation
Fundo de Capital de Risco - BES PME Capital Growth	2009	2009	Portugal	Venture capital fund	100.00%	Full consolidation
Fundo FCR PME / NOVO BANCO	1997	1997	Portugal	Venture capital fund	56.78%	Full consolidation
Fundo de Gestão de Património Imobiliário - FUNGEPI - Novo Banco	1997	2012	Portugal	Real estate fund management	100.00%	Full consolidation
Fundo de Gestão de Património Imobiliário - FUNGEPI - Novo Banco II	2011	2012	Portugal	Real estate fund management	100.00%	Full consolidation
FUNGERE - Fundo de Gestão de Património Imobiliário	1997	2012	Portugal	Real estate fund management	95.31%	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	84.84%	Full consolidation
NB Património - Fundo de Investimento Imobiliário Aberto	1992	2014	Portugal	Real estate fund management	59.57%	Full consolidation
Fundes - Fundo Especial Investimento Imobiliário Fechado	2008	2015	Portugal	Real estate fund management	100.00%	Full consolidation
NB Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	2009	2012	Portugal	Real estate fund management	100.00%	Full consolidation
Orey Reabilitação Urbana - Fundo de Investimento Imobiliário Fechado	2006	2012	Portugal	Real estate fund management	100.00%	Full consolidation
Fimes Oriente - Fundo de Investimento Imobiliário Fechado	2004	2012	Portugal	Real estate fund management	100.00%	Full consolidation
Fundo de Investimento Imobiliário Fechado Amoreiras	2006	2015	Portugal	Real estate fund management	94.16%	Full consolidation
Fundo de Investimento Imobiliário Fechado Solid	2004	2015	Portugal	Real estate fund management	100.00%	Full consolidation
FLITPTREL VIII, SA	2011	2011	Portugal	Tourism real estate exploration	10.00% a)	Full consolidation
ASAS Invest - Fundo Especial de Investimento Imobiliário Fechado	2010	2013	Portugal	Real estate fund management	100.00%	Full consolidation
Febagri-Actividades Agropecuárias e Imobiliárias SA	2006	2012	Portugal	Real estate development	100.00%	Full consolidation
Autodril - Sociedade Imobiliária, SA	1998	2012	Portugal	Real estate development	100.00%	Full consolidation
JCN - IP - Investimentos Imobiliários e Participações, SA	1995	2012	Portugal	Real estate development	95.31%	Full consolidation
Portucale - Sociedade De Desenvolvimento Agro - Turistico, SA	1990	2012	Portugal	Agricultural holdings	94.84%	Full consolidation
Greenwoods Ecoresorts empreendimentos imobiliários, SA	2012	2012	Portugal	Real estate development	100.00%	Full consolidation
Sociedade Imobiliária Quinta D. Manuel I, SA	2012	2012	Portugal	Real estate development	100.00%	Full consolidation
Quinta da Areia - Sociedade Imobiliária, SA	2012	2012	Portugal	Real estate development	100.00%	Full consolidation
Sociedade Agrícola Turística e Imobiliária da Várzea da Lagoa, SA	2012	2012	Portugal	Real estate development	100.00%	Full consolidation
Imalgarve - Sociedade de Investimentos Imobiliários, SA	1986	2014	Portugal	Real estate development	100.00%	Full consolidation
Promotur - Empreendimentos Turístico, SA	1983	2014	Portugal	Real estate development	99.875%	Full consolidation
Herdade da Boina - Sociedade Imobiliária	1999	2012	Portugal	Real estate development	100.00%	Full consolidation
Ribagolfe - Empreendimentos de Golfe, SA	1995	2012	Portugal	Golf course operations	100.00%	Full consolidation
Benagil - Promoção Imobiliária, SA	1970	2012	Portugal	Real estate development	100.00%	Full consolidation
Imoascay - Promoção Imobiliária, SA	2011	2012	Portugal	Real estate development	100.00%	Full consolidation
Palexpo Imobiliária, SA	2002	2014	Portugal	Real estate development	100.00%	Full consolidation
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 provider	50.00% c)	Equity method
Multipessoal Recursos Humanos - SGPS, S.A	1993	1993	Portugal	Holding	22.52%	Equity method
Sealion (Isle of Man) Ltd	2010	2011	Isle of Man	Inland waterway services	57.56% c)	Equity method

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

a) Subgroups:

	Year incorporated	Year acquired	Registered office	Activity	Share-holding %	Consolidation method
BES Beteiligungs, GmbH (BES GMBH)	**2006**	**2006**	**Germany**	**Holding**	**100.00%**	**Full consolidation**
Bank Espírito Santo International, Ltd. (BESIL)	1983	2002	Cayman Islands	Commercial banking	100.00%	Full consolidation
NB África, SGPS, SA (NB ÁFRICA)	**2006**	**2006**	**Portugal**	**Holding**	**100.00%**	**Full consolidation**
Moza Banco, SA	2008	2010	Mozambique	Commercial banking	49.00%	Equity method
GNB - Gestão de Ativos, SGPS, SA (GNB GA)	**1992**	**1992**	**Portugal**	**Holding**	**100.00%**	**Full consolidation**
GNB - Sociedade Gestora de Fundos de Investimento Mobiliário, SA	1987	1987	Portugal	Investment fund management	100.00%	Full consolidation
GNB - International Management, SA	1995	1995	Luxembourg	Investment fund management	100.00%	Full consolidation
GNB - Sociedade Gestora de Fundos de Investimento Imobiliário, SA	1992	1992	Portugal	Investment fund management	100.00%	Full consolidation
GNB - Sociedade Gestora de Fundos de Pensões, SA	1989	1989	Portugal	Investment fund management	100.00%	Full consolidation
Espírito Santo International Asset Management, Ltd.	1998	1998	British Virgin Islands	Investment fund management	49.00%	Equity method
GNB - Sociedade Gestora de Patrimónios, SA	1987	1987	Portugal	Wealth management	100.00%	Full consolidation
Novo Activos Financieros, SA	1988	2000	Spain	Asset management	100.00%	Full consolidation
Novo Banco Gestión, SGIIC, S.A	2001	2001	Spain	Asset management	100.00%	Full consolidation
Novo Banco Pensiones, SGFP, SA	2001	2001	Spain	Pension fund management	100.00%	Full consolidation
Económico - Fundos de Investimento, SGFI, SA	2008	2008	Angola	Investment fund management	35.00%	Equity method
Económico - Fundos de Pensões, SGFP, SA	2009	2009	Angola	Pension fund management	35.00%	Equity method
ES Tech Ventures, S.G.P.S., SA (ESTV)	**2000**	**2000**	**Portugal**	**Holding**	**100.00%**	**Full consolidation**
Yunit Serviços, SA	2000	2000	Portugal	Internet portal management	33.33%	Equity method
Fundo Bem Comum, FCR	2011	2011	Portugal	Venture capital fund	20.00%	Equity method
Fundo de Capital de Risco - BES PME Capital Growth	**2009**	**2009**	**Portugal**	**Venture capital fund**	**100.00%**	**Full consolidation**
Righthour, SA	2013	2013	Portugal	Services	100.00%	Full consolidation
Imbassaí Participações, SA	2009	2013	Brazil	Holding	100.00%	Full consolidation
Lírios Investimentos Imobiliários, Ltda	2007	2013	Brazil	Real estate fund management	100.00%	Full consolidation
UCH Investimentos Imobiliários, Ltda	2007	2013	Brazil	Real estate fund management	100.00%	Full consolidation
UCS Participações e Investimentos, Ltda	2004	2013	Brazil	Real estate fund management	100.00%	Full consolidation
UR3 Investimentos Imobiliários, Ltda	2007	2013	Brazil	Real estate fund management	100.00%	Full consolidation
Fundo FCR PME / NOVO BANCO	**1997**	**1997**	**Portugal**	**Venture capital fund**	**56.78%**	**Full consolidation**
Enkrott SA	2006	2006	Portugal	Water treatment and management	16.07% b)	Equity method
Logic C - Logística Integrada, SA	2005	2016	Portugal	Logistics	20.74%	Equity method
Epedal, SGPS, SA	2007	2015	Portugal	Holding	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
GNB Concessões, SGPS, SA (GNB CONCESSÕES)	**2002**	**2003**	**Portugal**	**Holding**	**71.66%**	**Full consolidation**
ES Concessions International Holding, BV	2010	2010	Holland	Holding	71.66%	Full consolidation
Ascendi Group SGPS, SA	2010	2010	Portugal	Holding	28.66%	Equity method
Portucale - Sociedade De Desenvolvimento Agro - Turistico, SA	**1990**	**2012**	**Portugal**	**Agricultural holdings**	**94.84%**	**Full consolidation**
Herdade da Vargem Fresca VI - Comércio e Restauração SA	1997	2012	Portugal	Catering	94.84%	Full consolidation
Herdade da Vargem Fresca V - Clube de Campo SA	1990	2012	Portugal	Equestrianism	94.84%	Full consolidation
Herdade da Vargem Fresca IV - Desportos Aquáticos SA	1986	2012	Portugal	Water sports	94.84%	Full consolidation
Herdade da Vargem Fresca VII - Sociedade de Hotelaria SA	2000	2012	Portugal	Hotel business	94.84%	Full consolidation
Herdade da Vargem Fresca II - Sociedade de Hotelaria SA	2000	2012	Portugal	Hotel business	94.84%	Full consolidation
Herdade da Vargem Fresca III - Comércio e Serviços SA	2000	2012	Portugal	Miscellaneous services	94.84%	Full consolidation

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

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
Lusitano SME No. 3 (*)	2016	2016	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)

	31.12.2016	31.12.2015
Cash and deposits with banks	218 065	125 980
Loans and advances to customers (net of impairment losses)	2 797 949	2 462 919
Debt securities issued (a)	684 268	406 193

(a) see Note 37

During 2016, the main changes in NOVO BANCO Group's structure were as follows:

- Subsidiaries

- In April 2016, Fundo Solid realised a capital increase of Euros 855 thousand, totally subscribed and paid-up by NOVO BANCO;
- In May 2016, Fundo Amoreiras realised a capital increase of Euros 7 000 thousand, totally subscribed and paid-up by NOVO BANCO, with the Group's shareholding percentage having increased from 93.49% to 93.72%;
- In May 2016, NOVO BANCO acquired from Tranquilidade 235 100 shares of GNB GA, representative of 10% of the capital of this subsidiary for Euros 26 330 thousand, with the Group coming to hold the entire capital;
- In June 2016, NOVO BANCO sold to GNB GA the 50% shareholding it held in the capital of NOVO AF, with this subsidiary coming to be directly consolidated in the subgroup GNB GA;
- In July 2016, GNB Participações Internacionais, SGPS, SA (subsidiary of GNB GA) was liquidated;
- In July 2016, Fundo BES Growth increased its capital in the amount of Euros 140 thousand, fully subscribed and realised by NOVO BANCO;
- In July 2016, Fundo Orey Reabilitação Urbana reduced its capital following the redemption of the participation units held by all the participants, except NOVO BANCO. As such, NB Group came to hold 100% of the Fund's capital;

- In November 2016, GNB Concessões sold ES Concessions Spain and its investee Auvisa;
- In November 2016, the holdings in Fundo Capital de Risco ESV II and Fundo Capital de Risco ESV III and the investees ES Tech Ventures: ES Ventures SCR and ESV Inovação e Internacionalização were sold;
- In December 2016, BIBL was merged through incorporation in NOVO BANCO.

\- Associated companies

- In May 2016, Fundo FCR Ventures II sold the 2.92% shareholding held in Outsystems, SA, having recorded a gain of Euros 3 648 thousand;
- In October 2016, ESTV sold its entire 41.67% shareholding in ES Contact Center, including shareholder loans, for Euros 632 thousand, having recorded, at the individual company level, a loss of Euros 319 thousand;
- In November 2016, Otherlog was merged in Logic, with Fundo FCR PME NB coming to hold 36.53% of the latter entity;
- In December 2016, Palexpo - Espaços à sua Imagem, held by Fundo FCR PME NB, was liquidated;
- In December 2016, the entire 22.21% shareholding held by GNB Concessões in Empark – Aparcamientos y Servicios, SA was sold, and a gain of Euros 19 845 thousand (Euros 14 221 thousand, net of non-controlling interests) was recorded.

The main changes in the NOVO BANCO Group structure during 2015, were as follows:

\- Subsidiaries

- In March and April 2015, respectively, BESNAC and ES Gest were liquidated;
- In March 2015, within the scope of the redemption of a Capitalisation Operation of T-Vida, Companhia de Seguros, SA, NOVO BANCO came to hold and consolidate Fundo Imobiliário Fundes.
- In April 2015, NB Finance was incorporated with a share capital of Euros 100 thousand, totally subscribed by NOVO BANCO, and a share premium of Euros 1 600 thousand;
- In June 2015, the merger of Avistar in NOVO BANCO took place;
- Within the scope of the redemption of the Unit Linked Capitalisation Operations of GNB Vida, NOVO BANCO came to hold and directly consolidate the Investment Funds Fimes Oriente, NB Arrendamento and Orey Reabilitação Urbana;
- In June 2015, Fundo Amoreiras came to be included in the full consolidation perimeter of NOVO BANCO Group as a result of a transfer in lieu of payment. Following the capital increase realised in July 2015, the Group came to hold 93.49% of the Participation Units of this fund;

- In November 2015, the shareholding held by NOVO BANCO in Saxo Bank A/S was exchanged for a 25% shareholding of the latter in BEST. With this share exchange operation, NOVO BANCO Group came to wholly own BEST;
- In December 2015, the Group acquired the remaining 0.25% of the capital of NB Ásia, coming to wholly own this subsidiary;
- Following the Banco de Portugal deliberation of 29 December 2015, BES Finance was retransmitted to the BES consolidation perimeter, ceasing to integrate the NOVO BANCO Group. The impact of this deliberation in the Group's equity was negative in Euros 26.2 million.

- Associated companies

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

During 2016 and 2015, the movements relating to acquisitions, disposals and other investments and reimbursements in subsidiaries and associated companies are detailed as follows:

(in thousands of Euros)

	31.12.2016						
	Acquisitions			Disposals			
	Acquisition cost	Other investments (a)	Total	Disposal amount	Other reimburse-ments (a)	Total	Profit / (loss) on disposals / liquidations
Subsidiaries							
Solid	-	855	855	-	-	-	-
Amoreiras	-	7 000	7 000	-	-	-	-
GNB GA (b)	26 330	-	26 330	-	-	-	-
GNB - Participações Internacionais (c)	-	-	-	-	-	-	832
BES Growth	-	140	140	-	-	-	-
	26 330	7 995	34 325	-	-	-	832
Associated companies							
Ascendi Group	-	-	-	-	41 374	41 374	-
Outsystems	-	-	-	4 328	-	4 328	3 648
ES Contact Center	-	-	-	424	-	424	-
Auvisa	-	-	-	51 564	-	51 564	-
Empark	-	-	-	69 000	-	69 000	19 845
	-	-	-	125 316	41 374	166 690	23 493
	26 330	**7 995**	**34 325**	**125 316**	**41 374**	**166 690**	**24 325**

(a) Share capital increases / decreases, supplementary capital contributions, shareholder loans, financial instrument exchange operations and incorporation of companies
(b) This acquisition implied a decrease in non-controlling interest in the amount of Euros 16 805 thousand (see Note 44)
(c) Company liquidated in July 2016

(in thousands of Euros)

	31.12.2015						
	Acquisitions			Disposals			
	Acquisition cost	Other investments (a)	Total	Disposal amount	Other reimburse-ments (a)	Total	Profit / (loss) on disposals / liquidations
Subsidiaries							
NB 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 increases / decreases, supplementary capital contributions, shareholder loans, financial instrument exchange operations and incorporation of companies

The impact of the acquisition amounts relating to increases in shareholding percentages in subsidiaries that were already controlled by the Group, in terms of Non-controlling interests are included in Note 44, in the respective table of the movements, under “Changes in the consolidation perimeter and control percentages”.

In December 2015, the investee 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.

Due to the intention to sell and the beginning of the respective sales processes, BES Vénétie, NB Ásia and Quinta dos Cónegos were also classified as non-current assets held for sale, in the first quarter of 2016. With the start of the OBLOG liquidation process during the first half-year of 2016, this subsidiary came to be consolidated as a discontinued activity.

Following the sale agreed in the second half of 2016, of the participation units held in FCR Ventures II, FCR Ventures III and Fundo Inovação e Internacionalização and of the entire share capital of Espírito Santo Ventures, SCR, these investments were classified, under IFRS 5, as non-current assets held for sale. The conclusion of this operation occurred in December 2016.

NOTE 2 – MAIN ACCOUNTING POLICIES

2.1. Bases of presentation

In accordance with Regulation (EC) no. 1606/2002, of the European Parliament and of the Council, of 19 July 2002 and Notice no. 1/2005 of Banco de Portugal, the consolidated financial statements of NOVO BANCO, S.A. (the 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 2016.

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 2016. The accounting policies used by the Group in their preparation are consistent with those used in the preparation of the financial statements as at 31 December 2015, except as regards the recoverability of deferred tax assets for tax losses, including impact resulting from Regulatory Decree no. 5/2016.

As mentioned in the accounting policy described in Note 2.17, deferred tax assets are recognised based on the Company's expectations as to their future recoverability.

The assessment of the recoverability of deferred tax assets generated by tax losses in the financial years ended 31 December 2014 and 2015 was made based on the business plan for the period 2016-2020, with, after that date, a constant growth in the activity being assumed until the deferred tax assets generated in 2014 and 2015 (12 years) expire. The expectations regarding the generation of future taxable income by the Bank were fundamentally supported by the favourable evolution of net interest income, the reduction of operating costs, reflecting the favourable impact of the decrease in employee numbers and branches, allocations for credit impairment in line with the evolution of Bank’s activity and the growth of net gains with commissions.

In line with that mentioned above, also in the course of financial year 2016, the Board of Directors of the Bank carried out another detailed review of the assumptions used in the business plan of previous years, namely taking into account the activity generated by NOVO BANCO since the resolution measure, as well as other relevant information available at that date about the market and the knowledge of the financial system in Portugal. This review was not a result of any relevant new fact, with an impact on the estimates used in the business plan prepared in previous years, but rather on a greater degree of conservatism and robustness in the main assumptions, more aligned with the accumulated historical performance of the Bank in the last two years, without any consideration of any relevant event during the year 2016 to the said review.

As a result of this review of the business plan carried out in the financial year ended on 31 December 2016, it was concluded that the amount of deferred tax assets generated by tax losses in 2014 and 2015 would be recoverable in Euros 907 million. From the same review, it was also concluded that the same amount would also correspond to the amount that would have been calculated in the financial years ended on 31 December 2015 and 2014 had the aforementioned assumptions been used in those financial years.

In these circumstances, NOVO BANCO considered that the deferred tax assets recognised in respect of tax losses recognised in prior financial years were overstated and, therefore, as at 31 December 2016, corrected this error retrospectively, in accordance with IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8), correcting these to the above mentioned maximum amount recoverable of Euros 908 million.

As a result of the publication of Regulatory Decree no. 5/2016, of 18 November (Regulatory Decree), which established the fiscal regime for impairment and other corrections for specific credit risk deductible for taxable income determination purposes in respect of financial year 2016 (including a transition rule), the tax impacts were calculated as at 1 January 2016 and, for comparative purposes, as at 1 January 2015. These impacts relate, essentially, to the interpretation made by the Bank of Regulatory Decree no. 5/2016, according to which, the tax treatment of loan impairment should be based on an individual analysis (on a loan by loan basis) and not on an overall analysis, as had been in force until 31 December 2015. As so, the opening balance sheet as at 1 January 2015 incorporates the adjustments made as a result of the application of the Regulatory Decree referred to above.

In function of that referred to above, the balance sheet as at 1 January 2015 and the consolidated statements of income, comprehensive income and changes in equity of the financial year ended on 31 December 2015, presented for comparative purposes, were restated in accordance with IAS 8. These situations did not have any impact in the consolidated cash flow statement.

The effects of the above mentioned situations on the balance sheet as at 1 January 2015 and 31 December 2015, as well as on the consolidated income statement for financial year 2015, may be presented as follows:

(in thousands of Euros)

Balance Sheet	Notes	Balance on 01.01.2015 (published)	Revision of business plan	Regulatory Decree no. 5/2016	Balance on 01.01.2015 (restated)
Assets					
Deferred tax assets	40	2 505 608	(85 000)	21 712	2 442 320
Impairment of loans and advances to customers		*956 287*	*-*	*78 704*	*1 034 991*
Tax losses carried forward		*1 065 033*	*(85 000)*	*(72 907)*	*907 126*
Other		*484 288*	*-*	*15 915*	*500 203*
Equity					
Reserves, Retained earnings and Other comprehensive income	44	380 367	(85 000)	21 712	317 079

(in thousands of Euros)

Balance Sheet	Notes	Balance on 31.12.2015 (published)	Revision of business plan	Regulatory Decree no. 5/2016	Balance on 31.12.2015 (restated)
Assets					
Deferred tax assets	40	2 535 423	(85 000)	72 731	2 523 154
Impairment of loans and advances to customers		*857 711*		*263 647*	*1 121 358*
Tax losses carried forward		*1 182 903*	*(85 000)*	*(190 916)*	*906 987*
Other		*494 809*		*-*	*494 809*
Equity					
Reserves, Retained earnings and Other comprehensive income	44	1 971 620	(85 000)	21 712	1 908 332
Net profit / (loss) for the period attributable to shareholders of the Bank		(980 558)		51 019	(929 539)

(in thousands of Euros)

Income Statement	Notes	Balance on 31.12.2015 (published)	Revision of business plan	Regulatory Decree no. 5/2016	Balance on 31.12.2015 (restated)
Deferred tax	40	27 654	-	51 020	78 674
Impairment of loans and advances to customers		*(98 516)*	*-*	*184 944*	*86 428*
Tax losses carried forward		*117 870*	*-*	*(118 009)*	*(139)*
Other		*8 300*	*-*	*(15 915)*	*(7 615)*

As described in Note 54, in the preparation of its consolidated financial statements as at 31 December 2016, the Group adopted the accounting standards issued by the IASB and the IFRIC interpretations with mandatory application as from 1 January 2016. The accounting policies used by the Group in preparing the consolidated financial statements, described in this note, were adopted accordingly.

The accounting standards and interpretations recently issued but not yet effective and which the Group has not yet applied in the preparation of its financial statements, can be analysed in Note 54.

The consolidated financial statements are expressed in thousands of Euros, rounded to the nearest thousand. They have been prepared under the historical cost convention, except for the assets and liabilities accounted for at fair value, namely derivative financial instruments, financial assets and liabilities at fair value through profit or loss, available-for-sale financial assets, investment properties and hedged assets and liabilities, in respect of their hedged component.

The preparation of financial statements in accordance with IFRS requires that the Group make judgments 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 compared to reality may impact the current estimates and judgments. The areas involving a higher level of judgment 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 2016 were approved at the Board of Directors' meeting held on 22 May 2017, and shall be submitted for approval at the Annual General Meeting that has the power to change them. However, it is the conviction of the Board of Directors 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 remeasures 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 remeasured to its fair value at the date the control is lost and the resulting gain or loss is recognised in the income statement.

The entity identified as acquirer or incorporator, integrates the results of the entity / business acquired as from the date of its acquisition, that is, from the date of the takeover of control.

The accounting treatment of mergers by incorporation, between entities under common control, follows the same principles - the integration of the assets and liabilities of the entity to be incorporated is carried out at the amounts presented in the consolidated financial statements of the entity that has control over the two entities, at the highest level of the Group's financial holdings chain (the "predecessor"). The difference between the carrying book value of the incorporated assets and liabilities and the amount of the financial investment is recognised as a merger reserve.

Associated companies

Associated companies are those entities over which the Group has significant influence over the company's financial and operating policies, but not its control. Generally, when the Group owns more than 20% of the voting rights but less than 50%, it is presumed to have a significant influence. Even if the Group owns less than 20% of the voting rights, it can still have a significant influence through its participation in the management of the associated company or its representation in its executive Management bodies.

Investments in associated companies are recorded in the consolidated financial statements of the Bank using the equity method of accounting from the date on which significant influence is attained by the Group and until the date that significant influence ceases. The carrying value of the investments in associated companies includes the value of the respective goodwill determined at the acquisition date and is presented net of impairment losses. NOVO BANCO carries out impairment tests on its investments in associated companies, whenever there are any indications of impairment. Impairment losses recognised in prior years may be reversed, up to the limit of the accumulated losses.

In a step acquisition operation that results in the Group obtaining significant influence over an entity, any previously held stake in that entity is remeasured to its fair value through the income statement when the equity method is first applied.

When the Group's share of losses of an associated company equals or exceeds its interest in the associated company, including any medium- and long-term interest, the Group discontinues the application of the equity method, except when it has a legal or constructive obligation to cover those losses or has made payments on behalf of the associated company.

Gains or losses on disposals of equity 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.

Goodwill

Goodwill represents the difference between the acquisition cost and the fair value of the Group's share of identifiable net assets, liabilities and contingent liabilities acquired.

Business combinations occurring after 31 December 2009 were accounted for using the purchase method. The acquisition cost includes the fair values: i) of the assets transferred, ii) of the liabilities assumed by the acquirer to 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 the net identifiable assets acquired and liabilities assumed, without their respective portion of goodwill. As a result, the goodwill recognised in these consolidated financial statements corresponds solely to the portion attributable to the shareholders of the Bank.

In accordance with IFRS 3 – Business Combinations, positive goodwill is recognised as an asset at its cost and is not amortised. Goodwill relating to the acquisition of associated companies is included in the carrying book value of the investments in those associated companies, determined using the equity method. Negative goodwill is recognised directly in the income statement in the period the business combination occurs. Impairment losses of goodwill may not be reversed in the future.

The recoverable amount of the goodwill recognised as an asset is reviewed annually, regardless of whether there is, or not, any indication of impairment. 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 reporting date;
- Income and expenses are translated at exchange rates approximating the real rates ruling at the dates of the transactions;
- The exchange differences arising between the translation amount of the equity at the beginning of the period and the amount determined at the balance sheet date of the consolidated accounts, using the exchange rates applicable at that date, are recorded against reserves (other comprehensive income). Similarly, regarding the subsidiaries' and associated companies' results, the exchange differences arising from the translation of income and expenses at the rates ruling at the dates of the transactions and that determined at the balance sheet date are recorded in reserves. When the entity is sold, such exchange differences are recognised in results as an integral part of the gain or loss on the disposal.

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 transactions reveal evidence of impairment.

The accounting policies of subsidiaries and associated companies are changed, whenever necessary, so as to ensure that same are applied consistently throughout the Group.

2.3. Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Euros at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on this translation are recognised in the income statement.

Non-monetary assets and liabilities recorded at historical cost, denominated in foreign currency, are translated using the exchange rate prevailing at the transaction date. Non-monetary assets and liabilities, denominated in foreign currency, that are stated at fair value are translated into Euros at the foreign exchange rates ruling at the dates the fair value was determined. The resulting exchange differences are accounted for in the income statement, except if related to equity instruments classified as available-for-sale, which are recorded in reserves.

Foreign exchange differences relating to cash flow hedges and the hedging of the net investment in foreign operational units, when they exist, are recognised in other comprehensive income.

2.4. Derivative financial instruments and hedge accounting

Classification

The Group classifies as derivatives held for risk management purposes the (i) hedging derivatives and (ii) derivatives used to manage the risk of certain financial assets and liabilities designated at fair value through profit or loss that were not classified as hedging derivatives.

All other derivatives are classified as trading derivatives.

Recognition and measurement

Derivative financial instruments are initially recognised at their fair value on the date the derivative contract is entered into (trade date). Subsequent to initial recognition, the fair value of derivative financial instruments is 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 market value, 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 book value of a hedged asset or liability corresponding to a fixed income instrument is amortised via the income statement over the period to its maturity, using the effective interest rate method.

- Cash flow hedge

When a derivative financial instrument is designated as a hedge against the variability of highly probable future cash flows, the effective portion of the changes in the fair value of the hedging derivative is recognised in reserves, being recycled to the income statement in the periods in which the hedged item affects the income statement. The ineffective portion is recognised in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in reserves at that time is recognised in the income statement when the hedged transaction also affects the income statement. When a hedged transaction is no longer expected to occur, the cumulative gain or loss reported in equity is recognised immediately in the income statement and the hedging instrument is reclassified to the trading portfolio.

As at 31 December 2016 and 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 regularly assesses whether there is objective evidence of impairment in its loan portfolio. Impairment losses identified are recognised in the income statement and are subsequently reversed through the income statement if, in a subsequent period, the amount of the impairment losses decreases.

A loan or a loan portfolio, defined as a group of loans with similar credit risk characteristics, is impaired when: (i) there is objective evidence of impairment as a result of one or more events occurring subsequent to its initial recognition and (ii) that event (or events) has an impact on the recoverable amount of the estimated future cash flows of that loan or of the loan portfolio, that can be reliably estimated.

Initially the Group assesses for each loan individually whether there is an objective evidence of impairment. For this assessment and in identifying the impaired loans on an individual basis, the Group uses the information that feeds the credit risk models implemented and takes into consideration, amongst others, the following factors:

- the aggregate exposure to the customer and the existence of non-performing loans;
- the economic and financial viability of the customer’s business model and its ability to generate sufficient cash flows to service its debt obligations in the future;
- the existence of privileged creditors;
- the existence, nature and estimated value of the collateral;
- the exposure of the customer to the financial sector;
- the amount and timing of expected recoveries.

If for a particular loan there is no objective evidence of impairment at an individual level, the loan is grouped together with other loans that have similar credit risk characteristics (loan portfolio), and assessed collectively (collective assessment for impairment). Loans that are assessed individually and found to be impaired are not included in the collective assessment for impairment.

If an impairment loss is identified on an individual basis, the amount of the impairment loss to be recognised is calculated as the difference between the carrying book value of the loan and the present value of the expected future cash flows (considering the recovery period), discounted at the original effective interest rate of the contract. The carrying value of loans and advances is presented in the balance sheet net of impairment losses. If a loan has a variable interest rate, the discount rate for measuring the impairment loss is the current effective interest rate determined under the rules of each contract.

The changes in the amount of recognised impairment losses, attributable to the discounting effect, are recognised as interest and similar income.

The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from the foreclosure / taking possession (hereafter also “recovery”) and sale of the collateral, less the costs inherent to its recovery and sale.

For purposes of the collective assessment of impairment, loans are grouped on the basis of similar credit risk characteristics, taking in consideration the Group’s credit risk management process. Future cash flows in a group of loans that are collectively assessed for impairment are estimated on the basis of the contractual cash flows and the historical loss experience. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group in order to monitor the differences between the loss estimates and the actual losses experienced.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement.

The methodology described implies the forming of judgments by the Group as to the assumptions and estimates, and the use of other assumptions could result in different levels of impairment losses.

The loan write-off policy followed by the Group is governed by the principles defined by Banco de Portugal 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 an associated collateral;
- The full amount of the loan must be registered as overdue loan with no portion being recorded as outstanding debt);
- Loans cannot be marked as renegotiated overdue loans, or be involved in an active settlement agreement;
- The impairment loss provision has to cover at least 95% of the amount, except in respect of mortgage loans when the recovery is performed through the foreclosure of the property, and for which the remaining amount of the loans and advances not so recovered are also written off against the asset.

2.6. Other financial assets

Classification

The Group classifies its other financial assets at initial recognition taking into consideration the intention inherent to them, under the following categories:

- Financial assets at fair value through profit or loss

This category includes: (i) financial assets held for trading, 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 de-recognition

Purchases and sales of: (i) financial assets at fair value through profit or loss, (ii) held-to-maturity investments and (iii) available-for-sale financial assets are recognised on their trade date – the date on which the Group commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs except for financial assets at fair value through profit or loss, in which case these transaction costs are recognised directly in the income statement.

Financial assets are derecognised when (i) the Group's contractual rights to receive their cash flows have expired, (ii) the Group has transferred substantially all the risks and rewards of ownership or (iii) although retaining some but not substantially all of the risks and rewards of ownership, the Group has transferred the control over the assets.

Subsequent measurement

After its initial recognition, financial assets at fair value through profit or loss are subsequently carried at fair value, and gains and losses arising from changes in their fair value are recognised in the income statement in the caption "Profit / (loss) from financial assets and liabilities at fair value through profit or loss.".

Available-for-sale financial assets are also carried at fair value. Gains and losses arising from changes in their fair value are, however, recognised directly in reserves (other comprehensive income), until the financial assets are derecognised or an impairment loss is identified, at which time the cumulative gain or loss previously recognised in reserves is recognised in the income statement in the caption Net gains / (losses) from available-for-sale financial assets. Foreign exchange differences associated with shares and other equity instruments are also recognised in reserves, whilst foreign exchange differences arising from debt instruments are recognised in the income statement. Interest, calculated using the effective interest rate method, and dividends are recognised in the income statement.

Held-to-maturity investments are carried at amortised cost using the effective interest rate method, net of any impairment losses recognised.

The fair values of investments listed on active markets are based on bid prices, the bid price of the last transaction or on the last bid known. For unlisted securities, the Group establishes fair value using (i) valuation techniques, including the use of recent similar arm's length transactions, discounted cash flow analyses and option pricing models customised to reflect the specificities and circumstances of the instrument, and (ii) valuation assumptions based on market information.

Reclassifications between categories

The Group only reclassifies non-derivative financial assets with fixed or determinable payments and fixed maturities, from the available-for-sale financial assets category to the held-to-maturity investments category, provided it has the intention and ability to hold those financial assets to maturity.

Reclassifications between these categories are made at the fair value of the assets reclassified, determined at the date of the 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.

After initial recognition, financial assets cannot be reclassified to the category of financial assets at fair value through profit or loss.

Transfers of available-for-sale financial assets to loans and advances to customers – securitized loans - are permitted if there is an intention and ability to maintain 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 book value and the present value of the estimated future cash flows (considering the recovery period) discounted at the financial asset's original effective interest rate and is recognised in the income statement. These assets are presented in the balance sheet net of impairment losses. If the held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, determined based on the rules of each contract. For held-to-maturity investments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through the income statement.

If there is objective evidence that an impairment loss 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 is liquidated, expires or is cancelled.

Non-derivatives financial liabilities include deposits from banks and customers, loans, debt securities, subordinated debt and short sales. Preference shares issued are considered to be financial liabilities when the Group assumes the obligation of reimbursement and/or to pay dividends. These financial liabilities are recognised (i) initially at fair value less transaction costs and (ii) subsequently at amortised cost, using the effective interest rate method, except for short sales and financial liabilities designated at fair value through profit or loss, which are measured at fair value.

The Group designates, at inception, certain financial liabilities at fair value through profit or loss when:

- such financial liabilities are being hedged (from an economic perspective) in order to eliminate accounting mismatches between the valuation of the assets and the derivatives; or
- such financial liabilities contain embedded derivatives.

The structured products issued by the Group – with the exception of the structured products for which the embedded derivatives were separated, recorded separately and revalued at fair value - are classified under the fair value through profit or loss category because they always meet one of the above mentioned conditions.

The fair value of listed financial liabilities is their current market prices. In the absence of a quoted price, the Group establishes the fair value by using valuation techniques based on market information, including the Group issuer's own credit risk.

If the Group repurchases debt securities issued, these are derecognised from the balance sheet and the difference between the carrying book value of the liability and its acquisition cost is recognised in the income statement.

2.9. Financial and performance guarantees

Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss due to non-compliance with the contractual terms of a debt instrument, namely the payment of principal and/or interest.

Financial guarantees are initially recognised in the financial statements at fair value. Financial guarantees are subsequently measured at the higher of (i) the fair value recognised on initial recognition and (ii) the amount of any financial obligation arising as a result of guarantee contracts, measured at the balance sheet date. Any change in the amount of the liability relating to guarantees is taken to the income statement.

Financial guarantee contracts issued by the Group normally have a stated maturity date and a periodic fee, usually paid in advance, which varies in function of the counterpart risk, the amount and the time period of the contract. Consequently, the fair value of the financial guarantee contracts issued by the Group, at the inception date, is approximately equal to the initial fee received, considering that the conditions agreed to are market conditions. Hence, the amount recognised at the contract date is equal to the amount of the fee initially received, which is recognised in the income statement over the period to which it relates. Subsequent periodic fees are recognised in the income statement in the period to which they relate.

Performance guarantees

Performance guarantees are contracts that result in the compensation of a party if the other does not comply with its contractual obligation. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of the fee received during the contract period. When there is a breach of contract, the Bank has the right to reverse the guarantee, recognising the amounts in Loans and advances to customers after transferring the compensation for the losses to the collateral taker.

2.10. Equity instruments

An instrument is classified as an equity instrument when it does not contain a contractual obligation to deliver cash or another financial asset, regardless of its legal form, but evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Transaction costs directly attributable to the issuance of equity instruments are recorded against equity as a deduction from the amount issued. Amounts paid or received relating to acquisitions or sales of equity instruments are recognised in equity, net of transaction costs.

Distributions to holders of an equity instrument are deducted directly from equity as dividends, when declared.

Preference shares issued are considered equity instruments if the Group has no contractual obligation to redeem these and if dividends, non-cumulative, are paid only if, and when, declared by the Group.

2.11. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to 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. Foreclosed properties and 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 (within the period of one year).

Immediately before the initial classification as held for sale, the measurement of the non-current assets (or of all the assets and liabilities in a disposal group) is brought up to date in accordance with the applicable IFRS. Subsequently, these assets or disposal groups are re-measured at the lower of their carrying value and fair value less costs to sell. When the carrying book value of non-current assets corresponds to fair value less costs to sell, the fair value level of the IFRS 13 hierarchy corresponds mostly to level 3.

In the scope of its loan granting activity, the Group incurs in the risk of the borrower failing to repay all the amounts due. In case of loans and advances with mortgage collateral, the Group executes these and receives real estate properties resulting from foreclosure. Due to the provisions of the General Law on Credit Institutions and Financial Companies (“Regime Geral das Instituições de Crédito e Sociedades Financeiras”, RGICSF), banks are prevented, unless authorised by Banco de Portugal, from acquiring real estate property that is not essential to their installation and daily operations and the pursuit of their corporate purpose (no. 1 of article 112 of RGICSF), however, they can acquire real estate property as loan reimbursement. The real estate property so acquired must be made regular within 2 years, period that may, based on solid grounds, be extended by Banco de Portugal, on the conditions to be determined by this Authority (article 114 of RGICSF).

Although the Group’s objective is to immediately dispose of all real estate property acquired as payment resulting from foreclosure loans, during the 2016 financial year the Group changed the classification of this real estate properties from Non-current assets held for sale to Other assets (and to Investment properties, in the case of assets owned by investment funds or real estate properties leased out), due to the permanence of the same in the portfolio exceeding 12 months. However, the accounting method has not changed, with these being initially recognised at the lower of their fair value less estimated costs to sell and the carrying book value of the subjacent loans. Subsequently, this real estate property is measured at the lower of its initial carrying value and the corresponding fair value less costs to sell and is not depreciated. For real estate properties recorded in the balance sheet of NOVO BANCO and of the remaining credit institutions integrating the consolidation perimeter of the Group, the amount recoverable from their immediate sale is considered to be their respective fair value; for real estate properties held by investment funds, fair value is determined as the average between two valuations, obtained from independent entities, taking into consideration normal market conditions. Unrealised losses on these assets, so determined, are recorded in the income statement. When the book value of non-current assets is the fair value less selling costs, the level of fair value hierarchy of IFRS 13 corresponds to level 3.

The valuation of this real estate property is performed in accordance with one of the following methodologies, applied in accordance with the specific situation of the asset:

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 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 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 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 date of acquisition of an entity that meets the subsidiary criteria and for which the Group's objective is its resale, it is consolidated in accordance with the applicable procedures adopted by the Group and its assets and liabilities are measured at fair value at the acquisition date. However, in these particular cases, the assets are classified as non-current assets held for sale and the liabilities are classified as non-current liabilities held for sale. Consequently, and at the first consolidation date, the net value of the assets and liabilities of the subsidiary reflects their fair value determined at the acquisition date (which results from the loan restructuring operation).

These subsidiaries are consolidated until their effective sale. At each balance sheet date, the net carrying book value of their assets and liabilities is compared with their fair value, less costs to sell, and impairment losses are recognised when necessary. Assets and liabilities relating to discontinued operations are recorded in accordance with the valuation policies applicable to each category of assets and liabilities, as set down in IFRS 5, according to the IAS/IFRS applicable to the respective related assets and liabilities.

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. If these subsidiaries cease to comply with the conditions necessary to be recorded as non-current assets held for sale in accordance with IFRS 5, their assets and liabilities are fully consolidated in the respective asset and liability captions, in accordance with Note 27.

2.13. Other tangible assets

The Group's other tangible assets are measured at cost less accumulated depreciation and impairment losses. The cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs with other tangible assets are only recognised when it is probable that future economic benefits associated with them will flow to the Group. All repair and maintenance costs are charged to the income statement during the period in which they are incurred, on the accrual basis.

Land is not depreciated. The depreciation of other tangible assets is calculated using the straight-line method, at the following depreciation rates that reflect their estimated useful lives:

	Number of years
Property for own use	35 to 50
Improvements in leasehold property	10
Computer equipment	4 to 5
Furniture	4 to 10
Fixtures	5 to 10
Security equipment	4 to 10
Office equipment	4 to 10
Transport equipment	4
Other	5

The useful lives and residual values of the tangible fixed assets are reviewed at each reporting date.

When there is an indication that an asset may be impaired, IAS 36 requires that its recoverable amount be estimated and an impairment loss be recognised when the book value of the asset exceeds its recoverable amount. Impairment losses are recognised in the income statement, being reversed in subsequent periods, when the reasons that led to their initial recognition cease to exist. For this purpose, the new depreciated amount shall not exceed that which would be recorded had the impairment losses not been imputed to the asset, but considering the normal depreciation the asset would have been subject to.

The recoverable amount is determined as the higher of its net selling price and its value in use, which is based on the net present value of the estimated future cash flows arising from the continued use and ultimate disposal of the asset at the end of its useful life.

On the date of de-recognition of a tangible fixed asset, the gain or loss determined as the difference between the net selling price and the carrying book value is recognised under the caption Other operating income and expenses.

2.14. Intangible assets

The costs incurred with the acquisition, production and development of software are capitalised, as are additional costs incurred by the Group to implement said software. These costs are amortised on a straight-line basis over their expected useful lives, which usually range between 3 and 6 years.

Costs that are directly associated with the development of specific software applications, that will probably generate economic benefits beyond one financial year, are recognised and recorded as intangible assets. These include employee costs borne by the Group companies specialised in information technology directly associated with the development of said software.

All remaining costs associated with information technology services are recognised as an expense as incurred.

2.15. Leases

The Group classifies its lease agreements as finance leases or operating leases taking into consideration the substance of the transaction rather than its legal form, in accordance with IAS 17 – Leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases are classified as operating leases.

Operating leases

Payments made by the Group under operating leases are charged to the income statement in the period to which they relate.

Finance leases

- As lessee

Finance lease contracts are recorded at inception date as an asset and a liability at the lower of the fair value of the asset leased and the present value of the minimum lease payments. 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 Coletivo 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 2016 and 31 December 2015, for each plan individually, using the Projected Unit Credit Method, being annually reviewed by qualified independent actuaries. The discount rate used in this calculation is determined with reference to market rates associated with high-quality corporate bonds, denominated in the currency in which the benefits will be paid out and with a maturity similar to the expiry date of the plan's liabilities.

The Group determines the net interest income / expense for the period incurred with the pension plan by multiplying the plan's net assets / liabilities (liabilities net of the fair value of the fund's assets) by the discount rate used to measure the retirement pension liabilities referred to above. On that basis, the net interest income / expense was determined based on the interest cost on the retirement pension liabilities net of the expected return on the funds' assets, both calculated using the discount rate applied in the determination of the retirement pension liabilities.

Re-measurement gains and losses, namely (i) actuarial gains and losses arising due to differences between actuarial assumptions used and real values verified (experience adjustments) and changes in actuarial assumptions and (ii) gains and losses arising due to the difference between the expected return on the fund's assets and the actual investment returns, are recognised in equity under the caption Other comprehensive income.

The Group 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 employees retiring before turning 65 (normal retirement age foreseen in the ACT and which forms the basis of the actuarial calculation of pension fund liabilities). Whenever the possibility of the early retirement provided for in the pension fund regulation is invoked, the responsibilities of the same must be incremented by the value of the actuarial calculation of the liabilities corresponding to the period between the early retirement and the employee turning 65.

The Group makes payments to the funds in order to assure their solvency, the minimum levels set by Banco de Portugal being: (i) the liability with pensioners must be totally funded at the end of each period, and (ii) the liability relating to past 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.

Arising from the signature of the new Collective Labour Agreement (ACT) on 5 July 2016, published in Labour Bulletin (Boletim do Trabalho) no. 29, of 8 August 2016, the Bank's contributions to SAMS as from 1 February 2017, will correspond to a fixed amount (as per Annex VI of the new ACT) for each employee, 14 times a year.

The calculation and recognition of the Group's liability with post-retirement health-care benefits is similar to the calculation and recognition of the pension liability described above. These benefits are covered by the Pension Fund, which presently covers all liabilities with pensions and health-care benefits.

Long-term service bonuses and Career bonuses

In accordance with the previous ACT ("Acordo Coletivo de Trabalho") for the Banking Sector, in force until July 2016, the NB Group had assumed the commitment to pay active employees who completed 15, 25 and 30 years of service in the Group, long-term service bonuses corresponding, respectively, to one, two and three times their monthly remuneration earned at the date the bonuses are paid out.

At the date of early retirement due to disability or presumed disability, employees had the right to a long-term service bonus proportional to that which they would receive if they were to remain in service until meeting the next bonus level.

These long-term service bonuses were accounted for by the Group in accordance with IAS 19, as other long-term employee benefits. The Group's liability with these long-term service bonuses were periodically estimated by the Group using the Projected Unit Credit Method. The actuarial assumptions used were based on expectations as to future salary increases and mortality tables. The discount rate used in this calculation was determined using the methodology described for retirement pensions.

In each period, the increase in the liability for long-term service bonuses, including actuarial gains and losses and past service costs, was charged to the income statement.

Arising from the signature of the new ACT on 5 July 2016, the long-term service bonus has ceased, with the Group having paid its employees the proportional amounts relating to the premium which would have been due on the entry into force of the new ACT.

Instead of the long-term service bonus, the new ACT provides for the payment by the Group of a career bonus, due the moment immediately prior to the retirement of the employee when said employee retires at the service of the Group, corresponding to 1.5 of his/her salary at the time of its payment.

The career bonus is accounted for by the Group in accordance with IAS 19, as a long-term employee benefit. The effects of re-measurement and past service cost are recognised in results, as occurred with the accounting model for long-term service bonuses.

The amount of the Group's liabilities with this career bonus is likewise periodically estimated based on the Projected Unit Credit Method. The actuarial assumptions used are based on expectations of future salary increases and mortality tables. The discount rate used in this calculation is determined applying the same methodology described above for retirement pensions.

Employees' variable remuneration

The Group recognises in costs the short-term benefits of the employees who rendered services in the respective accounting period.

- Profit-sharing and bonus plans

The Group recognises the cost expected with profit-sharing pay-outs and bonuses when it has a present, legal or constructive, obligation to make such payments as a result of past events, and can make a reliable estimate of the obligation.

- Obligations with holidays, holiday subsidy and Christmas subsidy

In accordance with the legislation in force in Portugal, employees are annually entitled to one month of holidays and one month of holiday subsidy, this being a right acquired in the year prior to their payment. In addition, employees are annually entitled to one month of Christmas subsidy, which right is acquired throughout the year and settled during the month of December of each calendar year. Hence, these liabilities are recorded in the period in which the employees acquire the right to the same, regardless of the date of their respective payment.

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 under deferred tax reserves (other comprehensive income). 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. Income tax expense is recognised at each reporting date based on management’s estimate of the weighted average effective annual income tax rate expected for the full tax year.

Deferred tax is calculated on timing differences arising between the carrying book values of assets and liabilities for financial reporting purposes and their respective tax base, and is calculated using the tax rates enacted or substantively enacted at the balance sheet date in each jurisdiction and that are expected to apply when the timing differences are reversed.

Deferred tax liabilities are recognised for all taxable timing differences except for goodwill, non-deductible for tax purposes, differences arising on the initial recognition of assets and liabilities that neither affect 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 Tax Authority, on the same tax entity. This offset is, therefore, performed at the level of each subsidiary, with the deferred tax asset presented in the consolidated balance sheet corresponding to the sum of the subsidiaries' amounts which present net deferred tax assets and the deferred tax liability presented in the consolidated balance sheet corresponding to the sum of the subsidiaries' amounts which present net deferred tax liabilities.

2.18. Provisions and Contingent liabilities

Provisions are recognised when: (i) the Group has a current legal or constructive obligation, (ii) it is probable that its settlement will be required in the future and (iii) a reliable estimate of the obligation can be made.

Provisions related to lawsuits opposing the Group to third parties, are constituted according to internal risk assessments carried out by Management, with the support and advice of its legal advisors.

When the effect of the passage of time (discounting) is material, the provision corresponds to the net present value of the expected future payments, discounted at an appropriate rate considering the risk associated with the obligation. In these cases, the increase in the provision due to the passage of time is recognised in financial expenses.

Restructuring provisions are recognised when the Group has approved a formal, detailed restructuring plan and such restructuring has either commenced or has been publicly announced.

A provision for onerous contracts is recognised when the benefits expected to be derived by the Group from a contract are lower than the unavoidable costs of meeting its obligation under the contract. This provision is measured at the present value of the lower of the estimated cost of terminating the contract and the estimated net costs of continuing the contract.

If a future outflow of funds is not probable, this situation reflects a contingent liability. Contingent liabilities are always disclosed, except when the likelihood of their occurrence is remote.

2.19. Recognition of interest income and expense

Interest income and expense is recognised in the income statement under interest and similar income and interest expense and similar charges for all financial instruments measured at amortised cost and for all available-for-sale financial assets, using the effective interest rate method. Interest arising on financial assets and liabilities at fair value through profit or loss is also included under interest and similar income or interest expense and similar charges, as appropriate.

The effective interest rate is the rate that discounts the estimated future cash payments or receipts throughout the expected life of the financial instrument or, when appropriate, a shorter period to the net book value of the financial asset or liability. The effective interest rate is calculated at inception and is not subsequently revised, except in respect of financial assets and liabilities with a variable interest rate. In this case, the effective interest rate is periodically revised, taking into consideration the impact of the change in the interest rate of reference on the estimated future cash flows.

When calculating the effective interest rate, the Group estimates the cash flows considering all the contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all the commissions that are an integral part of the effective interest rate, transaction costs and all other related premiums or discounts.

Interest on loans and advances to customers includes the interest for which the impairment losses have been recognised.

For derivative financial instruments, excluding derivatives held for risk management purposes (see Note 2.4), the interest component of the changes in their fair value is not separated and is classified under net gains / (losses) from financial assets and liabilities at fair value through profit or loss. The interest component of the changes in the fair value of derivatives held for risk management purposes is recognised under interest and similar income or interest expense and similar charges.

2.20. Recognition of fee and commission income

Fees and commissions are recognised as follows:

- Fees and commissions that are earned on the execution of a significant act, such as loan syndication fees, are recognised as income when the significant act has been completed;
- Fees and commissions earned over the period during which the services are provided are recognised as income in the financial year in which the services are provided;

- Fees and commissions that are an integral part of the effective interest rate of a financial instrument are recognised as income using the effective interest rate method.

2.21. Recognition of dividend income

Dividend income is recognised when the right to receive the dividend payment is established.

2.22. Earnings per share

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 a maturity of less than three month from the date of acquisition / contracting and whose risk of change in value is immaterial, including cash, deposits with Central Banks and deposits with other credit institutions. Cash and cash equivalents exclude restricted balances with Central Banks.

2.24. Investment properties

The Group classifies as investment properties the real estate assets held for rent or for capital appreciation or both. Investment properties are initially recognised at acquisition cost, including directly attributable transaction costs, and subsequently at their fair value. Changes in fair value determined at each balance sheet date are recognised in the income statement, in the caption Other operating income and expenses, based on periodic valuations realised by independent entities specialised in this type of service. Investment properties are not depreciated.

Reclassifications to and from the caption Investment properties may occur whenever a change in respect of the use of a real estate property is verified. On the reclassification of investment properties to real estate properties held for own use, the estimated cost, for accounting purposes, is the fair value, at the date of the change in usage. If a real estate property held for own use is reclassified to investment properties, the Group records that asset in accordance with the policy applicable to real estate properties held for own use, up to the date of its reclassification to investment properties and at fair value subsequently, with the difference arising in its measurement at the date of the reclassification being recognised in revaluation reserves. If a real estate property is transferred from Non-current assets held for sale or from Other assets to Investment properties, any difference between the fair value of the asset at that date and the previous carrying book value is recognised in the income statement.

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

The gains and losses on the disposal of Investment properties resulting from the difference between the realised value and the carrying book value are recognised in the income statement for the year in the caption Other operating income and expenses.

Investment properties recorded relate solely to insurance and other non-banking activities (Investment Funds).

2.25. Insurance contracts

The Group issues contracts that contain insurance risk, financial risk or a combination of both insurance and financial risk. A contract under which the Group accepts significant insurance risk from another party, by agreeing to compensate that party on the occurrence of a specified uncertain future event that may adversely affect said party, is classified as an insurance contract.

A contract issued by the Group that is without significant insurance risk, but which financial risk is transferred with discretionary participating features is classified as an investment contract, being recognised and measured in accordance with the accounting standard applicable to insurance contracts (IFRS 4). A contract issued by the Group that transfers only financial risk, without discretionary participating features, is classified as a financial instrument and measured in accordance with IAS 39.

The financial assets held by the Group to cover for the liabilities arising under insurance and investment contracts are classified and accounted for in the same manner as the other Group financial assets.
Insurance contracts and investment contracts with participating features are recognised and measured as follows:

Premiums

Gross written premiums are recognised as income in the period to which they relate, in accordance with the accrual accounting principle. Reinsurance premiums ceded are accounted for as an expense in the period to which they relate the same way as gross written premiums.

Acquisition costs

Acquisition costs that are directly or indirectly related to the selling of insurance contracts are capitalised and deferred over the life of the contracts. Deferred acquisition costs are subject to recoverability tests when the insurance policy is issued and remain subject to impairment tests at each balance sheet date.

Reserves for outstanding claims

Reserves for outstanding claims reflect the estimated total outstanding liability for unpaid reported claims and for incurred unreported claims (IBNR). Incurred unreported claims are estimated based on past experience using statistical methods. Outstanding claims reserves are not discounted. For reinsurance contracts ceded, the 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 are 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 written imputable to one or more of the subsequent periods net of deferred acquisition costs.

Technical reserves for reinsurance ceded

The reserves for reinsurance ceded are determined applying the criteria described above for direct insurance in accordance with that foreseen in the legislation in force, taking into consideration the clauses existing in the ruling reinsurance treaties.

Reinsurance

In the course of the normal insurance activity, the Group cedes business. The amounts payable regarding reinsurance activity, include balances payable from insurance companies for reinsurance regarding responsibilities ceded. The amounts receivable or payable to the reinsurers are calculated in accordance with the contractual provisions established in the reinsurance contracts.

The accounting principles applicable to the assets regarding the Reinsurance Ceded, under reinsurance contracts, which require the existence of a significant insurance risk are identical to those applicable to direct insurance contracts.

NOTE 3 – MAIN ACCOUNTING ESTIMATES AND JUDGMENTS USED IN PREPARING THE FINANCIAL STATEMENTS

Considering that the current accounting framework requires applying judgments and calculating estimates involving some degree of subjectivity, the use of different parameters or judgments based on different evidence may result in different estimates.

3.1. Impairment of available-for-sale financial assets

The Group determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decline in their fair value or when it foresees an impact on the assets' future cash flows. This determination requires a judgement based on all available relevant information, including the normal volatility of the financial instruments' prices. For this purpose and considering the high volatility of the markets, the Group considers the following parameters as impairment triggers:

(i) Equity securities: continued or significant decline in its market value against the acquisition cost;
(ii) Debt securities: objective evidence of events that have an impact on the recoverability of the estimated future cash flows of these assets.

In addition, valuations are generally obtained through market quotations (mark to market) or valuation models (mark to model) that require the use of certain assumptions or judgment in defining fair value estimates.

The use of alternative methodologies and different assumptions and estimates can result in a different level of impairment losses being recognised. The amount of the impairment of available-for-sale financial assets determined based on the above criteria is indicated in Note 23.

3.2. Fair value of derivative financial instruments and other assets and liabilities measured at fair value

Fair values are based on listed market prices when available; otherwise fair value is determined with reference to similar recent arm's length transaction prices or using valuation methodologies, based on the net present value of estimated future cash flows taking into consideration market conditions for the underlying instruments, the time value, the yield curve and volatility factors, in accordance with IFRS 13 - Fair Value. These methodologies may require the use of assumptions or judgements in estimating fair value.

Consequently, the use of a different methodology or different assumptions or judgements in applying a particular model could have produced different financial results, summarised in Notes 49 and 50.

3.3. Impairment losses of loans and advances to customers

The Group reviews its loan portfolio on a regular basis to assess impairment, as described in Note 2.5.

The assessment process applied to the loan portfolio to determine whether an impairment loss should be recorded in the income statement is subject to numerous estimates and judgements. The default frequency, risk ratings, loss recovery rates and the estimation of both the amount and timing of future cash flows, amongst other factors, are considered in making this assessment.

The use of alternative methodologies and different assumptions and estimates could result in a different level of impairment losses being recognised. The amount of the impairment of loans and advances to customers determined based on the above criteria is indicated in Note 25.

3.4. Impairment of goodwill

The recoverable amount of the goodwill recognised as an asset of the Group is revised periodically regardless of the existence, or not, of impairment triggers.

For this purpose, the book value of the cash generating units of the Group in respect of which goodwill has been recognised is compared with their respective recoverable amount. A goodwill impairment loss is recognised when the book value of a cash generating unit exceeds the respective recoverable amount.

In the absence of an available market value, the recoverable amount is determined using cash flows techniques and applying a discount rate that includes a risk premium that is appropriate to the business unit being tested. The determination of the future cash flows to be discounted and the discount rate involve judgement.

Changes in the expected cash flows and in the discount rate may lead to conclusions that differ from those used in the preparation of these financial statements; these are evidenced in the amount of goodwill indicated in Note 30.

3.5. Corporate income taxes

The Group is subject to corporate income tax in numerous jurisdictions. Certain interpretations and estimates are required in determining the overall corporate income tax amount. Different interpretations and estimates could result in a different level of income tax, current and deferred, being recognised in the period and evidenced in Note 40.

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 losses 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 of 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.

3.6. Pensions and other employee benefits

The determination of the retirement pension liabilities presented in Note 16 requires the use of assumptions and estimates, including the use of actuarial tables, 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. The sensitivity analysis of the above assumptions is presented in Note16.

Changes in these assumptions could materially affect the amounts determined.

3.7. 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 historical past of the Group and of the market. These assumptions may be reviewed if it is determined that future experience will differ substantially from that previously assumed. The technical reserves with insurance contracts and investment contracts with discretionary participating features (capitalisation products), presented in Note 32, include: (i) the mathematical reserve, (ii) the reserve for participating features, (iii) the provision for outstanding claims, (iv) the rate commitment reserve and (v) the unearned premiums reserve. The mathematical reserve includes the understatement resulting from the liability adequacy test.

When claims are made by or against policyholders, any amounts that the Group pays or expects to pay are recorded as losses in the income statement. The Group establishes reserves for the payment of claims arising from its insurance and investment contracts.

To determine the technical reserves arising from insurance contracts and investment contracts with participating features, the Group performs periodic reviews of its liabilities, using actuarial methodologies and taking into consideration the respective reinsurance coverage. The reserves are reviewed periodically by qualified actuaries.

The liability adequacy test is performed considering the projected future cash flows of each contract. These cash flows consider premiums, mortalities, maturities, surrenders, reversals, expenses and commissions payable. Whenever the contracts include options and guarantees, the present value of the liabilities is determined stochastically based on Market Consistent scenarios. This test is conducted on a product by product basis or on an aggregate basis when the risks are similar or managed on a portfolio basis.

3.8. Provisions

The Group recognises provisions intended to cover for losses arising from commercial offers approved by the Board of Directors of the Bank, when these are not opposed by Banco de Portugal. The amount of the provisions reflect NOVO BANCO's best estimate as each reporting date. The subjectivity inherent to the determination of the probability and amount of the internal resources required for the payment of the obligations may lead to significant adjustments (a) due to variations in the assumptions used (b) for the future recognition of provisions previously disclosed as contingent liabilities; and/or (c) for the future write-off of provisions, when they start to classify as contingent liabilities only. The provisions are detailed in Note 39.

NOTE 4 – SEGMENT REPORTING

NOVO BANCO Group activities are centred on the financial sector targeting corporate, institutional and private customers. Its decision centre is in Portugal, making the domestic territory its privileged market.

The products and services rendered include deposit taking, granting of loans to corporate and private customers, investment fund management, broker and custodian services, investment banking services and the 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 485 branches in Portugal (31 December 2015: 553 branches) and branches in London, Spain (25 branches), Cayman Islands, Venezuela, Luxembourg, a financial branch in the Madeira Free Zone and 6 representation offices – with NB Açores (15 branches), Banco BEST (7 branches), GNB GA, 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 is complemented at the Board of Directors of NOVO BANCO level, by the definition of specific strategies and commercial programmes for each unit.

4.1. Description of the operating segments

Each of the operating segments includes the following activities, products, customers and Group structures, aggregated by criteria of risk, market / geography and nature of the products and services:

Domestic Commercial Banking

This Operating Segment includes all the banking activity developed on domestic territory involving corporate and private customers and using the 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 residential 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, Institutional Communication, 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 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, accordingly disaggregated.

For purposes of allocating the financial information, the following principles are used: (i) the origin of the operation, i.e. the operation is allocated to the same segment that the commercial structure that originated it integrates, even if, in a subsequent phase, the Group, strategically, decides to 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 Markets segment.

The transactions between the legally autonomous units of the Group are made at market prices; the price for services rendered between the structures of each unit, namely the price established for internal funding between units, is determined using the margins process referred to above (which varies in accordance with the strategic relevance of the product and the equilibrium of the structures' funding and lending functions); the remaining internal transactions are allocated to the segments 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 Markets segment.

The interest rate risk, currency risk, liquidity risk and others, excluding credit risk, are included in the Financial Department, which mission it is to undertake the Bank's financial management, and which activity and results are included in the Markets segment.

Interest and similar income / expense

Since the Group's activities are exclusively carried out in the financial sector, the income reflects, fundamentally, the difference between interest received on assets and interest paid on liabilities. This situation and the fact that the segment evaluation is based on margins previously negotiated or determined for each product, leads to the presentation of the results from the intermediation activity, as permitted by IFRS 8, paragraph 23, at the net value of interest, under the designation Net Interest Income / Expense.

Investments presented using the equity method

Investments in associated companies presented under the equity method are included in the Markets segment, in the case of NOVO BANCO's associated companies. For other associated companies of the Group, these entities are included in the segment to which they relate.

Non-current assets

Non-current assets, according to IFRS 8, include Other tangible assets, Intangible assets and Non-current assets held for sale. NOVO BANCO includes these assets in the Markets segment, with the non-current assets held by the remaining subsidiaries being allocated to the segment in which these subsidiaries primarily develop their business.

Corporate income taxes

Corporate income tax is part of the Group's net income that, for purposes of monitoring the performance of the Operating Segments, by the Board of Directors, does not affect the evaluation of most of the Operating Segments. Deferred tax assets and liabilities are included in the Markets segment.

Domestic and International Areas

In the disclosure of financial information by geographical area, the operating units integrating the International Area are NB Ásia, Banco Internacional de Cabo Verde and BES Vénétie as discontinued units (since the beginning of 2016), and Novo Banco Servicios, Novo AF, Banco Delle Tre Venezie, Moza Banco, Ijar Leasing Algérie, the NOVO BANCO branches in London, Spain, Venezuela, Luxembourg, New York and Cape Verde (with the latter two having been shut down during 2015) as well as the GNB GA units located abroad.

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 is presented as follows:

(in thousands of Euros)

	31.12.2016									
	Retail	Corporate and Institutional	Private banking	International commercial banking	Investment banking	Asset management	Life insurance	Markets	Corporate centre	Total
Net interest	62 280	103 139	8 969	51 380	-	378	(16 883)	305 221	-	514 484
Net fees and commissions	135 450	120 193	8 707	33 308	-	29 188	(7 571)	(53 908)	-	265 367
Other operating income	17 086	(24 530)	1 558	516	-	(1 536)	(21 451)	171 054	-	142 697
Total operating income	214 816	198 802	19 234	85 204	-	28 030	(45 905)	422 367	-	922 548
Operating expenses	345 744	517 104	30 369	220 117	-	18 812	53 234	682 043	98 162	1 965 585
Includes:										
Provisions / Impairment losses	*34 781*	*466 109*	*16 820*	*148 366*	-	*5 323*	*46 982*	*656 328*	-	*1 374 709*
Depreciation and amortisation	*28 879*	*3 616*	*1 214*	*9 503*	-	*247*	*367*	*4 835*	*7 400*	*56 061*
Net gains / (losses) on disposal of subsidiaries and associated compa	-	-	-	-	-	832	-	23 493	-	24 325
Net gains / (losses) of step acquisitions of control in subsidiaries	-	-	-	-	-	-	-	-	-	-
Net share of profits / (losses) of associated companies	-	-	-	185	-	927	-	2 962	-	4 074
Profit / (loss) before tax and non-controlling interests	**(130 928)**	**(318 302)**	**(11 135)**	**(134 728)**	**-**	**10 977**	**(99 139)**	**(233 221)**	**(98 162)**	**(1 014 638)**
Intersegment operating income / (loss) (1)	*4 101*	*6 162*	-	*236 242*	-	*8 638*	*(4 861)*	*(221 675)*	-	*28 607*
Total Net Assets	**15 419 781**	**13 741 698**	**2 356 202**	**12 136 732**	**-**	**71 794**	**5 324 739**	**3 281 726**	**-**	**52 332 672**
Total Liabilities	**15 448 110**	**14 060 000**	**2 367 375**	**11 079 445**	**-**	**14 553**	**4 909 469**	**(694 233)**	**-**	**47 184 719**
Investments in associated companies	**-**	**-**	**-**	**10 368**	**-**	**3 361**	**-**	**144 921**	**-**	**158 650**
Investments in tangible fixed assets	**35**	**-**	**-**	**54**	**-**	**952**	**54**	**8 144**	**-**	**9 239**
Investments in intangible assets	**619**	**-**	**-**	**1 552**	**-**	**33**	**82**	**8 389**	**-**	**10 675**
Investments in non-current assets	**666**	**-**	**-**	**8 615**	**-**	**-**	**-**	**206 018**	**8**	**215 307**
Investments in investment properties	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**111**	**-**	**111**
Investments in other assets - real estate properties	**2 080**	**-**	**-**	**5 041**	**-**	**-**	**-**	**96 768**	**-**	**103 889**

(1) Intersegment operating income relates essentially to interest (net interest income)

(in thousands of Euros)

	31.12.2015 *									
	Retail	Corporate and Institutional	Private banking	International commercial banking	Investment banking	Asset management	Life insurance	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 compa	-	-	-	-	-	-	-	33	-	33
Net gains / (losses) of 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) (1)	*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**	**4 381 637**	**-**	**57 517 090**
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**
Investments in non-current assets	**1 629**	**-**	**-**	**21 283**	**-**	**-**	**5 742**	**260 829**	**79**	**289 562**
Investments in investment properties	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Investments in other assets - real estate properties	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

(1) Intersegment operating income relates essentially to interest (net interest income)
* restated

The balances included in the Investment Banking Segment relate to BESI, classified as a discontinued unit following the sale contract signed in December 2014 with Haitong International Holdings, with the sale having been concluded in September 2015.

The geographical information distribution of the different Group's business units is presented as follows:

(in thousands of Euros)

	31.12.2016									
	Portugal	Spain	France / Luxembourg	United Kingdom	Brazil	Angola	Cape Verde	Macao	Other	Total
Net profit / (loss) for the period	(723 456)	(30 148)	(36 383)	19 563	(261)	927	(1 027)	104	(17 649)	(788 330)
(of which: rel. to discontinued units	*(11 699)*	-	*1 168*	-	-	-	-	*104*	-	(10 427)
Total income	6 285 816	172 137	205 795	310 742	763	927	58	104	(13 693)	6 962 649
Intersegment operating income / (loss)	*259 085*	*4 173*	*(36 825)*	*(197 828)*	-	-	-	-	*2*	*28 607*
Net assets	40 888 268	3 207 303	4 187 570	3 788 232	15 664	3 364	97 615	111 429	33 227	52 332 672
(of which: rel. to discontinued units	*3 292*	-	*1 130 161*	-	-	-	*32 553*	*51 365*	-	1 217 371
Investments in associated companies	134 420	-	-	-	-	3 362	-	-	20 868	158 650
Investments in tangible fixed assets	9 185	48	-	-	-	-	-	-	6	9 239
Investments in intangible assets	9 123	1 579	(27)	-	-	-	-	-	-	10 675
Investments in non-current assets	206 684	8 623	-	-	-	-	-	-	-	215 307
Investments in investment properties	111	-	-	-	-	-	-	-	-	111
Investments in other assets - real estate properties	98 848	5 041	-	-	-	-	-	-	-	103 889
Profit / (loss) before income tax and non-controlling interests [(a)]	(930 906)	(45 052)	(41 873)	21 099	(261)	927	(1 027)	104	(17 649)	(1 014 638)
Turnover [(a)] [(b)]	1 400 812	93 620	163 362	285 029	322	927	58	-	2 269	1 946 399
Number of employees [(a)]	5 687	303	18	16	-	-	-	-	72	6 096
Government grants received [(a)]	-	-	-	-	-	-	-	-	-	-

[(a)] Financial information presented according to art. 2 of DL no. 157/2014

[(b)] Turnover corresponds to the sum of the following items of the consolidated income statement: interest and similar income, dividend income, fee and commission income, net gains / (losses) from financial assets and liabilities at fair value through profit or loss, net gains / (losses) from available-for-sale financial assets, net gains / (losses) from foreign exchange differences, net gains / (losses) from the sale of other assets, other operating income and share of profits / (losses) of associated companies consolidated by the equity method

(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	(815 977)	(47 668)	(36 547)	110	(28 338)	(1 644)	1 282	(2 723)	458	1 508	(929 539)
(of which: rel. to discontinued units	*41 109*	*(9 963)*	-	*(14 780)*	*5 548*	*(191)*	*(75)*	*(1 014)*	-	*1 155*	21 789
Total income	10 236 038	254 661	312 604	361 494	35 541	645	1 282	1 562	40 558	5 400	11 249 785
Intersegment operating income / (loss)	*266 986*	*2 948*	*(20 555)*	*(216 092)*	*842*	-	-	*86*	*464*	*18*	*34 697*
Net assets	45 239 374	3 082 282	4 742 254	4 071 188	46 949	12 723	2 859	113 354	121 189	84 918	57 517 090
(of which: rel. to discontinued units	*(40 327)*	-	-	-	-	-	-	*40 327*	-	-	-
Investments in associated companies	335 750	-	1 300	-	-	-	2 859	-	-	65 577	405 486
Investments in tangible fixed assets	11 666	492	67	88	-	-	-	5	2	25	12 345
Investments in intangible assets	12 679	3 210	152	145	-	-	-	116	310	11	16 623
Investments in non-current assets	268 200	19 472	1 890	-	-	-	-	-	-	-	289 562
Investments in investment properties	63	-	-	-	-	-	-	-	-	-	63
Investments in other assets - real estate properties	-	-	-	-	-	-	-	-	-	-	-
Profit / (loss) before income tax and non-controlling interests [(a)]	(829 755)	(65 233)	(50 238)	110	(21 239)	(1 644)	1 282	(2 723)	522	1 508	(967 410)
Turnover [(a)] [(b)]	1 605 244	128 760	226 650	309 167	-	645	1 282	1 175	6 115	5 325	2 284 363
Number of employees [(a)]	6 571	455	162	26		-	-	-	17	80	7 311
Government grants received [(a)]	-	-	-	-	-	-	-	-	-	-	-

[(a)] Financial information presented according to art. 2 of DL no. 157/2014

[(b)] Turnover corresponds to the sum of the following items of the consolidated income statement: interest and similar income, dividend income, fee and commission income, net gains / (losses) from financial assets and liabilities at fair value through profit or loss, net gains / (losses) from available-for-sale financial assets, net gains / (losses) from foreign exchange differences, net gains / (losses) from the sale of other assets, other operating income and share of profits / (losses) of associated companies consolidated by the equity method

* restated

NOTE 5 – NET INTEREST INCOME

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2016			31.12.2015		
	From assets / liabilities at amortised cost and available-for-sale assets	**From assets / liabilities at fair value through profit or loss**	**Total**	**From assets / liabilities at amortised cost and available-for-sale assets**	**From assets / liabilities at fair value through profit or loss**	**Total**
Interest and similar income						
Interest from loans and advances	916 269	16 656	932 925	1 075 957	13 275	1 089 232
Interest from financial assets at fair value through profit or loss	-	18 112	18 112	-	32 116	32 116
Interest from deposits with and loans and advances to banks	58 963	-	58 963	38 972	207	39 179
Interest from available-for-sale financial assets	141 740	-	141 740	170 441	-	170 441
Interest from derivatives held for risk management purposes	-	34 188	34 188	-	84 676	84 676
Other interest and similar income	7 426	-	7 426	27 512	-	27 512
	1 124 398	**68 956**	**1 193 354**	**1 312 882**	**130 274**	**1 443 156**
Interest expense and similar charges						
Interest on debt securities	275 041	1 841	276 882	394 706	5 337	400 043
Interest on amounts due to customers	220 120	2 200	222 320	303 561	44 492	348 053
Interest on deposits from Central Banks and other banks	26 219	14 811	41 030	65 071	14 688	79 759
Interest on subordinated debt	1 939	-	1 939	250	-	250
Interest on derivatives held for risk management purposes	-	24 184	24 184	-	51 678	51 678
Other interest and similar charges	112 515	-	112 515	112 721	-	112 721
	635 834	**43 036**	**678 870**	**876 309**	**116 195**	**992 504**
	488 564	**25 920**	**514 484**	**436 573**	**14 079**	**450 652**

The interest from (i) deposits with and loans and advances to banks, (ii) on amounts due to customers and (iii) on deposits from Central Banks and other banks include, as at 31 December 2016, respectively, amounts of Euros 533 thousand, Euros 6 thousand and Euros 18 415 thousand in operations with repurchase agreements (31 December 2015: Euros 700 thousand of interest from loans and advances, Euros 418 thousand from deposits with and loans and advances to banks and Euros 18 623 thousand of interest on deposits from Central Banks and other banks).

The Interest income and Interest expenses captions relating to interest from derivatives held for risk management purposes includes, in accordance with the accounting policy described in Notes 2.4 and 2.19, interest from hedging derivatives and from derivatives used to manage the economic risk of certain financial assets and liabilities designated at fair value through profit or loss, as per the accounting policies described in Notes 2.5, 2.6 and 2.8.

NOTE 6 – NET FEE AND COMMISSION INCOME

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Fee and commission income		
From banking services	241 685	271 774
From guarantees provided	75 340	108 136
From transactions of securities	7 693	11 732
From commitments to third parties	12 362	21 816
Other fee and commission income	41 290	58 041
	378 370	**471 499**
Fee and commission expense		
With banking services rendered by third parties	57 136	67 848
With guarantees received	33 375	34 887
With transactions of securities	6 356	8 704
Other fee and commission expenses	16 136	21 957
	113 003	**133 454**
	265 367	**338 045**

The caption Fee and commission expense with guarantees received includes, as at 31 December 2016 and 2015, an amount of Euros 32.9 million and Euros 34.4 million, respectively, relating to fees 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)

	31.12.2016			31.12.2015		
	Gains	Losses	Total	Gains	Losses	Total
Securities held for trading						
Bonds and other fixed income securities						
Issued by government and public entities	-	2	(2)	2 874	1 477	1 397
Issued by other entities	806	226	580	2 461	1 081	1 380
Shares	212	175	37	471	1 089	(618)
Other variable income securities	27	-	27	-	53	(53)
	1 045	**403**	**642**	**5 806**	**3 700**	**2 106**
Derivative financial instruments						
Foreign exchange rate contracts	56 857	51 886	4 971	216 766	174 919	41 847
Interest rate contracts	1 642 433	1 720 854	(78 421)	3 098 532	3 205 099	(106 567)
Equity / Index contracts	52 661	19 738	32 923	379 810	400 678	(20 868)
Credit default contracts	107 091	121 001	(13 910)	123 113	124 220	(1 107)
Other	12 099	30 871	(18 772)	18 479	33 562	(15 083)
	1 871 141	**1 944 350**	**(73 209)**	**3 836 700**	**3 938 478**	**(101 778)**
Financial assets at fair value through profit or loss						
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	15	1 172	(1 157)	1 211	3 021	(1 810)
Issued by other entities	38 963	5 795	33 168	14 645	23 819	(9 174)
Shares	7 287	14 366	(7 079)	13 184	13 231	(47)
Other variable income securities	22 820	94 513	(71 693)	88 478	105 861	(17 383)
	69 085	**115 846**	**(46 761)**	**117 518**	**145 932**	**(28 414)**
Other financial assets (1)						
Loans and advances to customers	**36 226**	**6 051**	**30 175**	**14 150**	**16 394**	**(2 244)**
Financial liabilities (1)						
Deposit from banks	78 506	-	78 506	9 622	1 215	8 407
Due to customers	21 381	37	21 344	26 756	6 795	19 961
Debt securities issued	685	-	685	4 963	893	4 070
Life insurance products	104 023	92 500	11 523	179 605	165 874	13 731
	204 595	**92 537**	**112 058**	**220 946**	**174 777**	**46 169**
	309 906	**214 434**	**95 472**	**352 614**	**337 103**	**15 511**
	2 182 092	**2 159 187**	**22 905**	**4 195 120**	**4 279 281**	**(84 161)**

(1) Includes the fair value change of hedged assets / liabilities or at fair value option, as presented in Note 26

As at 31 December 2016, this caption also includes a positive effect of Euros 24.2 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 2015: positive effect of Euros 23.9 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.

As at 31 December 2016, the gains recognised in the income statement arising from intermediation fees amounted to approximately Euros 6 597 thousand (31 December 2015: Euros 9 610 thousand) and are essentially related to foreign currency transactions.

NOTE 8 – NET GAINS / (LOSSES) FROM AVAILABLE-FOR-SALE FINANCIAL ASSETS AND EQUITY INSTRUMENTS

The net gains / (losses) from available-for-sale financial assets are as follows:

(in thousands of Euros)

	31.12.2016			31.12.2015		
	Gains	**Losses**	**Total**	**Gains**	**Losses**	**Total**
Bonds and other fixed income securities						
Issued by government and public entities	40 303	19 998	20 305	217 020	76 553	140 467
Issued by other entities	50 711	4 981	45 730	55 448	30 997	24 451
Shares	71 329	2 054	69 275	67 038	23 364	43 674
Other variable income securities	7 523	26 404	(18 881)	78 153	55 984	22 169
	169 866	**53 437**	**116 429**	**417 659**	**186 898**	**230 761**

In the scope of the Visa Europe acquisition by Visa International, the Group recognised a gain of Euros 30 086 thousand in 2016.

In addition, during the 2016 financial year, revenue from equity instruments in the amount of Euros 37 832 thousand, including dividends received from ES Health Care in the amount of Euros 13 465 thousand and from SIBS in the amount of Euros 2 233 thousand, were received.

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

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2016			31.12.2015		
	Gains	**Losses**	**Total**	**Gains**	**Losses**	**Total**
Foreign exchange revaluation	1 029 749	1 036 325	(6 576)	1 869 823	1 839 731	30 092
	1 029 749	**1 036 325**	**(6 576)**	**1 869 823**	**1 839 731**	**30 092**

This caption includes the results of the foreign exchange revaluation of monetary assets and liabilities denominated in foreign currency in accordance with the accounting policy described in Note 2.3.

NOTE 10 – NET GAINS / (LOSSES) FROM THE SALE OF OTHER ASSETS

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Loans and advances to customers	(696)	(8 668)
Real estate properties	(31 871)	(6 098)
Equipment	(15 719)	(3 093)
Other	(3 450)	5 518
	(51 736)	**(12 341)**

NOTE 11 – INSURANCE EARNED PREMIUMS, NET OF REINSURANCE

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

(in thousands of Euros)

	31.12.2016	31.12.2015
Gross written premiums	93 629	86 013
Reinsurance premiums ceded	(44 428)	(47 687)
Net premiums	**49 201**	**38 326**

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

(in thousands of Euros)

	31.12.2016	31.12.2015
Traditional annuities	57 282	58 579
Capitalisation products with profit sharing	36 347	27 434
	93 629	**86 013**

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)

	31.12.2016	31.12.2015
Direct insurance		
Amounts paid	179 723	251 879
Change in the outstanding claims reserve	(600)	(558)
	179 123	**251 321**
Reinsurance ceded		
Amounts paid	(11 650)	(13 359)
Change in the outstanding claims reserve	271	(946)
	(11 379)	**(14 305)**
	167 744	**237 016**

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)

	31.12.2016	31.12.2015
Mathematical reserve	105 468	179 415
Reserve for profit sharing	(624)	(11 292)
Other technical reserves	1 602	(391)
Reserve for reinsurance	(1 071)	(1 566)
Commissions and profit sharing in reinsurance ceded	(30)	(176)
	105 345	**166 092**

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)

	31.12.2016	31.12.2015
Other operating income		
IT services	251	176
Gains / (losses) on recoveries of loans	32 270	18 080
Non-recurring advisory services	1 605	3 192
Change in consolidation perimeter	65 199	-
Renegotiation of ACT (Collective Labour Agreement)	28 463	-
Income of Funds and real estate companies	34 468	75 861
Other income	71 030	64 695
	233 286	**162 004**
Other operating expenses		
Net gains / (losses) on repurchase of Group debt securities (see Notes 37 and 41)	(16 794)	(567)
Direct and indirect taxes	(16 415)	(17 041)
Revaluation of liabilities	-	(65 139)
Contributions to the Deposits Guarantee Fund	(78)	(1 350)
Contributions to the Resolution Fund	(6 705)	(6 800)
Contributions to the Sole Resolution Fund	(25 063)	(25 190)
Banking levy	(36 966)	(31 427)
Membership subscriptions and donations	(2 134)	(2 615)
Expenses of Funds and real estate companies	(29 382)	(20 364)
Charges with Supervisory entities	(1 615)	(1 519)
Contractual indemnities (SPE)	(11 838)	(485)
Other expenses	(49 255)	(93 208)
	(196 245)	**(265 705)**
Other operating income / (expenses)	**37 041**	**(103 701)**

On 31 December 2015, the caption Other operating income and expenses includes a cost of Euros 65.1 million related to the revaluation of liabilities inherent to the consolidation of Structured Entities with bonds issued by the Group.

NOTE 15 – STAFF COSTS

The breakdown of the Staff costs is as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Wages and salaries	225 603	278 031
Remuneration	225 603	276 499
Long-term service / Career bonuses (see Note 16)	-	1 532
Mandatory social charges	70 731	96 163
Costs with post-employment benefits (see Note 16)	868	6 732
Other costs	6 261	16 638
	303 463	**397 564**

The provisions and costs related to the restructuring process are presented in Note 39.

The costs with remuneration and other benefits attributed to key management personnel of the NOVO BANCO Group are presented in Note 47.

As at 31 December 2016 and 2015, the number of employees of NOVO BANCO Group has the following breakdown:

	31.12.2016	31.12.2015
Novo Banco employees	5 258	6 050
Employees of the Group's subsidiaries	838	1 261
Total employees of the Group	**6 096**	**7 311**

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

	31.12.2016	31.12.2015
Senior management functions	555	676
Middle management functions	730	831
Specific functions	2 551	3 086
Administrative and other functions	2 260	2 718
	6 096	**7 311**

NOTE 16 – EMPLOYEE BENEFITS

Pension and health-care benefits

In compliance with the Collective Labour Agreement (*Acordo Coletivo de Trabalho* - 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.

Arising from the signature of the new Collective Labour Agreement (ACT) on 5 July 2016, published in Labour Bulletin (Boletim do Trabalho) no. 29, of 8 August 2016, the Bank's contributions to SAMS as from 1 February 2017, will correspond to a fixed amount (as per Annex VI of the new ACT) for each employee, 14 times a year.

For employees hired before 31 December 2008, the retirement pension and the disability, survival and death pensions consecrated under the ACT, as well as the liabilities for health-care benefits (SAMS), are covered by a closed pension fund, managed by GNB – Sociedade Gestora de Fundos de Pensões, S.A..

Protection of employees in the event of maternity, paternity and adoption, as well as old age, is covered by the General Social Security Regime, given that with the publication of Decree-Law no. 1-A/2011, of 3 January, all banking employees that were beneficiaries of "CAFEB – Caixa de Abono de Família dos Empregados Bancários" were integrated in the General Social Security Regime as from 1 January 2011.

Employees hired after 31 December 2008 are covered by the Portuguese General Social Security Regime.

Retirement pensions of banking employees integrated in the General Social Security Regime within the scope of the second tripartite agreement continue to be calculated in accordance with the provisions of the ACT and other conventions, however, banking employees are entitled to receive a pension under the General Regime, that takes into account the number of years of contributions under that regime. The banks are responsible for the difference between the pension determined in accordance with the provisions of the ACT and that which the banking employees are entitled to receive from the General Social Security Regime.

The contribution rate is 26.6%, 23.6% paid by the employer and 3% paid by the employees to the General Social Security Regime in substitution of the Caixa de Abono de Família dos Empregados Bancários (CAFEB), abolished by said Decree-law. In consequence of this change, pension entitlements of active employees are to be covered on the terms defined under the General Social Security Regime, for the length of their employment between 1 January 2011 and their retirement date. The differential required to make up the guaranteed pension under the ACT is paid by the Banks.

At the end of financial year 2011 and pursuant to the 3rd tripartite agreement, it was decided to transfer, definitively and irreversibly, to the General Social Security Regime all the banks' liabilities with pensions in payment to retirees and pensioners that were in that condition as at 31 December 2011.

This tripartite agreement established the transfer to the General Social Security Regime, of all the liabilities with pensions in payment as at 31 December 2011, at constant values (0% discount rate) for the component foreseen in the "Instrumento de Regulação Coletiva de Trabalho" (IRCT) applicable to banking employees, including the eventualities of death, disability and survival. The liabilities relating to the updating of pension amounts, pension benefits other than those to be borne by Social Security, health-care contributions to SAMS, death allowances and deferred survivor's pensions will remain under the banks' responsibility, with the corresponding funding being met through the respective pension funds.

The agreement further established that the financial institution pension fund assets relating to the part allocated to the satisfaction responsibilities for those pensions, be transferred to the State.

According to the deliberation of the Board of Directors of Banco de Portugal of 3 August 2014 (8 p.m.), considering the resolution by the same Board of Directors of 11 August 2014 (5 p.m.), and the additional clarifications contained in the deliberation of the Board of Directors of Banco de Portugal, of 11 February 2015, it was clarified that the BES responsibilities not transferred to NOVO BANCO relate to the retirement and survival pensions and complementary retirement and survival pensions of the Directors of BES who had been members of its Executive Committee, as defined in BES's Articles of Association and BES's General Assembly Regulations to which the Articles of Association refer, not having, therefore, been transferred to NOVO BANCO, without prejudice to the responsibilities relating exclusively to the employment contracts with BES.

Given the aforementioned, the liabilities arising exclusively from the employment contracts with BES were transferred to NOVO BANCO. In light of the foregoing, only the pension fund liabilities arising from the Complementary Executive Committee Plan were split, with a part (described above) remaining in BES, with the other part being transferred to NOVO BANCO, together with the Pension Fund's liabilities relating to the Base Plan and the Complementary Plan.

To quantify the amounts relating to the split of the pension fund assets allocated to the liabilities that remained in BES, following the decision of Banco de Portugal of 11 February 2015, from those that were transferred to NOVO BANCO, the assets existing on 3 August 2014 were split in proportion to the liabilities calculated on the same date, allocated to each of the groups of former participants and beneficiaries allocated to each of the entities. The split performed on these terms will result, on 3 August 2014, in a level of funding of the Complementary Plan of the Executive Committee that is equal for each of the associates of the Fund (NOVO BANCO and BES).

The splitting method applied to the liabilities and assets of the Pension Fund between NOVO BANCO and BES, described in the preceding paragraph, is based on the recommendation of the ASF transmitted to Sociedade Gestora do Fundo de Pensões (Managing Company of the Pension Fund). However, up to the present date, the formalisation of the effective splitting of the liabilities / assets of BES and NB has not yet occurred, with both formally continuing to be members of the same Pension Fund.

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

	31.12.2016			31.12.2015		
	Assumptions		Actual	Assumptions		Actual
Actuarial Assumptions						
Projected rate of return on plan assets	2.10%		-0.93%	2.50%		-1.34%
Discount rate	2.10%		-	2.50%		-
Pension increase rate	0.25%	(1)	0.50%	0.00%	(3)	0.11%
Salary increase rate	0.50%	(2)	1.87%	0.50%	(4)	1.47%
Mortality table men	TV 73/77 - 2 years			TV 73/77 - 2 years		
Mortality table women	TV 88/90 - 2 years			TV 88/90 - 2 years		

(1) 0.75% in 2017; in 2018 and 2019 a growth rate of 0.00% was considered and from 2020 a growth rate of 0.25% was considered

(2) 0.75% in 2017; from 2018 a growth rate of 0.50% was considered

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

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

Disability decreases are not considered in the calculation of the liabilities. The determination of the discount rate as at 31 December 2016 and 2015 was based on: (i) the evolution of the main indices for high quality corporate bonds and (ii) the duration of the liabilities.

The pension plan participants have the following breakdown:

	31.12.2016	31.12.2015
Employees	4 705	5 080
Pensioners and survivors	6 381	6 122
TOTAL	**11 086**	**11 202**

The application of IAS 19 in terms of liabilities and coverage levels as at 31 December 2016 and 2015 is presented as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Assets / (liabilities) recognised in the balance sheet		
Total liabilities	**(1 577 750)**	**(1 545 996)**
Pensioners	(901 440)	(715 247)
Employees	(676 310)	(830 749)
Coverage		
Fair value of plan assets	**1 557 979**	**1 514 326**
Net assets / (liabilities) in the balance sheet (See Notes 33 and 42)	**(19 771)**	**(31 670)**
Accumulated actuarial deviations recognised in other comprehensive income	**396 576**	**314 161**

According to the policy defined in Note 2.16 - Employee Benefits, the Group calculates liabilities for pensions and actuarial gains and losses half-yearly and evaluates at each balance sheet date and for each plan separately, the recoverability of the excess cover in light of the respective pension liabilities.

The sensitivity analysis to a 0.25% increase in the rate of the assumptions and to a one-year increase in the mortality table results in the following changes in the present value of the liabilities determined for past services:

(in thousands of Euros)

Assumptions	Change in the amount of liabilities due to the change:	
	of +0.25% in the rate used	of -0.25% in the rate used
Discount rate	(59 380)	59 526
Salary increase rate	16 719	(15 231)
Pension increase rate	21 533	(21 553)
	of +1 year	of -1 year
Mortality table	(48 816)	47 272

The evolution of liabilities for pensions and health-care benefits can be analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Retirement pension liabilities at beginning of period	**1 545 996**	**1 501 735**
Current service cost	1 248	3 957
Interest cost	37 663	37 121
Plan participants' contribution	2 852	2 917
Contributions from other entities	287	302
Actuarial (gains) / losses in the period:		
- Changes in demographic assumptions	-	(75 320)
- Changes in financial assumptions	26 758	109 222
- Experience adjustments (gains) / losses	12 318	(2 330)
Pensions paid by the fund / transfers and once-off bonuses	(68 910)	(41 149)
Early retirement	39 622	12 791
Foreign exchange differences and other	(20 084)	(3 250)
Retirement pension liabilities at end of period	**1 577 750**	**1 545 996**

The evolution of the value of the pension funds in the financial years ended on 31 December 2016 and 2015 can be analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Fair value of fund assets at beginning of period	**1 514 326**	**1 442 119**
Net return from the fund	(6 209)	19 482
- Share of the net interest on the assets	37 507	37 027
- Return on assets excluding net interest	(43 716)	(17 545)
Group contributions	120 018	96 381
Plan participants' contributions	2 852	2 917
Pensions paid by the fund / transfers and once-off bonuses	(68 910)	(41 149)
Foreign exchange differences and other	(4 098)	(5 424)
Fair value of fund assets at end of period	**1 557 979**	**1 514 326**

The assets of the pension funds may be analysed as follows:

(in thousands of Euros)

	31.12.2016			31.12.2015		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equity instruments	63 185	58 532	121 717	144 215	45 930	190 145
Debt instruments	608 841	303	609 144	502 652	-	502 652
Investment funds	458 249	65 733	523 982	426 819	72 932	499 751
Structured debt	492	6 646	7 138	644	121	765
Derivative instruments	(6)	-	(6)	-	-	-
Real estate properties	-	129 806	129 806	-	138 871	138 871
Cash and cash equivalents	-	166 198	166 198	-	182 142	182 142
Total	**1 130 761**	**427 218**	**1 557 979**	**1 074 330**	**439 996**	**1 514 326**

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

(in thousands of Euros)

	31.12.2016	31.12.2015
Real estate properties	85 067	89 279
Other	-	3 745
Total	**85 067**	**93 024**

As at 31 December 2015, the fund held participation units in Fundo ES Ventures III, which at that date integrated the Group's consolidation perimeter, this participation was sold in 2016.

The evolution of the actuarial gains and losses in the balance sheet can be analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Accumulated actuarial losses recognised in other comprehensive income at beginning of period	**314 161**	**265 066**
Actuarial (gains) / losses in the period:		
- Changes in assumptions	26 758	33 902
- Experience adjustments (gains) / losses	56 034	15 215
Other	(377)	(22)
Accumulated actuarial losses recognised in other comprehensive income at end of period	**396 576**	**314 161**

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

(in thousands of Euros)

	31.12.2016	31.12.2015
Current service cost	1 248	3 957
Interest cost / (income)	2 322	2 742
Early retirement	-	12 791
Other	210	856
Cost with post-employment benefits	**3 780**	**20 346**

In 2016, the amount of the early retirement costs totalled Euros 39.6 million, of which Euros 37.6 million fell under the Group's restructuring process and, as such, were recognised against the use of the restructuring provision (see Note 39), with the remaining Euros 2.0 million being recorded as a cost in 2015.

The evolution of the net assets / (liabilities) on the balance sheet may be analysed in the financial years ended on 31 December 2016 and 2015 as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
At beginning of period	**(31 670)**	**(59 616)**
Cost for period	(3 780)	(20 346)
Actuarial gains / (losses) recognised in other comprehensive income	(82 415)	(49 095)
Contributions made in the period	120 018	96 381
Other	(21 924)	1 006
At end of period	**(19 771)**	**(31 670)**

The summary of the liabilities and balance of the funds, as well as the experience profit and loss is analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015	31.12.2014
Retirement pension liabilities	(1 577 750)	(1 545 996)	(1 501 735)
Fair value of plan assets	1 557 979	1 514 326	1 442 119
(Under) / overfunding of liabilities	**(19 771)**	**(31 670)**	**(59 616)**
(Gains) / losses on experience adjustments in retirement pension liabilities	12 318	(2 330)	14 251
(Gains) / losses on experience adjustments in plan assets	43 716	17 545	119 040

The average duration of the liabilities of the defined benefit plans is approximately 17 years (31 December 2015: approximately 17 years). The table below presents the temporal breakdown of the estimated benefits payable:

(in thousands of Euros)

	Up to 1 year	From 1 to 2 years	From 2 to 5 years	More than 5 years
Estimated amount of benefits payable	46 858	96 488	153 839	1 745 661

As at 31 December 2016, the on-balance sheet liabilities are fully funded for the base and complementary plan (see Note 33). No contribution was made to the EC complementary plan, with the same being conditioned by the formalisation of the split of the liabilities and assets between NB and BES following the Banco de Portugal deliberation of 11 February 2015. The amount not funded totals Euros 18 322 thousand. No additional contributions to the defined benefit plans for the following financial year are anticipated, since the fund's income is expected to be sufficient to cover the changes in liabilities.

Long-term service bonuses and Career bonuses

As at 31 December 2016, the liabilities assumed by the Group amounted to Euros 5 149 thousand, corresponding to the liabilities for past services subjacent to the career bonuses, as described in Note 2.16 – Employee benefits – Long-term service bonuses and Career bonuses (31 December 2015: Euros 29 129 thousand), see Note 42.

In 2016, there were no costs with long-term service bonuses / career bonuses, due to the fact that, consequence of the change in the ACT, the liabilities determined for the career bonuses, increased by the proportional amounts payable for the long-term service bonuses are lower than the liabilities related to the long-term service bonuses determined and recorded on 31 December 2015 (31 December 2015: Euros 1 532 thousand, see Note 15).

NOTE 17 – GENERAL AND ADMINISTRATIVE EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Rentals	31 955	41 864
Advertising	11 569	13 765
Communication	18 230	22 823
Maintenance and repairs expenses	10 910	17 486
Travelling and representation	3 707	5 914
Transportation of valuables	4 123	5 166
Insurance	3 879	5 540
IT services	49 071	50 080
Independent work	5 412	7 017
Temporary work	1 610	3 717
Electronic payment systems	10 119	9 834
Legal costs	22 902	23 119
Consultancy and audit fees	18 285	21 759
Water, energy and fuel	8 333	9 526
Consumables	2 302	3 054
Other costs	28 945	44 720
	231 352	**285 384**

The caption Rentals includes Euros 6 825 thousand (31 December 2015: Euros 8 483 thousand) related to costs with operating leases of vehicles, being the Group allowed, at any moment, to cancel the same and, therefore, the future payments.

The caption Other costs includes, amongst others, specialised service costs incurred with security and vigilance, information services, training costs and sundry external supplies.

The fees invoiced during financial year 2016 by the Statutory Audit Firm, according to that laid down in article 508-F of the Portuguese Companies Code, have the following breakdown:

(in thousands of Euros)

	31.12.2016
Annual statutory audit fee	3 997
Audit related fees	1 461
Tax consultancy services	24
Other services	662
Amount of total services billed	**6 144**

The fees related to the statutory audit and limited review services include prior year fees that were only invoiced in 2016.

NOTE 18 – EARNINGS PER SHARE

Basic earnings per share

The basic earnings per share are calculated dividing the net profit attributable to the shareholders of the Bank by the weighted average number of ordinary shares in circulation during the financial year / period.

(in thousands of Euros)

	31.12.2016	31.12.2015
Net consolidated profit / (loss) attributable to shareholders of the Bank	**(788 330)**	**(929 539)**
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)	**(0.16)**	**(0.19)**
Basic earnings per share from continuing activities attributable to shareholders of NOVO BANCO (in Euros)	**(0.16)**	**(0.19)**

Diluted earnings per share

The diluted earnings per share are calculated considering the net profit attributable to the shareholders of the Bank and the weighted average number of ordinary shares in circulation, adjusted for the effects of all potential dilutive ordinary shares.

The diluted earnings per share do not differ from the basic earnings per share, since no dilution effects exist.

NOTE 19 – CASH AND DEPOSITS WITH CENTRAL BANKS

As at 31 December 2016 and 2015, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Cash	180 431	179 701
Demand deposits with Central Banks		
Banco de Portugal	1 234 082	544 821
Other Central Banks	54 746	51 086
	1 288 828	595 907
	1 469 259	**775 608**

The caption Demand Deposits with Banco de Portugal includes mandatory deposits to comply with the minimum legal cash reserve requirements in an amount of Euros 206.2 million (31 December 2015: Euros 228.6 million). According to European Central Bank Regulation (EU) no. 1358/2011, of 14 December 2011, minimum cash requirements of demand deposits with Banco de Portugal are interest-bearing and correspond to 1% of the deposits and debt certificates maturing in less than 2 years, after excluding from these the deposits of institutions subject to the European Central Bank Systems' minimum reserve requirements. As at 31 December 2016, the average interest rate on these deposits was 0.01% (31 December 2015: 0.05%).

Compliance with minimum cash requirements, for a given observation period, is monitored taking into account the average amount of the deposits with Banco de Portugal over said period. The balance of the Bank's account with Banco de Portugal as at 31 December 2016 was included in the observation period running from 14 December 2016 to 24 January 2017.

NOTE 20 – DEPOSITS WITH OTHER BANKS

As at 31 December 2016 and 2015, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Deposits with banks in Portugal		
Repayable on demand	22 646	25 416
Uncollected cheques	60 924	88 486
	83 570	**113 902**
Deposits with banks abroad		
Repayable on demand	262 289	204 468
Uncollected cheques	-	35
Other	25 059	21 804
	287 348	**226 307**
	370 918	**340 209**

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

As at 31 December 2016 and 2015, the caption Financial assets and liabilities held for trading has the following breakdown:

(in thousands of Euros)

	31.12.2016	31.12.2015
Financial assets held for trading		
Securities		
Bonds and other fixed income securities		
Issued by government and public entities	-	1 128
Issued by other entities	1	29
Shares	215	14 550
Other variable income securities	383	76
	599	**15 783**
Derivatives		
Derivative financial instruments with a positive fair value	656 123	759 256
	656 722	**775 039**
Financial liabilities held for trading		
Derivative financial instruments with a negative fair value	632 831	743 860
	632 831	**743 860**

As at 31 December 2016 and 2015, the analysis of the securities held for trading, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Up to 3 months	1	1 096
More than 5 years	-	62
Undetermined	598	14 625
	599	**15 783**

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.

As at 31 December 2016 and 2015, the caption Financial assets held for trading, split between quoted and unquoted securities, has the following breakdown:

(in thousands of Euros)

	31.12.2016			31.12.2015		
	Quoted	**Unquoted**	**Total**	**Quoted**	**Unquoted**	**Total**
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	-	-	-	1 128	-	1 128
Issued by other entities	-	1	1	-	29	29
Shares	139	76	215	299	14 251	14 550
Other variable income securities	-	383	383	76	-	76
	139	**460**	**599**	**1 503**	**14 280**	**15 783**

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

As at 31 December 2016, the exposure to sovereign debt of "peripheral" Eurozone countries is analysed in Note 50 – Risk management.

As at 31 December 2016 and 2015, derivative financial instruments are analysed as follows:

(in thousands of Euros)

	31.12.2016			31.12.2015		
	Notional	Fair value		Notional	Fair value	
		Assets	Liabilities		Assets	Liabilities
Trading derivatives						
Exchange rate contracts						
Forwards						
- buy	350 058	6 040	7 238	282 445	7 102	8 612
- sell	351 326			284 013		
Currency Swaps						
- buy	1 014 827	783	423	857 229	316	154
- sell	1 007 657			852 446		
Currency Futures a)						
- buy	-	-	-	1 998	-	-
- sell	-			33 497		
Currency Interest Rate Swaps						
- buy	25 935	23 017	23 273	28 946	23 927	23 900
- sell	25 913			28 931		
Currency Options						
- buy	320 846	8 289	7 713	410 392	7 246	5 969
- sell	270 183			229 544		
		38 129	**38 647**		**38 591**	**38 635**
Interest rate contracts						
Interest Rate Swaps						
- buy	7 712 009	594 632	578 811	9 942 497	695 572	683 510
- sell	7 741 086			9 966 967		
Interest Rate Caps & Floors						
- buy	45 616	1 078	1 035	35 314	1 563	1 597
- sell	60 100			38 556		
		595 710	**579 846**		**697 135**	**685 107**
Equity / Index contracts						
Equity / Index Swaps						
- buy	16 702	740	251	14 283	386	54
- sell	16 702			14 283		
Equity / Index Options						
- buy	364 367	2 617	13 842	192 728	1 744	11 521
- sell	454 127			231 761		
Equity / Index Futures a)						
- buy	64 432	-	-	31 014	-	-
- sell	59 218			462		
Future Options a)						
- buy	550 232	-	-	325 160	-	-
- sell	-			-		
		3 357	**14 093**		**2 130**	**11 575**
Credit default contracts						
Credit Default Swaps						
- buy	115 823	18 927	245	334 938	21 400	8 543
- sell	115 823			334 938		
		18 927	**245**		**21 400**	**8 543**
Total		**656 123**	**632 831**		**759 256**	**743 860**

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, to the aggregate exposure of each counterpart, of an expected loss and a rate of recovery, considering the average duration period estimated for each exposure; (ii) Individual basis – the calculation of the CVA on an individual basis is based on the determination of the exposure using stochastic methods (Expected Positive Exposure) which translates into the calculation of the expected fair value exposure that each derivative is likely to assume over its remaining life. Subsequently, an expected loss and a recovery rate are applied to the exposure so determined.

During 2016, the Group recognised a loss of Euros 10.0 million related with the CVA of the derivative instruments (31 December 2015: loss of Euros 38.8 million).

As at 31 December 2016 and 2015, the analysis of derivative financial instruments held for trading, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2016			31.12.2015		
	Notional		Fair value (net)	Notional		Fair value (net)
	Buy	Sell		Buy	Sell	
Up to 3 months	2 056 470	1 974 247	(25 744)	1 544 850	1 272 376	(37 792)
3 months to 1 year	1 370 455	867 272	1 924	1 359 353	1 077 543	3 481
1 to 5 years	1 887 723	1 940 307	(14 909)	2 661 862	2 726 427	6 106
More than 5 years	5 266 199	5 320 309	62 021	6 890 879	6 939 052	43 601
	10 580 847	**10 102 135**	**23 292**	**12 456 944**	**12 015 398**	**15 396**

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

The breakdown of this balance is as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Bonds and other fixed income securities		
Issued by government and public entities	78 039	124 628
Issued by other entities	498 142	498 705
Shares and other variable income securities	627 626	902 860
	1 203 807	**1 526 193**

The Group's option, considering IAS 39 and in accordance with the accounting policy described in Note 2.6, to define these financial assets at fair value through profit or loss, is in accordance with its documented management strategy, given that these financial assets (i) are managed and their performance evaluated on a fair value basis and / or (ii) have embedded derivative instruments.

As at 31 December 2016 and 2015, the analysis of the financial assets at fair value through profit or loss, by maturity period, is as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Up to 3 months	8 237	17 700
3 months to 1 year	32 715	46 656
1 to 5 years	241 150	271 665
More than 5 years	294 157	274 186
Undetermined	627 548	915 986
	1 203 807	**1 526 193**

This caption, split between quoted and unquoted securities, has the following breakdown:

(in thousands of Euros)

	31.12.2016			31.12.2015		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Bonds and other fixed income securities						
Issued by government and public entities	78 039	-	78 039	124 628	-	124 628
Issued by other entities	484 785	13 357	498 142	486 893	11 812	498 705
Shares and other variable income securities	585 950	41 676	627 626	674 585	228 275	902 860
	1 148 774	**55 033**	**1 203 807**	**1 286 106**	**240 087**	**1 526 193**

NOTE 23 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

As at 31 December 2016 and 2015, 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	**6 412 875**	**56 048**	**(37 283)**	**-**	**6 431 640**
Resident	3 464 698	46 012	(17 693)	-	3 493 017
Non-resident	2 948 177	10 036	(19 590)	-	2 938 623
Issued by other entities	**2 435 198**	**84 914**	**(13 054)**	**(230 672)**	**2 276 386**
Resident	1 106 990	48 188	(3 776)	(172 867)	978 535
Non-resident	1 328 208	36 726	(9 278)	(57 805)	1 297 851
Shares	**1 611 749**	**75 327**	**(26 113)**	**(676 937)**	**984 026**
Resident	743 292	13 751	(2 994)	(509 938)	244 111
Non-resident	868 457	61 576	(23 119)	(166 999)	739 915
Other variable income securities	**1 037 263**	**13 609**	**(2 070)**	**(182 882)**	**865 920**
Resident	952 607	10 399	(1 895)	(145 762)	815 349
Non-resident	84 656	3 210	(175)	(37 120)	50 571
Balance at 31 December 2016	**11 497 085**	**229 898**	**(78 520)**	**(1 090 491)**	**10 557 972**
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**

[1] Acquisition cost for shares and other variable income securities and amortised cost for debt securities

As at 31 December 2016, this caption includes assets amounting to Euros 18 584 thousand measured at acquisition cost net of impairment (31 December 2015: Euros 4 958 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 2016, the exposure, under this caption, to sovereign debt of the Eurozone "peripheral" countries is presented in Note 50 – Risk management.

The changes occurring in the impairment losses of Available-for-sale financial assets are presented as follows:

(in thousands of Euros)

	31.12.2016					31.12.2015
	Bonds		Shares	Other var. income securities	Total	
	Gov. & public entities	Other entities				
Balance at the beginning of the period	-	175 612	594 904	146 498	917 014	757 072
Allocation for the period	-	82 567	218 053	37 102	337 722	265 033
Utilisation during the period	-	(11 430)	(119 092)	(1 437)	(131 959)	(71 483)
Write-back for the period	-	(17 304)	(4 534)	-	(21 838)	(28 847)
Foreign exchange differences and other	-	1 227	(12 394)	719	(10 448)	(4 761)
Balance at the end of the period	**-**	**230 672**	**676 937**	**182 882**	**1 090 491**	**917 014**

As at 31 December 2016 and 2015, the analysis of Available-for-sale financial assets, by maturity period, is presented as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Up to 3 months	1 148 299	1 041 138
3 months to 1 year	1 873 026	3 088 361
1 to 5 years	3 024 841	2 930 122
More than 5 years	2 661 860	2 299 532
Undetermined	1 849 946	2 451 559
	10 557 972	**11 810 712**

Available-for-sale financial assets, split between quoted and unquoted securities, are as follows:

(in thousands of Euros)

	31.12.2016			31.12.2015		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	5 949 517	482 123	6 431 640	6 805 711	442 842	7 248 553
Issued by other entities	1 325 438	950 948	2 276 386	1 100 134	1 071 877	2 172 011
Shares	185 887	798 139	984 026	639 228	871 324	1 510 552
Other variable income securities	11	865 909	865 920	5 380	874 216	879 596
	7 484 268	**3 073 704**	**10 557 972**	**8 550 453**	**3 260 259**	**11 810 712**

The breakdown of the available-for-sale securities, by fair value, is presented in Note 49.

Securities pledged by the Group are analysed in Note 45.

NOTE 24 – LOANS AND ADVANCES TO BANKS

As at 31 December 2016 and 2015, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Loans and advances to banks in Portugal		
Deposits with banks	7 604	764 733
Loans	37 658	41 918
Operations with reverse repurchase agreements	12 772	13 226
Other loans and advances	6	-
	58 040	**819 877**
Loans and advances to banks abroad		
Deposits with banks	85 001	29 564
Very short-term deposits	41 725	70 975
Loans	619 701	795 076
Operations with reverse repurchase agreements	21	-
Other loans and advances	587	4 248
	747 035	**899 863**
Overdue loans and advances	391 506	391 105
	1 196 581	**2 110 845**
Impairment losses	(472 414)	(420 217)
	724 167	**1 690 628**

As at 31 December 2016, impairment losses include Euros 341.5 million for the exposure in ES Bank Panamá that is totally provided against (31 December 2015: Euros 341.1 million) - see Note 50.

Operations with repurchase agreements, as at 31 December 2016 relate to operations with a maturity of one to five years, in the amount of Euros 12 772 thousand, and up to 3 months for the remaining amount, and at 31 December 2015, relate to operations with a maturity of one to five years.

The 2015 annual financial statements already incorporated the set of financial restructuring measures applied in 2014 by Banco Nacional de Angola (BNA) to BES Angola (now Banco Económico) with an impact on the NOVO BANCO loan. As at 31 December 2016, the gross exposure to Banco Económico amounted to Euros 647 207 thousand including accrued interest (31 December 2015: Euros 838 088 thousand), which included (i) a senior loan in the amount of Euros 202 735 thousand, maturing in August 2018, (ii) a subordinated loan of Euros 405 526 thousand, maturing on 30 October 2024 and (iii) 9.7% of Banco Económico’s share capital (Euros 37 946 thousand).

As at 31 December 2016 and 2015, the analysis of loans and advances to banks, by residual maturity period, is presented as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Up to 3 months	92 080	487 056
3 months to 1 year	22 006	429 462
1 to 5 years	275 555	795 133
More than 5 years	415 434	8 089
Undetermined (overdue loans)	391 506	391 105
	1 196 581	**2 110 845**

The changes occurring during the financial year in the impairment losses of loans and advances to banks are presented as follows:

(in thousands of Euros)

	31.12.2016			31.12.2015
	Loans and advances	Overdue loans and advances	Total	
Balance at beginning of period	79 112	341 105	420 217	341 958
Increase for the period	-	50 000	50 000	80 029
Reversals	-	(1)	(1)	(3 166)
Foreign exchange differences and other	1 797	401	2 198	1 396
Balance at end of period	**80 909**	**391 505**	**472 414**	**420 217**

NOTE 25 – LOANS AND ADVANCES TO CUSTOMERS

As at 31 December 2016 and 2015, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Domestic loans and advances		
Corporate		
Loans	9 549 290	10 441 593
Current account loans	1 700 526	2 293 414
Finance leases	1 561 954	1 653 040
Discounted bills	97 485	130 090
Factoring	813 428	789 187
Overdrafts	13 980	19 582
Other loans and advances	55 147	30 781
Individuals		
Residential Mortgage loans	8 829 015	8 968 225
Consumer credit and other loans	907 825	978 940
	23 528 650	**25 304 852**
Foreign loans and advances		
Corporate		
Loans	2 289 602	3 409 643
Current account loans	391 658	756 316
Finance leases	48 118	50 232
Discounted bills	288 462	550 701
Factoring	90 045	82 385
Overdrafts	65 415	133 821
Other loans and advances	5 275	269 630
Individuals		
Residential Mortgage loans	760 352	742 299
Consumer credit and other loans	346 744	325 160
	4 285 671	**6 320 187**
Overdue loans and advances and interest		
Up to 3 months	207 723	379 542
3 months to 1 year	939 134	1 521 664
1 to 3 years	2 861 926	2 066 143
More than 3 years	1 927 363	1 824 018
	5 936 146	**5 791 367**
	33 750 467	**37 416 406**
Impairment losses	(5 566 041)	(5 832 647)
	28 184 426	**31 583 759**

As at 31 December 2016, the balance for Loans and advances to customers (net of impairment) includes an amount of Euros 2 797.9 million (31 December 2015: Euros 2 462.9 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 2016, the caption Loans and advances to customers includes Euros 4 621.9 million in residential mortgage loans that collateralise the issue of covered bonds (31 December 2015: Euros 4 233.6 million) (see Note 37).

This caption includes, as at 31 December 2016, Euros 661 838 thousand recorded in the balance sheet at fair value through profit or loss (31 December 2015: Euros 359 960 thousand) (see Note 49).

As at 31 December 2016, the amount of interest income and fees recorded in the balance sheet relating to credit operations totals Euros 35 950 thousand (31 December 2015: Euros 8 522 thousand).

The caption Residential mortgage loans includes a negative fair value of Euros 106 513 thousand related to the fair value adjustment of items hedge (31 December 2015: Euros 76 370 thousand) (see Note 26).

As at 31 December 2016 and 2015, the analysis of Loans and advances to customers, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Up to 3 months	3 490 812	3 522 303
3 months to 1 year	2 122 055	3 178 457
1 to 5 years	5 235 600	7 211 455
More than 5 years	16 965 854	17 712 824
Undetermined (overdue loans)	5 936 146	5 791 367
	33 750 467	**37 416 406**

The changes occurring during the period in the impairment losses of Loans and advances to customers are presented as follows:

(in thousands of Euros)

	31.12.2016			
	Corporate loans	Individuals - Mortgage loans	Individuals - Other loans	**Total**
Balance at the beginning of the period	5 361 794	195 966	274 887	5 832 647
Allocation / reversals	575 803	13 300	83 475	672 578
Utilisation	(572 520)	(27 619)	(44 572)	(644 711)
Transfers	(146 543)	-	-	(146 543)
Discounting effect	(119 165)	(152)	(9 505)	(128 822)
Foreign exchange differences and other	38 185	3 572	(60 865)	(19 108)
Balance at the end of the period	**5 137 554**	**185 067**	**243 420**	**5 566 041**

(in thousands of Euros)

	31.12.2015			
	Corporate loans	Individuals - Mortgage loans	Individuals - Other loans	**Total**
Balance at the beginning of the period	4 716 040	190 974	223 930	5 130 944
Allocation / reversals	677 456	17 306	44 561	739 323
Utilisation	(164 437)	-	(58)	(164 495)
Discounting effect	(116 537)	-	(12 700)	(129 237)
Foreign exchange differences and other	249 272	(12 314)	19 154	256 112
Balance at the end of the period	**5 361 794**	**195 966**	**274 887**	**5 832 647**

Loans and advances to customers by interest rate type are as follows:

(in thousands of Euros)

	31.12.2016	**31.12.2015**
Fixed interest rate	3 377 120	3 549 185
Variable interest rate	30 373 347	33 867 221
	33 750 467	**37 416 406**

An analysis of finance lease loans, by maturity period, is presented as follows:

(in thousands of Euros)

	31.12.2016	**31.12.2015**
Gross investment in finance leases receivable		
Up to 1 year	262 839	282 384
1 to 5 years	792 953	845 363
More than 5 years	806 072	855 776
	1 861 864	1 983 523
Unrealised finance income in finance leases		
Up to 1 year	42 329	47 881
1 to 5 years	112 432	127 548
More than 5 years	59 029	66 621
	213 790	242 050
Present value of minimum lease payments receivable		
Up to 1 year	220 511	234 503
1 to 5 years	680 521	717 815
More than 5 years	747 043	789 155
	1 648 075	1 741 473
Impairment	(265 578)	(287 191)
	1 382 497	**1 454 282**

NOTE 26 – DERIVATIVES HELD FOR RISK MANAGEMENT PURPOSES

As at 31 December 2016 and 2015, the fair value of the derivatives held for risk management purposes is analysed as follows:

(in thousands of Euros)

	31.12.2016			31.12.2015		
	Hedging	Risk management	Total	Hedging	Risk management	Total
Derivatives held for risk management purposes						
Derivatives held for risk management purposes - assets	6 292	216 477	222 769	87 189	231 407	318 596
Derivatives held for risk management purposes - liabilities	(106 479)	(1 786)	(108 265)	(75 806)	(2 040)	(77 846)
	(100 187)	**214 691**	**114 504**	**11 383**	**229 367**	**240 750**
Fair value component of assets and liabilities hedged or recorded at fair value through profit or loss						
Financial assets						
Loans and advances to customers	106 513	-	106 513	76 370	(1 395)	74 975
	106 513	**-**	**106 513**	**76 370**	**(1 395)**	**74 975**
Financial liabilities						
Deposits from banks	(2 394)	-	(2 394)	(80 949)	-	(80 949)
Due to customers	-	(2 067)	(2 067)	-	(22 017)	(22 017)
Debt securities issued	(82)	2 894	2 812	(767)	3 206	2 439
	(2 476)	**827**	**(1 649)**	**(81 716)**	**(18 811)**	**(100 527)**
	104 037	**827**	**104 864**	**(5 346)**	**(20 206)**	**(25 552)**

As mentioned in the accounting policy described in Note 2.4, the caption Derivatives held for risk management purposes include hedging derivatives and derivatives contracted to manage the economic risk of certain Financial assets and liabilities designated at fair value through profit or loss.

Hedging derivatives – fair value

As at 31 December 2016 and 2015, fair value hedging operations may be analysed as follows:

(in thousands of Euros)

31.12.2016

Derivative	Hedged item	Hedged risk	Notional	Fair value of derivative (2)	Change in fair value of derivative in period	Fair value component of item hedged (1)	Change in fair value of item hedged in period (1)
Interest Rate Swap/ CIRS	Loans and advances to customers	Interest and exchange rates	1 145 697	(105 818)	(31 277)	106 513	30 143
Interest Rate Swap	Deposit from banks	Interest rate	196 000	3 950	(81 169)	(2 394)	78 506
Equity / Interest Rate Swap	Debt securities issued	Interest rate / Quotation	80 000	1 681	(726)	(82)	685
			1 421 697	**(100 187)**	**(113 172)**	**104 037**	**109 334**

(1) Attributable to hedged risk
(2) Includes accrued interest

(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 item hedged in period (1)
Interest Rate Swap/ CIRS	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
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

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 2016, the ineffective portion of the fair value hedging operations resulted in a loss of Euros 3.8 million that was recognised in the income statement (31 December 2015: gain of Euros 1.9 million). The Group periodically evaluates the effectiveness of the hedges.

Other derivatives held for risk management purposes

Other derivatives held for risk management purposes include derivatives used to hedge financial assets and liabilities at fair value through profit or loss, in accordance with the accounting policies described in Notes 2.5, 2.6 and 2.8 and that the Group did not designate for hedge accounting.

The book value of financial assets and liabilities at fair value through profit or loss may be analysed as follows:

(in thousands of Euros)

31.12.2016

Derivative	Associated financial asset / liability	Derivative: Notional	Derivative: Fair value	Derivative: Change in fair value during period	Associated financial asset / liability: Fair value	Associated financial asset / liability: Change in fair value during period	Associated financial asset / liability: Carrying book value	Associated financial asset / liability: Redemption amount at maturity [(1)]
	Assets							
Credit Default Swap	Loans and advances to customers	333 079	105 570	-	-	-	-	199 185
	Liabilities							
Interest Rate Swap	Due to customers	730 000	4 666	(16 761)	(2 067)	21 344	264 723	262 656
Interest Rate Swap/ FX Forward	Debt securities issued	476 655	104 455	(14 260)	2 894	-	143 428	234 168
		1 539 734	**214 691**	**(31 021)**	**827**	**21 344**	**408 151**	**696 009**

[(1)] Corresponds to the contractually guaranteed amount to be redeemed at maturity

(in thousands of Euros)

31.12.2015

Derivative	Associated financial asset / liability	Derivative: Notional	Derivative: Fair value	Derivative: Change in fair value during period	Associated financial asset / liability: Fair value	Associated financial asset / liability: Change in fair value during period	Associated financial asset / liability: Carrying book value	Associated financial asset / liability: Redemption amount at maturity [(1)]
	Assets							
Credit Default Swap	Loans and advances to customers	492 458	102 797	-	(1 395)	-	-	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	681 847	104 605	7 064	3 206	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 redeemed 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 2016, the fair value of the financial liabilities at fair value through profit or loss includes a positive cumulative effect of Euros 185.2 million (31 December 2015: positive cumulative effect of Euros 161.0 million) attributable to the Group's own credit risk. The Group recognised in the 2016 income statement a positive effect of Euros 24.2 million relating to the change in the value of financial liabilities designated at fair value through profit or loss attributable to the entity's own credit risk (31 December 2015: positive effect of Euros 23.9 million) – see Note 7.

As at 31 December 2016 and 2015, the analysis of derivatives held for risk management and hedging purposes, by residual maturity period, may be analysed as follows:

(in thousands of Euros)

	31.12.2016			31.12.2015		
	Notional		Fair value (net)	Notional		Fair value (net)
	Buy	Sell		Buy	Sell	
Up to 3 months	165 000	165 000	2 628	215 621	215 714	875
3 months to 1 year	307 080	307 080	8 796	12 736	12 962	83
1 to 5 years	205 000	205 000	(16 344)	491 160	491 160	16 777
More than 5 years	803 636	803 635	119 424	960 662	933 623	223 015
	1 480 716	**1 480 715**	**114 504**	**1 680 179**	**1 653 459**	**240 750**

NOTE 27 – NON-CURRENT ASSETS AND LIABILITIES HELD FOR SALE

This caption, as at 31 December 2016 and 2015, is analysed as follows:

(in thousands of Euros)

	31.12.2016		31.12.2015	
	Assets	Liabilities	Assets	Liabilities
Assets / liabilities of subsidiaries acquired for resale	**14 288**	**1 821**	**778 880**	**162 709**
Impairment losses	(6 941)	-	(290 486)	-
Net amount	7 347	1 821	488 394	162 709
Real estate properties [a)]	-	-	3 567 364	-
Equipment [a)]	-	-	25 490	-
Other tangible assets	4 162	-	4 164	-
	4 162	**-**	**3 597 018**	**-**
Impairment losses	(3 745)	-	(902 933)	**-**
Net amount	417	-	2 694 085	-
	7 764	**1 821**	**3 182 479**	**162 709**

a) The real estate properties and equipment were reclassified, during the second half of 2016, to Other assets in an amount of Euros 2 148 871 thousand (see Note 33) and to Investment properties in an amount of Euros 1 156 622 thousand (see Note 28)

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 built for sale.

The Group implemented a plan aimed at the immediate sale of all non-current assets held for sale, continuing 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 Group has to hold foreclosed loans.

However, given the current market conditions, it has not been possible in some situations to materialise the sales within the expected time period, and, therefore, during financial year 2016 the real estate properties recorded in non-current assets held for sale, related to payments in kind in respect of the recovery of loans and advances, were transferred to other assets, in accordance with the accounting policy described in Note 2.12 (also see Note 33), and those held by non-banking or non-insurance entities of the Group were transferred to investment properties (see Note 28). In addition, the subsidiaries previously held for sale that ceased to comply with the conditions of IFRS 5, came to integrate the full consolidation perimeter of the Group in 2016.

The movement of the non-current assets held for sale in the financial years ended on 31 December 2016 and 2015, is as follow:

(in thousands of Euros)

	31.12.2016			31.12.2015		
	Real estate properties and other assets	Assets of subsidiaries acquired for resale	Total	Real estate properties and other assets	Assets of subsidiaries acquired for resale	Total
Balance at the beginning of the period	3 597 018	778 880	4 375 898	2 784 113	1 192 469	3 976 582
Transfers [a)]	(3 305 494)	-	(3 305 494)	-	-	-
Changes in consolidation perimeter [b)]	(1 890)	(764 208)	(766 098)	746 618	(288 078)	458 540
Additions	215 307	-	215 307	283 572	5 990	289 562
Sales	(504 363)	(384)	(504 747)	(520 438)	(115 961)	(636 399)
Other [c)]	3 584	-	3 584	303 153	(15 540)	287 613
Balance at the end of the period	**4 162**	**14 288**	**18 450**	**3 597 018**	**778 880**	**4 375 898**

a) At 31 December 2016, the amounts presented include Euros 2 148 871 thousand of transfers to Other assets and Euros 1 156 622 thousand of transfers to Investment properties (see Notes 28 and 33)

b) At 31 December 2016, includes the passage of the subsidiaries to full consolidation. At 31 December 2015, includes the effect of the full consolidation of Fundo NB Património

c) At 31 December 2015, includes real estate properties reclassified from Investment properties (see Note 28)

As at 31 December 2016 and 2015, the assets and liabilities of subsidiaries acquired for resale have the following breakdown:

(in thousands of Euros)

		31.12.2016				
		Amounts incorporated by NB Group				
	Share-holding %	Assets	Impairment	Carrying book value	Liabilities	Net profit / (loss) for the period
Greendraive – Gest. e Expl. Campos Golf e Complexos Turíst., Lda.	83.33%	1 801	-	1 801	1 821	-
Landscape Osuna, SL	12.50%	6 842	(6 842)	-	-	-
Afirma International	0.40%	40	(40)	-	-	-
Ampurda Valores SICAV	100.00%	2 920	(35)	2 885	-	-
Spot Inversiones SICAV	96.95%	2 586	(24)	2 562	-	-
Other	-	99	-	99	-	-
		14 288	**(6 941)**	**7 347**	**1 821**	**-**

(in thousands of Euros)

		31.12.2015				
	Share-holding %	Amounts incorporated by NB Group				
		Assets	Impairment	Carrying book value	Liabilities	Net profit / (loss) for the period
Subsidiaries						
Greenwoods Ecoresorts empreendimentos imobiliários, SA	100.00%	223 406	(149 890)	73 516	386	(270)
Sealion Holdings Limited	57.56%	202 977	(26 942)	176 035	145 346	(5 243)
Portucale - Sociedade De Desenvolvimento Agro - Turistico, S.A.	97.42%	59 634	(27 079)	32 555	6 625	(101)
Autodril - Sociedade Imobiliária, SA	100.00%	49 150	(36 060)	13 090	3	(3)
Ribagolfe - Empreendimentos de Golfe, SA	100.00%	9 530	(4 701)	4 829	84	(329)
Febagri-Actividades Agropecuárias e Imobiliárias SA	100.00%	10 976	(4 095)	6 881	140	(73)
Quinta da Areia - Sociedade Imobiliária, SA	100.00%	14 153	(2 727)	11 426	2 168	(4)
Herdade da Boina - Sociedade Imobiliária	100.00%	9 872	(1 070)	8 802	3	(17)
JCN - IP - Investimentos Imobiliários e Participações, S.A.	97.42%	15 070	(9 164)	5 906	267	(7 694)
Sociedade Imobiliária Quinta D. Manuel I, SA	100.00%	3 443	(373)	3 070	526	(12)
Sociedade Agrícola Turística e Imobiliária da Várzea da Lagoa, SA	100.00%	7 761	(1 081)	6 680	1 932	(11)
EMSA – Empreendimentos e Exploração de Estacionamentos SA	100.00%	5 997	(847)	5 150	469	249
Promotur - Empreendimentos Turísticos, SA	99.875%	4 830	(2 301)	2 529	739	646
Imalgarve - Sociedade de Investimentos Imobiliários, SA	100.00%	15 091	(889)	14 202	2 091	(4 515)
Other		146 990	(23 267)	123 723	1 930	(1 386)
		778 880	**(290 486)**	**488 394**	**162 709**	**(18 763)**

During 2016, the shareholdings in Tertir and EMSA were sold. The remaining subsidiaries not presented in the 2016 table are now consolidated by the full consolidation method in 2016, due to the ageing of their permanence as an asset available for sale.

The movements occurring in impairment losses are presented as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Balance at the beginning of the period	1 193 419	1 229 414
Changes in consolidation perimeter a)	(255 420)	-
Allocation / write-back for the period	138 251	13 796
Utilisation during the period	(164 179)	(75 116)
Transfers b)	(885 221)	-
Foreign exchange differences and other	(16 164)	25 325
Balance at the end of the period	**10 686**	**1 193 419**

a) Impairment of companies held for sale that in 2016 w ere integrated in the full consolidation perimeter

b) Includes Euros 680 060 thousand related to transfers to Other assets (see Note 33) and Euros 200 906 thousand related to transfers to Investment properties (see Note 28)

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 properties and equipment in the amount of Euros 47 590 thousand (31 December 2015: losses of Euros 9 191 thousand); and
- In Net profits / (losses) of discontinued units, the results determined in respect of subsidiaries held for resale (nil as at 31 December 2016 and Euros - 18 763 thousand as at 31 December 2015, with the majority of these subsidiaries integrating the full consolidation perimeter in 2016) and the net

profits / (losses) generated by other discontinued units described in Note 53 (Euros - 10 247 thousand as at 31 December 2016 and Euros 21 789 as at 31 December 2015).

As at 31 December 2015, the breakdown of the real estate properties included in non-current assets held for sale, by type, is as follows:

(in thousands of Euros)

	31.12.2015				
	Number of real estate properties	Gross value	Impairment	Net book 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 net book value of this caption is negative due to the imputation of costs incurred with the sale of real estate properties
(b) Determined in accordance with accounting policy mentioned in Note 2.12

As at 31 December 2015, 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 book 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 net book value of this caption is negative due to the imputation of costs incurred with the sale of real estate properties

NOTE 28 – INVESTMENT PROPERTIES

The movement in the caption Investment properties is presented as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Balance at the beginning of the period	**54 625**	**297 133**
Changes in consolidation perimeter [a)]	193 041	-
Acquisitions	111	63
Disposals	(69 940)	(2 416)
Betterments	4 268	-
Changes in fair value	5 120	1 784
Transfers [b)]	1 018 757	-
Other [c)]	373	(241 939)
Balance at the end of the period	**1 206 355**	**54 625**

a) During financial year 2016, the Group came to integrate in the full consolidation perimeter real estate companies that were previously consolidated as Non-current assets held for sale (see Note 27) with the respective real estate properties being recorded as investment properties

b) At 31 December 2016, includes the amount of Euros 62 723 thousand related to the reclassification of real estate properties from tangible fixed assets to investment properties and the partial reclassification of the real estate properties and equipment portfolio from non-current assets held for sale to investment properties, in the amount of Euros 956 033 thousand (see Note 27)

c) At 31 December 2015, in the scope of the GNB Vida Unit Link Capitalisation Operations redemption occurring in 2015, and as referred to in Note 2, the real estate properties of the funds that ceased being allocated to this product were classified as non-current assets held for sale (see Note 27) in the amount of Euros 255 413 thousand

The book value of investment properties 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 consideration whenever 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 Real Estate Funds and include a number of commercial properties that are leased out to third parties for the generation of rental income or properties held for capital appreciation. 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 2016, the decrease in the fair value of investment properties of Euros 2.1 million and the rental income from investment properties of Euros 3.9 million, are recognised in Other operating income and expenses (31 December 2015: increase of Euros 2.1 million in the fair value and rental income of Euros 3.0 million).

Generally accepted criteria and methodologies are used, including analyses using the cost method and the market method, corresponding to level 3 of the fair value hierarchy (see Note 49).

NOTE 29 – OTHER TANGIBLE ASSETS

As at 31 December 2016 and 2015, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Real estate properties		
For own use	252 544	372 052
Improvements in leasehold properties	171 296	183 068
	423 857	**555 120**
Equipment		
Computer equipment	222 410	223 721
Fixtures	124 179	128 411
Furniture	109 833	120 340
Security equipment	34 416	34 498
Office equipment	28 653	28 679
Transport equipment	929	1 260
Other	2 320	4 846
	522 740	**541 755**
Other	2	546
	946 599	**1 097 421**
Work in progress		
Improvements in leasehold properties	16	541
Real estate properties	7	61
Equipment	398	199
Other	427	15
	848	**816**
	947 447	**1 098 237**
Accumulated impairment [a)]	-	(4 548)
Accumulated depreciation	(740 988)	(781 252)
	206 459	**312 437**

a) As at 31 December 2015, relates to the impairment of a real estate property which was reclassified to investment properties in 2016 (see Note 28)

The movement in this caption was as follows:

(in thousands of Euros)

	Real estate properties	Equipment	Other	Work in progress	Total
Acquisition cost					
Balance at 31 December 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)
Reclassifications **(a)**	(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**
Acquisitions	124	7 150	-	1 965	9 239
Disposals / write-offs	(36 885)	(17 841)	-	-	(54 726)
Reclassifications **(b)**	(7 193)	191	-	(1 555)	(8 557)
Foreign exchange differences and other **(c)**	(87 309)	(8 515)	(544)	(378)	(96 746)
Balance at 31 December 2016	**423 857**	**522 740**	**2**	**848**	**947 447**
Accumulated depreciation					
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)
Reclassifications **(a)**	(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**
Depreciation	10 044	15 498	-	-	25 542
Disposals / write-offs	(30 306)	(13 772)	-	-	(44 078)
Reclassifications **(b)**	(809)	(232)	-	-	(1 041)
Foreign exchange differences and other	(14 229)	(4 878)	(1 580)	-	(20 687)
Balance at 31 December 2016	**257 806**	**483 061**	**121**	**-**	**740 988**
Impairment					
Balance at 31 December 2014	**-**	**-**	**-**	**-**	**-**
Impairment losses	4 548	-	-	-	4 548
Balance at 31 December 2015	**4 548**	**-**	**-**	**-**	**4 548**
Foreign exchange differences and other **(c)**	(4 548)	-	-	-	(4 548)
Balance at 31 December 2016	**-**	**-**	**-**	**-**	**-**
Carrying book value at 31 December 2016	**166 051**	**39 679**	**(119)**	**848**	**206 459**
Carrying book value at 31 December 2015	**257 466**	**55 310**	**(1 155)**	**816**	**312 437**

(a) Includes Euros 6 322 thousand of tangible fixed assets (real estate properties and equipment) and Euros 2 130 thousand in accumulated depreciation relating to branches discontinued that were reclassified at their carrying book value to the appropriate captions of the balance sheet

(b) Includes Euros 13 132 thousand of tangible fixed assets (real estate properties and equipment) and Euros 5 643 thousand in accumulated depreciation relating to branches discontinued that were reclassified at their carrying book value to the appropriate captions of the balance sheet

(c) Includes a real estate property reclassified to investment properties at the carrying book value of Euros 59 922 thousand (see Note 28)

NOTE 30 – INTANGIBLE ASSETS

As at 31 December 2016 and 2015, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Goodwill	**251 007**	**259 622**
Internally developed		
Software - Automatic data processing system	86 837	81 155
Other	1	-
Acquired from third parties		
Software - Automatic data processing system	672 587	677 335
Other	168	1 392
	759 593	**759 882**
Work in progress	**7 456**	**12 650**
	1 018 056	**1 032 154**
Accumulated amortisation	(722 832)	(697 433)
Impairment losses	(250 561)	(113 553)
	44 663	**221 168**

The movement in this caption was as follows:

(in thousands of Euros)

	Goodwill and Value in force	Software	Work in progress	Total
Acquisition cost				
Balance at 31 December 2014	**259 622**	**758 935**	**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	-	17 511	(17 511)	-
Foreign exchange differences and other	-	(22 459)	(191)	(22 650)
Balance at 31 December 2015	**259 622**	**759 882**	**12 650**	**1 032 154**
Acquisitions:				
Internally developed	-	(1)	4 257	4 256
Acquired from third parties	-	2 472	3 947	6 419
Disposals / write-offs	-	(172)	-	(172)
Transfers **(a)**	-	6 310	(13 371)	(7 061)
Foreign exchange differences and other	(8 615)	(8 898)	(27)	(17 540)
Balance at 31 December 2016	**251 007**	**759 593**	**7 456**	**1 018 056**
Accumulated amortisation				
Balance at 31 December 2014	**-**	**670 958**	**-**	**670 958**
Amortisation for the period	-	38 243	-	38 243
Disposals / write-offs	-	(62)	-	(62)
Foreign exchange differences and other	-	(11 706)	-	(11 706)
Balance at 31 December 2015	**-**	**697 433**	**-**	**697 433**
Amortisation for the period	-	30 519	-	30 519
Disposals / write-offs	-	(172)	-	(172)
Foreign exchange differences and other	-	(4 948)	-	(4 948)
Balance at 31 December 2016	**-**	**722 832**	**-**	**722 832**
Impairment				
Balance at 31 December 2014	**113 553**	**-**	**-**	**113 553**
Balance at 31 December 2015	**113 553**	**-**	**-**	**113 553**
Impairment losses	137 007	-	-	137 007
Foreign exchange differences and other movements	1	-	-	1
Balance at 31 December 2016	**250 561**	**-**	**-**	**250 561**
Carrying book value at 31 December 2016	**446**	**36 761**	**7 456**	**44 663**
Carrying book value at 31 December 2015	**146 069**	**62 449**	**12 650**	**221 168**

(a) Includes Euros 477 thousand in discontinued investment projects that were imputed to costs

Goodwill, recognised in accordance with the accounting policy described in Note 2.2, is analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Subsidiaries		
GNB Vida	234 575	234 575
ES Gestion	2 460	2 460
Imbassaí	13 526	13 526
Other	446	1 168
Other cash-generating units		
Leasing and Factoring	-	7 893
	251 007	**259 622**
Impairment losses		
GNB Vida	(234 575)	(100 027)
Imbassaí	(13 526)	(13 526)
ES Gestion	(2 460)	-
	(250 561)	**(113 553)**
	446	**146 069**

GNB Vida

The Bank performed the annual impairment test on goodwill of GNB Vida as at 31 December 2016 based on an independent appraisal, in accordance with the accounting policy defined in Note 2.2. The independent appraisal used for purposes of the impairment test was based on information available by the time it was performed, namely macroeconomic conditions, market environment and segments where the Company operates, among others.

The valuation of GNB Vida was determined taking into consideration the Traditional Embedded Value and the Goodwill Value. The Embedded Value consists in the sum of (i) the equity of the Company (adjusted for items such as unrealized capital gains / losses, net of taxes) and (ii) the estimated present value of the flow of future distributable profits arising from the insurance policies in force at the date of the net valuation (adjusted by the solvency margin cost). The Goodwill Value is the value attributable to the new business to be developed by the Company in the future.

The Traditional Embedded Value calculation was reviewed by an independent entity, being the main assumptions used presented as follows:

1. Required capital determined under the Solvency II's SCR rules;
2. Discount rate based on the Portuguese Government Bonds yield curve added up of 5%;
3. Reinvestment of the bonds is made at the Portuguese Government Bonds yield curve;
4. Inflation rate flat at 1.5%;
5. Mortality table used was GKM80.

Considering (i) the decrease in the Traditional Embedded Value at the end of 2016 in about Euros 60 million when compared to the estimated value for the equivalent period and (ii) the existent uncertainty in the adherence of some key assumptions used to determine Goodwill Value, namely regarding the projection level of the APE – Annual Premium Equivalents until 2021, in the end of 2016, the Bank decided to reinforce the impairment on the Goodwill generated with the acquisition of GNB Vida, being at the end of 2016, the value of Euros 234 575 thousand, fully impaired.

NOTE 31 – INVESTMENTS IN ASSOCIATED COMPANIES

The financial information relating to associated companies is presented in the following tables:

(in thousands of Euros)

	Assets		Liabilities		Equity		Income		Profit / (loss) for the period	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
LOCARENT	246 952	239 307	214 837	213 719	32 115	25 588	73 166	74 174	6 701	7 670
GNB SEGUROS	114 704	108 185	78 756	76 722	35 948	31 463	63 493	64 434	9 461	6 053
ESEGUR	37 091	38 974	20 845	24 697	16 246	14 277	46 081	48 296	2 011	1 400
ASCENDI GROUP	3 403 277	4 314 000	3 020 941	3 750 000	382 336	564 000	146 246	-	(87 410)	-
EMPARK **a) b)**	-	746 064	-	616 584	-	129 480	-	135 768	-	3 911
AUVISA - AUTOVIA DE LOS VIÑEDOS **b)**	-	224 923	-	197 971	-	26 952	-	-	-	-
UNICRE **a)**	339 019	308 800	215 128	157 716	123 891	151 084	134 636	87 585	60 548	39 872
MOZA BANCO	346 570	678 925	365 926	629 542	(19 356)	49 383	46 499	91 556	(52 277)	2 185

Note: Data adjusted for consolidation purposes

(in thousands of Euros)

	Shareholding cost		Shareholding %		Carrying book value		Share of profit / (loss) of associated companies attributable to Group	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
LOCARENT	2 967	2 967	50.00%	50.00%	16 368	13 104	3 351	3 835
GNB SEGUROS	3 749	3 749	25.00%	25.00%	8 987	7 863	2 365	1 513
ESEGUR	9 634	9 634	44.00%	44.00%	13 992	13 126	885	616
ASCENDI GROUP	146 769	188 143	28.66%	28.66%	64 373	149 409	(470)	(470)
EMPARK **a) b)**	-	55 081	-	15.92%	-	50 002	(804)	(8)
AUVISA - AUTOVIA DE LOS VIÑEDOS **b)**	-	41 056	-	35.83%	-	34 793	-	-
UNICRE **a)**	11 497	11 497	17.50%	17.50%	21 681	26 440	10 596	6 978
MOZA BANCO	47 321	47 456	49.00%	49.00%	21 065	45 263	(16 132)	1 071
Outras	44 696	95 825			39 171	73 021	4 283	3 113
	266 633	**455 408**			**185 637**	**413 021**	**4 074**	**16 648**
Impairment					**(26 987)**	**(7 535)**		
					158 650	**405 486**		

a) Although the Group's shareholding is less than 20%, these entities w ere consolidated under the equity method as the Group exercises significant influence over their activities
b) Sold in December 2016

The movement that occurred in this caption was the following:

(in thousands of Euros)

	31.12.2016	31.12.2015
Balance at the beginning of the period	405 486	402 289
Disposals and other reimbursements (see Note 1)	(85 091)	-
Acquisitions and additional investments (see Note 1)	-	8 805
Share of profits / (losses) of associated companies	4 074	16 648
Impairment in associated companies	(25 495)	(5 940)
Fair value reserves of investments in associated companies	991	(3 731)
Dividends received	(15 765)	(3 710)
Changes in consolidation perimeter **(a)**	(32 799)	-
Foreign exchange differences and other **(b)**	(92 751)	(8 875)
Balance at the end of the period	**158 650**	**405 486**

(a) Amount relating to the classification of the associated companies of BES Vénétie as discontinued operations and the sale of Ventures II, Ventures III and Fundo Ventures I+I

(b) Includes the decrease in Ascendi Group in the amount of Euros 68 747 thousand, related to the sale of the associated companies of GNB Concessões to this entity

NOTE 32 – TECHNICAL RESERVES

The technical reserves for direct insurance and reinsurance ceded are analysed as follows:

(in thousands of Euros)

	31.12.2016			31.12.2015		
	Direct insurance and accepted reinsurance	Reinsurance ceded	Total	Direct insurance and accepted reinsurance	Reinsurance ceded	Total
Unearned premiums reserve	3 196	(15)	3 181	3 172	(14)	3 158
Mathematical reserve	1 288 949	(2 227)	1 286 722	1 295 974	(3 298)	1 292 676
Outstanding claims reserve	31 869	(4 108)	27 761	31 205	(4 379)	26 826
Reserve for profit sharing	7 523	(5)	7 518	10 232	(5)	10 227
Reserve for rate commitments	2 030	-	2 030	3 633	-	3 633
	1 333 567	(6 355)	1 327 212	1 344 216	(7 696)	1 336 520

In accordance with IFRS 4, the contracts issued by the Group in which there is only a transfer of financial risk, with no discretionary participating features, are classified as investment contracts (See Note 38).

The mathematical reserve is presented as follows:

(in thousands of Euros)

	31.12.2016			31.12.2015		
	Direct insurance and accepted reinsurance	Reinsurance ceded	Total	Direct insurance and accepted reinsurance	Reinsurance ceded	Total
Traditional annuities	20 724	(2 227)	18 497	24 711	(3 298)	21 413
Savings contracts with profit sharing	1 268 225	-	1 268 225	1 271 263	-	1 271 263
	1 288 949	(2 227)	1 286 722	1 295 974	(3 298)	1 292 676

The movement in the mathematical reserve in financial years 2016 and 2015, was as follows:

(in thousands of Euros)

	31.12.2016		31.12.2015	
	Capitalisation with profit sharing	Traditional	Capitalisation with profit sharing	Traditional
Balance at the beginning of the period	**1 271 263**	**24 711**	**1 378 899**	**25 615**
Premiums	31 536	-	24 400	57 534
Claims	(162 433)	-	(305 978)	(17 698)
Interest	25 409	-	29 994	943
Reclassification of products	98 789	-	59 949	-
Other	3 661	(3 987)	83 999	(41 683)
Balance at the end of the period	**1 268 225**	**20 724**	**1 271 263**	**24 711**

The reserve for outstanding claims is presented as follows:

(in thousands of Euros)

	31.12.2016			31.12.2015		
	Direct insurance and accepted reinsurance	Reinsurance ceded	Total	Direct insurance and accepted reinsurance	Reinsurance ceded	Total
Traditional annuities	11 054	(4 108)	6 946	11 181	(4 379)	6 802
Savings contracts with profit sharing	20 815	-	20 815	20 024	-	20 024
	31 869	(4 108)	27 761	31 205	(4 379)	26 826

The reserve for outstanding claims represents unsettled claims occurring before the balance sheet date and includes an estimated provision amounting to Euros 557 thousand as at 31 December 2016 for unreported claims (IBNR) (31 December 2015: Euros 567 thousand).

The movement in the reserve for outstanding claims in financial years 2016 and 2015, was as follows:

(in thousands of Euros

	31.12.2016			31.12.2015		
	Direct insurance and accepted reinsurance	Reinsurance ceded	Total	Direct insurance and accepted reinsurance	Reinsurance ceded	Total
Balance at the beginning of the period	**31 205**	**(4 379)**	**26 826**	**30 208**	**(3 169)**	**27 039**
Incurred claims						
Current period	171 472	(9 339)	162 133	241 700	(10 654)	231 046
Prior periods	7 536	(2 040)	5 496	9 622	(3 651)	5 971
Paid claims						
Current period	(160 161)	7 179	(152 982)	(231 600)	7 934	(223 666)
Prior periods	(18 183)	4 471	(13 712)	(18 725)	5 161	(13 564)
Balance at the end of the period	**31 869**	**(4 108)**	**27 761**	**31 205**	**(4 379)**	**26 826**

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 mathematical reserve.

The movement in the reserve for profit sharing was as follows:

(in thousands of Euros)

	31.12.2016			31.12.2015		
	Direct insurance and accepted reinsurance	Reinsurance ceded	Total	Direct insurance and accepted reinsurance	Reinsurance ceded	Total
Balance at the beginning of the period	**10 232**	**(5)**	**10 227**	**19 845**	**(5)**	**19 840**
Amounts paid	(3 334)	59	(3 275)	(20 905)	438	(20 467)
Estimated attributable amounts	625	(59)	566	11 292	(438)	10 854
Balance at the end of the period	**7 523**	**(5)**	**7 518**	**10 232**	**(5)**	**10 227**

As at 31 December 2016 and 2015, 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):

(in thousands of Euros)

	31.12.2016			31.12.2015		
	Direct insurance and accepted reinsurance	Reinsurance ceded	Total	Direct insurance and accepted reinsurance	Reinsurance ceded	Total
Traditional annuities	2 030	-	2 030	3 633	-	3 633
	2 030	-	2 030	3 633	-	3 633

NOTE 33 – OTHER ASSETS

As at 31 December 2016 and 2015, the caption Other assets is analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Collateral deposits placed	724 871	962 234
Derivative products	*458 925*	*631 791*
Collateral CLEARNET, VISA and EBA	*27 187*	*40 835*
Collateral deposits relating to reinsurance operations	*238 758*	*289 608*
Recoverable government subsidies on mortgage loans	3 092	12 209
Public sector	351 403	184 526
Debtors of the insurance business	1 086	3 019
Other debtors	772 726	567 313
Income receivable	19 917	31 441
Deferred costs	77 077	101 468
Retirement pensions and health-care benefits (see Note 16)	4 103	5 493
Precious metals, numismatics, medal collection and other liquid assets	9 271	9 479
Real estate properties [a)]	2 163 991	-
Equipment [a)]	23 204	-
Stock exchange transactions pending settlement	1 304	26 717
Other transactions pending settlement	5 037	72 153
Other assets	211 187	156 527
	4 368 269	**2 132 579**
Impairment losses		
Real estate properties [a)]	*(680 055)*	*-*
Equipment [a)]	*(11 694)*	*-*
Other debtors - Shareholder loans, supplementary capital contributions	*(138 032)*	*(124 364)*
Other assets	*(23 131)*	*(2 293)*
Other	*(54 941)*	*(95 796)*
	(907 853)	**(222 453)**
	3 460 416	**1 910 126**

a) Real estate properties and equipment transferred from Non-current assets held for sale (see Note 27)

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, amongst others:

- Euros 100 million relating to shareholder loans granted to Locarent – Companhia Portuguesa de Aluguer de Viaturas, S.A. (31 December 2015: Euros 100 million);
- Euros 33.8 million in shareholder loans and supplementary capital contributions granted to entities within the scope of the Group's venture capital business, of which Euros 35.3 million are provided for (31 December 2015: Euros 66.3 million, of which Euros 57.4 million were provided against);
- Euros 112.3 million of shareholder loans and supplementary capital contributions resulting from the assignment of loans and advances, of which Euros 112.3 million are provided for (31 December 2015: Euros 112.9 million, of which Euros 112.9 million were provided for); and.
- Euros 183.8 million related to the sale of the shareholding in Empark, of a set of assets held by the associated company Ascendi Group and of real estate properties, which financial settlements only occurred in early 2017.

As at 31 December 2016, the caption Deferred costs includes an amount of Euros 54 721 thousand (31 December 2015: Euros 71 514 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.

The captions of Real estate properties and Equipment relate to foreclosed assets in respect of the recovery of loans and advances and to discontinued facilities, transferred from non-current assets held for sale due to their period of permanence in the portfolio, although the Group maintains the objective of their immediate sale.

Stock exchange transactions pending settlement refer to transactions with securities, recorded at the trade date, in accordance with the accounting policy described in Note 2.6.

The movements in impairment losses are presented as follows:

	31.12.2016	31.12.2015
Balance at the beginning of the period	222 453	185 924
Changes in the consolidation perimeter [a)]	54 699	-
Allocation for the period	36 573	40 096
Utilisation during the period	(51 675)	-
Write-back for the period	(53 397)	(4 162)
Transferências [b)]	703 681	-
Foreign exchange differences and other	(4 481)	595
Balance at the end of the period	**907 853**	**222 453**

a) Impairment of companies held for sale that in 2016 integrated the full consolidation perimeter
b) Includes Euros 680 060 thousand relating to assets transferred from Non-current assets held for sale (see Note 27)

The movements in the real estate properties were as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Balance at the beginning of the period	-	-
Changes in the consolidation perimeter [a)]	105 454	-
Transfers from Non-current assets held for sale [b)]	2 126 601	-
Additions	103 889	-
Sales	(169 985)	-
Other movements	(1 968)	-
Balance at the end of the period	**2 163 991**	**-**

a) During the year 2016, the Group came to integrate in the full consolidation perimeter real estate companies that were previously consolidated as Non-current assets held for sale (see Note 27), with the respective real estate properties being recorded as Other assets

b) Real estate properties transferred from Non-current assets held for sale - see Note 27

As at 31 December 2016, the detail of the real estate properties included in Other assets, by type, is as follows:

(in thousands of Euros)

	31.12.2016				
	Number of properties	Gross value	Impairment	Net book value	Fair value of asset (b)
Land					
Urban	2 763	533 910	154 198	379 712	393 285
Rural	628	273 134	85 774	187 360	194 931
	3 391	807 044	239 972	567 072	588 216
Buildings under construction					
Commercial	15	10 137	5 247	4 890	7 697
Residential	42	16 424	7 594	8 830	10 770
Other	28	23 994	12 746	11 248	12 359
	85	50 555	25 587	24 968	30 826
Buildings constructed					
Commercial	1 741	429 510	188 214	241 296	258 379
Residential	4 654	503 314	87 874	415 440	432 978
Other	1 199	355 344	92 143	263 201	288 374
	7 594	1 288 168	368 231	919 937	979 731
Other [(a)]	**1**	**18 224**	**46 265**	**(28 041)**	**(27 775)**
	11 071	**2 163 991**	**680 055**	**1 483 936**	**1 570 998**

(a) The net book value of this caption is negative due to the imputation of costs incurred with the sale of real estate properties
(b) Determined in accordance with accounting policy mentioned in Note 2.12

The amount of Collateral - mortgages, presented above, represents the maximum coverage value of the covered assets, i.e., considered up to the gross amount of the individual loans covered.

The detail of the real estate properties included in Other assets, by ageing, is as follows:

(in thousands of Euros)

	31.12.2016				
	Up to 1 year	1 to 2.5 years	2.5 to 5 years	More than 5 years	Total net book value
Land					
Urban	86 309	44 013	171 503	77 887	379 712
Rural	18 866	54 935	78 403	35 156	187 360
	105 175	98 948	249 906	113 043	567 072
Buildings under construction					
Commercial	-	373	452	4 065	4 890
Residential	577	-	2 962	5 291	8 830
Other	-	1 447	228	9 573	11 248
	577	1 820	3 642	18 929	24 968
Buildings constructed					
Commercial	43 329	29 996	83 652	84 319	241 296
Residential	91 720	96 966	138 159	88 595	415 440
Other	47 782	33 080	111 622	70 717	263 201
	182 831	160 042	333 433	243 631	919 937
Other (a)	**(28 256)**	**-**	**215**	**-**	**(28 041)**
	260 327	**260 810**	**587 196**	**375 603**	**1 483 936**

(a) The net book value of this caption is negative due to the imputation of costs incurred with the sale of real estate properties

As at 31 December 2016, the amount related to discontinued facilities included in the caption Real estate properties is Euros 13 132 thousand (31 December 2015: Euros 17 497 thousand), with the Group having recorded impairment losses for these assets in the total amount of Euros 5 643 thousand (31 December 2015: Euros 8 495 thousand).

NOTE 34 – DEPOSITS FROM CENTRAL BANKS

The caption Deposits from Central Banks is presented as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
From the European System of Central Banks		
Deposits	5	292 738
Other funds	6 410 000	7 340 000
	6 410 005	**7 632 738**
From other Central Banks		
Deposits	28	56
	28	**56**
	6 410 033	**7 632 794**

As at 31 December 2016, the balance of the caption Other funds from the European System of Central Banks includes Euros 6 410 million, covered by Group financial assets pledged as collateral (31 December 2015: Euros 7 487 million) (see Note 45).

As at 31 December 2016 and 2015, the analysis of deposits from Central Banks, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Up to 3 months	33	5 489 613
3 months to 1 year	-	500 010
1 to 5 years	6 410 000	1 643 171
	6 410 033	**7 632 794**

NOTE 35 – DEPOSITS FROM BANKS

The caption Deposits from banks is presented as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Domestic		
Deposits	158 654	202 137
Repurchase agreements	-	39 976
Other funds	23 170	32 634
	181 824	**274 747**
International		
Deposits	841 224	432 447
Loans	860 584	1 083 485
Very short-term funds	-	39 095
Repurchase agreements	1 625 020	2 103 659
Other funds	69 262	223 699
	3 396 090	**3 882 385**
	3 577 914	**4 157 132**

The balance of the caption Repurchase agreements corresponds to sales of securities with repurchase agreements (repos), recorded in accordance with the accounting policy described in Note 2.7.

As at 31 December 2016, the caption Deposits from banks includes deposits in the amount of Euros 243 822 thousand recorded in the balance sheet at fair value through profit or loss (31 December 2015: Euros 421 501 thousand) (see Note 49).

As at 31 December 2016 and 2015, the analysis of Deposits from banks, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Up to 3 months	1 901 761	2 239 686
3 months to 1 year	803 818	334 782
1 to 5 years	480 225	858 559
More than 5 years	392 110	724 105
	3 577 914	**4 157 132**

The maturities of the sales operations with repurchase agreements (repos) are as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Domestic		
Up to 3 months	-	39 976
International		
Up to 3 months	937 236	1 409 937
3 months to 1 year	600 739	-
1 to 5 years	87 044	693 722
	1 625 020	2 103 659
	1 625 020	**2 143 635**

NOTE 36 – DUE TO CUSTOMERS

The caption Due to customers has the following breakdown:

(in thousands of Euros)

	31.12.2016	31.12.2015
Repayable on demand		
Demand deposits	8 126 689	7 983 398
Time deposits		
Time deposits	14 272 979	16 429 758
Other	373	21 344
	14 273 352	**16 451 102**
Savings accounts		
Pensioners	303 829	437 222
Other	2 881 451	2 491 925
	3 185 280	**2 929 147**
Other funds		
Repurchase agreements	216 625	44 864
Other	187 773	173 631
	404 398	**218 495**
	25 989 719	**27 582 142**

As at 31 December 2016, the caption Due to customers – Time deposits includes funds in the amount of Euros 264 750 thousand recorded in the balance sheet at fair value through profit or loss (31 December 2015: Euros 1 038 666 thousand) (see Note 49).

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 2.7.

As at 31 December 2016, of the total securities sales with repurchase agreements around Euros 29.1 million have a maturity period of under 3 months with the remainder having a maturity period of between 3 months and one year (31 December 2015: Euros 43.7 million matured in the period of up to 3 months and Euros 1.2 million in the period of 3 months to one year).

As at 31 December 2016 and 2015, the analysis of Due to customers, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Repayable on demand	8 126 689	7 983 398
Term deposits		
Up to 3 months	7 689 951	9 290 953
3 months to 1 year	7 148 280	7 843 269
1 to 5 years	2 679 267	2 077 218
More than 5 years	345 532	387 304
	17 863 030	**19 598 744**
	25 989 719	**27 582 142**

NOTE 37 – DEBT SECURITIES ISSUED

The balance Debt securities issued has the following breakdown:

(in thousands of Euros)

	31.12.2016	31.12.2015
Euro Medium Term Notes (EMTN)	2 998 440	3 601 463
Certificates of deposit	-	4 615
Bonds	777 351	499 544
Covered bonds	42 010	119 036
	3 817 801	**4 224 658**

As at 31 December 2016, the Group had debt securities issued with the guarantee of the Portuguese Republic, in a nominal amount of Euros 1 800 million, of which Euros 1 517 million were retained by the Group at the balance sheet date (31 December 2015: nominal amount of Euros 3 500 million, of which Euros 3 407 million had been acquired by the Group at the balance sheet date).

In 2015, the Group extended the maturity of these bonds, guaranteed by the Portuguese Republic 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 an amount of Euros 4 190 million (31 December 2015: Euros 3 815 million). The main characteristics of the outstanding issues as at 31 December 2016 and 2015 are as follows:

31.12.2016									
Description	Nominal value (in thousands of Euros)	Carrying book value (in thousands of Euros)	Issue date	Maturity date	Interest payment	Interest rate	Rating		
							Moody's	Fitch	DBRS
BES Covered bonds DUE 4.6%	40 000	42 010	15/12/2010	26/01/2017	Annually	Fixed rate 4.6%	Ba1	-	BBB
NB 2015 SR.1	1 000 000	-	07/10/2015	07/10/2018	Quarterly	Euribor 3 Months + 0.25%	Baa1	-	A
NB 2015 SR.2	1 000 000	-	07/10/2015	07/10/2019	Quarterly	Euribor 3 Months + 0.25%	Baa1	-	A
NB 2015 SR.3	1 000 000	-	07/10/2015	07/10/2020	Quarterly	Euribor 3 Months + 0.25%	Baa1	-	A
NB 2015 SR.4	700 000	-	07/10/2015	07/10/2022	Quarterly	Euribor 3 Months + 0.25%	Baa1	-	A
NB 2015 SR.5	450 000	-	22/12/2016	22/12/2023	Quarterly	Euribor 3 Months + 0.25%	Baa1	-	A
	4 190 000	**42 010**							

31.12.2015									
Description	Nominal value (in thousands of Euros)	Carrying book value (in thousands of Euros)	Issue date	Maturity date	Interest payment	Interest rate	Rating		
							Moody's	Fitch	DBRS
BES Covered bonds DUE 4.6%	40 000	40 855	15/12/2010	26/01/2017	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
Mortgage bonds	75 000	78 181	09/06/2006	09/06/2016	Annually	Fixed rate 4.25%	A3	BB	-
	3 815 000	**119 036**							

These covered bonds are guaranteed by a cover asset 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 bonds are foreseen in Decree-Law no. 59/2006, and in Notices nos. 5, 6, 7 and 8 and Instruction 13 of Banco de Portugal.

As at 31 December 2016, the assets that collateralise these covered bonds amount to Euros 4 621.9 million (31 December 2015: Euros 4 233.6 million) (see Note 25).

The movement that occurred in debt securities issued, during the years 2016 and 2015, was the following:

(in thousands of Euros)

	Balance at 31.12.2015	Issues	Redemptions	Net purchases	Other movements [a)]	Balance at 31.12.2016
Euro Medium Term Notes (EMTN)	3 601 463	-	(239 702)	(399 419)	36 098	2 998 440
Certificates of deposit	4 615	-	(4 615)	-	-	-
Bonds	499 544	385 600	-	4 175	(111 968)	777 351
Covered bonds	119 036	450 000	(75 000)	(449 975)	(2 051)	42 010
	4 224 658	**835 600**	**(319 317)**	**(845 219)**	**(77 921)**	**3 817 801**

[a)] Other movements include accrued interest, corrections for hedging operations, fair value adjustments and foreign exchanges differences

(in thousands of Euros)

	Balance at 31.12.2014	Issues	Retransmission to BES	Redemptions	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	965 850	3 700 000	-	(4 516 850) [c)]	-	(29 964)	119 036
	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 redemptions, considering their short-term maturity

[c)] Includes Euros 3 700.0 million relating to early redemptions

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 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 by 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 book value of the liability and its acquisition cost is recognised in the income statement. As a result of repurchases made during the 2016 financial year, the Group recognised a loss of Euros 16.9 million (31 December 2015: a gain of Euros 3.0 million) (see Notes 14 and 41).

Under the scope of the tender offer to repurchase own debt launched at the end of June 2016, the Group registered a gain of Euros 33.3 million.

As at 31 December 2016 and 2015, the analysis of Debt securities issued, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Up to 3 months	135 093	419 040
3 months to 1 year	20 942	82 796
1 to 5 years	1 552 848	1 682 534
More than 5 years	2 108 918	2 040 288
	3 817 801	**4 224 658**

The main characteristics of the debt securities, as at 31 December 2016 and 2015, are as follows:

(in thousands of Euros)

Entity	Description		31.12.2016 Currency	Issue date	Carrying book value	Maturity	Interest rate	Market
Bonds								
Lusitano SME No. 1	Lusitano SME No. 1- Class B		EUR	2006	2 917	2028	Euribor + 0.05%	Ireland
Lusitano SME No. 1	Lusitano SME No. 1- Class C		EUR	2006	16 270	2028	Euribor + 2.20%	Ireland
Lusitano Mortgage No. 6	Lusitano Mortgage No. 6- Class A		EUR	2007	328 477	2060	Euribor + 0.40%	Ireland
Lusitano Mortgage No. 6	Lusitano Mortgage No. 6- Class B		EUR	2007	1 500	2060	Euribor + 0.60%	Ireland
Novo Banco	BES GUAR FEB 17		EUR	2012	93 083	2017	Euribor 3m + 0.9%	XLIS
Lusitano SME No. 3	Lusitano SME No. 3- Class A		EUR	2016	335 104	2037	Euribor 3m + 1.15%	Portugal
Euro Medium Term Notes								
NB (London Branch)	EMTN Series 3		EUR	2012	111 800	2022	Fixed rate 5%	XLUX
NB (London Branch)	EMTN Series 6		EUR	2012	78 572	2022	Fixed rate 5%	XLUX
NB (London Branch)	EMTN Series 7		EUR	2012	164 238	2019	Fixed rate 5%	XLUX
NB (London Branch)	EMTN Series 10		EUR	2012	548 201	2019	Fixed rate 5%	XLUX
NB (London Branch)	EMTN Series 12		EUR	2012	351 540	2019	Fixed rate 5%	XLUX
NB (London Branch)	EMTN Series 13		EUR	2012	236 937	2019	Fixed rate 5%	XLUX
NB (London Branch)	EMTN Series 14		EUR	2012	224 365	2019	Fixed rate 5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 5.75% 28/06/17		EUR	2012	20 942	2017	Fixed rate 5.75%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3% 21/06/22		USD	2012	59 573	2022	Fixed rate 3%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3.5% 02/01/43		EUR	2013	55 034	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3.5% 23/01/43		EUR	2013	107 377	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3.5% 19/02/2043		EUR	2013	82 783	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3.5% 18/03/2043		EUR	2013	58 645	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC		EUR	2013	41 499	2048	Zero Coupon	XLUX
NB (Luxembourg Branch)	Banco Esp San Lux ZC 12/02/49		EUR	2014	49 310	2049	Zero Coupon	XLUX
NB (Luxembourg Branch)	Banco Esp San Lux ZC 19/02/49		EUR	2014	48 655	2049	Zero Coupon	XLUX
NB (Luxembourg Branch)	Banco Esp San Lux ZC 27/02/51		EUR	2014	39 893	2051	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 06/03/2051		EUR	2014	41 456	2051	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 13/03/48		EUR	2014	35 630	2048	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 03/04/48		EUR	2014	45 113	2048	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 09/04/52		EUR	2014	41 276	2052	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 16/04/46		EUR	2014	50 042	2046	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 27/03/47		EUR	2014	50 320	2047	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 29/01/2049		EUR	2014	44 621	2049	Zero Coupon	XLUX
NB (Luxembourg Branch)	Banco Esp San Lux ZC 05/02/49		EUR	2014	38 292	2049	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 25/03/50		EUR	2014	41 304	2050	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 22/01/2049		EUR	2014	32 496	2049	Zero Coupon	XLUX
NB Finance	EMTN 37		EUR	2004	37 677	2029	Fixed rate 5.3%	XLUX
NB Finance	EMTN 40	a)	EUR	2005	148 786	2035	6.00% indexed to the swap rat	XLUX
NB Finance	EMTN 56		EUR	2009	13 168	2043	Zero Coupon	XLUX
NB Finance	EMTN 57		EUR	2009	15 071	2044	Zero Coupon	XLUX
NB Finance	EMTN 58		EUR	2009	13 287	2045	Zero Coupon	XLUX
NB Finance	EMTN 59		EUR	2009	12 207	2042	Zero Coupon	XLUX
NB Finance	EMTN 60		EUR	2009	12 822	2040	Zero Coupon	XLUX
NB Finance	EMTN 61		EUR	2009	17 941	2041	Zero Coupon	XLUX
NB Finance	EMTN 113		EUR	2011	13 648	2021	Fixed rate 6%	XLUX
NB Finance	EMTN 114		EUR	2011	13 919	2021	Fixed rate 6%	XLUX
Covered bonds								
Novo Banco	BES DUE 4.6%	a)	EUR	2010	42 010	2017	Fixed rate 4.6%	XLIS
					3 817 801			

a) Liabilities at fair value through profit or loss or with embedded derivatives

(in thousands of Euros)

Entity	Description		31.12.2015 Currency	Issue date	Carrying book value	Maturity	Interest rate	Market
Bonds								
Lusitano SME No. 1	Lusitano SME No. 1- Class B		EUR	2006	15 602	2028	Euribor + 0.05%	Ireland
Lusitano SME No. 1	Lusitano SME No. 1- Class C		EUR	2006	22 097	2028	Euribor + 2.20%	Ireland
Lusitano Mortgage No. 6	Lusitano Mortgage No. 6- Class A		EUR	2007	361 994	2060	Euribor + 0.20%	Ireland
Lusitano Mortgage No. 6	Lusitano Mortgage No. 6- Class B		EUR	2007	6 500	2060	Euribor + 0.30%	Ireland
Novo Banco	BES GUAR FEB 16		EUR	2012	93 351	2017	Euribor 3m + 1.5%	XLIS
Euro Medium Term Notes								
Novo Banco	BES 4 YEARS 7%		EUR	2012	142 627	2016	Fixed rate 7%	XLIS
NB (London Branch)	EMTN Series 2		EUR	2012	136 037	2016	Fixed rate 7%	XLUX
NB (London Branch)	EMTN Series 3		EUR	2012	118 196	2022	Fixed rate 5%	XLUX
NB (London Branch)	EMTN Series 5		EUR	2012	47 025	2016	Fixed rate 7%	XLUX
NB (London Branch)	EMTN Series 6		EUR	2012	174 840	2022	Fixed rate 5%	XLUX
NB (London Branch)	EMTN Series 7		EUR	2012	178 968	2019	Fixed rate 5%	XLUX
NB (London Branch)	EMTN Series 10		EUR	2012	580 775	2019	Fixed rate 5%	XLUX
NB (London Branch)	EMTN Series 12		EUR	2012	363 737	2019	Fixed rate 5%	XLUX
NB (London Branch)	EMTN Series 13		EUR	2012	257 340	2019	Fixed rate 5%	XLUX
NB (London Branch)	EMTN Series 14		EUR	2012	241 091	2019	Fixed rate 5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 5.75% 28/06/17		EUR	2012	19 768	2017	Fixed rate 5.75%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3% 21/06/22		USD	2012	133 761	2022	Fixed rate 3%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3.5% 02/01/43		EUR	2013	54 526	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3.5% 23/01/43		EUR	2013	106 628	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3.5% 19/02/2043		EUR	2013	82 057	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3.5% 18/03/2043		EUR	2013	58 127	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC		EUR	2013	39 412	2048	Zero Coupon	XLUX
NB (Luxembourg Branch)	Banco Esp San Lux ZC 12/02/49		EUR	2014	46 448	2049	Zero Coupon	XLUX
NB (Luxembourg Branch)	Banco Esp San Lux ZC 19/02/49		EUR	2014	45 778	2049	Zero Coupon	XLUX
NB (Luxembourg Branch)	Banco Esp San Lux ZC 27/02/51		EUR	2014	39 266	2051	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 06/03/2051		EUR	2014	39 170	2051	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 13/03/48		EUR	2014	33 676	2048	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 03/04/48		EUR	2014	42 161	2048	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 09/04/52		EUR	2014	38 996	2052	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 16/04/46		EUR	2014	46 885	2046	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 27/03/47		EUR	2014	48 322	2047	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 29/01/2049		EUR	2014	42 635	2049	Zero Coupon	XLUX
NB (Luxembourg Branch)	Banco Esp San Lux ZC 05/02/49		EUR	2014	42 617	2049	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 25/03/50		EUR	2014	39 465	2050	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 22/01/2049		EUR	2014	32 036	2049	Zero Coupon	XLUX
NB Finance	EMTN 37		EUR	2004	35 780	2029	Fixed rate 5.3%	XLUX
NB Finance	EMTN 40	a)	EUR	2005	170 832	2035	6.00% indexed to the swap rat	XLUX
NB Finance	EMTN 56		EUR	2009	12 285	2043	Zero Coupon	XLUX
NB Finance	EMTN 57		EUR	2009	14 070	2044	Zero Coupon	XLUX
NB Finance	EMTN 58		EUR	2009	12 406	2045	Zero Coupon	XLUX
NB Finance	EMTN 59		EUR	2009	11 425	2042	Zero Coupon	XLUX
NB Finance	EMTN 60		EUR	2009	11 991	2040	Zero Coupon	XLUX
NB Finance	EMTN 61		EUR	2009	16 787	2041	Zero Coupon	XLUX
NB Finance	EMTN 113		EUR	2011	23 345	2021	Fixed rate 6%	XLUX
NB Finance	EMTN 114		EUR	2011	20 172	2021	Fixed rate 6%	XLUX
Certificates of deposit								
NB (London Branch)	Certificates of deposit		USD	2015	4 615	2016	Fixed rate 1.12%	-
Covered bonds								
Novo Banco	BES DUE 4.6%	a)	EUR	2010	40 855	2017	Fixed rate 4.6%	XLIS
NB (Spain Branch)	Mortgage bonds	a)	EUR	2006	78 181	2016	Fixed rate 4.25%	AIAF
					4 224 658			

a) Liabilities at fair value through profit or loss or with embedded derivatives

This caption includes Euros 190 796 thousand in liabilities for debt securities recorded in the balance sheet at fair value through profit or loss (31 December 2015: Euros 213 467 thousand) (see Note 49).

NOTE 38 – INVESTMENT CONTRACTS

The details of the liabilities arising from investment contracts are presented as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Fixed rate investment contracts	2 177 242	2 687 451
Investment contracts in which the financial investment risk is borne by the policyholder	1 219 183	1 356 037
	3 396 425	**4 043 488**

In accordance with IFRS 4, insurance contracts issued by the Group in respect of which there is only a transfer of financial risk, with no discretionary participating features, are classified as investment contracts.

The movement in the Investment contracts with fixed rate in the years ended on 31 December 2016 and 2015, is as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Balance at the beginning of the period	2 687 451	2 975 244
New contracts / reinforcements	11 381	226 812
Benefits paid	(499 741)	(520 922)
Change in deferred acquisition costs	3 702	6 911
Reclassification of products	(98 789)	(59 949)
Technical interest for period	73 238	59 355
Balance at the end of the period	**2 177 242**	**2 687 451**

The movement in the Investment contracts in which the financial risk is borne by the policyholder in the years ended on 31 December 2016 and 2015, is as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Balance at the beginning of the period	1 356 037	1 404 198
New contracts / reinforcements	48 767	160 206
Benefits paid	(192 385)	(186 962)
Technical gain / (loss) for period	6 764	(21 405)
Balance at the end of the period	**1 219 183**	**1 356 037**

As at 31 December 2016 and 2015, the Investment contracts, by residual maturity period, are as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Up to 3 months	42 744	284 943
3 months to 1 year	135 388	587 063
1 to 5 years	2 400 648	2 004 576
More than 5 years	817 645	1 166 906
	3 396 425	**4 043 488**

NOTE 39 – PROVISIONS

On 31 December 2016 and 2015, the caption Provisions presents the following movements:

(in thousands of Euros)

	Restructuring provisions	Provision for guarantees and commitments	Commercial offers	Other provisions	Total
Balance at 31 December 2014	**-**	**1 476**	**334 230**	**74 017**	**409 723**
Allocation / (write-backs) for the period	-	(1 199)	18 000	(71 313)	(54 512)
Utilisation during the period	-	-	(177 064)	(3 816)	(180 880)
Foreign exchange differences and other	-	123	120 614	170 046	290 783
Balance at 31 December 2015	**-**	**400**	**295 780**	**168 934**	**465 114**
Allocation / (write-backs) for the period	98 139	5 427	2 500	(53 747)	52 319
Utilisation during the period	(88 631)	-	(145 025)	(14 102)	(247 758)
Transfers	-	107 177	-	(3 745)	103 432
Foreign exchange differences and other	-	(661)	-	(7 831)	(8 492)
Balance at 31 December 2016	**9 508**	**112 343**	**153 255**	**89 509**	**364 615**

At the end of 2015, the Board of Directors of NOVO BANCO presented to the European Commission a Restructuring Plan that was prepared in strict collaboration with Banco de Portugal and involved a set of measures, highlighting the concentration of the retail and corporate banking activities in Portugal and Spain, the disinvestment in non-strategic assets and the reduction, in 2016, of Euros 150 million in recurring operating costs (excluding restructuring costs) associated with a decrease of 1 000 employees and a re-sizing of the distribution network to 550 branches. In the scope of IAS 37, during 2016 a provision for this restructuring was created in the amount of Euros 98.2 million, to cover the costs for closure of facilities and employee downsizing.

The restructuring plan was executed during the year 2016, and at 31 December 2016 the jobs reduction objective had been met, the distribution network was reduced to 537 branches (compared with the objective of 550) and operating costs recorded a decrease surpassing the objective of Euros -150 million. Up to 31 December 2016, circa Euros 88.6 million of the created provision had been used; the remaining balance of Euros 9.5 million existing as at this date is intended to cover costs that are still to be incurred related to this restructuring process.

Provisions for commercial offers, in the amount of Euros 153.2 million (31 December 2015: Euros 295.8 million), are intended to cover costs resulting from commercial offers approved by the Board of Directors of NOVO BANCO, directed at retail customers holding NOVO BANCO unsubordinated bonds. The Board of Directors considers the amount of this provision adequate based on the experience gained in the negotiations already completed and sales price expectations concerning the bonds and financial instruments subscribed by the customers.

Other provisions amounting to Euros 89 509 thousand (31 December 2015: Euros 168 934 thousand) are intended to cover certain duly identified contingencies related to the Group's activities, the most relevant of which being:

- Contingencies associated with ongoing tax processes. To cover for these contingencies, the Group maintains provisions of approximately Euros 40.9 million (31 December 2015: Euros 36.0 million). The contingencies for ongoing tax processes include, as at 31 December 2016, provisions of Euros 26.7 million (31 December 2015: Euros 24.3 million) related to the insurance activity, of which Euros 17.8 million (31 December 2015: Euros 17.8 million) relate to tax periods already audited by the Portuguese Tax Authorities and for which legal claims, totalling Euros 17.8 million (31 December 2015: Euros 17.8 million) have been lodged;
- The remaining balance, of Euros 48.6 million (31 December 2015: Euros 132.9 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 – INCOME TAXES

NOVO BANCO and its subsidiaries and associated companies located in Portugal are subject, individually, to taxation in accordance with the Corporate Income Tax Code (IRC Code) and with other legislation. Likewise, NOVO BANCO is subject to the Special Regime applicable to Deferred Tax Assets approved by Law no. 61/2014, of 26 August, to which it adhered, and standalone legislation.

For the financial year ended on 31 December 2016, NOVO BANCO was subject to corporate income tax (IRC) at the general rate of 21%, which remained unchanged from the previous year.

Corporate income taxes (current or deferred) are recognised in the income statement except in cases where the underlying transactions 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 as at 31 December 2016, and as occurred in the periods following 3 August 2014, the following aspects were taken into consideration:

- The transfer of assets, liabilities, off-balance sheet elements and assets under management of BES, following the resolution of Banco de Portugal of 3 August 2014, constitutes an asset contribution operation, under article 73 et sec of the IRC Code, as a result of which the tax neutrality regime foreseen in article 73 of this Code is applied. This legal-tax framework has received the written approval of the Portuguese Tax Administration and is foreseen in article 145-AU of the RGICSF;
- Considering the above-mentioned, the deferred tax assets and liabilities relating to timing differences arising on the assets and liabilities included in the transfer made under said deliberation were also transferred to NOVO BANCO;
- According to no. 2 of article 145-AU of the RGICSF and the deliberations of Banco de Portugal of 3 August 2014 and 27 April 2015, the right to deduct tax losses declared by BES in respect of IRC were transferred to NOVO BANCO. 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 subject to carry forward can be transmitted to NOVO BANCO, which was deferred. In the tax year 2015, and to the extent that no response to the application had been received, the deferred tax assets amounting to Euros 159 756 thousand, corresponding to those tax losses, were written off. As explained below, based on the assessment of the recoverability of deferred tax assets associated with tax losses, and notwithstanding the deferral of the request for the transfer of tax losses generated by BES and subject to reporting, the corresponding deferred tax assets were not yet recognized.
- Decree-Law no. 127/2011, of 31 December, which regulates the transfer of the retirement pension and survival benefit liabilities of the retirees and pensioners to the General Social Security Regime and that, in conjunction with Article 183 of Law no. 64-B/2011, of 30 December (2012 State Budget Law), established a special tax deductibility regime for expenses and other equity changes arising on such transfer:
    - The negative equity change arising on the accounting policy change regarding the recognition of actuarial gains and losses, which were previously deferred, will be fully deductible in equal parts over 10 years (counting from the financial year started on 1 January 2012);
    - The settlement effect (determined as the difference between the liability measured in accordance with IAS 19 criteria and with the criteria established in the agreement) will also be fully deductible for purposes of determining taxable income, in equal parts, over 16 years (counting from the financial year started on 1 January 2012), according to the average life expectancy of the pensioners whose liabilities were transferred.

- The Special Regime applicable to Deferred Tax Assets approved by Law no. 61/2014, of 26 August, to which NOVO BANCO adhered, foresees that said special regime of tax deductibility of costs and other equity changes related with retirement pension and survival benefit liabilities vis-à-vis retirees and pensioners not be applicable to a specific financial year in the event in said period a tax loss is determined.
- In accordance with the previous paragraphs:
  - As at 31 December 2015, the deferred tax assets arising on the transfer of liabilities and on the accounting policy change regarding the recognition of actuarial gains and losses, in the amount of Euros 25 022 thousand and Euros 159 188 thousand, respectively, are therefore recoverable over the minimum periods of 12 and 6 years, and are also eligible for purposes of the conversion into tax credits foreseen in the Special Regime applicable to Deferred tax Assets approved by Law no. 61/2014, of 26 August.
  - As at 31 December 2016, following the determination of a negative net result for financial year 2015, the approval of the annual accounts by the corporate bodies and the application of said Special Regime for Deferred Tax Assets, part of the deferred tax assets arising on the transfer of the liabilities to the Social Security and on the accounting policy change regarding the recognition of actuarial gains and losses, were converted into tax credits in the amount of Euros 160 866 thousand.
- 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, as at 31 December 2016 and 2015:

- the deferred tax related to tax losses carried forward was specifically determined using the IRC rate of 21%;
- the deferred tax related to temporary 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 Bank Levy (*Contribuição sobre o Sector Bancário*) was created, which is levied on the average annual liabilities recorded on the balance sheet net of own funds and of deposits covered by the guarantee of the Deposit Guarantee Fund (*Fundo de Garantia de Depósitos*) and on the notional amount of derivative financial instruments. The Bank Levy is not eligible as a tax cost, and the respective regime was extended by Law no. 64-B/2011, of 30 December, by Law no. 66-B/2012, of 31 December, by Law no. 83-C/2013, of 31 December, by Law no. 82-B/2014, of 31 December and by Law no.159-C/2015, of 30 December. As at 31 December 2015, NOVO BANCO Group recognised Bank Levy charges as a cost in the amount of Euros 31 427 thousand. As at 31 December 2016, NOVO BANCO Group recognised as a cost in respect of Bank Levy the amount of Euros 36 966 thousand. The cost recognised on

31 December 2016 was calculated and paid based on the maximum rate of 0.110% levied on the average balance sheet annual liabilities net of own funds and deposits covered by the guarantee of the Deposit Guarantee Fund, approved by Law no. 7-A/2016, of 30 March and by Ordinance no. 165-A/2016, of 14 June.

The deferred tax assets and liabilities recognised in the balance sheet as at 31 December 2016 and 2015 may be analysed as follows:

(in thousands of Euros)

	Assets		Liabilities		Net	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Financial instruments	311 386	205 272	(70 517)	(59 676)	240 869	145 596
Impairment losses on loans and advances to customers	1 260 789	1 121 358	-	-	1 260 789	1 121 358
Other tangible assets	17 340	17 340	(16 283)	(15 807)	1 057	1 533
Investments in subsidiaries and associated companies	-	2 978	(989)	(3 657)	(989)	(679)
Provision	88 694	117 857	-	-	88 694	117 857
Pensions	66 621	205 399	-	(147)	66 621	205 252
Long-term service bonuses	5 130	8 417	-	-	5 130	8 417
Debt securities issued	881	-	-	(3 989)	881	(3 989)
Other	5 853	14 804	(12 859)	(6 318)	(7 006)	8 486
Tax losses carried forward	928 632	906 987	-	-	928 632	906 987
Deferred tax asset / (liability)	**2 685 326**	**2 600 412**	**(100 648)**	**(89 594)**	**2 584 678**	**2 510 818**
Asset / liability set-off for deferred tax purposes	(81 347)	(77 258)	81 347	77 258	-	-
Net Deferred tax asset / (liability)	**2 603 979**	**2 523 154**	**(19 301)**	**(12 336)**	**2 584 678**	**2 510 818**

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 till 2028.

As at 31 December 2016, deferred tax assets related to tax losses by year of expiry are analysed as follows:

(in thousands of Euros)

Use by date	Amount
2026	667 573
2027	148 574
2028	112 485

As referred in the accounting policy and in accordance with the requirements defined in IAS 12, the deferred tax assets were recognised based on the Group's expectation regarding their recoverability. The assessment of the recoverability of the deferred tax assets was made based on the business plan approved by the Board of Directors for the period 2017-2021.

The expectation of generating future taxable income in Portugal is supported essentially on:

- the favourable evolution of net interest income, reflecting the positive impact of the expected lower cost of term deposits and the normalisation of the Bank's funding cost;
- an increase, in the long term, of the reference interest rates;
- reduction of operating costs, reflecting the favourable impact of the reduction in the number of employees and branches, and generally by simplifying and increasing processes efficiency;
- loan impairment in line with the evolution of the activity of the Group based on macroeconomic projections.

The projections made by the Management for the period 2017-2021 and which support the future taxable income estimated by NOVO BANCO incorporate provisional information resulting from the sale agreement signed on 31 March 2017 between the Fundo de Resolução and LONE STAR. The aforementioned projections were performed on a going concern basis, and based on historical and provisional information considered until today as adequate for the purposes, but subject to review after concluding the sale process of NOVO BANCO, namely taking into account possible new commitments, that the Group could assume against the European Commission's Directorate General for Competition, as well as strategic options for the development of the activity that the future shareholder of the Bank may choose to adopt.

As a result of said assessment of the recoverability of deferred tax assets associated with tax losses, the following amounts are not recorded in the balance sheet:

- Euros 105 071 thousand, which can be used until 2018;
- Euros 170 795 thousand, which can be used until 2026;
- Euros 18 674 thousand, which can be used until 2027.

The movements in the deferred tax captions were recognized as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Balance at the beginning of the period	2 510 818	2 392 011
Recognised in Results for the period	243 924	78 674
Recognised in Fair value reserves	(14 671)	16 797
Recognised in Other reserves	17 289	21 391
Change in method of consolidation [(1)]	(5 752)	-
Conversion of Deferred taxes into Tax credits	(160 866)	-
Foreign exchange differences and other	(6 064)	1 945
Balance at the end of the period (Assets / (Liabilities))	**2 584 678**	**2 510 818**

[(1)] In 2016 BES Vénétie was transferred to discontinued units (see Note 1)

Current tax assets and liabilities recognised in the balance sheet as at 31 December 2016 and 2015 may be analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Assets		
Corporate tax recoverable	20 112	37 018
Other	10 508	1 830
	30 620	38 848
Liabilities		
Corporate tax payable	11 108	33 046
Other	5 864	5 597
	16 972	38 643

The current and deferred taxes recognised in the income statement and in reserves, in financial years 2016 and 2015, had the following origins:

(in thousands of Euros)

	31.12.2016		31.12.2015	
	Recognised in the income statement	Recognised in reserves	Recognised in the income statement	Recognised in reserves
Financial Instruments	(109 181)	14 671	(35 049)	(16 797)
Impairment losses on loans and advances to customers	(120 305)	(19 127)	(86 428)	-
Other tangible assets	(297)	773	(854)	(21 576)
Investments in subsidiaries and associated companies	5 535	(5 225)	(1 242)	-
Provisions	26 313	2 849	18 540	-
Pensions	(19 383)	(2 852)	8 834	185
Long-term service bonuses	3 287	-	219	-
Debt securities issued	(4 870)	-	(2 940)	-
Other	2 917	-	20 107	-
Tax losses carried forward	(27 940)	6 293	139	-
Deferred taxes	(243 924)	(2 618)	(78 674)	(38 188)
Current taxes	16 330	(1 136)	58 583	(20 576)
Total tax recognised (income) / cost	**(227 594)**	**(3 754)**	**(20 091)**	**(58 764)**

The current tax recognised in reserves as at 31 December 2016 and 2015 is related to unrealised losses 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)

	31.12.2016		31.12.2015	
	%	Amount	%	Amount
Loss before tax [(a)]		**(1 025 065)**		**(964 384)**
Bank levy		36 966		31 427
Loss before tax for the tax rate reconciliation		**(988 099)**		**(932 957)**
Tax rate of NOVO BANCO	21.0		21.0	
Income tax calculated based on the tax rate of NOVO BANCO		(207 501)		(195 921)
Tax-exempt dividends	0.2	(2 391)	0.6	(5 756)
Impairment on investments in subsidiaries or associated companies not subject to participation exemption	6.5	(64 280)	1.4	(13 508)
Impairment on investments in subsidiaries or associated companies subject to participation exemption	(3.0)	29 514	(3.1)	29 106
Non-deductible costs	(7.0)	69 426	(2.8)	25 684
Rate differential on the generation / reversal of timing differences	5.7	(56 627)	0.9	(8 229)
Profits / losses in units with a more favourable tax regime	(0.3)	2 982	(1.5)	14 341
Taxes of Bank Branches and tax withheld abroad	(1.0)	10 121	(1.0)	9 560
Differences in tax rates amongst subsidiaries	-	-	(1.6)	14 749
Elimination of DTA associated with tax losses of 2013 not transferred from BES	-	-	(17.1)	159 756
Other	0.9	(8 838)	5.3	(49 873)
Total tax recognised	**23.0**	**(227 594)**	**2.2**	**(20 091)**

[(a)] Includes the profit / (loss) of discontinued units

NOTE 41 – SUBORDINATED DEBT

The caption Subordinated debt is analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Bonds	31 797	30 148
Loans	-	9 920
Perpetual Bonds	16 303	16 192
	48 100	**56 260**

The main features of the subordinated debt, as at 31 December 2016 and 2015, are presented as follows:

(in thousands of Euros)

		31.12.2016					
Issuer	Designation	Currency	Issue date	Issue amount	Carrying book value	Interest rate	Maturity
GNB Vida	Subordinated bonds	EUR	2002	45 000	31 797	Euribor 3M + 2.20%	2022
GNB Vida	Subordinated perpetual bonds	EUR	2002	45 000	16 303	Euribor 3M + 2.50%	2017 a)
				90 000	**48 100**		

a) Next call option date

(in thousands of Euros)

		31.12.2015					
Issuer	Designation	Currency	Issue date	Issue amount	Carrying book value	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

The movement occurring in subordinated debt in financial years 2016 and 2015, was the following:

(in thousands of Euros)

	Balance at 31.12.2015	Issues	Redemptions	Net purchases	Other movements [a]	Balance at 31.12.2016
Bonds	30 148	-	-	-	1 649	31 797
Loans [b]	9 920	-	-	-	(9 920)	-
Perpetual Bonds	16 192	-	-	(47)	158	16 303
	56 260	**-**	**-**	**(47)**	**(8 113)**	**48 100**

[a] Other movements include accrued interest and adjustments for hedging transactions and for fair value, and foreign exchange changes.
[b] Other movements in Loans relate to the classification of BES Vénétie as a discontinued unit

(in thousands of Euros)

	Balance at 31.12.2014	Issues	Redemptions	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 adjustments for hedging transactions and for fair value, and foreign exchange changes.

In accordance with the accounting policy described in Note 2.8, debt securities issued repurchased by the Group are derecognised from the consolidated liabilities and the difference between the carrying book value of the liability and its acquisition cost is recognised in the income statement. As a result of repurchases made during financial year 2016, the Group recognised a gain of Euros 0.1 million (2015: a loss of Euros 3.6 million) (see Notes 14 and 37).

Under subparagraph (iv) of paragraph (b) of point 1 of Appendix 2 of the Deliberation of the Board of Directors of Banco de Portugal of 3 August 2014, as amended by the Deliberation of 11 August 2014 ("Resolution Deliberation"), it were not transferred to NOVO BANCO the liabilities arising from the issue of financial instruments that were, or at some point had been eligible for the calculation of own funds of BES, which includes subordinated debt and other equity instruments issued by the BES branch in the Cayman Islands.

These instruments were fully held by BES Finance that had acquired them on their respective issue date by BES, which occurred simultaneously with the issue of financial instruments by BES Finance itself, on the same terms and conditions and for an amount equal to the issuance made by BES. The instruments so issued by BES Finance were guaranteed by BES.

In this context, and also under the Resolution Deliberation, the legal regime of the resolution and EU rules on State aid, there are no liabilities in NOVO BANCO relating to the above mentioned 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 2016 and 2015.

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 behind in BES Finance. NB Finance is 100% held by NOVO BANCO, and consequently integrates its consolidation perimeter.

With the resolution 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

As at 31 December 2016 and 2015, the caption Other liabilities is analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Public sector	44 934	53 782
Security deposit accounts	132 494	122 594
Creditors for transactions with securities	7 374	11 086
Suppliers	21 086	28 459
Creditors for factoring operations	3 953	2 396
Creditors for insurance operations	10 945	17 301
Other creditors	204 904	265 989
Non-controlling interests of Open Investment funds	107 713	121 895
Long-term service/Career bonuses (see Note 16)	5 149	29 129
Retirement pensions and health-care benefits (see Note 16)	23 874	37 163
Other accrued expenses	136 888	147 151
Deferred income	8 535	23 700
Stock exchange transactions pending settlement	3	69 574
Foreign exchange transactions pending settlement	264	238
Other transactions pending settlement	10 432	17 168
	718 548	**947 625**

As at 31 December 2015, the caption Deferred income includes the amount of Euros 10 699 thousand relating to the value in-force of the remaining contracts acquired from GNB Vida, following the reinsurance transaction realised in 2013 covering the life insurance portfolio held. This amount was being recognised in income over the remaining life of the respective contracts. In 2016, with the recognition of impairment losses covering the entire goodwill of GNB Vida (see Note 30), the remaining value in force was fully amortized.

Stock exchange transactions pending settlement refer to transactions with securities pending settlement, recorded on the trade date, in accordance with the accounting policy described in Note 2.6.

NOTE 43 – SHARE CAPITAL

Ordinary shares

As at 31 December 2016 and 2015, 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 Fundo de Resolução (the Resolution Fund).

NOVO BANCO adhered to the Special Regime applicable to Deferred Tax Assets (DTA) approved by Law no. 61/2014, of 26 August. Said regime applies to deferred tax assets related to the non-deduction, for corporate income tax purposes, of costs and negative equity changes recorded up to 31 December 2016 for impairment losses on loans and advances to customers and with employee post-employment or long-term benefits. Said regime foresees that those assets can be converted into tax credits when the taxable entity reports an annual net loss.

The Law nº 23/2016, of 19 August, changed the time scope of this Special Regime, establishing that it was not applicable to expenses and eligible negative changes in shareholders equity accounted for in taxable periods that were to begin in or after 1 January 2016.

Hence, following the determination of a negative net result for the 2016 financial year and the approval of the annual accounts by the corporate bodies, the application of said Special Regime implied in 2016 the conversion of the eligible deferred tax assets into tax credits and the simultaneous constitution of a special reserve.

The conversion of the eligible deferred tax assets into tax credits was made in function of the proportion of the amount of said net loss to total equity at the individual company level. The amount of the deferred tax assets converted into tax credits totalled approximately Euros 161 million.

A special reserve was constituted with an amount identical to the tax credit determined, increased by 10%, totalling Euros 177 million. This special reserve was constituted using the originating reserve and is to be incorporated in the share capital.

The constitution of conversion rights in shares representing share capital attributable to the State, which, should have been accomplished simultaneously with the conversion of deferred tax assets eligible in a tributary credit and with the constitution of a special reserve, mentioned above, was pending from specific regulation regarding the right-handed of shareholders at the time of the issue of the conversion rights to acquire the conversion rights of the State, which was only published in 17 November 2016 (Ordinance / "*Portaria*" nº 293-A/2016, on 18 November). The constitution of the conversion rights in shares representing share capital attributable to the State, related to the 2015 net loss, will occur during 2017.

The conversion rights are securities that grant the State the right to demand to 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. Fundo de Resolução whilst sole shareholder of NOVO BANCO has the unilateral right to acquire the conversion rights from the State.

It is estimated that the conversion rights to be issued and allocated to the State will confer on same a shareholding of about 3.2% of the share capital of NOVO BANCO.

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 still be certified by a statutory auditor, process which is ongoing.

Considering Ordinance n. 259/2016, of 4 October, the amount of deferred tax assets converted in tax credit is also dependent of approval by the Tax Authority (*Autoridade Tributária e Aduaneira*), through tax inspection proceedings. Regarding the 2015 taxation period, the aforementioned proceeding of tax inspection has already started.

Regarding the net loss for 2016, and after the annual accounts for that year have been approved by the Corporate Bodies, the application of the aforementioned Special Regime will imply again, in 2017, the conversion of the eligible deferred tax assets into tax credit in proportion of the net loss on the value of equity, the simultaneous constitution of a special reserve, and the constitution of the conversion rights in shares representing share capital attributable to the state. The amount of deferred tax assets that is estimated to convert considering 2016 net loss is approximately Euros 121 million.

NOTE 44 – RESERVES, RETAINED EARNINGS, OTHER COMPREHENSIVE INCOME AND NON-CONTROLLING INTERESTS

The Group's reserves had the following breakdown as at 31 December 2016 and 2015:

(in thousands of Euros)

	31.12.2016	31.12.2015
Originating reserve	2 704 713	2 704 713
Fair value reserves	107 202	64 066
Other reserves	(1 856 969)	(860 447)
	954 946	**1 908 332**

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 of the audit conducted by the independent auditor appointed by Banco de Portugal.

Fair value reserves

The fair value reserves represent the amount of the unrealised gains and losses arising from the securities portfolio classified as available-for-sale, net of impairment losses. The amount of this reserve is shown net of deferred taxes and non-controlling interests.

The movements in these captions were the following:

(in thousands of Euros)

	Fair value reserves			Other comprehensive income, Other reserves and Retained earnings				
	Available-for-sale financial assets	Deferred tax reserves	Total Fair value reserves	Actuarial deviations (net of taxes)	Exchange differences (net of taxes)	Other reserves and Retained earnings	Total Other reserves and Retained earnings	Total
Balance at 1 January 2015 *	**254 818**	**(60 164)**	**194 654**	**(264 909)**	**(12 795)**	**400 129**	**122 425**	**317 079**
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
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)**	**2 294 671**	**1 844 266**	**1 908 332**
Actuarial deviations	-	-	-	(79 563)	-	-	(79 563)	(79 563)
Changes in fair value	56 672	(13 536)	43 136	-	-	-	-	43 136
Foreign exchange differences	-	-	-	-	7 648	-	7 648	7 648
Appropriation of the Net profit / (loss) of the previous year to Retained earnings	-	-	-	-	-	(929 539)	(929 539)	(929 539)
Transactions with non-controlling interests	-	-	-	-	-	(7 410)	(7 410)	(7 410)
Other comprehensive income of associated companies	-	-	-	-	-	991	991	991
Other	-	-	-	-	-	11 351	11 351	11 351
Balance at 31 December 2016	**149 244**	**(42 042)**	**107 202**	**(393 376)**	**(128 944)**	**1 370 064**	**847 744**	**954 946**

a) Results from the decision made by Banco de Portugal published on 29 December 2015 on the resolution measure applied to BES.
* restated

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 are analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Amortised cost of available-for-sale financial assets	11 497 085	12 623 414
Accumulated impairment recognised	(1 090 491)	(917 014)
Amortised cost of available-for-sale financial assets, net of impairment	10 406 594	11 706 400
Market value of available-for-sale financial assets	10 557 972	11 810 712
Unrealised gains / (losses) recognised in fair value reserves	151 378	104 312
Deferred taxes	(42 042)	(28 506)
Unrealised gains / (losses) of associated companies recognised in fair value reserves	(4 722)	(4 620)
Total fair value reserves	104 614	71 186
Fair value reserves of activities being discontinued	(936)	-
Non-controlling interests	3 524	(7 120)
Fair value reserves attributable to shareholders of the Bank	**107 202**	**64 066**

The movement in fair value reserves, net of deferred taxes, impairment losses and non-controlling interests may be analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Balance at the beginning of the period	**64 066**	**194 654**
Changes in fair value	(90 013)	(222 149)
Disposals during period	(7 432)	(167 420)
Impairment recognised during the period	154 117	227 323
Deferred taxes recognised in reserves during the period	(13 536)	31 658
Balance at the end of the period	**107 202**	**64 066**

Non-controlling interests

Non-controlling interests, by subsidiary, are detailed as follows:

(in thousands of Euros)

	31.12.2016			31.12.2015		
	Balance sheet	Income statement	% Non-controlling interests	Balance sheet	Income statement	% Non-controlling interests
ES Concessões	28 343	5 015	28.34%	23 302	(325)	28.34%
FCR Ventures II [a]	-	729	-	8 541	(3 255)	36.10%
NB Património [b]	-	(9 605)	40.43%	-	(8 415)	41.24%
GNB GA	-	-	-	16 806	1 849	10.01%
NB Açores	15 139	1 258	42.47%	15 269	(51)	42.47%
BES Vénétie	21 345	148	12.50%	21 216	367	12.50%
Other	16 510	(6 686)		(28 553)	(4 924)	
	81 337	**(9 141)**		**56 581**	**(14 754)**	

[a] Sold in November 2016

[b] Non-controlling interests relating to Open real estate investment funds are recorded as Other liabilities (see Note 42)

The movement in non-controlling interests may be analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Non-controlling interests at the beginning of the period	**56 581**	**129 446**
Changes in consolidation perimeter and control percentages [(a)]	26 578	(34 232)
Increases / (decreases) in share capital of subsidiaries	(1 266)	1 533
Reclassification to Other liabilities [(b)]	-	(17 060)
Dividends distributed [(c)]	(2)	(1 877)
Changes in fair value reserves	(776)	4 090
Foreign exchange differences and other	9 363	(10 565)
Net profit / (loss) for the period	(9 141)	(14 754)
Non-controlling interests at the end of the period	**81 337**	**56 581**

[a] It includes Euros 16 805 thousand for the acquisition of 10% of the GNB GA (see Note 1)

[b] Non-controlling interests relating to Open real estate investment funds transferred to Other liabilities during 2015

[c] At 31 December 2015, includes dividends from BES Vénétie (Euros 1 127 thousand) and Novo AF (Euros 300 thousand)

NOTE 45 – CONTINGENT LIABILITIES AND COMMITMENTS

As at 31 December 2016 and 2015, off-balance sheet elements are as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Contingent liabilities		
Guarantees and standby letters	4 058 353	4 968 231
Financial assets pledged as collateral	13 587 609	15 415 171
Open documentary credits	1 040 679	1 040 307
Other	2 985	11 631
	18 689 626	**21 435 340**
Commitments		
Revocable commitments	5 858 850	5 806 842
Irrevocable commitments	1 410 671	1 370 255
	7 269 521	**7 177 097**

Guarantees and standby letters provided are banking operations that do not imply any funds outflow for the Group.

As at 31 December 2016, the caption financial assets pledged as collateral includes:

- The market value of financial assets pledged as collateral to the European Central Bank in the scope of a liquidity facility, in the amount of Euros 12.8 thousand million (31 December 2015: Euros 14.5 thousand million);
- 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 14.1 million (31 December 2015: Euros 14.6 million);
- Securities pledged as collateral to the Deposit Guarantee Fund (“Fundo de Garantia de Depósitos”), in an amount of Euros 76.2 million (31 December 2015: Euros 80.3 million);
- Securities pledged as collateral to the European Investment Bank, in an amount of Euros 446.7 million (31 December 2015: Euros 740.4 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:

(in thousands of Euros)

	31.12.2016	31.12.2015
Deposit and custodianship of securities and other items for customers	28 719 616	39 628 963
Assets received for subsequent collection on behalf of clients	205 655	179 858
Securitised loans under management (servicing)	1 913 587	2 105 223
Other responsibilities related with banking services	2 533 207	2 208 184
	33 372 065	**44 122 228**

Under the resolution measure applied to BES per deliberation of Banco de Portugal of 3 August 2014, (point 1., paragraph b), subparagraph (vii) of Appendix 2), as altered by deliberation of Banco de Portugal of 11 August 2014, the "*Excluded Liabilities*" from the transfer to NOVO BANCO include "*any obligations, guarantees, liabilities or contingencies assumed in the trading, financial intermediation and distribution of debt instruments issued by entities integrating Espírito Santo Group (…)*".

Under the terms of the point and paragraph referred to above and sub point (v), the excluded liabilities also include *"any liabilities or contingencies, namely those resulting from fraud or the violation of regulatory, penal or administrative offense provisions or regulations".*

On 29 December 2015, Banco de Portugal adopted a new deliberation for the "*Clarification and retransmission of liabilities and contingencies defined as excluded liabilities in subparagraphs (v) through (vii) of paragraph (b) of no. 1 of Appendix 2 of the Deliberation of Banco de Portugal of 3 August 2014 (8 p.m.), with the wording given to 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 8 *p.m.* on 3 August 2014;

d. All indemnities related to life insurance contracts, in which the insurer was BES - Companhia de Seguros de Vida, S.A.;

e. All liabilities and indemnities related to the alleged annulment of certain clauses in loan agreements in which BES was the lender;

f. All the indemnities and liabilities arising from the cancellation of operations carried out by BES whilst financial and investment service provider; and

g. Any liability that is the object of any of the processes described in Appendix I of said deliberation.

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's legal sphere, said liabilities will be retransmitted from NOVO BANCO to BES, with effect as at 8*p.m.* of 3 August 2014.

In the preparation of its separate financial statements for 2015, NOVO BANCO incorporated the decisions resulting from the referred resolution measure regarding the transfer of the assets, liabilities, off-balance sheet elements and assets under management of BES, as well as from the deliberation of 29 December 2015 of Banco de Portugal, in particular, as regards the clarification of the non-transmission to NOVO BANCO of contingent and unknown liabilities as well as the clarifications relating to the liabilities listed in paragraph b) above, herein also including the lawsuits listed in said deliberation.

In addition, also by deliberation of Banco de Portugal of 29 December 2015, it was decided that it is the responsibility of Fundo de Resolução to 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 made by Oak Finance to BES and in respect of the senior bond issues retransmitted to BES, as well as the risk of the non-recognition and/or non-implementation of the various decisions of Banco de Portugal by Portuguese or foreign courts in disputes related to the perimeter of the assets, liabilities, off-balance sheet items and assets under management transferred to NOVO BANCO.

In the preparation of the separate and consolidated financial statements of the Bank as at 31 December 2016 and 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 regards the clarification of contingencies, as well as regards 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, namely as regards the provisions for legal contingencies, reflect the exact perimeter of the assets, liabilities, off-balance sheet items and assets under management transferred from BES to NOVO BANCO, as determined by Banco de Portugal and taking as reference the current legal bases and the information available at the present date.

Significant lawsuits

For the purpose of determining the contingent liabilities, and without prejudice to the information contained in these notes to the accounts, namely with regard to the conformity of the policy for the constitution of provisions with the resolution measure and subsequent decisions of Banco de Portugal (and criteria for the allocation of responsibilities and contingencies arising therefrom), it is also necessary to identify the following disputes which effects or impacts on the financial statements of NOVO BANCO are, on this date, not susceptible of determination or quantification:

(i) Lawsuit brought by Partran, SGPS, S.A., Massa Insolvente da Espírito Santo Financial Group, S.A. and Massa Insolvente da Espírito Santo Financial (Portugal), S.A. against NOVO BANCO and Calm Eagle Holdings, S.A.R.L. through which it is intended that the pledge of the shares of Companhia de Seguros Tranquilidade, S.A. be declared invalid and, secondarily, that said pledge be annulled or declared ineffective.

(ii) Lawsuit brought by NOVO BANCO, S.A. challenging the resolution decided in 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 (Euros 25 000 000, susceptible of a positive adjustment) on the sale of the shares of Companhia de Seguros Tranquilidade, S.A.. NOVO BANCO challenged judicially, on 19 December 2015, the resolution act, with this process running its course appended to the insolvency proceedings of Partran, SGPS, S.A.

At the end of January 2016, NOVO BANCO became aware of two lawsuits lodged with the Supremo Tribunal de Justiça da Venezuela (Supreme Court) by Banco de Desarrollo Económico y Social de Venezuela and by Fondo de Desarrollo Nacional. These lawsuits were brought against Banco Espírito Santo, S.A. (BES) and NOVO BANCO relating to the sale of debt instruments issued by entities held by the Espírito Santo Group in the amounts of USD 37 million and USD 335 million, respectively, and in which they seek the reimbursement of the amount invested plus interest, compensation for the inflation amount and court costs. Under the resolution measure applied to BES by Banco de Portugal, these responsibilities have not been transferred to NOVO BANCO. Nevertheless, in the first half-year of 2016, precautionary measure were decreed for the seizure of the assets of BES and NOVO BANCO, awaiting the execution of the measure and the Court's decision on the opposition presented by NOVO BANCO.

Fundo de Resolução

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 Banco Espírito Santo, S.A. (“BES”), under no. 5 of article 145-G of the General Law on Credit Institutions and Financial Companies (“RGICSF”), which consisted of the transfer of most of its activity to a transition bank, called NOVO BANCO, S.A. (NOVO BANCO), created specifically for this purpose. According to Community legislation, the capitalisation of NOVO BANCO was assured by Fundo de Resolução, created by Decree-Law no. 31-A/2012, of 10 February.

To realise the share capital of NOVO BANCO, Fundo de Resolução made available Euros 4 900 million. Of this amount, Euros 365 million corresponds to Fundo de Resolução’s own funds. A loan was also granted to Fundo de Resolução by a bank syndicate, amounting to Euros 700 million, with the participation of each credit institution being weighted by various factors, including their respective size. The remaining amount (Euros 3 900 million) was originated from a loan granted by the Portuguese Republic, which will be reimbursed and remunerated by Fundo de Resolução. The funds that may come to be generated with the sale of NOVO BANCO shall be fully allocated to Fundo de Resolução.

On 29 December 2015, Banco de Portugal determined to retransmit to BES the responsibility for the non-subordinated debt instruments issued by same, with a nominal amount of approximately Euros 2 thousand million, and that were intended for institutional investors, and made a final adjustment to the perimeter of the assets, liabilities, off-balance sheet items and assets under management transferred to NOVO BANCO.

Also during the month of December 2015, the national authorities decided to sell most of the assets and liabilities associated with the activity of Banif - Banco Internacional do Funchal, SA ("Banif") to Banco Santander Totta, for Euros 150 million, in the scope of the application of a resolution measure. This operation involved an estimated Euros 2 255 million of public funding, aimed at covering future contingencies, financed in Euros 489 million by Fundo de Resolução and in Euros 1 766 million directly by the Portuguese Republic, 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. In the context of this resolution measure, the assets of Banif identified as problematic were transferred to an asset management vehicle, created for the purpose – Oitante, S.A., with Fundo de Resolução being its sole shareholder, through the issue of debt securities of that vehicle, in the amount of Euros 746 million, guaranteed by Fundo de Resolução and counter-guaranteed by Portuguese Republic. A restricted set of assets, as well as the shareholders, the subordinated creditors and related parties positions will remain in Banif, which will be the subject to a future liquidation.

As provided for in Decree-Law no. 31-A/2012, Fundo de Resolução funds derive from the payment of contributions due by the institutions participating in the Fund and from the Bank Levy. In addition, it is also envisaged that, whenever such funds reveal themselves insufficient to meet its obligations, other means of financing may be used, namely: (i) special contributions from credit institutions; and (ii) amounts obtained through loans.

As a result of the deliberations referred to above, the risk of litigation involving Fundo de Resolução is significant, as is the risk of an insufficiency of funds to ensure its compliance with its responsibilities, namely the short-term repayment of the loans contracted.

In this context, in the second half of 2016, the Portuguese Government reached an agreement with the European Commission to change the terms of the financing granted by the Portuguese Republic and by the banks participating in Fundo de Resolução in order to preserve its financial stability, through the promotion of conditions that endow predictability and stability to the contributory efforts to Fundo de Resolução. To this end, an addendum to the loan agreements with Fundo de Resolução has been recently formalised, which introduces a number of changes to the repayment schedule, remuneration rates and other terms and conditions associated with said loans such that these are adjusted to Fundo de Resolução's ability to fully meet its obligations based on its regular revenues, that is, without the need to charge the banks participating in Fundo de Resolução for special contributions or any other extraordinary contribution.

In this context, based on the information currently available, it is the understanding of the Board of Directors that the risks that may result in additional charges for the Bank, in respect of the responsibilities explained above and that fall on Fundo de Resolução, are reduced.

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, could result in an insufficient funding of Fundo de Resolução and, if so, how this will be financed.

In these circumstances, it is not possible to assess whether these situations could, 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 to the 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 2016 and 2015, the amounts of the investment funds managed by the Group companies are analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Investment funds	1 512 929	1 594 300
Real estate investment funds	145 628	330 258
Pension funds	2 027 942	2 105 629
Bancassurance	384 957	425 287
Discretionary management	997 530	1 186 040
	5 068 985	**5 641 514**

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, 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 2016 and 2015, are summarised as follows:

(in thousands of Euros)

	31.12.2016					31.12.2015				
	Assets	Liabilities	Guarantees	Income	Expenses	Assets	Liabilities	Guarantees	Income	Expenses
Shareholder										
FUNDO DE RESOLUÇÃO	-	-	-	-	6 705	-	-	-	-	6 664
Associated companies										
ASCENDI GROUP SGPS	272 326	899	3 844	13 694	10	574 072	20 265	3 844	32 744	48
LOCARENT	100 898	707	-	2 960	6 366	100 561	522	-	2 306	8 536
NANIUM	26 244	1 411	150	338	-	31 018	5 602	188	143	12
EMPARK a)	-	-	-	163	-	23	-	-	41	76
ASCENDI PINHAL INTERIOR	150 884	35 661	7 639	15 142	17 545	155 810	23 748	7 639	15 530	29 978
PALEXPO	-	-	-	-	-	2 897	-	-	-	-
GNB SEGUROS	379	16 050	-	268	5	436	7 065	-	2 689	22
ESEGUR	5 985	1 363	928	1	86	7 030	-	941	789	157
ES CONTACT CENTER a)	-	-	-	-	-	208	337	-	1	751
UNICRE	-	80	-	-	1	8	13 882	-	1 197	1
MULTIPESSOAL	8 023	13	258	187	69	10 154	17	798	362	103
ADVANCE CICLONE SYSTEMS a)	-	-	-	-	-	-	22	14	427	3
AUVISA a)	-	-	-	-	-	918	-	-	50	-
BANCO DELLE TRE VENEZIE	-	38	-	-	-	-	38	-	134	-
COREWORKS a)	-	-	-	-	-	-	131	-	-	-
DOMÁTICA a)	-	-	-	5	-	71	5	-	33	-
EDENRED	3	39 583	26	-	303	7	38 787	26	-	343
ENKROTT	1 074	-	26	30	-	594	13	57	27	-
ESIAM	259	-	-	-	-	250	-	-		
ES VENTURES I+I a)	-	-	-	-	-	238	4	-	1 584	9
GLOBAL ACTIVE a)	-	-	-	-	-	-	-	-	1	-
MOZA BANCO	5 820	7 127	1 490	2 004	74	35 410	35 476	7 237	2 279	69
NUTRIGREEN a)	-	-	-	19	-	22 846	5	2 572	471	8 416
OUTSYSTEMS a)	-	-	-	-	47	-	2 704	-	-	80
SOUSACAMP a)	-	-	-	-	-	64	-	-	-	-
YDREAMS a)	-	-	-	26	-	7 622	-	-	211	-
IJAR	-	-	-	-	-	261	-	-	-	-
YUNIT	4 028	-	67	84	-	4 232	3	67	318	-
SEALION	161 062	7 772	-	2 858	84	-	-	-	-	-
	736 985	**110 704**	**14 428**	**37 779**	**31 295**	**954 730**	**148 626**	**23 383**	**61 337**	**55 268**
Other (*)	**3**	**1 695**	**-**	**-**	**-**	**2**	**694**	**-**	**-**	**-**

(*) Companies controlled directly or indirectly by members of the corporate bodies

a) Associated companies sold in 2016

The assets in the balance sheet relating to associated companies included in the above table relate mainly to loans and advances, 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 loans and advances to customers granted by the Group in the scope of its activity. All assets placed with related parties earn interest at between 0% and 10.4% (the rates indicated correspond to the rates applied according to the original currency of the asset).

As at 31 December 2016 (in accordance with the scope defined in IAS 24) loans granted to members of the Board of Directors of NOVO BANCO and their immediate families amounted to Euros 96 thousand (31 December 2015: Euros 269 thousand); the members of the Statutory Supervisory Board of NOVO BANCO and their immediate families had no loans granted to them; and the amount of loans granted to Other Key Management Personnel amounted to Euros 858 thousand (31 December 2015: Euros 1 556 thousand). Other Key Management Personnel are the General Managers and Advisors of the Board of Directors of NOVO BANCO.

The costs with remuneration and other benefits attributed to Key Management Personnel of the NOVO BANCO Group are presented as follows:

(in thousands of Euros)

	Board of Directors	Statutory Supervisory Board	Other key management personnel	Total
31 December 2016				
Short-term employment benefits	1 696	255	1 741	3 692
Post-employment benefits	2	-	15	17
Other long-term benefits	-	-	-	-
Employment termination benefits	-	-	-	-
Share-based payments	-	-	-	-
	1 698	**255**	**1 756**	**3 709**
31 December 2015				
Short-term employment benefits	2 124	294	2 856	5 274
Post-employment benefits	1	-	37	38
Other long-term benefits	-	-	-	-
Employment termination benefits	-	-	-	-
Share-based payments	-	-	-	-
	2 125	**294**	**2 893**	**5 312**

NOTE 48 – SECURITISATION OF ASSETS

As at 31 December 2016 and 2015, the outstanding securitisation transactions realised by the Group were as follows:

(in thousands of Euros)

Issue	Start date	Original amount	Current amount		Asset securitised
			31.12.2016	31.12.2015	
Lusitano Mortgages No.1 plc	December 2002	1 000 000	240 096	270 081	Mortgage loans (subsidised regime)
Lusitano Mortgages No.2 plc	November 2003	1 000 000	242 285	271 697	Mortgage loans (general and subsidised regime)
Lusitano Mortgages No.3 plc	November 2004	1 200 000	370 284	409 651	Mortgage loans (general regime)
Lusitano Mortgages No.4 plc	September 2005	1 200 000	437 689	478 582	Mortgage loans (general regime)
Lusitano Mortgages No.5 plc	September 2006	1 400 000	623 232	675 212	Mortgage loans (general regime)
Lusitano SME No.1 plc	October 2006	862 607	95 276	118 038	Loans to small- and medium-sized companies
Lusitano Mortgages No.6 plc	July 2007	1 100 000	612 683	649 914	Mortgage loans (general regime)
Lusitano Project Finance No.1, FTC	December 2007	1 079 100	56 266	88 359	Project Finance
Lusitano Mortgages No.7 plc	September 2008	1 900 000	1 482 197	1 575 737	Mortgage loans (general regime)
Lusitano Finance No. 3	November 2011	657 981	82 661	124 115	Consumer loans
Lusitano SME No.3	November 2016	630 385	558 478	-	Loans to small- and medium-sized companies

Additionally, as at 31 December 2016 and 2015, the following synthetic securitisation operations were in progress:

(in thousands of Euros)

Issue	Start date	Initial amount of CDS	Current amount of CDS		Asset securitised
			31.12.2016	31.12.2015	
Lusitano Synthetic Limited	December 2012	1 000 000	719 219	889 397	Medium/Long-term financing of SME's
Lusitano Synthetic II Ltd.	December 2013	2 000 000	1 592 605	1 736 459	Current accounts

In 2016 a securitisation operation involving loans and advances to small and medium enterprises was realised with loans granted by NOVO BANCO (Lusitano SME No. 3).

The loans and advances to customers covered by the securitisation operations Lusitano Finance No.3 and Lusitano SME No. 3 were not derecognised from the balance sheet since the Bank substantially retained all the risks and rewards of ownership associated with the securitised assets. The remaining 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 2016, the fair value of the CDS of these transactions is positive in Euros 105 570 thousand (31 December 2015: positive fair value of Euros 102 796 thousand).

The main characteristics of these operations, as at 31 December 2016 and 2015, may be analysed as follows:

(in thousands of Euros)

31.12.2016														
Issue	Bonds issued	Initial nominal value	Current nominal value	Interest held by Group (Nominal value)	Interest held by Group (Book value)	Maturity date	Initial rating of the bonds				Current rating of the bonds			
							Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Lusitano Mortgages No.1 plc	Class A	915 000	143 629	-	-	December 2035	AAA	Aaa	AAA	-	A+	A1	A+	-
	Class B	32 500	32 500	-	-	December 2035	AA	Aa3	AA	-	A+	A1	A-	-
	Class C	25 000	25 000	-	-	December 2035	A	A2	A	-	A+	A1	BB-	-
	Class D	22 500	22 500	-	-	December 2035	BBB	Baa2	BBB	-	A+	Ba2	B+	-
	Class E	5 000	5 000	-	-	December 2035	BB	Ba1	BB	-	A	Caa1	B-	-
	Class F	10 000	10 000	-	-	December 2035	-	-	-	-	-	-	-	-
Lusitano Mortgages No.2 plc	Class A	920 000	156 202	-	-	December 2036	AAA	Aaa	AAA	-	A+	A1	A-	-
	Class B	30 000	30 000	-	-	December 2046	AA	Aa3	AA	-	A+	A1	BB+	-
	Class C	28 000	28 000	-	-	December 2046	A	A3	A	-	A+	A2	B+	-
	Class D	16 000	16 000	-	-	December 2046	BBB	Baa3	BBB	-	BBB+	Ba1	B	-
	Class E	6 000	6 000	-	-	December 2046	BBB-	Ba1	BB	-	BB	B3	B-	-
	Class F	9 000	9 000	-	-	December 2046	-	-	-	-	-	-	-	-
Lusitano Mortgages No.3 plc	Class A	1 140 000	321 423	-	-	December 2047	AAA	Aaa	AAA	-	A-	A2	A-	-
	Class B	27 000	12 613	-	-	December 2047	AA	Aa2	AA	-	BBB	Ba2	B+	-
	Class C	18 600	8 689	-	-	December 2047	A	A2	A	-	BB	B1	B	-
	Class D	14 400	6 727	-	-	December 2047	BBB	Baa2	BBB	-	B	B3	B-	-
	Class E	10 800	6 290	-	-	December 2047	-	-	-	-	-	-	-	-
Lusitano Mortgages No.4 plc	Class A	1 134 000	345 890	-	-	December 2048	AAA	Aaa	AAA	-	BB	A1	A-	-
	Class B	22 800	21 553	-	-	December 2048	AA	Aa2	AA	-	BB	Baa3	BB	-
	Class C	19 200	18 150	-	-	December 2048	A+	A1	A+	-	BB	B2	B	-
	Class D	24 000	22 687	-	-	December 2048	BBB+	Baa1	BBB-	-	CCC	Caa3	B-	-
	Class E	10 200	10 200	-	-	December 2048	NA	-	NA	-	-	-	-	-
Lusitano Mortgages No.5 plc	Class A	1 323 000	522 040	-	-	December 2059	AAA	Aaa	AAA	-	BB	Baa1	BB+	-
	Class B	26 600	25 494	-	-	December 2059	AA	Aa2	AA	-	BB-	B3	B	-
	Class C	22 400	21 469	-	-	December 2059	A	A1	A	-	CCC	Caa3	B-	-
	Class D	28 000	26 836	-	-	December 2059	BBB+	Baa2	BBB	-	CC	Ca	CCC	-
	Class E	11 900	11 900	-	-	December 2059	N/A	-	N/A	-	-	-	-	-
Lusitano SME No.1 plc	Class A	759 525	-	-	-	December 2028	A+	-	A-	-	PIF	-	-	-
	Class B	40 974	2 917	-	-	December 2028	AAA	-	AAA	-	AAA	-	AAA	-
	Class C	34 073	16 235	-	-	December 2028	CCC	-	B	-	B-	-	BBB+	-
	Class D	28 035	13 358	13 358	12 212	December 2028	-	-	-	-	-	-	-	-
	Class E	8 626	4 313	4 313	8 257	December 2028	-	-	-	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943 250	418 516	90 053	79 031	March 2060	AAA	Aaa	AAA	-	BBB	A1	BBB+	-
	Class B	65 450	65 450	63 950	41 630	March 2060	AA	Aa3	AA	-	BB-	Baa3	BB+	-
	Class C	41 800	41 800	41 800	23 488	March 2060	A	A3	A	-	B-	B3	B	-
	Class D	17 600	17 600	17 600	8 824	March 2060	BBB	Baa3	BBB	-	CCC	Caa3	CCC	-
	Class E	31 900	31 900	31 900	10 804	March 2060	BB	-	BB	-	CC	-	D	-
	Class F	22 000	22 000	22 000	1 700	March 2060	-	-	-	-	-	-	-	-
Lusitano Project Finance No.1 FTC		198 101	87 740	87 740	62 123	March 2025	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1 425 000	979 978	979 973	857 143	October 2064	-	-	AAA	AAA	-	-	A-	AAH
	Class B	294 500	294 500	294 500	166 821	October 2064	-	-	BBB-	-	-	-	BB-	-
	Class C	180 500	180 500	180 500	180 500	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	57 000	57 000	53 956	October 2064	-	-	-	-	-	-	-	-
Lusitano Finance No. 3	Class A	450 700	-	-	-	November 2029	-	-	-	-	-	-	-	-
	Class B	207 200	78 683	78 683	68 327	November 2029	-	-	-	-	-	-	-	-
	Class C	24 800	10 000	10 000	8 079	November 2029	-	-	-	-	-	-	-	-
Lusitano SME No.3	Class A	385 600	335 018	-	-	December 2037	-	A3	-	AA	-	A3	-	AA
	Class B	62 700	62 700	62 700	62 700	December 2037	-	Baa3	-	BBB	-	Baa3	-	BBB
	Class C	62 700	62 700	62 700	62 700	December 2037	-	B1	-	B	-	B1	-	B
	Class D	116 000	116 000	116 000	116 000	December 2037	-	-	-	-	-	-	-	-
	Class E	9 500	9 500	9 500	9 500	December 2037	-	-	-	-	-	-	-	-
	Class S	88 771	56 766	56 766	56 766	December 2037	-	-	-	-	-	-	-	-
Lusitano Synthetic Limited	Senior	900 000	664 581	664 581	-	April 2034	-	-	-	-	-	-	-	-
	Mezzanine	80 000	80 000	-	-	April 2034	-	-	-	-	-	-	-	-
	Junior	20 000	8 074	6 459	-	April 2034	-	-	-	-	-	-	-	-
Lusitano Synthetic II Ltd.	Senior	1 800 000	1 365 888	1 365 888	-	November 2023	-	-	-	-	-	-	-	-
	Mezzanine	180 000	85 007	-	-	November 2023	-	-	-	-	-	-	-	-
	Junior	20 000	-	-	-	November 2023	-	-	-	-	-	-	-	-

(in 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 (Book value)	Maturity date	Initial rating of the bonds				Current rating of the bonds			
							Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Lusitano Mortgages No.1 plc	Class A	915 000	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	-	-	-	-	-	-	-	-

NOTE 49 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The governance model of the valuation of the Group's financial instruments is defined in internal regulations, which establishes the policies and procedures to be followed in the identification and valuation of financial instruments, the control procedures and the definition of the responsibilities of the parties involved in this process.

In accordance with the fair value valuation methodology of assets and liabilities followed, these are classified in the corresponding hierarchy of fair value defined in IFRS 13 - Fair Value. The following is a brief description of the type of assets and liabilities included in each level of the hierarchy and the corresponding valuation method:

Quoted market prices (level 1)

This category includes financial instruments with market prices quoted on official markets and those with dealer price quotations provided by entities that usually disclose transaction prices for these instruments traded on active markets.

The priority in terms of which price is used is given to those observed on official markets; where there is more than one official market the choice falls on the main market on which those instruments are traded.

The Group considers market prices those disclosed by independent entities, assuming that these act 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 listed on a stock exchange;
iii) Open investment funds (securities) listed on a stock exchange;
iv) Closed investment funds whose subjacent assets are solely financial instruments listed on a stock exchange;
v) Bonds with more than one provider and for which the instruments are listed on a stock exchange;
vi) Financial instruments with market offers even if these are not available at the normal information sources (e.g. Securities traded based on recovery rate);

Valuation models based on observable market parameters / prices (level 2)

In this category, the financial instruments are valued using internal valuation techniques, namely discounted cash flow models and option pricing models which imply the use of estimates and require judgments that vary in accordance with the complexity of the financial instruments. Notwithstanding, the Group uses as inputs in its models, observable market data such as interest rate curves, credit spreads, volatility and market indexes. This category also includes instruments with dealer price quotations but which markets have a lower liquidity. Additionally, the Group also uses as observable market variables, those that result from transactions with similar instruments and that are observed with a certain regularity on the market.

This category includes, amongst others, the following financial instruments:

i) Unquoted bonds; and
ii) OTC (over-the-counter) derivatives.

Valuation models based on 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. The bases and assumptions of the calculation of fair value are in accordance with IFRS 13.

This category includes, amongst others, the following financial instruments:

i) Debt securities valued using non-observable market inputs;

ii) Unquoted shares;

iii) Closed real estate funds;

iv) Hedge funds;

v) Private equities;

vi) Restructuring funds; and.

vii) Derivatives over the counter (OTC) with valuations provided by third parties.

The valuation models used by type of instrument are as follows:

Money market operations and loans and advances to customers: fair value is determined by the discounted cash flows method, with future cash flow being discounted considering the currency yield curve plus the credit risk of the entity contractually liquidating that flow.

Commercial paper: its fair value is determined by discounting future cash flows considering the currency yield curve plus the credit risk of the issuer determined in the issuance programme.

Debt instruments (bonds) with liquidity: the selective independent valuation methodology is used based on observations available on Bloomberg, designated as 'Best Price', where all the valuations available are requested, but only considered as input the previously validated sources, with the model excluding prices due to seniority and of outliers. In the specific case of the Portuguese sovereign debt, and due to the market making activity and the materiality of the Group's positions, the CBBT source valuations are always considered (the CBBT is a composite of valuations prepared by Bloomberg, which considers the average of executable prices and with high liquidity).

Debt instruments (bonds) with reduced liquidity: the models considered for the valuation of low liquidity bonds without observable market valuations are determined taking into account the information available on the issuer and the instrument, with the following models being considered: (i) discounted cash flows - cash flows are discounted considering the interest rate risk, credit risk of the issuer and any other risks subjacent to the instrument; or (ii) valuations made available by external counterparties, when it is impossible to determine the fair value of the instrument, with the selection always falling on reliable sources with reputed credibility in the market and impartiality in the valuation of the instruments being analysed.

Convertible bonds: cash flows are discounted considering the interest rate risk, the issuer's credit risk and any other risks that may be associated with the instrument, plus the net present value ('NPV') of the convertibility options embedded in the instrument.

Quoted Shares and funds: in quoted market products, the quotation on the respective stock exchange is considered.

Unquoted Shares: the valuation is carried out using external valuations made of the companies in which the shareholding is held. In the event the request for an external valuation is not justified due to the immateriality of this position in the balance sheet, the position is revalued considering the book value of the entity, or is maintained at the acquisition cost with the respective analysis of impairment.

Unquoted funds: the valuation is performed by external valuations to the company where it holds the equity participation. In the event that there are calls for capital after the reference date of the last available valuation, the valuation is recalculated considering the capital calls subsequent to the reference date at the amount at which these were made, until a new valuation is made available by the management company already considering the capital calls realised. It should be noted that although the valuations made available by the management companies are accepted, whenever applicable, in accordance with the funds' regulations, the bank requests the legal certification of the accounts issued by independent auditors in order to obtain the additional comfort necessary as regards the information made available by the management company.

Derivative instruments: if they are traded on organised markets, the valuations are observable in the market, otherwise these are valued using standard models and relying on observable variables in the market, namely:

- Foreign currency options: are valued through the front office system, which considers models such as Garman-Kohlhagen, Binomial, Black & Scholes, Levy or Vanna-Volga.
- Interest rate swaps and foreign currency swaps: the valuation of these instruments is done through the front office system, where the fixed leg cash flows of the instrument are discounted based on the yield curve of the respective currency, and the cash flows of the variable leg are projected considering the forward curve and discounted, also considering discount factors and forward rates based on the yield curve of the respective currency.

- Credit Default Swaps (CDS): both legs of the CDS are composed of cash flows contingent on the credit risk of the underlying asset and are therefore valued through market credit spreads.
- Futures and Options: the Group trades these products on an organized market, but there is the possibility of trading on the OTC market. For the futures and options traded in organised market, the valuations are observable in the market, with the valuation being received daily through the broker selected for these products. For the futures and options traded on the OTC market, and based on the type of product and the underlying asset type, discrete (binominal) or continuous time (Black & Scholes) models may be considered.

Investment contracts: as these are contracts issued that are linked to assets held by the Group, their fair value is calculated based on the fair value of the underlying assets.

Investment properties: their fair value is determined by the average of two valuations, carried out periodically, obtained from independent entities specialists in this type of service, considering normal market conditions (see Note 2.12 - Accounting policies).

The validation of the financial instruments' valuation is carried out by an independent area, which validates the models used and the prices attributed. More specifically, this area is responsible for performing the independent price verification for mark-to-market valuations; for mark-to-model valuations it validates the models used and the changes in same, whenever these occur. For the prices provided by external entities, the validation carried out consists in confirming the use of the correct prices.

The fair value of the financial assets and liabilities and of the investment properties measured at fair value of the Group is as follows:

(in thousands of Euros)

	At fair value			
	Quoted Market Prices (Level 1)	Valuation models based on observable market information (Level 2)	Valuation models based on unobservable market information (Level 3)	Total Fair Value
31 December 2016				
Financial assets held for trading	522	654 026	2 174	656 722
Securities				
Bonds issued by other entities	-	-	*1*	1
Shares	*139*	-	*76*	215
Other variable income securities	*383*	-	-	383
Derivatives				
Exchange rate contracts	-	*38 129*	-	38 129
Interest rate contracts	-	*593 613*	*2 097*	595 710
Credit default contracts	-	*18 927*	-	18 927
Other	-	*3 357*	-	3 357
Other financial assets at fair value through profit or loss	1 126 335	17 286	60 186	1 203 807
Bonds issued by government and public entities	*78 039*	-	-	78 039
Bonds issued by other entities	*478 556*	*17 282*	*2 304*	498 142
Shares and other variable income securities	*569 740*	*4*	*57 882*	627 626
Available-for-sale financial assets	7 484 268	826 445	2 191 524	10 502 237
Bonds issued by government and public entities	*5 949 517*	*479 690*	*2 433*	6 431 640
Bonds issued by other entities	*1 335 922*	*346 755*	*593 709*	2 276 386
Shares	*193 895*	-	*734 465*	928 360
Other variable income securities	*4 934*	-	*860 917*	865 851
Loans and advances to customers	-	661 838	-	661 838
Derivatives held for risk management purposes	-	117 200	105 569	222 769
Interest rate contracts	-	*117 200*	-	117 200
Credit default contracts	-	-	105 569	105 569
Investment properties			1 206 355	1 206 355
Assets at fair value	**8 611 125**	**2 276 795**	**3 565 808**	**14 453 728**
Financial liabilities held for trading	-	630 415	2 416	632 831
Derivatives				
Exchange rate contracts	-	*38 647*	-	38 647
Interest rate contracts	-	*577 430*	*2 416*	579 846
Credit default contracts	-	*245*	-	245
Other	-	*14 093*	-	14 093
Deposits from banks	-	243 822	-	243 822
Due to customers	-	264 750	-	264 750
Debt securities issued	-	190 796	-	190 796
Derivatives held for risk management purposes	-	108 265	-	108 265
Interest rate contracts	-	*108 265*	-	108 265
Investment contracts	-	1 219 183	-	1 219 183
Liabilities at fair value	**-**	**2 657 231**	**2 416**	**2 659 647**

(in thousands of Euros)

	At fair value			
	Quoted Market Prices (Level 1)	Valuation models based on observable market information (Level 2)	Valuation models based on unobservable market information (Level 3)	Total Fair Value
31 December 2015				
Financial assets held for trading	1 503	759 256	14 280	775 039
Securities				
Bonds issued by government and public entities	*1 128*	-	-	1 128
Bonds issued by other entities	-	-	*29*	29
Shares	*299*	-	*14 251*	14 550
Other variable income securities	*76*	-	-	76
Derivatives				
Exchange rate contracts	-	*38 591*	-	38 591
Interest rate contracts	-	*697 135*	-	697 135
Credit default contracts	-	*21 400*	-	21 400
Other	-	*2 130*	-	2 130
Other financial assets at fair value through profit or loss	1 286 106	36 564	203 523	1 526 193
Bonds issued by government and public entities	*124 628*	-	-	124 628
Bonds issued by other entities	*486 893*	*11 642*	*170*	498 705
Shares and other variable income securities	*674 585*	*24 922*	*203 353*	902 860
Available-for-sale financial assets	8 550 453	765 261	2 490 040	11 805 754
Bonds issued by government and public entities	*6 805 711*	*438 890*	*3 952*	7 248 553
Bonds issued by other entities	*1 100 134*	*326 371*	*745 506*	2 172 011
Shares	*639 228*	-	*866 366*	1 505 594
Other variable income securities	*5 380*	-	*874 216*	879 596
Loans and advances to customers	-	359 960	-	359 960
Derivatives held for risk management purposes	-	318 596	-	318 596
Exchange rate contracts	-	*295*	-	295
Interest rate contracts	-	*215 505*	-	215 505
Credit default contracts	-	*102 796*	-	102 796
Investment properties	-	-	54 625	54 625
Assets at fair value	**9 838 062**	**2 239 637**	**2 762 468**	**14 840 167**
Financial liabilities held for trading	-	743 860	-	743 860
Derivatives				
Exchange rate contracts	-	*38 635*	-	38 635
Interest rate contracts	-	*685 107*	-	685 107
Credit default contracts	-	*8 543*	-	8 543
Other	-	*11 575*	-	11 575
Deposits from banks	-	421 501	-	421 501
Due to customers	-	1 038 666	-	1 038 666
Debt securities issued	-	213 467	-	213 467
Derivatives held for risk management purposes	-	77 846	-	77 846
Exchange rate contracts	-	*13*	-	13
Interest rate contracts	-	*77 833*	-	77 833
Investment contracts	-	-	1 356 037	1 356 037
Liabilities at fair value	**-**	**2 495 340**	**1 356 037**	**3 851 377**

The movement in financial assets valued based on non-observable market information (level 3 of the fair value hierarchy) during financial years 2016 and 2015, may be analysed as follows:

(in thousands of Euros)

	31.12.2016							
	Financial assets held for trading - derivatives	Financial assets held for trading - securities	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Derivatives for risk management	Investment properties	Total assets	Investment contracts
Balance at the beginning of the period	-	14 280	203 523	2 490 040	-	54 625	2 762 468	1 356 037
Acquisitions	-	-	309 421	5 923 799	-	111	6 233 331	-
Maturity	-	-	(142)	(4 480 755)	-	-	(4 480 897)	-
Liquidation	-	(15 209)	(371 950)	(1 644 007)	-	(69 940)	(2 101 106)	-
Transfers in	2 341	-	22 795	157 558	102 796	1 211 798	1 497 288	-
Transfers out	-	-	(156 933)	(2 709)	-	-	(159 642)	(1 356 037)
Changes in value	(244)	1 006	53 472	(252 402)	2 773	9 761	(185 634)	-
Balance at the end of the period	**2 097**	**77**	**60 186**	**2 191 524**	**105 569**	**1 206 355**	**3 565 808**	**-**

(in thousands of Euros)

	31.12.2015							
	Financial assets held for trading - derivatives	Financial assets held for trading - securities	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Derivatives for risk management	Investment properties	Total assets	Investment contracts
Balance at the beginning of the period	-	30	495 021	2 780 120	-	297 133	3 572 304	1 404 198
Acquisitions	-	14 251	12 855	905 301	-	63	932 470	160 237
Maturity	-	-	-	(1 071 220)	-	-	(1 071 220)	-
Liquidation	-	-	(311 416)	(33 358)	-	(2 416)	(347 190)	(183 344)
Transfers in	-	-	10 210	61 311	-	-	71 521	
Transfers out	-	-	(61)	(3)	-	(241 939)	(242 003)	-
Changes in value	-	(1)	(3 086)	(152 111)	-	1 784	(153 414)	(25 054)
Balance at the end of the period	**-**	**14 280**	**203 523**	**2 490 040**	**-**	**54 625**	**2 762 468**	**1 356 037**

The transfers in that occurred in financial years 2016 and 2015 were mainly related to the end of observable market parameters, and to the reclassification of investment properties, as referred to in Note 28.

The transfers out of available-for-sale financial assets were to assets valued at historical cost, subject to impairment tests. The investment contracts classified in level 3 as at 31 December 2015 were transferred to level 2 of the fair value hierarchy according to the assets subjacent to these contracts.

Potential gains and losses of financial instruments and investment properties classified in level 3 of the fair value hierarchy are recorded in the income statement or revaluation reserves, in accordance with the respective accounting policy of the assets. The amounts determined in financial year 2016 are as follows:

(in thousands of Euros)

	31.12.2016		
	Recognised in Reserves	Recognised in the Income statement	Total
Financial assets held for trading - derivatives	-	(244)	(244)
Financial assets held for trading - securities	-	1 006	1 006
Financial assets at fair value through profit or loss	-	53 472	53 472
Available-for-sale financial assets	(215 251)	-	(215 251)
Derivatives for risk management purposes	-	2 773	2 773
Investment properties	-	9 761	9 761
	(215 251)	66 768	(148 483)

The following table shows, for the assets included in level 3 of the fair value hierarchy, the main valuation methods used and the impact of the change in the main variables used in the respective valuation, when applicable:

(in millions of Euros)

Assets classified under Level 3	31.12.2016						
	Valuation model	Variable analysed	Carrying book value	Unfavourable scenario		Favourable scenario	
				Change	Impact	Change	Impact
Financial assets held for trading			**2.2**		-		-
Shares	Other	(a)	0.1		-		-
Derivatives	Other	(a)	2.1				-
Financial assets at fair value through profit or loss			**60.2**		**-**		**-**
Bonds issued by other entities	Other	(a)	2.3		-		-
Shares and other variable income securities			57.9		-		
	Valuation of management company	Net asset value (b)	56.8		-		-
	(a)	(a)	*1.1*		-		-
Available-for-sale financial assets			**2 191.5**		**(85.7)**		**(92.7)**
Bonds issued by government and public entities	Discounted cash flow model	Interest rate	*2.4*	(-) 100 bps	(0.1)	(+) 100 bps	0.1
Bonds issued by other entities			593.7		(23.6)		11.3
	Discounted cash flow model	Interest rate	*104.4*	(-) 100 bps	(0.8)	*(+) 100 bps*	*0.8*
	Discounted cash flow model	Rating/Probability of default	*10.0*	*-50%*	(1.6)	*+50%*	*0.8*
	Discounted cash flow model	Rating/Probability of default	*468.4*	*2 levels*	(19.0)	*2 levels*	*7.5*
	Discounted cash flow model	Rating/Probability of default	*11.0*	*-25%*	(2.2)	*+25%*	*2.2*
Shares			734.5		(62.1)		81.3
	Discounted cash flow model	Discount rate	*160.2*	*-50%*	(62.0)	*+50%*	*81.3*
	Valuation of management company	Net asset value (b)	*534.1*		-		-
	Market multiples		*3.8*	*(-) outliers*	(0.0)	*(+) outliers*	*0.0*
	Relevant transactions	(a)	*7.3*		-		-
	Other	(a)	*29.1*				-
Other variable income securities			860.9		-		
	Valuation of management company	Net asset value (b)	860.9		-		-
Investment properties	Valuation of management company	Net asset value (b)	**1 206.4**		-		-
Total			**3 460.2**		**(85.7)**		**92.7**

(a) A sensitivity analysis was not carried out for these categories as these include securities with immaterial individual values.

(b) In the specific case of participation units valued according to the quotations provided by the respective management company, it is not reasonable to analyse the impact of changes in the underlying variables subjacent to the quotations ascertained by that entity.

(in millions of Euros)

Assets classified under Level 3	31.12.2015						
	Valuation model	Variable analysed	Carrying book value	Unfavourable scenario		Favourable scenario	
				Change	Impact	Change	Impact
Financial assets held for trading			**14.3**				
Shares	(a)	(a)	*14.3*		-		-
Financial assets at fair value through profit or loss			**203.5**				
Bonds issued by other entities	(a)	(a)	0.2		-		-
Shares and other variable income securities			203.4				
	Discounted cash flow model	Discount rate	*157.7*	-50%	(23.5)	+50%	11.8
	Valuation of management company	Net asset value (b)	*45.0*		-		-
	(a)	(a)	*0.6*		-		-
Available-for-sale financial assets			**2 490.0**				
Bonds issued by government and public entities	(a)	(a)	4.0		-		-
Bonds issued by other entities			745.5				
	Discounted cash flow model	Interest rate	*5.1*	(-) 100 bps	(0.0)	(+) 100 bps	0.0
	Discounted cash flow model	Rating/Probability of default	*695.5*	-50%	(32.7)	+50%	9.4
	Discounted cash flow model	Rating/Probability of default	*5.3*	2 levels	(1.0)	2 levels	0.1
	(a)	(a)	*39.6*		-		-
Shares			866.4				
	Discounted cash flow model	Discount rate	*128.4*	-50%	(5.5)	+50%	5.1
	Valuation of management company	Net asset value (b)	*581.6*	n.a.	n.a.	n.a.	n.a.
	Market multiples		*0.5*	(-) outliers	(0.0)	(+) outliers	0.0
	Relevant transactions	(b)	*31.5*		-		-
	Carrying book value	(a)	*124.4*		-		-
Other variable income securities	Valuation of management company	Net asset value (b)	874.2		-		-
Investment properties	Valuation of management company	Net asset value (b)	54.6		-		-
Total			**2 762.4**	**-**	**(62.8)**		**17.0**

(a) A sensitivity analysis was not carried out for these categories as these include securities with immaterial individual values.

(b) In the specific case of participation units valued according to the quotations provided by the respective management company, it is not reasonable to analyse the impact of changes in the underlying variables subjacent to the quotations ascertained by that entity.

The main parameters used in the valuation models as at 31 December 2016 and 2015 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:

(%)

	31.12.2016			31.12.2015		
	EUR	USD	GBP	EUR	USD	GBP
Overnight	-0.4000	0.6100	0.1500	-0.3500	0.4100	0.3200
1 month	-0.3680	0.7750	0.2900	-0.2050	0.6050	0.5750
3 months	-0.3190	1.0500	0.4300	-0.1310	0.7550	0.6700
6 months	-0.2210	1.2500	0.5500	-0.0400	0.9400	0.8250
9 months	-0.1390	1.4500	0.6800	-0.0480	1.1200	0.9750
1 year	-0.2040	1.1810	0.4064	-0.0569	0.8470	0.7261
3 years	-0.1005	1.6640	0.6881	0.0590	1.3849	1.3026
5 years	0.0750	1.9450	0.8657	0.3280	1.7010	1.5920
7 years	0.3150	2.1350	1.0347	0.6210	1.9310	1.7990
10 years	0.6680	2.3160	1.2325	1.0000	2.1615	1.9931
15 years	1.0340	2.4750	1.4147	1.3990	2.3930	2.1606
20 years	1.1810	2.5380	1.4607	1.5670	2.5020	2.2010
25 years	1.2230	2.5600	1.4498	1.6040	2.6320	2.1800
30 years	1.2410	2.5650	1.4297	1.6100	2.5900	2.1550

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 2016						
CDX USD Main	**24**	-	35.25	67.77	94.99	112.67
iTraxx Eur Main	**23**	**-**	43.65	72.13	94.18	110.47
iTraxx Eur Senior Financial	**23**	**-**	-	93.43	-	124.98
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

Interest rate volatility

The values presented below represent the implicit volatilities (at the money) used for the valuation of interest rate options:

(%)

	31.12.2016			31.12.2015		
	EUR	USD	GBP	EUR	USD	GBP
1 year	14.14	24.43	80.81	31.65	50.93	44.44
3 years	31.24	37.50	-	58.65	46.06	53.36
5 years	47.41	40.88	97.10	78.45	46.29	54.11
7 years	58.53	39.98	90.36	83.60	43.95	51.72
10 years	66.68	37.66	-	84.47	39.50	47.70
15 years	69.39	-	-	80.90	-	42.18

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:

Foreign exchange rate	31.12.2016	31.12.2015	Volatility (%) 1 month	3 months	6 months	9 months	1 year
EUR/USD	1.0541	1.0887	10.45	10.58	10.83	10.65	10.55
EUR/GBP	0.8562	0.7340	9.91	10.35	10.93	10.80	10.80
EUR/CHF	1.0739	1.0835	5.30	6.15	7.30	7.43	7.59
EUR/NOK	9.0863	9.6030	7.30	7.91	8.39	8.48	8.60
EUR/PLN	4.4103	4.2639	6.78	7.10	7.55	7.60	7.75
EUR/RUB	64.3000	80.6736	15.20	16.20	17.25	17.22	18.15
USD/BRL [a)]	3.2544	3.9604	16.23	16.36	16.40	16.43	16.46
USD/TRY [b)]	3.5169	2.9177	15.38	15.75	15.60	15.95	15.90

[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
	31.12.2016	31.12.2015	% change	1 month	3 months	
DJ Euro Stoxx 50	3 291	3 268	0.70	10.87	13.25	16.43
PSI 20	4 679	5 313	-11.93	11.45	13.71	17.46
IBEX 35	9 352	9 544	-2.01	13.54	14.99	-
FTSE 100	7 143	6 242	14.43	8.48	11.89	11.82
DAX	11 481	10 743	6.87	11.22	13.32	16.09
S&P 500	2 239	2 044	9.54	7.60	10.23	11.51
BOVESPA	60 227	43 350	38.93	25.02	23.92	23.62

The fair value of financial assets and liabilities recorded in the balance sheet at amortised cost is analysed as follows, having been estimated based on the main methodologies and assumptions described below:

(in thousands of Euros)

	Assets / Liabilities recorded at amortised cost	Fair value			
		Quoted Market Prices (Level 1)	Valuation models based on observable market information (Level 2)	Valuation models based on unobservable market information (Level 3)	Total fair value
31 December 2016					
Cash and deposits with Central Banks	1 469 259	-	1 469 259	-	1 469 259
Deposits with banks	370 918	-	370 918	-	370 918
Available-for-sale financial assets (shares) **a)**	55 735	-	-	55 735	55 735
Loans and advances to banks	724 167	-	724 167	-	724 167
Loans and advances to customers	27 522 588	-	-	26 659 358	26 659 358
Financial assets	**30 142 667**	**-**	**2 564 344**	**26 715 093**	**29 279 437**
Deposits from Central Banks	6 410 033	-	6 410 033	-	6 410 033
Deposits from banks	3 334 092	-	3 110 949	-	3 110 949
Due to customers	25 724 969	-	-	25 724 969	25 724 969
Debt securities issued	3 627 005	2 426 689	39 145	643 316	3 109 150
Investment contracts	2 177 242	-	2 312 918	-	2 312 918
Subordinated debt	48 100	31 277	45 028	-	76 305
Financial Liabilities	**41 321 441**	**2 457 966**	**11 918 073**	**26 368 285**	**40 744 324**

a) Assets at acquisition cost, net of impairment. These assets relate to equity instruments issued by unquoted entities, for which no recent transactions were identified on the market and for which it is not possible to reliably estimate their fair value

(in thousands of Euros)

	Assets / Liabilities recorded at amortised cost	Fair value			
		Quoted Market Prices (Level 1)	Valuation models based on observable market information (Level 2)	Valuation models based on unobservable market information (Level 3)	Total fair value
31 December 2015					
Cash and deposits with Central Banks	775 608	-	775 608	-	775 608
Deposits with banks	340 209	-	340 209	-	340 209
Available-for-sale financial assets (shares) **a)**	4 958	-	-	4 958	4 958
Loans and advances to banks	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**	**-**	**2 806 445**	**30 083 675**	**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**	**4 173 750**	**11 353 878**	**29 415 603**	**44 943 231**

a) Assets at acquisition cost, net of impairment. These assets relate to equity instruments issued by unquoted entities, for which no recent transactions were identified on the market and for which it is not possible to reliably estimate their fair value

Cash and deposits with Central Banks, Deposits with banks and Loans and advances to credit institutions

Considering the short-term nature of these financial instruments, their carrying book value is a reasonable estimate of their fair value.

Loans and advances to customers

The fair value of loans and advances to customers is estimated based on the discounted expected future cash flows of capital and interest, assuming that the instalments are paid on the dates contractually defined. The expected future cash flows from portfolios of loans with similar credit risk characteristics, such as residential mortgages, are estimated collectively. The discount rates used by the Group are the current interest rates used for loans with similar characteristics.

Deposits from Central Banks and Deposits from credit institutions

The fair value of deposits from Central Banks and Deposits from credit institutions is estimated based on the discounted expected future cash flows of capital and interest.

Due to customers and investment contracts

The fair value of these financial instruments is estimated based on the discounted expected future cash flows of capital and interest. The discount rate used by the Group is that which reflects the current interest rates applicable to deposits with similar characteristics at the balance sheet date. Given that the interest rates applicable to these instruments are renewed for periods under one year, there are no material relevant differences in their fair value.

Debt securities issued and Subordinated debt

The fair value of these instruments is based on quoted market prices, when available. When not available, the fair value is estimated based on the present value of the expected future cash flows of principal 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 other 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 maximum credit risk exposure is analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Deposits with and loans and advances to banks	1 096 976	2 034 089
Financial assets held for trading	656 124	760 413
Other financial assets at fair value through profit or loss	576 181	623 333
Available-for-sale financial assets	8 708 026	9 420 564
Loans and advances to customers	28 184 426	31 583 759
Derivatives held for risk management purposes	222 769	318 596
Other assets	628 091	391 529
Guarantees and standby letters provided	4 058 353	4 968 231
Documentary credits	1 040 679	1 040 307
Irrevocable commitments	1 410 671	1 370 255
Credit risk associated with the credit derivatives' reference entities	62 758	42 491
	46 645 054	**52 553 567**

For financial assets recognised in the balance sheet, the maximum exposure to credit risk is represented by the carrying book value net of impairment. For the off-balance sheet elements, the maximum exposure of the guarantees is the maximum amount that the 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 past due. If the value of the collateral, net of haircuts equals or exceeds the exposure, the individual impairment may be nil. Hence, NOVO BANCO Group does not have any overdue financial assets for which it has not performed a review as to their recoverability and the subsequent recognition of the respective impairment, when necessary.

(in thousands of Euros)

	31.12.2016					
	Neither overdue nor impaired	Overdue but not impaired	Impaired	Total exposure	Impairment	Net exposure
Deposits with and loans and advances to banks	568 560	73	1 000 757	1 569 390	(472 414)	1 096 976
Financial assets held for trading -securities	1	-	-	1	-	1
Bonds issued by government and other public entities	-	-	-	-	-	-
Bonds issued by other entities	1	-	-	1	-	1
Other financial assets at fair value through profit or loss	576 181	-	-	576 181	-	576 181
Bonds issued by government and other public entities	78 039	-	-	78 039	-	78 039
Bonds issued by other entities	498 142	-	-	498 142	-	498 142
Available-for-sale financial assets	8 667 341	-	271 357	8 938 698	(230 672)	8 708 026
Bonds issued by government and other public entities	*6 431 640*	-	-	6 431 640	-	6 431 640
Bonds issued by other entities	*2 235 701*	-	*271 357*	2 507 058	*(230 672)*	2 276 386
Loans and advances to customers	22 264 723	198 160	11 287 584	33 750 467	(5 566 041)	28 184 426

(in thousands of Euros)

	31.12.2015					
	Neither overdue nor impaired	Overdue but not impaired	Impaired	Total exposure	Impairment	Net exposure
Deposits with and loans and advances to banks	2 063 115	50 086	341 105	2 454 306	(420 217)	2 034 089
Financial assets held for trading - securities	1 157	-	-	1 157	-	1 157
Bonds issued by government and other public entities	1 128	-	-	1 128	-	1 128
Bonds issued by other entities	29	-	-	29	-	29
Other financial assets at fair value through profit or loss	623 333	-	-	623 333	-	623 333
Bonds issued by government and other public entities	124 628	-	-	124 628	-	124 628
Bonds issued by other entities	498 705	-	-	498 705	-	498 705
Available-for-sale financial assets	9 345 455	-	250 721	9 596 176	(175 612)	9 420 564
Bonds issued by government and other public entities	*7 248 553*	-	-	7 248 553	-	7 248 553
Bonds issued by other entities	*2 096 902*	-	*250 721*	2 347 623	*(175 612)*	2 172 011
Loans and advances to customers	25 633 529	312 304	11 470 573	37 416 406	(5 832 647)	31 583 759

The following table presents the assets that are impaired or overdue but not impaired, split by respective maturity or ageing (in the event of being overdue):

(in thousands of Euros)

	31.12.2016					
	Available-for-sale financial assets - debt instruments		Deposits with and loans and advances to banks		Loans and advances to customers	
	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired
Overdue						
Up to 3 months	-	-	73	-	183 750	142 631
3 months to 1 year	-	7 648	-	-	8 582	1 310 107
1 to 3 years	-	164 887	-	391 497	1 844	3 544 498
3 to 5 years	-	15 251	-	-	1 316	1 405 114
More than 5 years	-	924	-	-	2 668	853 434
	-	**188 710**	**73**	**391 497**	**198 160**	**7 255 784**
Due						
Up to 3 months	-	-	-	-	-	320 106
3 months to 1 year	-	29 557	-	-	-	388 354
1 to 3 years	-	16 262	-	-	-	863 253
3 to 5 years	-	28 248	-	-	-	868 161
More than 5 years	-	8 580	-	609 260	-	1 591 926
	-	**82 647**	**-**	**609 260**	**-**	**4 031 800**
	-	**271 357**	**73**	**1 000 757**	**198 160**	**11 287 584**

(in thousands of Euros)

	31.12.2015					
	Available-for-sale financial assets - debt instruments		Deposits with and loans and advances to banks		Loans and advances to customers	
	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired
Overdue						
Up to 3 months	-	15 738	-	-	285 264	281 072
3 months to 1 year	-	149 051	-	-	21 269	1 858 129
1 to 3 years	-	15 398	50 086	341 105	1 331	3 186 711
3 to 5 years	-	-	-	-	1 992	1 437 478
More than 5 years	-	1 108	-	-	2 448	729 677
	-	**181 295**	**50 086**	**341 105**	**312 304**	**7 493 067**
Due						
Up to 3 months	-	546	-	-	-	550 446
3 months to 1 year	-	29 628	-	-	-	359 906
1 to 3 years	-	2 609	-	-	-	425 924
3 to 5 years	-	13 562	-	-	-	1 594 878
More than 5 years	-	23 081	-	-	-	1 046 352
	-	**69 426**	**-**	**-**	**-**	**3 977 506**
	-	**250 721**	**50 086**	**341 105**	**312 304**	**11 470 573**

In relation to assets that are not past due or impaired, the distribution by rating level is presented below. For debt instruments the rating assigned by the Rating agencies is considered; for the loans and advances to customers and cash and deposits with banks the rating and scoring models for the attribution of a credit rating are used, with these being reviewed periodically. For the purpose of presenting the information, the ratings were aggregated into five large risk groups, with the last group including unrated exposures.

(in thousands of Euros)

	31.12.2016					
	Prime + High grade	Upper Medium grade	Lower Medium grade	Non Investment Grade Speculative + Highly speculative	Other	Total
Deposits with and loans and advances to banks	-	64 024	42 573	57 977	403 986	568 560
Financial assets held for trading - securities	-	-	-	-	1	1
Bonds issued by government and other public entities	-	-	-	-	-	-
Bonds issued by other entities	-	-	-	-	1	1
Other financial assets at fair value through profit or loss	16 182	66 665	203 535	178 237	111 562	576 181
Bonds issued by government and other public entities	6 804	924	20 224	45 849	4 238	78 039
Bonds issued by other entities	9 378	65 741	183 311	132 388	107 324	498 142
Available-for-sale financial assets	24 417	299 593	3 546 752	3 851 506	945 073	8 667 341
Bonds issued by government and other public entities	-	4 951	2 931 239	3 493 017	2 433	6 431 640
Bonds issued by other entities	24 417	294 642	615 513	358 489	942 640	2 235 701
Loans and advances to customers	2 114 951	7 713 223	2 881 883	6 787 761	2 766 905	22 264 723

(in thousands of Euros)

	31.12.2015					
	Prime + High grade	Upper Medium grade	Lower Medium grade	Non Investment Grade Speculative + Highly speculative	Other	Total
Deposits with and loans and advances to banks	2 539	3 982	64 344	801 899	1 187 099	2 059 863
Financial assets held for trading -securities	-	-	-	1 128	29	1 157
Bonds issued by government and other public entities	-	-	-	1 128	-	1 128
Bonds issued by other entities	-	-	-	-	29	29
Other financial assets at fair value through profit or loss	34 477	49 443	183 579	198 675	157 159	623 333
Bonds issued by government and other public entities	12 121	-	70 048	42 459	-	124 628
Bonds issued by other entities	22 356	49 443	113 531	156 216	157 159	498 705
Available-for-sale financial assets	854 617	177 804	3 946 718	2 468 145	1 898 171	9 345 455
Bonds issued by government and other public entities	796 338	5 116	3 488 734	2 174 180	784 185	7 248 553
Bonds issued by other entities	58 279	172 688	457 984	293 965	1 113 986	2 096 902
Loans and advances to customers	1 852 508	7 791 048	2 959 323	7 896 934	5 133 716	25 633 529

Loans with impairment triggers correspond to loans with objective evidence of loss (Loans in Default) and to loans classified as "Higher Risk Loans". The objective evidence of loss exists when there is a default event, i.e. from the moment there is a significant change in the lender-borrower relationship that subjects the lender to a monetary loss. The "Higher Risk Loans" correspond to loans without objective evidence of loss, but with risk indicators [e.g. customers with loans overdue more than 30 days but less than 90 days; customers under litigation in the Central Credit Register (*Central de Responsabilidades de Crédito*); customers with higher risk rating / scoring; customers allocated to the *Departamento de Acompanhamento e Estruturação de Empresas* (Department for Monitoring and Structuring of Companies); and restructured loans due to financial difficulties of the debtor that are not in default].

Loans without impairment triggers relate to "Low risk loans". All exposures that do not show any of the above Higher Risk indicators and the exposures for which the impairment loss determined is equal to or less than 0.05%, are classified as "Low risk loans". These situations correspond to loans for which the impairment determined is immaterial due to the existence of guarantees / collateral, permitting their classification as "Low risk loans", regardless of their original classification.

As at 31 December 2016 and 2015, the analysis of the gross loans and advances to customers' exposure and impairment constituted, by segment, is presented as follows:

(in thousands of Euros)

Segment	31.12.2016													
	Credit not at risk						Credit at risk [(a)]						Total Loans and advances	
	Without impairment triggers		With impairment triggers		Total		Days past due				Total			
							<= 90 days [(b)]		>90 days					
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	7 520 033	44 447	7 432 436	708 958	14 952 469	753 405	1 354 514	617 839	6 143 596	3 766 310	7 498 110	4 384 149	22 450 579	5 137 554
Residential Mortgage loans	7 983 733	10 217	989 729	17 269	8 973 462	27 486	59 631	4 047	692 664	153 534	752 295	157 581	9 725 757	185 067
Consumer and other loans	1 037 474	6 565	151 299	28 794	1 188 773	35 359	23 425	6 556	361 933	201 505	385 358	208 061	1 574 131	243 420
Total	**16 541 240**	**61 229**	**8 573 464**	**755 021**	**25 114 704**	**816 250**	**1 437 570**	**628 442**	**7 198 193**	**4 121 349**	**8 635 763**	**4 749 791**	**33 750 467**	**5 566 041**

[(a)] Credit at risk correspond to the definition contained in Instruction no. 23/2011 of Banco de Portugal

[(b)] Credit with principal and/or interest overdue under 90 days, but for which there are evidences that justify their classification as Credit at risk, including the bankruptcy or liquidation of the debtor amongst others

(in thousands of Euros)

Segment	31.12.2015													
	Credit not at risk						Credit at risk [a]						Total Loans and advances	
	Without impairment triggers		With impairment triggers		Total		Days past due				Total			
							<= 90 days [b]		>90 days					
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	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
Residential 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 and other 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] Credit at risk correspond to the definition contained in Instruction no. 23/2011 of Banco de Portugal

[b] Credit with principal and/or interest overdue under 90 days, but for which there are evidences that justify their classification as loans and advances at risk, including the bankruptcy or liquidation of the debtor amongst others

As at 31 December 2016 and 2015, 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	31.12.2016											
	Corporate			Mortgage loans			Consumer and other loans			Total		
	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2004 and prior	29 272	1 091 571	441 148	60 844	1 791 487	48 386	177 658	119 285	9 831	267 774	3 002 343	499 365
2005	4 773	315 778	88 286	11 500	574 059	15 120	32 739	50 144	13 968	49 012	939 981	117 374
2006	6 084	782 741	246 652	19 246	1 032 203	24 167	39 405	55 938	9 704	64 735	1 870 882	280 523
2007	12 956	790 689	231 652	30 709	1 545 879	33 660	57 143	70 746	17 635	100 808	2 407 314	282 947
2008	6 876	1 389 858	298 897	20 430	1 139 801	18 688	51 910	73 687	15 271	79 216	2 603 346	332 856
2009	6 601	1 270 508	364 865	13 957	788 440	14 863	39 616	90 390	22 862	60 174	2 149 338	402 590
2010	16 902	1 387 231	388 141	13 019	829 082	12 563	41 621	139 326	29 549	71 542	2 355 639	430 253
2011	9 416	1 245 221	364 260	7 687	390 763	6 635	37 752	135 259	26 209	54 855	1 771 243	397 104
2012	9 481	1 801 753	609 984	4 713	196 106	3 800	43 558	105 425	23 969	57 752	2 103 284	637 753
2013	30 166	2 573 447	701 376	5 350	275 040	3 316	41 195	154 997	43 377	76 711	3 003 484	748 069
2014	16 154	2 571 185	637 838	3 570	229 257	1 693	38 875	144 370	16 806	58 599	2 944 812	656 337
2015	37 310	3 342 373	410 861	4 660	310 387	1 102	45 269	173 316	10 135	87 239	3 826 076	422 098
2016	48 320	3 888 224	353 594	8 535	623 253	1 074	51 956	261 248	4 104	108 811	4 772 725	358 772
Total	**234 311**	**22 450 579**	**5 137 554**	**204 220**	**9 725 757**	**185 067**	**698 697**	**1 574 131**	**243 420**	**1 137 228**	**33 750 467**	**5 566 041**

(in 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	33 880	1 470 692	549 741	63 980	1 989 284	53 674	188 875	122 718	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**	**25 908 139**	**5 361 794**	**203 908**	**9 842 005**	**195 966**	**715 080**	**1 666 262**	**274 887**	**1 133 675**	**37 416 406**	**5 832 647**

As at 31 December 2016 and 2015, 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)

	31.12.2016					
	Individual Assessment[1]		Collective Assessment [2]		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	9 381 973	4 556 166	13 068 606	581 388	22 450 579	5 137 554
Residential Mortgage loans	37 592	9 298	9 688 165	175 769	9 725 757	185 067
Consumer and other loans	311 378	110 731	1 262 753	132 689	1 574 131	243 420
Total	**9 730 943**	**4 676 195**	**24 019 524**	**889 846**	**33 750 467**	**5 566 041**

[1] Loans and advances for w hich the final impairment w as determined and approved by the Impairment Committee
[2] Loans and advances for w hich the final impairment w as determined automatically by the Impairment model

(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
Residential Mortgage loans	55 594	14 045	9 786 411	181 921	9 842 005	195 966
Consumer and other loans	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 for w hich the final impairment w as determined and approved by the Impairment Committee
[2] Loans and advances for w hich the final impairment w as 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 2016 and 2015, the analysis of the gross loans and advances to customers' exposure and impairment assessed individually and collectively, by geography, is presented as follows:

(in thousands of Euros)

	31.12.2016					
	Individual Assessment*		Collective Assessment**		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Portugal	7 354 551	3 842 713	18 882 834	696 993	26 237 385	4 539 706
Luxembourg	281 685	146 049	314 318	5 290	596 003	151 339
Venezuela	-	-	2 754	31	2 754	31
United Kingdom	1 001 409	400 040	700 492	9 768	1 701 901	409 808
Spain	896 237	214 354	1 464 782	42 494	2 361 019	256 848
Cayman Islands	-	-	1 311	-	1 311	-
Ireland	197 061	73 039	2 653 033	135 270	2 850 094	208 309
Total	**9 730 943**	**4 676 195**	**24 019 524**	**889 846**	**33 750 467**	**5 566 041**

* Loans and advances which impairment results from an individual analysis (defined and approved by the Impairment Committee)
** Loans and advances which impairment was assessed on a collective basis and determined automatically by the Impairment model

(in thousands of Euros)

	31.12.2015					
	Individual Assessment*		Collective Assessment**		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Portugal	7 750 426	4 226 875	20 346 397	1 030 962	28 096 823	5 257 837
Luxembourg	225 265	77 554	694 959	18 677	920 224	96 231
Venezuela	-	-	6 624	68	6 624	68
United Kingdom	436 352	12 839	1 491 150	436	1 927 502	13 275
Spain	899 696	191 577	1 543 680	47 900	2 443 376	239 477
Cayman Islands	45 941	9 813	841	8	46 782	9 821
France	1 292 249	63 731	-	-	1 292 249	63 731
Ireland	279 481	82 949	2 340 699	69 258	2 620 180	152 207
Macao	-	-	62 646	-	62 646	-
Total	**10 929 410**	**4 665 338**	**26 486 996**	**1 167 309**	**37 416 406**	**5 832 647**

* Loans and advances which impairment results from an individual analysis (defined and approved by the Impairment Committee)
** Loans and advances which impairment was assessed on a collective basis and determined automatically by the Impairment model

The loans analysed by the Impairment Committee for which the impairment assessed automatically by the Impairment model was not changed, are included and presented in the "Collective assessment".

In order to mitigate credit risk, credit operations are collateralised, namely with mortgages or pledges. The fair value of the collateral is determined on the date of the loan disbursement, being revaluated periodically. The gross amount of the loans to customers and respective fair value of the collateral, limited to the amount of the associated loans, are as follows:

(in thousands of Euros)

	31.12.2016		31.12.2015	
	Amount of loans	Fair value of collateral	Amount of loans	Fair value of collateral
Individuals - Mortgage				
Mortgages	9 418 249	9 381 349	9 577 700	9 537 325
Pledges	64 516	64 201	62 200	62 048
Not collateralised	242 992	-	202 105	-
	9 725 757	9 445 550	9 842 005	9 599 373
Individuals - Other				
Mortgages	297 289	283 428	285 900	285 900
Pledges	425 964	307 650	195 955	106 236
Not collateralised	850 878	-	1 184 407	-
	1 574 131	591 078	1 666 262	392 136
Corporate				
Mortgages	4 433 776	3 961 038	5 010 570	4 346 875
Pledges	6 075 630	3 173 704	4 801 823	3 587 239
Not collateralised	11 941 173	-	16 095 746	-
	22 450 579	7 134 742	25 908 139	7 934 114
Total	**33 750 467**	**17 171 370**	**37 416 406**	**17 925 623**

The differential between the amount of the loans and advances to customers and the fair value of the collateral represents the total loans' exposure that exceeds the value of the collateral, with this value not being affected by collateral with a fair value in excess of the loan to which it is associated.

The details of the collateral – mortgages is presented as follows:

(in thousands of Euros)

	31.12.2016							
	Individuals - Mortgage loans		Individuals - Other loans		Corporate loans		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
<0.5M€	188 977	9 252 160	4 974	229 867	17 623	645 236	211 574	10 127 263
>= 0.5M€ and <1.0M€	167	97 471	59	25 888	2 330	389 733	2 556	513 092
>= 1.0M€ and <5.0M€	34	31 718	96	27 673	5 533	1 095 319	5 663	1 154 710
>= 5.0M€ and <10.0M€	-	-	-	-	1 478	552 871	1 478	552 871
>= 10.0M€ and <20.0M€	-	-	-	-	151	553 818	151	553 818
>= 20.0M€ and <50.0M€	-	-	-	-	1 255	485 664	1 255	485 664
>=50M€	-	-	-	-	1 581	238 397	1 581	238 397
	189 178	9 381 349	5 129	283 428	29 951	3 961 038	224 258	13 625 815

(in thousands of Euros)

	31.12.2015							
	Individuals - Mortgage loans		**Individuals - Other loans**		**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€ and <1.0M€	193	102 897	76	27 133	2 424	440 249	2 693	570 279
>= 1.0M€ and <5.0M€	29	32 858	48	42 899	4 501	1 395 841	4 578	1 471 598
>= 5.0M€ and <10.0M€	-	-	-	-	832	564 566	832	564 566
>= 10.0M€ and <20.0M€	-	-	-	-	46	405 673	46	405 673
>= 20.0M€ and <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

The amounts of the collateral – mortgages, presented above, represent the maximum coverage value of the assets collateralised, i.e. which are considered up to the gross amount of the individual loans collateralised.

The assessment of the risk of an operation or set of operations takes into account the associated credit risk mitigation elements, according to the internal rules and procedures implemented to meet the requirements defined by Banco de Portugal.

Relevant collaterals are essentially the following:

- Real estate properties, where the value considered is that which corresponds to the latest available valuation;
- Financial pledges, where the value considered correspond to the quotation on the last day of the month - in the case of a quoted security - or to the value of the pledge - in the case of cash.

The acceptance of collateral as a guarantee for loans and advances to customers leads to the need to define and implement risk mitigation techniques in respect of the exposures of said collateral. Thus, and as an approach to this matter, the Group stipulated a number of procedures applicable to collateral (namely the financial collateral and real estate collateral), covering amongst others, the volatility of the value of the collateral, its liquidity as well as an indication as to the recovery rates associated with each type of collateral.

Therefore, the internal rules governing the credit granting powers have a specific chapter on this point, "Acceptance of collateral - Risk mitigation techniques in respect of the exposures of said collateral, namely the liquidity risks and volatility risk."

The real estate revaluation process is conducted by valuation experts registered with the CMVM (*Comissão do Mercado de Valores Mobiliários*), and is based on the methodology described in point 2.12.

The analysis of risk exposure by sector of activity, as at 31 December 2016 and 2015, is presented as follows:

(in thousands of Euros)

	31.12.2016							
	Loans and advances to customers		Financial assets held for trading	Other financial assets at fair value through profit or loss	Derivatives held for risk management purposes	Available-for-sale financial assets		Guarantees and endorsements provided
	Gross amount	Impairment				Gross amount	Impairment	
Agriculture, Forestry and Fishery	444 421	(59 206)	1 540	-	-	14 185	-	22 354
Mining	138 042	(12 464)	598	91 604	-	201 066	(2 502)	6 429
Food, Beverages and Tobacco	711 495	(49 945)	2 281	13 706	-	45 390	(566)	59 693
Textiles and Clothing	296 001	(40 696)	176	1 685	-	38 860	(2 105)	8 869
Leather and Shoes	76 598	(10 256)	46	20	-	499	(499)	1 643
Wood and Cork	124 518	(32 245)	578	-	-	1 251	(1 251)	5 047
Paper and Printing Industry	260 901	(23 131)	75	13 283	-	57 310	(35 617)	10 026
Refining of Petroleum	5 027	(148)	52	-	-	-	-	20 693
Chemicals and Rubber	351 241	(22 979)	3 268	27 010	-	89 867	(11 935)	59 585
Non-metallic Minerals	196 393	(52 156)	51	860	-	12 145	(4 042)	14 213
Metallurgical Industries and Metallic Products	989 343	(277 753)	235	8 680	-	25 800	(3 218)	43 280
Production of Machinery, Equipment and Electrical Devi	188 097	(16 191)	446	5 465	-	66 347	(1 331)	95 459
Production of Transport Material	66 605	(3 313)	-	38 409	-	84 809	(40)	15 425
Other Transforming Industries	227 549	(31 137)	-	-	-	1 958	(17)	28 986
Electricity, Gas and Water	632 629	(10 965)	64 409	68 363	-	475 529	-	119 823
Construction and Public Works	2 166 377	(592 310)	101 497	11 363	-	241 876	(11 743)	1 098 452
Wholesale and Retail Trade	2 037 388	(607 851)	826	16 887	-	94 760	(25 902)	302 405
Tourism	1 128 884	(92 473)	1 876	1 339	-	8 203	(8 018)	80 939
Transport and Communication	1 364 752	(87 862)	127 645	48 912	-	194 731	(9 244)	651 815
Financial Activities	1 354 156	(372 400)	274 092	735 487	222 769	2 325 706	(331 790)	291 539
Real Estate Activities	2 945 248	(715 673)	10 521	9 549	-	228 503	(65 628)	204 621
Services Provided to Companies	3 675 527	(1 230 466)	30 562	8 554	-	799 218	(497 200)	680 751
Public Administration and Services	846 544	(33 290)	2 334	96 896	-	6 469 721	-	29 580
Other activities of collective services	2 149 470	(762 301)	18 718	5 735	-	159 031	(68 579)	173 717
Residential Mortgage Loans	9 725 757	(185 067)	-	-	-	-	-	131
Consumers Loans	1 574 131	(243 420)	-	-	-	-	-	5 007
Other	73 373	(343)	14 896	-	-	11 698	(9 264)	27 871
TOTAL	**33 750 467**	**(5 566 041)**	**656 722**	**1 203 807**	**222 769**	**11 648 463**	**(1 090 491)**	**4 058 353**

(in 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	1 664	-	11 765	-	21 481
Mining	166 463	(10 350)	-	56 921	-	148 589	-	7 475
Food, Beverages and Tobacco	757 111	(80 434)	3 432	13 917	-	78 324	(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	203	-	1 329	(1 329)	4 580
Paper and Printing Industry	291 513	(45 641)	-	23 791	-	48 731	(15 440)	11 035
Refining of Petroleum	2 751	(561)	157	-	-	-	-	20 076
Chemicals and Rubber	412 978	(35 712)	4 392	13 100	-	95 055	(13 968)	73 574
Non-metallic Minerals	219 622	(51 992)	77	5 657	-	57 919	(9 770)	14 435
Metallurgical Industries and Metallic Products	1 062 873	(345 083)	181	16 919	-	24 789	(157)	66 082
Production of Machinery, Equipment and Electrical Devi	193 520	(26 285)	270	2 457	-	80 406	(7 370)	92 077
Production of Transport Material	69 818	(7 721)	-	45 968	-	67 918	(40)	15 854
Other Transforming Industries	222 447	(43 833)	-	210	-	13 184	(5 024)	29 857
Electricity, Gas and Water	712 589	(12 144)	64 169	34 358	-	477 383	(12 416)	133 596
Construction and Public Works	2 452 635	(728 993)	144 704	14 498	-	300 186	(555)	1 295 336
Wholesale and Retail Trade	2 274 022	(673 655)	1 452	17 195	-	115 083	(28 655)	368 934
Tourism	1 165 042	(126 946)	2 534	2 346	-	11 257	(8 023)	84 975
Transport and Communication	1 257 193	(104 960)	95 980	41 073	-	195 029	(24 272)	663 579
Financial Activities	1 478 799	(304 654)	394 391	887 420	318 596	2 821 394	(212 421)	146 624
Real Estate Activities	3 999 910	(813 206)	8 286	95 892	-	127 405	(15 966)	357 615
Services Provided to Companies	4 487 857	(1 149 334)	28 200	104 285	-	890 283	(462 825)	910 124
Public Administration and Services	925 835	(47 974)	1 287	143 266	-	6 897 082	-	41 595
Other activities of collective services	2 727 251	(586 526)	21 675	5 053	-	167 430	(73 567)	152 058
Residential Mortgage Loans	9 842 005	(195 966)	-	-	-	-	-	294 184
Consumers Loans	1 666 262	(274 887)	-	-	-	-	-	88 173
Other	42 000	(903)	22	-	-	60 646	(22 139)	427
TOTAL	**37 416 406**	**(5 832 647)**	**775 039**	**1 526 193**	**318 596**	**12 727 726**	**(917 014)**	**4 968 231**

According to Banco de Portugal Instruction no. 32/2013, the Group identifies and marks loan agreements restructured due to financial difficulties of the customer whenever there are changes to the terms and conditions of an agreement in respect of which the customer defaulted, or it is foreseeable that this will come to happen, in respect of a financial obligation. A change to the terms and conditions of the agreement is deemed to exist when (i) there are contractual changes to the customer's benefit, such as extension of the contract period, introduction of grace periods, reduction of rate or partial pardon of debt; (ii) a new loan operation is contracted to settle existing debt (total or partial); or (iii) the new terms of the agreement are more favourable than those applied to other customers with the same risk profile.

The unmarking of a loan restructured due to financial difficulties of the customer can only occur after a minimum period of two years from the date of the restructuring, provided that the following conditions are cumulatively met: (i) regular payment of principal and interest; (ii) the customer has no principal or interest overdue; and (iii) there was no new loan restructuring during that period.

The amounts of the loans restructured due to financial difficulties of the customer as at 31 December 2016 and 2015, are as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Corporate	7 319 019	6 066 684
Residential Mortgage loans	331 201	349 343
Consumer and other loans	356 392	217 741
Total	**8 006 612**	**6 633 768**

Below are presented the details of the restructuring measures applied to loans restructured up to 31 December 2016 and 2015:

(in thousands of Euros)

Measure	31.12.2016								
	Credit not at risk			Credit at risk [a]			Total		
	No. transactions	Exposure	Impairment	No. transactions	Exposure	Impairment	No. transactions	Exposure	Impairment
Principal or interest forgiveness	24	67 007	3 474	236	306 041	192 786	260	373 048	196 260
Assets received in partial settlement of loan	6	105	4	1	10	2	7	115	6
Capitalisation of interest	46	468 953	75 165	214	184 573	125 719	260	653 526	200 884
New loan in total or partial payment of existing loan	3 235	415 652	47 638	1 287	989 971	611 554	4 522	1 405 623	659 192
Extension of repayment period	1 903	1 734 185	258 621	1 372	839 018	371 762	3 275	2 573 203	630 383
Introduction of a grace period of principal or interest	1 677	471 137	48 802	378	372 949	193 190	2 055	844 086	241 992
Decrease in the interest rates	236	325 940	45 110	90	436 747	295 768	326	762 687	340 878
Change of the lease payment plan	246	125 855	5 695	87	40 914	17 154	333	166 769	22 849
Change in the interest payment periods	20	44 188	1 469	36	397 489	138 056	56	441 677	139 525
Other	7 957	355 043	27 697	7 327	430 835	210 912	15 284	785 878	238 609
Total	**15 350**	**4 008 065**	**513 675**	**11 028**	**3 998 547**	**2 156 903**	**26 378**	**8 006 612**	**2 670 578**

[a] Credit at risk corresponds to the definition contained in Instruction no. 23/2011 of Banco de Portugal

(in 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 forgiveness	12	73 448	13 455	147	196 351	135 528	159	269 799	148 983
Capitalisation of interest	20	506 219	159 596	141	142 367	43 540	161	648 586	203 136
New loan in total or partial payment of existing loan	2 844	883 854	374 291	828	314 615	159 328	3 672	1 198 469	533 619
Extension of repayment period	1 624	891 397	100 264	682	728 027	278 449	2 306	1 619 424	378 713
Introduction of a grace period of principal or interest	1 736	441 488	40 127	320	370 864	142 126	2 056	812 352	182 253
Decrease in the interest rates	164	295 780	42 133	94	363 652	248 964	258	659 432	291 097
Change of the lease payment plan	208	102 538	4 478	81	37 457	16 028	289	139 995	20 506
Change in the interest payment periods	15	206 388	87 323	28	197 961	62 940	43	404 349	150 263
Other	9 957	526 246	53 298	6 407	355 116	137 555	16 364	881 362	190 853
Total	**16 580**	**3 927 358**	**874 965**	**8 728**	**2 706 410**	**1 224 458**	**25 308**	**6 633 768**	**2 099 423**

[(a)] Credit at risk correspond to the definition contained in Instruction no. 23/2011 of Banco de Portugal

The movement of the restructured loans during financial year 2016 was as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Balance at the beginning of the period	6 633 768	5 891 215
Loans and advances restructured during period	2 914 994	1 933 682
Loans and advances reclassified to "Normal"	(198 396)	(259 789)
Loans and advances written off	(80 726)	(16 035)
Other	(1 263 028)	(915 305)
Balance at the end of the period	**8 006 612**	**6 633 768**

The subsidiaries of NOVO BANCO Group present, as at 31 December 2016 and 2015, the following exposure with regard to the Espírito Santo Group:

(in thousands of Euros)

	31.12.2016						31.12.2015					
	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	341 497	-	-	-	341 497	341 497	341 105	-	-	-	341 105	(341 105)
ES FINANCIAL GROUP	-	-	13 565	-	13 565	13 565	-	-	13 567	-	13 567	(13 553)
BANQUE PRIVÉE ESPÍRITO SANTO	476	-	-	-	476	476	471	-	-	-	471	(468)
ES HEALTH CARE	-	-	798	-	798	-	-	-	14 562	-	14 562	-
OPWAY	-	356	1 100	-	1 456	-	-	-	1 471	-	1 471	-
RIO FORTE	-	2	-	-	2	-	-	2	-	-	2	-
ESF PORTUGAL	-	-	-	-	-	-	-	-	43	-	43	-
OTHER	19 038	172	48	100	19 358	95	18 371	173	62	100	18 706	(33)
TOTAL	**361 011**	**530**	**15 511**	**100**	**377 152**	**355 633**	**359 947**	**175**	**29 705**	**100**	**389 927**	**(355 159)**

Market risk

Market Risk represents the potential loss resulting from an adverse change in the value of a financial instrument due to fluctuations in interest rates, foreign exchange rates, share prices, commodity prices, volatility and credit spread.

Market risk management is integrated with the balance sheet management through the CALCO (Capital, Asset and Liability Committee) structure, constituted at the entity's top level. CALCO is responsible for defining the policies governing the composition and structure of the balance sheet as well as for controlling exposure to the interest rate, currency and liquidity risks.

The main measurement of market risk is the assessment of 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 evaluating the impact of potential higher losses than those considered by the VaR measurement.

(in thousands of Euros)

	31.12.2016				31.12.2015			
	December	Period average	Maximum	Minimum	December	Period average	Maximum	Minimum
Exchange risk	2 709	9 922	16 314	2 709	14 571	20 947	29 369	14 616
Interest rate risk	1 206	790	1 269	525	1 479	2 719	3 890	1 350
Shares and commodities	2 611	1 982	3 310	638	1 114	8 943	17 740	2 210
Volatility	83	205	399	72	345	1 067	1 757	1 333
Credit spread	475	1 291	2 533	475	1 282	5 389	7 061	795
Diversification effect	(2 967)	(3 573)	(2 360)	(5 262)	(4 217)	(9 393)	(14 785)	(6 908)
Total	**4 116**	**10 618**	**21 465**	**(844)**	**14 574**	**29 672**	**45 032**	**13 396**

NOVO BANCO Group has a VaR at risk of Euros 4 116 thousand (31 December 2015: Euros 14 574 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 trading portfolio, by re-pricing buckets.

(in thousands of Euros)

	31.12.2016						
	Eligible amounts	Not sensitive	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years
Loans to and deposits with banks	2 696 622	241 605	1 758 493	12 077	6 968	274 424	403 055
Loans and advances to customers	34 778 097	-	18 222 237	6 745 808	2 067 810	6 514 915	1 227 327
Securities	11 720 560	2 963 823	1 331 797	744 983	1 701 968	2 937 984	2 040 005
Total			**21 312 527**	**7 502 868**	**3 776 746**	**9 727 323**	**3 670 387**
Deposits from banks	10 203 900	-	3 134 747	63 865	139 023	6 866 265	-
Due to customers	26 116 823	-	9 098 726	4 433 079	4 885 820	7 473 924	225 274
Debt securities issued	3 752 001	-	1 007 025	20 932	-	1 508 225	1 215 819
Investment contracts	3 392 904	1 231 264	81 599	78 943	490 144	1 374 660	136 294
Technical reserves	1 333 568	49 973	5 460	7 171	680 096	201 866	389 002
Total			**13 327 557**	**4 603 990**	**6 195 083**	**17 424 940**	**1 966 389**
Balance sheet GAP (Assets - Liabilities)	2 471 892		7 984 970	2 898 878	(2 418 337)	(7 697 617)	1 703 998
Off-Balance sheet	(1)		144 005	361 763	67 080	(205 000)	(367 849)
Structural GAP	**2 471 891**		**8 128 975**	**3 260 641**	**(2 351 257)**	**(7 902 617)**	**1 336 149**
Accumulated GAP			**8 128 975**	**11 389 616**	**9 038 359**	**1 135 742**	**2 471 891**

(in 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	-	10 221 452	4 235 668	5 609 477	6 947 055	302 756
Debt 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**

Sensitivity analyses of the interest rate risk of the Bank's portfolios are performed based on an approximation of the duration model approach and considering several scenarios of yield curve shifts at all interest rate levels.

(in thousands of Euros)

	31.12.2016				31.12.2015			
	Parallel increase of 100 bp	Parallel decrease of 100 bp	Increase after 1 year of 50 bp	Decrease after 1 year of 50 bp	Parallel increase of 100 bp	Parallel decrease of 100 bp	Increase after 1 year of 50 bp	Decrease after 1 year of 50 bp
Sensitivity to interest rate risk	16 732	(16 732)	10 324	(10 324)	61 080	(61 080)	32 878	(32 878)

The following table presents the average balances, interest for the period and interest rates relating to the Group's major financial asset and liability categories, for the periods ended on 31 December 2016 and 2015:

(in thousands of Euros)

	31.12.2016			31.12.2015		
	Average balance of the period	**Interest of the period**	**Average interest rate**	**Average balance of the period**	**Interest of the period**	**Average interest rate**
Monetary assets	2 480 452	57 341	2.31%	2 781 859	38 614	1.39%
Loans and advances to customers	34 695 249	931 516	2.68%	38 829 417	1 087 771	2.80%
Securities and other	9 647 420	177 282	1.84%	7 082 948	263 067	3.71%
Non-interest Earning Assets	-	-	-	-	-	-
Financial assets and differentials	**46 823 121**	**1 166 139**	**2.49%**	**48 694 224**	**1 389 452**	**2.85%**
Monetary Liabilities	11 442 470	41 030	0.36%	9 864 233	79 759	0.81%
Due to customers	25 122 638	229 120	0.91%	27 772 864	352 414	1.27%
Covered liabilities and other	7 413 300	381 505	5.15%	9 818 249	506 627	5.15%
Non-interest Earning Liabilities	2 844 713	-	-	1 238 878	-	-
Financial liabilities and differentials	**46 823 121**	**651 655**	**1.39%**	**48 694 224**	**938 800**	**1.93%**
Net interest income		**514 484**	**1.10%**		**450 652**	**0.93%**

Regarding the foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 31 December 2016 and 2015, is analysed as follows:

(in thousands of Euros)

		31.12.2016				31.12.2015			
		Spot	Forward	Other elements	Net exposure	Spot	Forward	Other elements	Net exposure
USD	UNITED STATES DOLLAR	(723 092)	687 236	(4 815)	(40 671)	(880 822)	943 149	13 446	75 773
GBP	GREAT BRITISH POUND	449 490	(465 513)	(4 656)	(20 679)	412 086	(404 466)	2 235	9 855
BRL	BRAZILIAN REAL	1 426	(2)	-	1 424	35 104	7	-	35 111
MOP	MACAO PATACA	205 548	(223 508)	-	(17 960)	206 399	(235 402)	-	(29 003)
JPY	JAPANESE YEN	(63)	490	-	427	2 210	(1 790)	-	420
CHF	SWISS FRANC	5 404	(1 415)	-	3 989	40 317	(36 364)	-	3 953
SEK	SWEDISH KRONE	(1 905)	2 442	-	537	2 136	(1 197)	6 014	6 953
NOK	NORWEGIAN KRONE	(13 448)	13 867	-	419	(22 429)	22 993	127	691
CAD	CANADIAN DOLLAR	(50 847)	53 108	-	2 261	(11 224)	12 536	-	1 312
ZAR	SOUTH AFRICAN RAND	(1 536)	961	(36)	(611)	(536)	(189)	-	(725)
AUD	AUSTRALIAN DOLLAR	(16 399)	17 128	-	729	(17 458)	18 326	-	868
VEB	VENEZUELAN BOLIVAR	6 710	-	-	6 710	62 501	-	-	62 501
PLN	POLISH ZLOTY	12 047	(17 934)	6 051	164	5 920	(4 997)	66	989
MAD	MOROCCAN DIRHAM	20	(9)	-	11	23	102	-	125
MXN	MEXICAN PESO	7 814	(341)	-	7 473	(1 432)	1 353	-	(79)
AOA	ANGOLAN KWANZA	34 143	-	-	34 143	47 351	-	-	47 351
CVE	CAPE VERDEAN ESCUDO	15 017	-	-	15 017	18 381	-	-	18 381
HKD	HONG-KONG DOLLAR	(28 364)	44 660	-	16 296	19 194	(2 489)	-	16 705
	OTHER	10 836	(2 925)	67	7 978	19 344	(6 588)	(299)	12 457
		(87 199)	**108 245**	**(3 389)**	**17 657**	**(62 935)**	**304 984**	**21 589**	**263 638**

Note: asset / (liability)

Exposure to "peripheral" Eurozone countries' sovereign debt

As at 31 December 2016 and 2015, the Group's exposure to sovereign debt of "peripheral" Eurozone countries, is presented as follows:

(in thousands of Euros)

	31.12.2016				
	Loans and advances to customers	Financial assets held for trading and at Fair value	Derivative instruments [(1)]	Available-for-sale financial assets	Total
Portugal	790 340	45 344	5 169	3 493 017	4 333 870
Spain	44 136	1 073	-	1 042 662	1 087 871
Ireland	-	-	-	4 951	4 951
Italy	-	23 284	-	1 888 577	1 911 861
	834 476	**69 701**	**5 169**	**6 429 207**	**7 338 553**

[(1)] Net values: receivable / (payable)

(in 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	-	-	-	-	-
Italy	-	45 099	-	2 316 544	2 361 643
	1 007 112	**113 449**	**4 760**	**6 215 329**	**7 340 650**

[(1)] Net values: receivable / (payable)

All the exposures presented above, except those relating to loans and advances to customers, are recorded in the Group's balance sheet at fair value, which is based on market quotations or, in relation to derivatives, based on valuation techniques using observable market parameters / prices.

The details of the exposure regarding the securities registered as Available-for-sale financial assets and as Financial assets held for trading and Financial assets at fair value through profit or loss, is as follows:

(in thousands of Euros)

	31.12.2016					
	Nominal Amount	Market quotation	Accrued interest	Carrying book value	Impairment	Fair value reserves
Available-for-sale financial assets						
Portugal	**3 384 224**	**3 467 556**	**25 461**	**3 493 017**	**-**	**28 319**
Maturity up to 1 year	1 478 558	1 479 671	209	1 479 880	-	409
Maturity exceeding 1 year	1 905 666	1 987 885	25 252	2 013 137	-	27 910
Spain	**951 922**	**1 027 705**	**14 957**	**1 042 662**	**-**	**3 294**
Maturity up to 1 year	200 000	200 402	-	200 402	-	(16)
Maturity exceeding 1 year	751 922	827 303	14 957	842 260	-	3 310
Ireland	**4 500**	**4 910**	**41**	**4 951**	**-**	**37**
Maturity exceeding 1 year	4 500	4 910	41	4 951	-	37
Italy	**1 858 550**	**1 887 034**	**1 543**	**1 888 577**	**-**	**(13 363)**
Maturity up to 1 year	645 000	645 497	-	645 497	-	485
Maturity exceeding 1 year	1 213 550	1 241 537	1 543	1 243 080	-	(13 848)
	6 199 196	**6 387 205**	**42 002**	**6 429 207**	**-**	**18 287**
Financial assets at fair value						
Portugal	42 263	44 693	651	45 344	-	-
Spain	934	1 072	1	1 073	-	-
Italy	21 138	23 161	123	23 284	-	-
	64 335	**68 926**	**775**	**69 701**	**-**	**-**

(in thousands of Euros)

	31.12.2015					
	Nominal Amount	Market quotation	Accrued interest	Carrying book 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 up to 1 year	-	-	-	-	-	-
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**	**-**	**-**

Liquidity risk

Liquidity risk derives from the potential inability, current or future, of an institution satisfying its commitments as they mature, without incurring excessive losses.

Liquidity risk can be divided into two types:

- Market liquidity risk – the impossibility of selling an asset due to lack of liquidity in the market, leading to the widening of the bid / offer spread or the application of a haircut to its market value;
- Funding liquidity risk – the impossibility to obtain market funding to finance assets and / or refinance debt coming to maturity in the desired currency. This can lead to a sharp increase in funding costs or to the requirement of collaterals to obtain funding. Difficulties in (re)financing may lead to the sale of assets, 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 2016, the value of the asset portfolio eligible as collateral for rediscounting operations with the ECB amounted to Euros 13.1 thousand million (31 December 2015: Euros 12.7 thousand million) This amount includes all the exposure to Portuguese sovereign debt, in the amount of approximately Euros 2.2 thousand million (of which Euros 0.5 thousand million with a maturity under 1 year). It should be noted that these amounts do not include GNB Vida.

At NB Group liquidity is managed in a centralised manner, at the Head Office, for the prudential consolidation perimeter. In order to evaluate the global liquidity risk exposure, reports are prepared which allow not only the identification of negative mismatches, but also lead to a dynamic hedging of the situations.

(in millions of Euros)

	31.12.2016						
	Eligible amounts	Up to 7 days	7 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	More than 1 year
ASSETS							
Cash	242	242	-	-	-	-	-
Deposits with and loans and advances to banks and Central Banks	2 434	1 616	31	1	102	1	683
Loans and advances to customers **(1)**	25 083	231	298	431	515	759	22 850
Securities **(2)**	16 366	57	129	885	316	1 694	13 286
Other net assets	739	76	-	-	5	7	651
Off-balance sheet (Commitments and Derivatives) **(4)**	143	4	14	22	42	61	-
Total		**2 226**	**472**	**1 339**	**980**	**2 522**	**37 470**
LIABILITIES							
Deposits from banks, Central Banks and Other loans	10 203	877	488	781	664	139	7 254
Due to customers	26 418	553	111	137	358	148	25 112
Debt securities issued **(3)**	3 895	100	40	183	22	-	3 550
Other short-term liabilities	920	714	3	2	2	-	199
Off-balance sheet (Commitments and Derivatives) **(4)**	1 605	60	48	42	94	102	1 259
Total		**2 304**	**690**	**1 145**	**1 140**	**389**	**37 374**
GAP (Assets - Liabilities)		**(80)**	**(218)**	**194**	**(159)**	**2 132**	
Accumulated GAP		**(80)**	**(298)**	**(103)**	**(262)**	**1 870**	
Net Assets Buffer > 12 months							**3 151**

(1) This caption does not include the loans that can be used for obtaining liquidity from the ECB
(2) This caption includes the securities and loans that can be used for obtaining liquidity from the ECB. The securities that can be used for ECB purposes are net of haircuts
(3) The amounts are stated at the nominal amount up to one year and at the carrying book amount for longer periods
(4) The derivatives are considered at their Cash Flows for linear products and at NPV for non-linear products

(in millions of Euros)

	31.12.2015						
	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	2 535	918	30	8	410	8	1 162
Loans and advances to customers **(1)**	27 842	325	368	829	787	1 089	24 445
Securities **(2)**	16 962	59	151	521	648	2 072	13 511
Other net assets	977	11	-	64	18	27	858
Off-balance sheet (Commitments and Derivatives) **(4)**	187	5	34	20	65	64	-
Total		**1 586**	**583**	**1 442**	**1 928**	**3 260**	**39 976**
LIABILITIES							
Deposits from banks, Central Banks and Other loans	11 781	4 054	1 023	3 029	13	442	3 219
Due to customers	27 815	751	228	273	248	299	26 017
Debt securities issued **(3)**	4 095	-	-	319	76	5	3 694
Other short-term liabilities	1 101	821	2	14	27	41	197
Off-balance sheet (Commitments and Derivatives) **(4)**	1 523	60	32	68	89	112	1 161
Total		**5 686**	**1 285**	**3 703**	**453**	**899**	**34 288**
GAP (Assets - Liabilities)		**(4 100)**	**(702)**	**(2 261)**	**1 474**	**2 362**	
Accumulated GAP		**(4 100)**	**(4 802)**	**(7 063)**	**(5 589)**	**(3 227)**	
Net Assets Buffer > 12 months							**7 105**

(1) This caption does not include the loans that can be used for obtaining liquidity from the ECB
(2) This caption includes the securities and loans that can be used for obtaining liquidity from the ECB. The securities that can be used for ECB purposes are net of haircuts
(3) The amounts are stated at the nominal amount up to one year and at the carrying book amount for longer periods
(4) The derivatives are considered at their Cash Flows for linear products and at NPV for non-linear products

The one-year cumulative liquidity gap moved from Euros - 3 227 million on 31 December 2015 to Euros 1 870 million on 31 December 2016, with the net assets buffer over 12 months amounting to Euros 3 151 million (31 December 2015: Euros 7 105 million). It should be noted that these amounts do not include GNB Vida.

In order to try to anticipate possible constraints, internal stress scenarios in terms of liquidity are carried out, which are representative of the types of crises that can occur, based on idiosyncratic scenarios (characterised by a loss of confidence in the Bank, and that can also include a rating downgrade) and market scenarios (similar to those experienced during the 2011 sovereign crisis).

The Group continues to follow all legislative changes in order to comply with regulatory obligations, namely in relation to the liquidity ratios of Basel III – LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio). The LCR aims to promote the resilience of banks to short-term liquidity risk by ensuring that these hold liquid assets of a high quality, in sufficient value to survive a severe stress scenario over a period of 30 days, whilst the NSFR aims to ensure that banks maintain a stable funding for their off-balance sheet assets and operations, for a period of one year. These ratios were adopted by the European Union, and the LCR has a limit of 80% since 1 January 2017, with this figure having to converge during the year to comply with a 100% limit as from 1 January 2018.

The information on encumbered and unencumbered assets, as defined by Instruction no. 28/2014 of Banco de Portugal (it is to be noted that this information is prepared from a prudential perspective, which consolidation perimeter differs from that of the consolidation perimeter subjacent to the financial statements presented) is as follows:

(in thousands of Euros)

Assets	31.12.2016			
	Carrying book value of encumbered assets	Fair value of encumbered assets	Carrying book value of unencumbered assets	Fair value of unencumbered assets
Assets of the institution	**14 224 902**	**n/a**	**33 573 127**	**n/a**
Equity instruments	-	-	2 915 380	2 915 380
Debt securities	1 827 010	1 827 010	3 821 236	3 821 236
Other assets	12 397 892	n/a	26 836 511	n/a

(in thousands of Euros)

Assets	31.12.2015			
	Carrying book value of encumbered assets	Fair value of encumbered assets	Carrying book value of unencumbered assets	Fair value of unencumbered assets
Assets of the institution	**13 735 540**	**n/a**	**38 586 688**	**n/a**
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	n/a	32 368 656	n/a

(in thousands of Euros)

Collateral received	31.12.2016		31.12.2015	
	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	**26 572**	**-**	**24 488**	**-**
Equity instruments	-	-	-	-
Debt securities	26 572	-	24 488	-
Other collateral received	-	-	-	-
Own debt securities issued other than own covered bonds or ABS	**385 000**	**-**	**515 300**	**-**

(in thousands of Euros)

Encumbered assets, encumbered collateral received and associated liabilities	31.12.2016		31.12.2015	
	Associated liabilities, contingent liabilities and securities loaned	Assets, collateral received and own debt securities issued other than encumbered own covered bonds or ABS	Associated liabilities, contingent liabilities and securities loaned	Assets, collateral received and own debt securities issued other than encumbered own covered bonds or ABS
Carrying book value of the selected financial liabilities	9 820 310	14 636 474	11 196 259	14 275 329

The encumbered assets are represented mainly by loans and securities used in financing operations with the ECB, in repo operations, in covered bond issues and in securitisations. There are also assets given as collateral to cover the Bank's counterparty risk in derivative transactions.

Operational risk

Operational Risk reflects, typically, the probability of the occurrence of events with negative impacts, on results or equity, resulting from inadequacies or weaknesses in procedures, information systems, staff 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, a system was developed 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 policy underwriting, the fact that it is not possible to estimate with certainty the effective real cost of future claims as well as the moment in which they will occur. This risk may be broken down into longevity risk, mortality risk, disability risk and risk of discontinuity and expense risk.

Insurance specific risk is managed through a combination of underwriting, pricing, technical reserves and reinsurance policies.

<u>Underwriting</u>

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 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 Management responsible for the day-to-day, 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 following Departments: Management Control, Risk and Compliance, Technical, Investment and 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.

Technical Reserves

In general, GNB Vida’s policy for reserves is prudential and relies on recognised actuarial methods to comply with the legislation in force. 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 records reserves in the respective liability captions against future claims and segregates assets to represent these reserves. This requires the preparation of estimates and the use of assumptions that may affect the 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 technical reserves process or additional management and litigation expenses 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 realised, in progress or pending, as well as monitor the compliance with deadlines and claims with 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 table below shows the sensitivity analyses (net of tax) in the Market Consistent Embedded Value of the Bank, which includes the Equity and future income associated with the existing contracts (amounts in Euros):

(Euros)

	2016	2015
10% increase in expenses	(4 056 515)	(2 961 256)
10% increase in redemptions	5 455 831	3 982 756
10% decrease in redemptions	(5 514 844)	(4 025 836)
5% increase in the mortality rate (life except annuities)	351 477	256 578
5% decrease in the mortality rate (life except annuities)	(374 501)	(273 385)

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.

Risk of discontinuity

The risk of discontinuity relates to the risk of non-payment of premiums and cancellation of policies. The redemption and cancellation rates are monitored regularly in order to assess their impact on GNB Vida's portfolio. The portfolio's sensitivity to this risk is analysed using realistic cash flow projections – Market Consistent Embedded Value Model.

The main assumptions used, by type of contract, as at 31 December 2016, 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%
From September 2006 to December 2015	GKF - 3 years	2%
After January 2016	GKF - 3 years	0%
Other insurance		
Insurance in case of death		
Up to December 2004	GKM 80	4%
After 1 January 2005	GKM 80	0% to 2%
Mixed insurance		
Up to September 1998	GKM 80	4%
After 1 October 1998	GKM 80	3%

(*) In the year 2016, the technical rate was 1% for products with participating features and 1.15% 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 2016 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 comply with. The Group, during financial years 2016 and 2015, complied with all the capital requirements imposed by the ECB.

The Group is authorised to apply the approach based on the use of internal models for credit risk (Internal Ratings-Based Approach (IRB)) and the standardised method (The Standardised Approach "TSA") for operational risk. Specifically, the IRB method for the calculation of the credit risk-weighted assets can be applied to the exposure risk classes of institutions, corporate and retail of both NOVO BANCO Portugal and NOVO BANCO 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. 575/2013 that regulate, in the European Union, the access to the credit institution and investment company activity and determine the prudential requirements to be observed by those same entities as from 1 January 2014. This legislation transposes into the European legal order the recommendations of the Basel Committee, normally designated Basel III.

Regulation (EU) no. 2016/445 regulates the transitory regime foreseen in Regulation (EU) no. 575/2013 regarding own funds.

The capital adequacy calculations of NOVO BANCO Group as at 31 December 2016 and 2015, based on information available, the European Regulatory Framework in force and considering the transitory period foreseen in the Regulation referred to above, may be presented as follows:

(in millions of Euros)

		31.12.2016	31.12.2015
Realised ordinary capital		4 900	4 900
Reserves and Retained earnings		1 289	2 293
Net income / (loss) for the period		(837)	(1 004)
Revaluation reserves		(275)	(197)
Non-controlling interests		55	(3)
A - Accounting Equity		**5 132**	**5 989**
Revaluation reserves		(49)	(79)
Non-controlling interests		(24)	8
B - Prudential adjustments to Equity		**(73)**	**(71)**
Goodwill and other intangibles		(62)	(293)
Deferred taxes		(796)	(473)
Shareholdings in financial companies		(146)	(49)
Other		(4)	39
C - Prudential deductions		**(1 008)**	**(776)**
D - Common Equity Tier I (A+B+C)		**4 051**	**5 142**
Eligible instruments for Tier I		2	-
Deductions from Tier I		(2)	-
E - Tier I		**4 051**	**5 142**
Eligible instruments for Tier II		127	108
Deductions from Tier II		(127)	(108)
F - Tier II		**-**	**-**
G - Eligible Own Funds		**4 051**	**5 142**
H - Risk Weighted Assets		**33 627**	**38 168**
Prudential ratios			
Common Equity Tier I	**(D / H)**	**12.0%**	**13.5%**
Tier I	**(E / H)**	**12.0%**	**13.5%**
Solvency	**(G / H)**	**12.0%**	**13.5%**

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.

A number of assignments operations of financial assets (namely loans and advances to customers) were made to the latter entities (subsidiaries of the parent companies). These entities are responsible for managing the assets received as collateral and, after the assignment of the loans and advances to customers, for implementing a plan to increase their value. Almost all of the financial assets assigned under these operations were derecognised from the balance sheet of the Group, since a substantial portion of the risks and rewards associated with these, as well as the respective control, were transferred to those third parties.

These acquiring entities have a specific management structure, fully autonomous from the banks, appointed on the date of their incorporation and have the following main responsibilities:

- to define the entity’s purpose;
- to administer and manage, exclusively and independently, the assets acquired, to define the objectives and investment policy as well as the management and affairs of the entity.

The acquiring entities are predominantly financed through the issuance of senior equity instruments, fully subscribed by the parent companies. The amount of capital represented by senior securities equals the fair value of the underlying asset, determined through a negotiation process based on valuations made by both parties. These securities are remunerated at an interest rate that reflects the risk of the company holding the assets. Additionally, the funding can be supplemented through bank underwriting of junior capital instruments in an amount equal to the difference between the carrying book value of the assets transferred and the fair value subjacent to the senior securities' valuation. These junior capital instruments, when subscribed by the Group, will give rise to a contingent positive amount, if the value of the assets assigned exceeds the value of the senior securities plus their remuneration, and are normally limited to a maximum of 25% of the aggregate amount of the senior and junior securities issued.

Given that these junior securities reflect a differential assessment (gap) of the fair value of the assets assigned, based on a valuation performed by independent bodies and a negotiation process between the parties, they are fully provided for in the Group's balance sheet.

Therefore, following the asset assignment operations, the Group subscribed:

- equity instruments, representing the parent companies' share capital, which recovery will be through the cash flows expected to be generated by the wide range of assets assigned by the various banks. These securities are recorded in the Available-for-sale financial assets portfolio and are measured at market value, with valuations being regularly disclosed by said companies, whose accounts are audited at the end of each year;
- 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 derecognition 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								
	Amounts of the assets transferred			Securities subscribed					
	Net assets transferred	Transfer amount	Result of the transfer	Shares (Senior securities)	Junior securities	Total	Impairment	Carrying book value
At 31 December 2012								
Fundo Recuperação Turismo, FCR	282 121	282 121	-	256 892	34 906	291 798	(34 906)	256 892
FLIT SICAV	252 866	254 547	1 682	235 318	23 247	258 565	(23 247)	235 318
Discovery Portugal Real Estate Fund	96 196	93 208	(2 988)	96 733	-	96 733	-	96 733
Fundo Vallis Construction Sector	66 272	66 272	-	81 002	21 992	102 994	(21 992)	81 002
Fundo Recuperação, FCR	145 564	149 883	4 319	148 787	36 182	184 969	(23 000)	161 969
At 31 December 2013								
Fundo Vallis Construction Sector	18 552	18 552	-	1 606	2 874	4 480	(2 874)	1 606
FLIT SICAV	80 769	80 135	(634)	85 360	-	85 360	-	85 360
Discovery Portugal Real Estate Fund	51 809	45 387	(6 422)	51 955	-	51 955	-	51 955
Fundo Recuperação Turismo, FCR	11 066	11 066	-	-	-	-	-	-
Fundo Recuperação, FCR	52 983	52 963	(20)	726	-	726	-	726
Fundo Reestruturação Empresarial	67 836	67 836	-	99 403	-	99 403	-	99 403
At 31 December 2014								
Discovery Portugal Real Estate Fund	73 802	74 240	438	58 238	-	58 238	-	58 238
Fundo Vallis Construction Sector	-	-	-	1 289	314	1 603	(314)	1 289
Fundo Recuperação, FCR	-	-	-	14 565	-	14 565	-	14 565
Fundo Reestruturação Empresarial	5 389	5 389	-	4 078	-	4 078	-	4 078
Fundo Aquarius	108 517	108 481	(36)	104 339	-	104 339	-	104 339
FLIT SICAV	-	-	-	1 500	-	1 500	-	1 500
At 31 December 2015								
Fundo Aquarius	24 883	24 753	(130)	30 406	-	30 406	-	30 406
Fundo Recuperação, FCR	1 471	1 471	-	-	-	-	-	-
Discovery Portugal Real Estate Fund	5 348	5 774	427	4 855	-	4 855	-	4 855
At 31 December 2016								
Fundo Aquarius	710	602	(108)	600	-	600	-	600
Fundo Vallis Construction Sector	14 156	14 156	-	14 453	-	14 453	-	14 453
	1 360 311	**1 356 837**	**(3 472)**	**1 292 105**	**119 515**	**1 411 620**	**(106 333)**	**1 305 287**

As at 31 December 2016, the Group's total exposure to securities associated with operations relating to the assignment of loans and advances to customers amounts to Euros 1 405.4 million (31 December 2015: Euros 1 375.9 million).

The Group maintains an indirect exposure to the assets ceded, considering its minority participation in the pool of assets ceded by other financial institutions, due to the minority participation subscribed in the parent companies. There was, however, an operation with the company FLITPTREL VIII in respect of which, as the acquiring company substantially holds assets transferred by the Group and taking into consideration the junior securities held, the variability test resulted in a substantial exposure to all the risks and rewards. Under this circumstance, the operation amounting to Euros 60 million remains recognised in the Group's balance sheet under Loans and advances to customers.

NOTE 53 – NON-CURRENT ASSETS HELD FOR SALE - DISCONTINUED UNITS

The breakdown of Non-current assets and liabilities held for sale – discontinued units as at 31 December 2016 and 2015 is as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Assets of discontinued units		
Banco Internacional de Cabo Verde	32 553	40 327
BES Vénétie	1 130 161	-
NB Ásia	51 365	-
Quinta dos Cónegos	3 115	-
OBLOG	177	-
	1 217 371	**40 327**
Liabilities of discontinued units		
Banco Internacional de Cabo Verde	83 669	92 893
BES Vénétie	599 040	-
NB Ásia	61 641	-
Quinta dos Cónegos	-	-
OBLOG	4 457	-
	748 807	**92 893**

The net profits / (losses) from the discontinued units for the financial years ended on 31 December 2016 and 2015 are as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Profit / (loss) generated by discontinued units		
Banco Internacional de Cabo Verde	-	(1 014)
BESI	-	22 803
BES Vénétie	1 168	-
NB Ásia	104	-
Quinta dos Cónegos	11	-
OBLOG	(626)	-
Ventures II [a)]	4 344	-
Ventures III [a)]	(7 547)	-
ES Ventures SCR [a)]	(3 135)	-
Fundo Inovação e Internacionalização [a)]	(4 746)	-
	(10 427)	**21 789**

a) Subsidiaries classified to Non-current assets held for sale - discontinued units during 2016 and sold in the same financial year

According to IFRS 5 - Non-current assets held for sale and discontinued units, BICV ceased to be consolidated under the full consolidation method as from December 2015, BES Vénétie, NB Ásia and Quinta dos Cónegos as from the first quarter of 2016, being presented instead in the financial statements as a discontinued unit. As from that date the Group shall, based on the provisions of IFRS 5, measure these discontinued assets at the lower of two values: carrying book value or fair value less selling costs.

With the start of the OBLOG liquidation process during the first half-year of 2016, this subsidiary came to be consolidated as a discontinued unit.

Still during 2016, the Group transferred to Non-current assets and liabilities held for sale – discontinued units the subsidiaries ES Ventures SCR, Fundo Inovação e Internacionalização, FCR Ventures II and FCR Ventures III, and, in November 2016, finalised the sale of these units, recording a capital loss of Euros 5.9 million.

For purposes of the consolidation of the assets and liabilities of discontinued units, the respective balance sheet transactions with Group entities are eliminated.

The financial statements as at 31 December 2016 and 2015 for each of these units are presented below.

BALANCE SHEET AS AT 31 DECEMBER 2016 AND 2015

(in thousands of Euros)

	BICV		BES VÉNÉTIE		NB ÁSIA		QUINTA DOS CÓNEGOS		OBLOG	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Assets										
Cash and deposits with Central Banks	9 175	7 677	3 361	30 666	1 681	1 252	-	-	-	-
Deposits with banks	1 324	7 991	32 591	16 524	2 288	31 467	-	-	1 132	1 282
Financial assets held for trading	-	-	19	18	-	-	-	-	-	-
Available-for-sale financial assets	1 985	1 985	39 920	40 215	2 311	5 764	-	-	-	-
Loans and advances to banks	63 576	63 777	1 278	2 556	76 687	16 111	-	-	-	-
Loans and advances to customers	18 247	21 555	1 017 269	1 227 749	24 752	62 646	-	-	-	-
Non-current assets held for sale	520	-	11 518	1 140	-	-	-	-	-	-
Other tangible assets	1 873	2 090	7 580	7 952	874	1 123	3 089	3 130	2	19
Intangible assets	771	990	2 137	2 196	2 282	2 521	-	-	-	1
Investments in associated companies	-	-		1 300	-	-	-	-	-	-
Current tax assets	123	-		-	-	-	-	-	2	86
Deferred tax assets	-	-	5 918	5 752	-	-	-	-	-	-
Other assets	21	1 801	9 214	9 288	554	305	26	33	211	797
Total Assets	**97 615**	**107 866**	**1 130 805**	**1 345 356**	**111 429**	**121 189**	**3 115**	**3 163**	**1 347**	**2 185**
Liabilities										
Deposits from Central Banks	51	49	92 000	147 000	-	-	-	-	-	-
Financial liabilities held for trading	2	-	288	484	-	2	-	-	-	-
Deposits from banks	1	5	456 186	607 272	4 283	19 651	-	-	-	-
Due to customers	83 057	92 747	336 091	351 613	61 084	46 191	-	-	-	-
Provisions	446	-	3 908	3 605	-	-	-	-	-	-
Current tax liabilities	-	-	467	459	38	112	-	-	12	-
Subordinated debt	-	-	42 728	43 742	-	-	-	-	-	-
Other liabilities	112	92	25 681	18 911	529	10 907	1 002	1 064	8 395	8 306
Total Liabilities	**83 669**	**92 893**	**957 349**	**1 173 086**	**65 934**	**76 863**	**1 002**	**1 064**	**8 407**	**8 306**
Equity										
Share capital	12 996	12 996	75 117	75 117	23 752	23 013	3 700	3 700	1 500	1 500
Share premiums	-	-	27 014	27 014	-	-	-	-	-	-
Reserves, Retained earnings and Other comprehensive income	2 035	2 012	67 442	64 811	21 639	20 840	(1 628)	(1 652)	(7 621)	(7 582)
Profit / (loss) for the period	(1 085)	(35)	1 183	2 780	104	473	41	51	(939)	(39)
Total Equity attributable to the shareholders of the Bank	**13 946**	**14 973**	**170 756**	**169 722**	**45 495**	**44 326**	**2 113**	**2 099**	**(7 060)**	**(6 121)**
Non-controlling interests	-	-	2 700	2 548	-	-	-	-	-	-
Total Equity	**13 946**	**14 973**	**173 456**	**172 270**	**45 495**	**44 326**	**2 113**	**2 099**	**(7 060)**	**(6 121)**
Total Equity and Liabilities	**97 615**	**107 866**	**1 130 805**	**1 345 356**	**111 429**	**121 189**	**3 115**	**3 163**	**1 347**	**2 185**

INCOME STATEMENT
FOR THE YEAR ENDED ON 31 DECEMBER 2016

(in thousands of Euros)

	31.12.2016				
	BICV	**BES VÉNÉTIE**	**NB ÁSIA**	**QUINTA DOS CÓNEGOS**	**OBLOG**
Interest and similar income	1 676	38 026	3 713	-	1
Interest expense and similar charges	(183)	(17 117)	(952)	(34)	(13)
Net interest income	**1 493**	**20 909**	**2 761**	**(34)**	**(12)**
Dividend income	-	7	-	-	-
Fee and commission income	365	16 604	752	-	-
Fee and commission expenses	(18)	(2 089)	(62)	-	-
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	-	(810)	(225)	-	-
Net gains / (losses) from available-for-sale financial assets	-	322	437	-	-
Net gains / (losses) from foreign exchange revaluation	18	347	25	-	-
Net gains / (losses) from the sale of other assets	-	(6 167)	-	-	1
Other operating income and expenses	(392)	497	230	421	1 758
Operating income	**1 466**	**29 620**	**3 918**	**387**	**1 747**
Staff costs	(895)	(17 090)	(1 772)	(103)	(1 574)
General and administrative expenses	(668)	(8 923)	(1 331)	(180)	(1 074)
Depreciation and amortisation	(453)	(657)	(564)	(56)	(14)
Provisions, net of reversals	(446)	736	-	-	-
Impairment of loans and advances, net of reversals and recoveries	(89)	(4 103)	(137)	-	-
Impairment of other financial assets, net of reversals and recoveries	-	2 448	-	(7)	-
Impairment of other assets, net of reversals and recoveries	-	-	-	-	(11)
Operating expenses	**(2 551)**	**(27 589)**	**(3 804)**	**(346)**	**(2 673)**
Results from associated companies	-	3	-	-	-
Profit / (loss) before income tax	**(1 085)**	**2 034**	**114**	**41**	**(926)**
Corporate income tax					
Current	-	(787)	(10)	-	(13)
Deferred	-	88	-	-	-
	-	**(699)**	**(10)**	**-**	**(13)**
Net profit / (loss) for the period	**(1 085)**	**1 335**	**104**	**41**	**(939)**
Attributable to the shareholders of the Bank	**(1 085)**	**1 183**	**104**	**41**	**(939)**
Attributable to non-controlling interests	**-**	**152**	**-**	**-**	**-**
	(1 085)	**1 335**	**104**	**41**	**(939)**

CASH FLOW STATEMENT
FOR THE YEAR ENDED ON 31 DECEMBER 2016

(in thousands of Euros)

	31.12.2016			
	BICV	**BES VÉNÉTIE**	**QUINTA DOS CÓNEGOS**	**OBLOG**
Cash flows from operating activities				
Interest and similar income received	1 996	39 747	-	-
Interest expense and similar charges paid	(202)	(14 501)	(34)	-
Fees and commission received	-	10 172	-	2 735
Fees and commission paid	-	(937)	-	-
Cash payments to staff and suppliers	(1 629)	(23 975)	(283)	(2 948)
	165	**10 506**	**(317)**	**(213)**
Changes in operating assets and liabilities:				
Deposits with Central Banks	-	(55 000)	-	-
Deposits from Central Banks	(1)	-	-	-
Acquisition of available-for-sale financial assets	-	(9 078)	-	-
Loans and advances to banks	-	1 278	-	-
Deposits from banks	-	(152 441)	-	-
Loans and advances to customers	2 855	211 099	-	-
Due to customers and other loans	(9 682)	(15 520)	-	-
Other operating assets and liabilities	1 320	36	317	(30)
Net cash from operating activities before income tax	**(5 343)**	**(9 120)**	**-**	**(243)**
Corporate Income taxes paid	(31)	(787)	-	86
	(5 374)	**(9 907)**	**-**	**(157)**
Cash flows from investing activities				
Acquisition of fixed assets	(17)	-	-	-
Disposal of fixed assets	-	53	-	5
	(17)	**53**	**-**	**5**
Cash flows from financing activities				
Issues of bonds and other debt securities	-	(1 014)	-	-
Cash flows from financing activities	**-**	**(1 014)**	**-**	**-**
Effect of exchange rate changes in cash and cash equivalents	18	-	-	-
Net changes in cash and cash equivalents	**(5 373)**	**(10 868)**	**-**	**(152)**
Cash and cash equivalents at the beginning of the period	79 448	45 204	-	1 284
Cash and cash equivalents at the end of the period	74 075	34 336	-	1 132
	(5 373)	**(10 868)**	**-**	**(152)**
Cash and cash equivalents include:				
Cash	719	181	-	-
Deposits with banks	73 356	34 155	-	-
Total	**74 075**	**34 336**	**-**	**-**

CASH FLOW STATEMENT
FOR THE YEAR ENDED ON 31 DECEMBER 2016

(in thousands of Euros)

	31.12.2016
	NB Ásia (*)
Operating activities	
Net profit / (loss) before tax	123
Adjustments for:	
Depreciation and amortisation	590
Amortisation of securities' premiums	(19)
Reinforcement of provisions for loans and advances to customers	(138)
Net profit / (loss) on the sale of shares and bonds	(439)
Net profit / (loss) on foreign currency differences	9
(Increase) / Decrease in operating assets	
Change in loans and advances to customers	35 444
Change in loans and advances in banks abroad with maturities exceeding three months	(20 358)
Change in accrued interest and other assets	(238)
(Increase) / Decrease in operating liabilities	
Change in demand deposits	(7 321)
Change in term deposits	(6 029)
Change in deposits from banks	-
Change in other liabilities	139
Change in other accounts payable	30
Net cash flow from operations	**1 793**
Taxes Paid	(62)
Net cash flows from operating activities	**1 731**
Investing activities	
Sale of equipment and other tangible assets	(67)
Sale of shares and bonds	3 794
Net cash flows from investing activities	3 728
Net changes in cash and cash equivalents	**5 459**
Cash and cash equivalents at the beginning of the period	33 883
Cash and cash equivalents at the end of the period	39 342
	5 459
Cash and cash equivalents include:	
Cash	14
Deposits and balances with the AMCM with original maturity	1 667
Demand deposits with local banks	477
Demand deposits with foreign banks	1 757
Loans and advances to foreign banks	35 427
	39 342

(*) NB Ásia prepares the cash flow statement using the indirect method

NOTE 54 – RECENTLY ISSUED ACCOUNTING STANDARDS AND INTERPRETATIONS

The standards presented below became effective as at 1 January 2016. None of the standards had a relevant material impact on the Group's accounts and, whenever applicable, these were incorporated in the Group's accounts as at 31 December 2016:

IAS 1 (amendment), 'Revision of disclosures'. 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.

IAS 16 and IAS 38 (amendment), ‘Accepted methods of calculating amortisation and depreciation’. 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.

IAS 19 (amendment), ‘Defined benefit plans- Contributions of employees’. The amendment to IAS 19 applies to contributions from employees or third parties to defined benefit plans, and aims to simplify their accounting, when the contributions are not associated with the number of years of service.

IAS 27 (amendment), ‘Equity method in separate financial statements’. 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.

Amendments to IFRS 10, 12 and IAS 28, ‘Investment entities: application of the exemption to the obligation to consolidate’. 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.

IFRS 11 (amendment), 'Accounting for the acquisition of interests in a joint venture'. This amendment introduces guidance on accounting for the acquisition of interests in a joint venture that qualifies as a business, and the principles of IFRS 3 - Business combinations, are applicable

Improvements to standards 2010 - 2012. This cycle of improvements affects the following standards: IFRS 3, IFRS 8, IFRS 13, IAS 16 and 38 and IAS 24:

Improvements to standards 2012 - 2014. This cycle of improvements affects the following standards: IFRS 5, IFRS 7, IAS 19 and IAS 34:

The standards presented below have already been published, endorsed by the European Union and their application is mandatory for annual periods starting on or after 1 January 2017. However, none of the standards presented below was early adopted by the Group:

IFRS 9 (new) ‘Financial instruments’ (to be applied as from the annual periods beginning on or after 1 January 2018). IFRS 9 replaces the requirements of IAS 39 in respect of: (i) the classification and measurement of financial assets and liabilities; (Ii) the recognition of impairment of receivables (through the expected loss model); and (iii) the requirements for the recognition and classification of hedge accounting.

IFRS 15 (new) ‘Revenue from contracts with customers’ (to be applied as from the annual periods beginning on or after 1 January 2018). This new standard applies only to contracts for the delivery of products or services, and requires an entity to recognise revenue when the contractual obligation to deliver assets or services is satisfied and in the amount that reflects the consideration to which the entity has the right, as provided for in the “5 steps methodology".

The standards and interpretations already published that are presented below, are mandatory for annual periods beginning on or after 1 January 2017; however, the European Union has not yet endorsed same. Materially relevant impacts are not expected as a result of the future adoption of these standards and interpretations:

IAS 7 (amendment), ‘Revision of disclosures’ (to be applied as from the annual periods beginning on or after 1 January 2017). This standard is still subject to endorsement by the European Union. This amendment introduces an additional disclosure about variations in financing liabilities, broken down between the transactions that gave rise to cash movements and those that did not, and how this information reconciles with the cash flows from financing activities in the Statement of Cash Flows.

IAS 12 (amendment), ‘Income tax – Recognition of deferred tax assets on potential losses’ (to be applied as from the annual periods beginning on or after 1 January 2017). This standard is still subject to endorsement by the European Union. This amendment clarifies how to account for deferred tax assets related to assets measured at fair value, how to estimate future taxable profits when there are deductible timing differences and how to evaluate the recoverability of deferred tax assets when there are restrictions in the tax legislation.

IAS 40 (amendment) 'Transfer of investment properties' (to be applied as from the annual periods beginning on or after 1 January 2018). This amendment is still subject to endorsement by the European Union. This amendment clarifies that assets can only be transferred to and from the investment property category when there is evidence of change in use. The change of management’s intention alone is not sufficient to effect the transfer.

IFRS 4 (amendment), 'Insurance contracts (application of IFRS 4 with IFRS 9)' (to be applied as from annual periods beginning on or after 1 January 2018). This amendment is still subject to endorsement by the European Union. This amendment gives the entities that negotiate insurance contracts the option to recognise in Other comprehensive income, instead of recognising in the Income statement, the volatility that may result from the application of IFRS 9 before the new insurance contract standard is published. In addition, a temporary exemption is granted in respect of the application of IFRS 9 until 2021 to entities which predominant activity is that of being an insurer. This exemption is optional and does not apply to consolidated financial statements that include an insurer entity.

IFRS 15 (amendment), 'Revenue from contracts with customers' (to be applied as from the annual periods beginning on or after 1 January 2018). This amendment is still subject to endorsement by the European Union. These changes refer to the additional steps to be follow to determine the performance obligations of a contract, at the time of the revenue recognition of an intellectual property license, the review of the indicators for the classification of the principal versus agent relationship, and the new regimes foreseen to simplify the transition.

IFRS 16 (new) ‘Leases’ (to be applied as from the annual periods beginning on or after 1 January 2019). This standard is still subject to endorsement by the European Union. This new standard replaces IAS 17, with a significant impact on the accounting by lessees that are now obliged to recognise future lease liabilities reflecting lease payments and an asset for "right of use" for all leases, except certain short-term and low-value asset leases. The definition of a lease was also changed, being now based on the "right to control the use of an identified asset".

Improvements to standards 2014 – 2016, (to be applied, in general, for periods beginning on or after 1 January 2017). This cycle of improvements is still subject to endorsement by the European Union. This cycle of improvements affects the following standards: IFRS 1, IFRS 12 and IAS 28.

IFRIC 22 (new), 'Foreign currency operations and advance consideration' (to be applied as from annual periods beginning on or after 1 January 2018). This interpretation is still subject to endorsement by the European Union. This is an interpretation of IAS 21 'The effects of changes in exchange rates' and refers to the determination of the “transaction date” when an entity pays or receives in advance the consideration of contracts denominated in foreign currency. The "transaction date" determines the exchange rate to be used to convert the transactions into foreign currency.

International Financial Reporting Standard 9 – Financial Instruments

New requirements

On July 24, 2014, in response to the challenge posed by the G20 following the global financial crisis, the International Accounting Standards Board (IASB) issued the final version of IFRS 9 - Financial Instruments. This new standard applies to annual periods beginning on or after January 1, 2018 which, with its endorsement by the European Union, will replace IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 incorporates significant changes to IAS 39 essentially at three levels: (i) new rules for the classification, recognition and measurement of financial assets in accordance with the business model of the Bank and the characteristics of the contractual cash flows of these assets; (ii) new concepts in the methodology and measurement of impairment of financial assets, calculated on an expected loss basis ("ECL" – Expected Credit Loss); and (iii) new hedge accounting requirements more aligned with the entities' risk management practices. The Group continues to assess the impact that IFRS 9 will have on its consolidated financial statements. To the extent that there is no reliable and robust estimate of the potential effect of IFRS 9 and the fact that this estimate can be materially changed until its adoption, reflecting changes in the composition of the portfolios and/or different economic conditions, the Group will disclose the Impact of IFRS 9 as soon as the conditions for this are fulfilled, which will occur, at the limit, when the financial statements for 2017 are published.

a) *Classification and measurement of financial assets*

The criteria for the classification of financial assets will depend both on the business management model and on the characteristics of the contractual cash flows of these assets. Consequently, the asset can be measured at amortized cost, at fair value with changes recognized in equity (revaluation reserves) or in the income statement for the year (results of assets and liabilities at fair value through profit or loss), depending on the business model in which it is inserted and the characteristics of the contractual cash flows. In addition, IFRS 9, in line with IAS 39, also establishes the option to, under certain conditions, designate a financial asset at fair value with changes being recognized in the income statement for the year.

Currently, given that the main activity of the Group focuses on the granting of loans, and to the best of our knowledge at the date, significant changes in the measurement of assets are not expected under IFRS 9 as compared to the IAS 39:

1) The Group's expectation is that most of the loans and balances receivable from banks and customers will continue to be measured at amortized cost;

2) Debt instruments classified as available-for-sale, will generally be measured at fair value with changes recognized in equity (other comprehensive income), some of which may be measured at fair value through profit or loss, depending on the business model to be defined; and

3) Equity instruments will be classified and measured at fair value through profit or loss, unless the Group irrevocably decides, for non-trading assets, to classify these assets at fair value with changes recognized in equity (other comprehensive income). This irrevocable classification will imply that, on the disinvestment/realization of such financial asset, the amounts recognized in equity are not recycled to the income statement for the financial year.

The classification and measurement of financial liabilities under IAS 39 remains substantially the same under IFRS 9. However, it should be noted that, in most situations, changes in the fair value of financial liabilities designated at fair value through profit or loss, arising from the entity's own credit risk, will be recognized in equity (other comprehensive income).

b) *Expected Credit Impairment Loss Model*

The expected credit impairment loss model recommended by IFRS 9 is applicable to all financial assets valued at amortized cost, to financial assets equivalent to debt instruments valued at fair value with changes recognized in equity (other comprehensive income), to receivables from leasing and to financial guarantees and credit commitments not valued at fair value.

The most significant change of this new standard is the introduction of the expected loss concept to the detriment of the incurred loss concept on which the Bank's current impairment model is based to meet the requirements of IAS 39. This conceptual change is introduced together with new classification and measurement requirements of expected credit impairment losses, with financial assets subject to impairment being required to be classified into different stages depending on the evolution of their credit risk as from the date of initial recognition and not in relation to credit risk at the reporting date:

- Stage 1: financial assets are classified in stage 1 whenever there is no significant increase in credit risk as from the date of their initial recognition. For these assets, the expected credit impairment loss resulting from non-performing events during the 12 months subsequent to the reporting date will be recognized in the income statement for the year;
- Stage 2: financial assets for which there has been a significant increase in credit risk as from the date of their initial recognition are classified in stage 2. For these financial assets, expected credit impairment losses are recognized over the assets' lifetime. However, interest will continue to be calculated on the gross amount of the asset; and
- Stage 3: assets classified in this stage present objective evidence of impairment, on the reporting date, as a result of one or more events that have already occurred and that have resulted in a loss. In this case, the expected credit impairment loss for the expected residual life of the financial assets will be recognized in the income statement for the financial year. Interest is calculated on the net book value of the assets.

The significant increase in credit risk shall be determined by analysing the quantitative and/or qualitative internal indicators used by the Bank in the course of the normal management of credit risk, thereby imposing a stronger link between the accounting requirements and the credit risk management policies established by the Bank. It should, however, be noted that IFRS 9 contains the rebuttable presumption that a default occurs when the asset is in arrears over 90 days (stage 3), as well as the rebuttable assumption that there is a significant increase in credit risk in respect of arrears exceeding 30 days (stage 2).

According to this new model recommended by IFRS 9, the measurement of expected losses will also require the inclusion of forward looking information, including future trends and scenarios, namely macroeconomic data. In this context, estimates of expected credit impairment losses will include multiple macroeconomic scenarios which probability will be evaluated considering past events, the current situation and future macroeconomic trends, such as GDP, the unemployment rate, amongst others.

With regard to credit impairment, compared to IAS 39, the Group currently forecasts that the overall amount of these provisions will increase with the initial adoption of IFRS 9, most of which is due to the requirement to (i) initially recognize expected credit losses for 12 months and to (ii) recognize credit losses for remaining life in loans assets that are significantly impaired but not yet in default, particularly in portfolios with greater maturity.

For more material portfolios, the Group expects to adopt credit modelling approaches in the measurement of expected credit losses, leveraging, whenever possible, in the existing models in the Bank. For the remaining portfolios, and depending on the materiality of each portfolio, the Group expects to develop new models or use simplified approaches.

c) *Hedge accounting*

IFRS 9 includes new requirements for hedge accounting that have two main objectives: (i) the simplification of current needs and (ii) the alignment of hedge accounting with entity risk management. The Bank is currently considering the possibility of maintaining the application of IAS 39 until further clarifications on the IASB macro hedge project.

Estimated impacts on equity

IFRS 9 adoption will also have an impact on the Group’s equity, reflecting the fact that up until now, there’s no proposition for any changes on the regulatory framework in response to IFRS 9, as well as the anticipated increase in the provisions losses stock under the new model of expected credit losses, when comparing to the approach used so far of incurred losses mentioned in IAS 39, and consequent equity reduction of the institutions mainly in the moment of transfer to the new accounting references.

Given the limited time until the entry into force of IFRS 9 on January 1, 2018, the Basel Committee has announced that it will maintain the current regulatory treatment of provisions for an interim period. This should result in additional time to review the regulatory treatment of long-term impairment provisions.

The incorporation of IFRS 9 into the internal and external stress-testing processes of the Group is also under evaluation.

Group Implementation Strategy

NOVO BANCO Group defined a global work structure aiming to adapt their internal processes to the constant IFRS 9 normative, making sure that they are both, simultaneously applied, and evenly, between all the Group's subsidiaries, and being adapted to their individual characteristics.

Regarding the governance project of implementing IFRS 9, the Group has created a Committee responsible of seeing this project through, as well as assuring that all areas relevant to this project are involved for its own benefit. This way, the Department of Accounting, Consolidation and Taxation, the Department of Treasury and Finance, the Department of Global Risk, and the Department of Information Systems are involved in this Committee. Whenever is found necessary, other departments from the Bank are involved.

During the year 2016, the Group began the project of the IFRS 9 implementation and did a set of activities, from which stand out the following:

- Preparing a gap assessment for IFRS 9;
- Drawing up a study on the preliminary impacts;
- Preparing implementation roadmaps; and
- Identifying the technical requisites and initial functions.

NOTE 55 – SUBSEQUENT EVENTS

- On 31 March 2017 Banco de Portugal informed the market it had selected LONE STAR to complete the sale of NOVO BANCO and that the Resolution Fund had signed the operation's contract documents. The signature of the contract allowed the deadline for the sale agreed in the commitments assumed by the State before the European Commission to be met. Upon completion of the operation, the transition institutions regime will cease to apply to NOVO BANCO. After the completion of the operation, the regime of transition bank will cease to be applicable. Under the terms of the agreement, LONE STAR will make capital injections in NOVO BANCO for a total amount of €1,000 million, of which €750 million upon conclusion of the transaction and €250 million within three years. Through the capital injection, LONE STAR will hold 75% of the share capital of NOVO BANCO and the Resolution Fund will maintain the remaining 25%. The conditions agreed also include the setting up of a contingent capitalisation mechanism, under which the Resolution Fund, as a shareholder, undertakes to make capital injections in the event of certain cumulative conditions being met, related to: i) the performance of a defined set of assets of NOVO BANCO and ii) the evolution of the Bank's capitalisation levels. Any capital injections to be carried out pursuant to this contingent mechanism benefit from a capital buffer resulting from the injection to be made under the terms of the transaction and are subject to an absolute ceiling. The agreed conditions also provide for the existence of mechanisms to safeguard the interests of the Resolution Fund and to align incentives, as well as supervision mechanisms, notwithstanding the limitations arising from the application of State aid rules. The completion of the sale is subject to the usual regulatory authorizations (including by the European Central Bank and the European Commission) being obtained, as well as to a liability management exercise, which will cover the non-subordinated bonds of NOVO BANCO.

- On April 8, NOVO BANCO informed the market that, following the deliberation of its sole shareholder Fundo de Resolução, it has amended articles 1, 3, 6, 7, 8 to 14, 16, 17 to 23 and added articles 7-A, 7-B, 14-A, 16-A and 24 of its Company bylaws. The announcement highlights that in line with Governance's best practices, it stands out that its management and supervisory structure changes to a Board of Directors (comprising a Chairman, an Executive Committee and an Audit Committee), and a Statutory Auditor.

- On 9 April NOVO BANCO informed the market about the new management and executive committee structure. The management structure is composed by a Board of Directors (comprising a Chairman, Mr. Rui Cartaxo, and an Executive Committee, led by Mr. António Ramalho. The new Executive Committee of seven members was appointed by the Resolution Fund on 21 December 2016 and at the date of this report it has already received the European Central Bank's approval for all its members. On 8 May the Bank was informed about the approval by the European Central Bank for a further member for the Board of Directors, the seventh member of the Executive Committee.

- On 1 May 2017, NOVO BANCO informed the market that it entered into a sale and purchase promissory contract with the BANCAMIGA, Banco Microfinanciero, C.A., of Venezuela, in respect of the assets and liabilities of the NOVO BANCO, S.A., branch in Venezuela. The completion of such promissory contract is conditioned to the fulfillment of certain conditions and obtaining the required authorizations from the relevant authorities, including Banco de Portugal and the Venezuelan financial sector regulatory authority.

- With the verification of the conditions for the completion of the sale operation of .NB Ásia, namely the authorization from Autoridade Monetária de Macau of 28 April 2017, it was concluded by NOVO BANCO the sale of 75% of the share capital of NB Ásia.

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

2. ANNEX

Adoption of the Financial Stability Forum (FSF) and Committee of European Banking Supervisors (CEBS) Recommendations concerning the Transparency of Information and the Valuation of Assets

(Circular Letters no. 97/2008/DSB, of 3 December and no. 58/2009/DSB of 5 August of the Banco de Portugal)

In its Circular Letter no. 58/2009/DSB of 5 August 2009, Banco de Portugal reiterated "the need for institutions to maintain adequate compliance with the recommendations of the Financial Stability Forum (FSF), as well as those issued by the Committee of European Banking Supervisors (CEBS), concerning the transparency of information and the valuation of assets, taking into account the proportionality principle", as set out in Circular Letters no. 46/08/DSBDR of 15 July 2008 and no. 97/08/DSB of 3 December 2008.

Banco de Portugal recommends the inclusion in the reporting documents of a specific chapter or annex exclusively dedicated to the issues dealt with in the FSF and CEBS recommendations.

This appendix aims to ensure compliance with Banco de Portugal's recommendations, including references to where the information provided may be found within the Management Report or in the Notes to the Financial Statements for 2016 and 2015.

I. BUSINESS MODEL

1. Description of the business model

A detailed description of the Group's business model is provided in Item 4 of the Management Report. The performance of the main business areas (operational segments) of the NOVO BANCO Group (the "Group") is also presented in Note 4[1].

2. Strategy and Objectives

The Group's strategy and objectives are provided in Item 4 of the Management Report. The securitisation transactions are detailed in Note 48.

3., 4. and 5. Activities developed and contribution to the business

Item 4 of the Management Report and Note 4 contain information about the activity and contribution to the business.

II. RISK AND RISK MANAGEMENT

6. and 7. Description and nature of the risks incurred

Item 7 of the Management Report describes how the risk management function is organised within the Group.

[1] The numbering refers to the Notes to the Consolidated Financial Statements

Note 50 contains diverse information that together enable the market to form a thorough perception about the risks incurred by the Group and the management mechanisms in place to monitor and control such risks.

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 2016.

12. Decomposition of realised and non realised write-downs

The profit and loss of assets and liabilities held for trading, assets and liabilities at fair value through profit or loss and assets available for sale are detailed by financial instrument in Notes 7 and 8. In addition, unrealised gains and losses on assets available for sale are detailed in Notes 23 and 44, while the most significant positions are breakdown in Note 23.

13. Financial turmoil and the share price

NOVO BANCO does not have listed shares.

14. Maximum loss risk

Item 7 of the Management Report and Note 50 contain the relevant information about potential losses in market stress situations.

15. Debt issued by the Group and results

Note 49 contains information on the impact of debt revaluation and the methods used to calculate this impact on the results.

IV. LEVEL AND TYPE OF EXPOSURES AFFECTED BY THE PERIOD OF TURMOIL

16. Nominal and fair value of exposures

17. Credit risk mitigators

18. Information about the Group’s exposures

As at 31 December 2016 exposure to Portuguese sovereign debt totalled € 3 538 million (2015: € 2 685 million), € 1 044 million of Spanish sovereign debt (2015: € 1 282 million), € 1 912 million of Italian sovereign debt (2015: € 2 362 million) and no exposure to Greek sovereign debt in 2016 as well as in 2015.

The information about the 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 2016 and for 2015. The disclosed information is considered sufficient, given the detail and quantification provided.

20. Non consolidated exposure

All the structures related to securitisation operations originated by the Group are presented in Note 48. None of the SPEs (Special Purpose Entities) were consolidated due to the market turbulence.

21. Exposure to monoline insurers and quality of the assets insured

The Group does not have exposures to monoline insurers.

V. ACCOUNTING POLICIES AND VALUATION METHODS

22. Structured Products

These situations are described in Note 2 – Summary of significant accounting policies.

23. Special Purpose Entities (SPEs) and consolidation

Disclosure available in Notes 2 and 48.

24. and 25. Fair value of financial instruments

See the comments to item 16 of this 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 comply with all the regulatory requirements, defined by the accounting standards or by the supervisory and regulatory entities.

At the same time, the Group aims to meet the best market practices in information disclosure, balancing the cost of preparing the relevant information with the benefit that it may provide to the users.

From the information made available to the Group's shareholder, clients, employees, supervisory entities and the public in general, we highlight the Annual and Half Year Management Reports, the Financial Statements and the respective Notes, the information on Corporate Governance and the Sustainability Accounts.

The Management Reports and Financial Statements, released on a half-yearly basis, are prepared under IFRS that comply with the highest degree of disclosure and transparency and facilitate comparison to other domestic and international banks.

The information on Corporate Governance disclosure in item 9 of the Management Report, presents the most relevant topics about the governing structure of the Group.

The Sustainability Accounts convey the Group's perspective about social responsibility in the context of the numerous challenges that the modern world faces, whether of an environmental or social nature, or pertaining to innovation and entrepreneurship.

3. SEPARATE FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

NOVO BANCO, S.A.

SEPARATE INCOME STATEMENT
FOR THE YEARS ENDED ON 31 DECEMBER 2016 AND 2015

(in thousands of Euros)

	Notes	31.12.2016	31.12.2015 [a)]
Interest and similar income	4	973 798	1 148 168
Interest expense and similar charges	4	598 964	900 486
Net interest income		374 834	247 682
Dividend income	5	159 838	50 832
Fee and commission income	6	335 932	392 745
Fee and commission expenses	6	(91 136)	(98 228)
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	7	101 210	(55 961)
Net gains / (losses) from available-for-sale financial assets	8	11 593	(13 625)
Net gains / (losses) from foreign exchange differences	9	5 004	(7 445)
Net gains/ (losses) from the sale of other assets	10	(15 558)	10 030
Other operating income and expenses	11	(43 861)	(60 367)
Operating income		837 856	465 663
Staff costs	12	(267 424)	(333 650)
General and administrative expenses	14	(234 903)	(264 757)
Depreciation and amortisation	25 & 26	(53 958)	(66 404)
Provisions, net of reversals	33	(50 902)	18 163
Impairment losses on loans and advances, net of reversals and recoveries	22	(555 873)	(529 037)
Impairment losses on other financial assets, net of reversals and recoveries	20 & 21	(379 035)	(288 976)
Impairment losses on other assets, net of reversals and recoveries	24, 27 & 28	(246 522)	(119 643)
Operating expenses		(1 788 617)	(1 584 304)
Profit / (loss) before income tax		**(950 761)**	**(1 118 641)**
Income tax			
Current tax	34	(6 888)	(12 179)
Deferred tax	34	212 905	66 179
		206 017	**54 000**
Net profit / (loss) for the period		**(744 744)**	**(1 064 641)**
Basic earnings per share (in Euros)	15	(0.15)	(0.22)
Diluted earnings per share (in Euros)	15	(0.15)	(0.22)

[a)] Restated (see Note 2)

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

NOVO BANCO, S.A.

SEPARATE STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED ON 31 DECEMBER 2016 AND 2015

(in thousands of Euros)

	Notes	31.12.2016	31.12.2015 [a)]
Net profit / (loss) for the period		**(744 744)**	**(1 064 641)**
Other comprehensive income/(loss) for the period			
Items that will not be reclassified to results			
Remeasurement of defined benefit plans	13	(79 437)	(48 454)
Taxes on remeasurement of defined benefit plans	b)	2 933	1 093
		(76 504)	(47 361)
Items that may be reclassified to results			
Foreign exchange differences	b)	2 643	(104 759)
Tax effect of foreign exchange differences	b)	(773)	21 576
		1 870	(83 183)
Available-for-sale financial assets			
Gains and losses in the period	37	(145 601)	(199 779)
Reclassification of gains and losses included in profit / (loss) for the period	37	117 926	223 445
Corporate income tax	37	9 208	(4 997)
Incorporation of revaluation reserves of Avistar through merger (see Note 45)	37	-	(13 322)
		(18 467)	5 347
Total other comprehensive income/(loss) for the period		**(93 101)**	**(125 197)**
Total comprehensive income/(loss) for the period		**(837 845)**	**(1 189 838)**

[a)] Restated (see Note 2)

[b)] See Statement of Changes in Equity

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

NOVO BANCO, S.A.

SEPARATE BALANCE SHEET
AS AT 31 DECEMBER 2016 AND 2015

(in thousands of Euros)

	Notes	31.12.2016	31.12.2015 a)	01.01.2015 a)
Assets				
Cash and deposits with Central Banks	16	1 464 402	738 360	2 724 884
Deposits with banks	17	116 774	132 753	214 258
Financial assets held for trading	18	665 364	787 083	1 295 491
Other financial assets at fair value through profit or loss	19	4 876	227 393	1 245 882
Available-for-sale financial assets	20	9 970 699	10 594 931	7 564 670
Loans and advances to banks	21	1 325 623	2 548 148	2 830 785
(of which: Operations with reverse repurchase agreements)	*21*	*12 772*	*13 226*	*34 941*
Loans and advances to customers	22	25 905 409	28 005 358	31 017 886
Derivatives held for risk management purposes	23	223 583	322 055	405 235
Non-current assets held for sale	24	84 474	1 252 050	1 713 729
Other tangible assets	25	199 683	229 560	304 889
Intangible assets	26	42 325	68 469	99 918
Investments in subsidiaries and associated companies	27	1 167 445	1 415 763	1 382 675
Current tax assets	34	10 201	1 528	14 927
Deferred tax assets	34	2 636 686	2 554 675	2 469 143
Other assets	28	3 025 767	2 118 206	2 619 286
Total Assets		**46 843 311**	**50 996 332**	**55 903 658**
Liabilities				
Deposits from Central Banks	29	6 410 033	7 485 794	8 471 659
Financial liabilities held for trading	18	645 359	758 446	1 078 260
Deposits from banks	30	4 694 253	5 129 860	4 347 939
(of which: Operations with repurchase agreements)	*30*	*1 625 020*	*2 143 636*	*1 033 647*
Due to customers	31	25 599 957	27 237 874	27 838 824
(of which: Operations with repurchase agreements)	*31*	*216 625*	*44 864*	*111 450*
Debt securities issued	32	3 025 503	3 489 565	7 785 141
Financial assets associated with assets transferred		685 588	168 565	230 555
Derivatives held for risk management purposes	23	108 263	77 846	104 669
Provisions	33	334 546	422 127	502 046
Current tax liabilities	34	12 852	29 803	25 537
Deferred tax liabilities	34	87 979	78 956	77 096
Other liabilities	35	564 272	618 018	687 540
Total Liabilities		**42 168 605**	**45 496 854**	**51 149 266**
Equity				
Share capital	36	4 900 000	4 900 000	4 900 000
Reserves, Retained earnings and Other comprehensive income	37	519 450	1 664 119	(145 608)
Net profit / (loss) for the period		(744 744)	(1 064 641)	-
Total Equity		**4 674 706**	**5 499 478**	**4 754 392**
Total Liabilities and Equity		**46 843 311**	**50 996 332**	**55 903 658**

a) Restated (see Note 2)

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

NOVO BANCO, S.A.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED ON 31 DECEMBER 2016 AND 2015

(in thousands of Euros)

	Share capital	Reserves, Retained earnings and Other comprehensive income			Net profit/ (loss) for the period	Total Equity
		Fair value reserves	Other reserves, Retained earnings and Other comprehensive income	Total		
Balance as at 1 January 2015 (NCA)	**4 900 000**	**56 206**	**(138 525)**	**(82 319)**	**-**	**4 817 681**
Impact of restatement	-	-	(63 289)	**(63 289)**	-	**(63 289)**
Balance as at 1 January 2015 (IAS)	**4 900 000**	**56 206**	**(201 814)**	**(145 608)**	**-**	**4 754 392**
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)
Remeasurement 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 profit / (loss) for the period	-	-	-	-	(1 064 641)	(1 064 641)
Total comprehensive income for the period	**-**	**5 347**	**(130 544)**	**(125 197)**	**(1 064 641)**	**(1 189 838)**
Adjustments to the originating reserve **(b)**	-	-	1 948 236	1 948 236	-	1 948 236
Avistar merger reserve	-	-	(13 316)	(13 316)	-	(13 316)
Other movements	-	-	4	4	-	4
Balance as at 31 December 2015	**4 900 000**	**61 553**	**1 602 566**	**1 664 119**	**(1 064 641)**	**5 499 478**
Other comprehensive income						
Changes in fair value, net of tax	-	(18 467)	-	(18 467)	-	(18 467)
Remeasurement of defined benefit plans, net of tax	-	-	(76 504)	(76 504)	-	(76 504)
Foreign exchange differences, net of tax **(a)**	-	-	1 870	1 870	-	1 870
Net profit / (loss) for the period	-	-	-	-	(744 744)	(744 744)
Total comprehensive income for the period	**-**	**(18 467)**	**(74 634)**	**(93 101)**	**(744 744)**	**(837 845)**
Appropriation to retained earnings of net profit / (loss) of the previous period	-	-	(1 064 641)	(1 064 641)	1 064 641	-
BIC International Bank (BIBL) merger reserve	-	-	1 346	1 346	-	1 346
Other movements	-	-	11 727	11 727	-	11 727
Balance as at 31 December 2016	**4 900 000**	**43 086**	**476 364**	**519 450**	**(744 744)**	**4 674 706**

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

(b) 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 explanatory notes are an integral part of these seperate financial statements

NOVO BANCO, S.A.

SEPARATE CASH FLOW STATEMENT
FOR THE YEARS ENDED ON 31 DECEMBER 2016 AND 2015

(in thousands of Euros)

	Notes	31.12.2016	31.12.2015
Cash flows from operating activities			
Interest and similar income received		1 019 438	1 208 559
Interest expense and similar charges paid		(666 139)	(1 134 935)
Fees and commissions received		336 183	392 921
Fees and commissions paid		(95 392)	(105 094)
Recoveries on loans previously written off		31 605	17 653
Contributions to the pension fund		(139 296)	(94 449)
Cash payments to employees and suppliers		(455 816)	(545 750)
		30 583	**(261 095)**
Changes in operating assets and liabilities:			
Deposits with / from Central Banks		(1 064 332)	(841 187)
Financial assets at fair value through profit or loss		297 582	1 108 238
Acquisition of available-for-sale financial assets		(18 668 176)	(42 904 627)
Sale of available-for-sale financial assets		19 205 534	39 338 447
Loans and advances to banks		1 164 420	159 370
Deposits from banks		(362 602)	800 373
Loans and advances to customers		1 750 320	2 180 010
Due to customers and other loans		(1 588 218)	(580 400)
Derivatives held for risk management purposes		(2 012)	17 148
Other operating assets and liabilities		518 800	733 139
Net cash from operating activities before corporate income tax		**1 281 899**	**(250 584)**
Corporate income taxes paid		(28 728)	(17 693)
Net cash from operating activities		**1 253 171**	**(268 277)**
Cash flows from investing activities			
Acquisitions of investments in subsidiaries and associated companies	1	(26 334)	-
Sale of investments in subsidiaries and associated companies	1	42 765	-
Dividends received		159 838	50 832
Acquisition of tangible fixed assets		(8 198)	(12 000)
Sale of tangible fixed assets		12 618	113
Acquisition of intangible assets		(5 684)	(12 387)
Sale of intangible assets		-	7
Net cash from investing activities		**175 005**	**26 565**
Cash flows from financing activities			
Issue of bonds and other debt securities		450 000	4 593
Reimbursement of bonds and other debt securities		(1 158 605)	(2 111 181)
Net cash from financing activities		**(708 605)**	**(2 106 588)**
Net changes in cash and cash equivalents		**719 571**	**(2 348 300)**
Cash and cash equivalents at the beginning of the period		**609 586**	**2 679 315**
Effect of exchange rate changes in cash and cash equivalents		(1 447)	(43 579)
Net changes in cash and cash equivalents		719 571	(2 026 150)
Cash and cash equivalents at the end of the period		**1 327 710**	**609 586**
Cash and cash equivalents include:			
Cash	16	175 575	174 223
Deposits with Central Banks	16	1 288 827	564 137
(of which, Restricted balances)		(253 466)	(261 527)
Deposits with banks	17	116 774	132 753
Total		**1 327 710**	**609 586**

The accompanying explanatory notes are an integral part of theseseperate financial statements

NOVO BANCO, S.A.

Explanatory notes to the separate financial statements as at 31 December 2016

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

NOTE 1 – ACTIVITY

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

As determined by point Two of the resolution of the Board of Directors of Banco de Portugal of 3 August 2014 (8 p.m.), considering the resolution by the same Board of Directors of 11 August (5 p.m.) (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), recorded in the accounting records, which are subject to transfer to NOVO BANCO, SA, in accordance with 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 higher than 2% of the share capital of BES, members of the management and supervisory bodies, statutory auditors or statutory audit firms, or persons with similar status in other companies that are in a control or group relationship with the institution, (b) persons or entities that have been shareholders, performed the functions or provided the services referred to in the foregoing subparagraph in the four years prior the setting-up of NOVO BANCO, SA, and whose action or omissions was at the origin of the financial difficulties experienced by the credit institution or which contributed to aggravate that situation; (c) the spouses, first degree natural or in-law relatives or third parties acting on behalf of the persons or entities referred to in the foregoing subparagraphs, (d) those responsible for facts related to the credit institution, or that have profited from these facts, directly or through a third party, and which were at the origin of the financial difficulties or contributed to aggravate that situation, due

to action or failure to act in the performance of their functions, according to Banco de Portugal's understanding;

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

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

(iv) All the liabilities resulting from the issuance of instruments that are or were at any time, eligible for the calculation of BES' 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) With effect from 29 December 2015, all the rights and responsibilities of NOVO BANCO, arising from the non-subordinated debt instruments listed in Annex 2B (excluding those held by NOVO BANCO), together with all the liabilities, contingencies and off-balance sheet elements, to the extent they are related to said debt instruments (including (i) the issuing, trading and sale of same and (ii) arising from any contractual documents or other instruments celebrated or issued by the Bank, and connected with those instruments, including 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, with effect from 29 December 2015, to BES Finance, Limited;*

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

(f) *All the employees and service providers of BES are transferred to NOVO BANCO, SA;*

(g) *Any guarantee related to any obligation transferred to NOVO BANCO, SA is also transferred to NOVO BANCO, SA. Any guarantee related to any obligation not transferred to NOVO BANCO, SA will, likewise, not be transferred to NOVO BANCO, SA.*

2. *After the transfer referred to in the foregoing sub-paragraphs, the Banco de Portugal may at any time transfer or re-transmit assets, liabilities, off-balance-sheet items and assets under management between BES and NOVO BANCO, SA, in accordance with Nº5 of article 145-H (5) of the Legal Framework.*

3. *BES will sign an agreement with NOVO BANCO, SA, confirming the transfer of the assets and liabilities governed by foreign law and/or located abroad, under the terms defined by the Banco de Portugal. This will include BES obligation to ensure that it will comply with all the formalities and procedures necessary for that purpose.*

4. *Considering that all the rating procedures within the scope of the permission under the IRB approach granted to BES on a consolidated basis, as from 31 March 2009, are fully transferred to NOVO BANCO, SA, the Banco de Portugal, satisfied that the requirements provided for in Part II, Title II, Chapter 3 of Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013 (CRR) are met, and that the systems for the management and rating of credit risk exposures are sound and implemented with integrity, decides, under article 143 (1) of the same Regulation to consent NOVO BANCO, S.A. to calculate its risk-weighted exposure amounts using the IRB methodology, with immediate effect and under the terms of the permission granted to BES.*

5. *The assets, liabilities and off-balance-sheet items are transferred at their book value, and the assets are adjusted in compliance with the values listed in Annex 2A, in order to ensure a conservative valuation, to be confirmed in the audit referred to in Point 3.*

6. *Based on this valuation, the capital requirements for NOVO BANCO, SA, are calculated to be 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 circumstances the professional activities of the persons in question, their degree of dependence on the persons referred to in the foregoing points, their income level and the deposited amount; c) demonstration of evidence shall be supported by documents and archived so that the decisions taken can be controlled and verified. Until such decisions are taken, the operational measures implementing the present deliberation remain in force.*

9. *The transfer ordered (and, as applicable, confirmed by the conclusion of the contract confirming the transfer determined by Banco de Portugal) is not intended to confer on any counterparties and third parties any new rights nor to enable the exercise of any rights that in the absence of such transfer would not exist or could not be exercised on or in relation to the assets, liabilities, off-balance sheet items and assets under the management of BES, S.A., thus transferred, including any rights of termination, resolution or rights to order early redemptions, close-out netting or netting/set-off, nor to result in (i) any default, (ii) change in conditions, rights or obligations, or (iii) subjecting to approval, or (iv) right to enforce guarantees, (v) right to make retentions or netting/set-off between any payments or claims under such assets, liabilities, off-balance sheet items and assets under management transferred.*

10. *Any credits already constituted or to be constituted related to tax facts occurring prior to 3 August 2014, whether or not recorded in the accounts of BES are transferred to NOVO BANCO.*

11. *The provision in subparagraphs (v) to (vii) of paragraph (b) of no. 1 of the present Annex shall be interpreted in light of the clarifications contained in Annex 2C.*

According to the announcement of Banco de Portugal of 29 December 2015, "this set of decisions comprises the final and definitive change of the perimeter of assets, liabilities, off-balance sheet elements and assets under management transferred to NOVO BANCO, which transfer is now definitively fixed".

Under the terms of Article 3 of its by-laws the purpose of NOVO BANCO, S.A., is to operate in the banking industry, including all operations compatible for such activity and permitted by law. While operating as a transition bank NOVO BANCO, S.A. must (a) manage the assets, liabilities, off-balance sheet items and assets under management transferred from Banco Espírito Santo, S.A., to NOVO BANCO, S.A., under the terms of the decisions of the resolution authority and carry on the transferred activities, while complying with the legal framework of the resolution and for the purposes laid down in it; (b) comply with management criteria ensuring that low risk levels are maintained and the value of the transferred assets is maximized.

The Resolution Fund (“Fundo de Resolução”) is the sole owner 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. (See Note 47 – Subsequent Events, regarding the signature of an agreement to sell the majority of NOVO BANCO’s Share Capital).

As a transition bank, NOVO BANCO has a limited duration of two years, extendable for periods of a year, according to RGICSF. However, according to the commitments assumed by the Portuguese Republic with the European Commission, the sale of NOVO BANCO should occur within a maximum period of two years from its date of incorporation, but such term was extended by decision of the European Commission announced on 21 December 2015. The signing on 31 March 2017 by the Resolution Fund of the contractual documents for the sale of NOVO BANCO enabled the fulfilment of the term for the sale established on the commitments assumed by the Portuguese Republic with the European Commission.

In June 2015 the merger by incorporation of Avistar, SGPS, S.A. was realised and in December 2016 the merger by incorporation of BIC International Bank (BIBL) was realised.

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

NOVO BANCO (hereinafter also designated as the Bank) has a retail network comprising 515 branches in Portugal and abroad (31 December 2015: 583 branches), including branches in London, Spain, Cayman Islands, Venezuela and Luxembourg, an offshore branch in the Madeira Free Trade Zone and 6 representative offices overseas (31 December 2015: 7 representative offices). During financial year 2015, it shut down the branches in New York, Nassau and Cape Verde.

NOTE 2 – MAIN ACCOUNTING POLICIES

2.1. Bases of presentation

In accordance with Regulation (EC) no. 1606/2002, of the European Parliament and of the Council of 19 July 2002,and Notice no. 5/2015 of Banco de Portugal, the financial statements of NOVO BANCO, S.A. (Bank or NOVO BANCO) are prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), effective as at 31 December 2016.
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.

The accounting policies used by the Bank in the preparation of its separate financial statements as at 31 December 2016 are consistent with those used in the preparation of the separate financial statements as at 31 December 2015, except as regards:

- **Repeal of the NCA - Impact on the adoption of Banco de Portugal Notice no. 5/2015**

In accordance with article 2 of Notice no. 5/2015 of Banco de Portugal, as from 1 January 2016 entities subject to the supervision of Banco de Portugal must prepare the financial statements on a separate basis in accordance with International Accounting Standards (IAS), as adopted, at any time, by a European Union Regulation and respecting the conceptual framework for the preparation and presentation of financial statements that respects those standards, as it was previously required for the financial statements on a consolidated basis.

The amendment resulting from the repeal of the Adjusted Accounting Standards (NCA) and the preparation, as from 1 January 2016, of the financial statements on a separate basis in accordance with International Accounting Standards (IAS), in accordance with the provisions of IFRS 1, at 31 December 2015, had an impact, namely, on the provisions for general credit risks that under the NCA, were recognised in liabilities under the caption Provisions (see Note 33) and were, in accordance with IAS, reclassified to the caption Impairment of loans and advances to customers (see Note 22).

It should be noted that in 31 December 2015 and 2014, the impairment losses on the loan and advances portfolio of NOVO BANCO, calculated in accordance with IAS 39, were higher than the amount of the provisions determined based on what is laid down in Notice no. 3/95 of Banco de Portugal. Hence, and in accordance with that defined in Notice no. 1/2005, the Bank recognised this higher impairment in its separate financial statements, given that the overall amount of the specific and general provisions may not be lower than the impairment estimated based on the recoverable amount of the loan and advances portfolio, in accordance with IAS 39.

For comparability purposes, the amounts recorded as general credit risk provisions for impairment were recognised and reclassified in the respective balance sheet and income statement lines, as presented below. These reclassifications did not cause any impact at the Equity level on 1 January 2015, and there were no impacts in the Cash Flow Statement either

- **Recoverability of deferred tax assets for tax losses, including impact resulting from Regulatory Decree no. 5/2016**

As mentioned in the accounting policy described in Note 2.17, deferred tax assets are recognised based on the Bank's expectations as to their future recoverability.

The assessment of the recoverability of deferred tax assets generated by tax losses in the financial years ended on 31 December 2014 and 2015 were made based on the business plan for the period 2016-2020, with, after that date, a constant growth in the activity being assumed until the deferred tax assets generated in 2014 and 2015 (12 years) expire. The expectations regarding the generation of future taxable income by the Bank were fundamentally supported by the favourable evolution of net interest income, the reduction of operating costs, reflecting the favourable impact of the decrease in employee numbers and branches, allocations for credit impairment in line with the evolution of the Bank's activity and the growth of net gains with commissions.

In line with that mentioned above, also in the course of financial year 2016, the Board of Directors of the Bank carried out another detailed review of the assumptions used in the business plan of previous years, namely taking into account the activity generated by NOVO BANCO since the resolution measure, as well as other relevant information available at that date about the market and the knowledge of the financial system in Portugal. This review was not a result of any relevant new fact, with an impact on the estimates used in the business plan prepared in previous years, but rather on a greater degree of conservatism and robustness in the main assumptions, more aligned with the accumulated historical performance of the Bank in the last two years, without any consideration of any relevant event during the year 2016 to the said review.

As a result of this review of the business plan carried out in the financial year ended on 31 December 2016, it was concluded that the amount of deferred tax assets generated by tax losses in 2014 and 2015 would be recoverable in Euros 907 million. From the same review, it was also concluded that the same amount would also correspond to the amount that would have been calculated in the financial years ended on 31 December 2015 and 2014 had the aforementioned assumptions been used in those financial years.

In these circumstances, NOVO BANCO considered that the deferred tax assets recognised in respect of tax losses recognised in prior financial years were overstated and, therefore, as at 31 December 2016, corrected this error retrospectively, in accordance with IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8), correcting these to the above mentioned maximum amount recoverable of Euros 908 million.

As a result of the publication of Regulatory Decree no. 5/2016, of 18 November (Regulatory Decree), which established the fiscal regime for impairment and other corrections for specific credit risk deductible for taxable income determination purposes in respect of financial year 2016 (including a transition rule), the tax impacts were calculated as at 1 January 2016 and, for comparative purposes, as at 1 January 2015. These impacts relate, essentially, to the interpretation made by the Bank of Regulatory Decree no. 5/2016, according to which, the tax treatment of loan impairment should be based on an individual analysis (on a loan by loan basis) and not on an overall analysis, as had been in force until 31 December 2015. As so, the opening balance sheet as at 1 January 2015 incorporates the adjustments made as a result of the application of the Regulatory Decree referred to above.

In function of that referred to above, the balance sheet as at 1 January 2015 and the statements of income, comprehensive income and changes in equity of the financial year ended on 31 December 2015, presented for comparative purposes, were restated in accordance with IAS 8. These situations did not have any impact in the cash flow statement.

The effects of the above mentioned situations on the balance sheet as at 1 January 2015 and 31 December 2015, as well as on the income statement for financial year 2015, may be presented as follows:

(in thousands of Euros)

Balance Sheet	Notes	Balance on 01.01.2015 (published)	Notice no. 5/2015 of Banco de Portugal	Revision of business plan	Regulatory Decree no. 5/2016	Balance on 01.01.2015 (restated)
Assets						
Loans and advances to customers	22	31 341 787	(323 901)	-	-	31 017 886
Deferred tax assets	34	2 532 431	-	(85 000)	21 712	2 469 143
Impairment of loans and advances to customers		*974 541*	-	-	*78 704*	*1 053 245*
Tax losses carried forward		*1 064 894*	-	*(85 000)*	*(72 907)*	*906 987*
Other		*492 996*	-	-	*15 915*	*508 911*
Liabilities						
Provisions	33	825 947	(323 901)	-	-	502 046
Equity						
Reserves, Retained earnings and Other comprehensive income	37	(82 319)	-	(85 000)	21 712	(145 608)

(in thousands of Euros)

Balance Sheet	Notes	Balance on 31.12.2015 (published)	Notice no. 5/2015 of Banco de Portugal	Revision of business plan	Regulatory Decree no. 5/2016	Balance on 31.12.2015 (restated)
Assets						
Loans and advances to customers	22	28 272 583	(267 225)	-	-	28 005 358
Deferred tax assets	34	2 566 944	-	(85 000)	72 731	2 554 675
Impairment of loans and advances to customers		*853 914*	-	-	*263 647*	*1 117 561*
Tax losses carried forward		*1 182 903*	-	*(85 000)*	*(190 916)*	*906 987*
Other		*530 127*	-	-	-	*530 127*
Liabilities						
Provisions	33	689 352	(267 225)	-	-	422 127
Equity						
Reserves, Retained earnings and Other comprehensive income	37	1 727 408	-	(85 000)	21 712	1 664 119
Net profit / (loss) for the period attributable to shareholders of the Bank		(1 115 660)	-	-	51 019	(1 064 641)

(in thousands of Euros)

Income Statement	Notes	Balance on 31.12.2015 (published)	Notice no. 5/2015 of Banco de Portugal	Revision of business plans	Regulatory Decree no. 5/2016	Balance on 31.12.2015 (restated)
Provisions, net of reversals	33	(41 264)	59 427	-	-	18 163
Impairment of loans and advances, net of reversals	22	(469 610)	(59 427)	-	-	(529 037)
Deferred tax	40	15 159	-	-	51 020	66 179
Impairment of loans and advances to customers		*(120 627)*	-	-	*184 944*	*64 317*
Tax losses carried forward		*118 009*	-	-	*(118 009)*	-
Other		*17 777*	-	-	*(15 915)*	*1 862*

As described in Note 46, in the preparation of its financial statements as at 31 December 2016, the Bank adopted the accounting standards issued by the IASB and the IFRIC interpretations with mandatory application as from 1 January 2016. The accounting policies used by the Bank in preparing the financial statements, described in this note, were adopted accordingly.

The accounting policies and interpretations issued recently but not yet effective and which the Bank has not yet adopted in the preparation of its financial statements can be analysed in Note 46.

The 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 and hedged assets and liabilities, in respect of their hedged component.

The preparation of financial statements in accordance with IAS requires that the Bank make judgments 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 compared to reality may impact the current estimates and judgments. The areas involving a higher level of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are analysed in Note 3.

The financial statements and the Management report as at 31 December 2016 were approved at the Board of Directors' meeting held on 22 May 2017, and shall be submitted for approval at the Annual General Meeting that has the power to change them. However, it is the conviction of the Board of Directors that these will be approved without significant changes.

2.2. Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Euros at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on this translation are recognised in the income statement.

Non-monetary assets and liabilities recorded at historical cost, denominated in foreign currency, are translated using the exchange rate prevailing at the transaction date. Non-monetary assets and liabilities, denominated in foreign currency, that are stated at fair value are translated into Euros at the foreign exchange rates ruling at the dates the fair value was determined. The resulting exchange differences are accounted for in the income statement, except if related to equity instruments classified as available-for-sale, which are recorded in reserves.

Foreign exchange differences relating to cash flow hedges and the hedging of the net investment in foreign operational units, when they exist, are recognised in other comprehensive income.

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, as of 31 December 2015, began to use in the translation of the financial statements from 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

Derivative financial instruments are initially recognised at their fair value on the date the derivative contract is entered into (trade date). Subsequent to initial recognition, the fair value of derivative financial instruments is 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 market value, 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 28) 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 book value of a hedged asset or liability corresponding to a fixed income instrument is amortised via the income statement over the period to its maturity, using the effective interest rate method.

- Cash flow hedge

When a derivative financial instrument is designated as a hedge against the variability of highly probable future cash flows, the effective portion of the changes in the fair value of the hedging derivative is recognised in reserves, being recycled to the income statement in the periods in which the hedged item affects the income statement. The ineffective portion is recognised in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in reserves at that time is recognised in the income statement when the hedged transaction also affects the income statement. When a hedged transaction is no longer expected to occur, the cumulative gain or loss reported in equity is recognised immediately in the income statement and the hedging instrument is reclassified to the trading portfolio.

At 31 December 2016 and 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 regularly assesses, whether there is objective evidence of impairment in its loan portfolio. Impairment losses identified are recognised in the income statement and are subsequently reversed through the income statement if, in a subsequent period, the amount of the impairment losses decreases.

A loan or a loan portfolio, defined as a group of loans with similar credit risk characteristics, is impaired when: (i) there is objective evidence of impairment as a result of one or more events occurring subsequent to its initial recognition and (ii) that event (or events) has an impact on the recoverable amount of the estimated future cash flows of that loan or of the loan portfolio, that can be reliably estimated.

Initially, the Bank assesses for each loan individually whether there is an objective evidence of impairment. For this assessment and in identifying the impaired loans on an individual basis, the Bank uses the information that feeds the credit risk models implemented and takes into consideration, amongst others, the following factors:

- the aggregate exposure to the customer and the existence of non-performing loans;
- the economic and financial viability of the customer's business model and its ability to generate sufficient cash flows to service its debt obligations in the future;
- the existence of privileged creditors;
- the existence, nature and estimated value of the collateral;
- the exposure of the customer to the financial sector;
- the amount and timing of expected recoveries.

If for a particular loan there is no objective evidence of impairment at an individual level, the loan is grouped together with other loans that have similar credit risk characteristics (loan portfolio), and assessed collectively (collective assessment for impairment). Loans that are assessed individually and found to be impaired are not included in the collective assessment for impairment.

If an impairment loss is identified on an individual basis, the amount of the impairment loss to be recognised is calculated as the difference between the carrying book value of the loan and the present value of the expected future cash flows (considering the recovery period), discounted at the original effective interest rate of the contract. The carrying value of loans and advances is presented in the balance sheet net of impairment losses. If a loan has a variable interest rate, the discount rate for measuring the impairment loss is the current effective interest rate determined under the rules of each contract.

The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from the foreclosure / taking possession (hereafter also "recovery") and sale of the collateral, less the costs inherent to its recovery and sale.

For purposes of the collective assessment of impairment, loans are grouped on the basis of similar credit risk characteristics, taking in consideration the Bank's credit risk management process. Future cash flows in a group of loans that are collectively 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.

Up to 31 December 2015 and in accordance with NCAs, the amount of the loans and advances should be adjusted, by applying criteria of rigor and prudence, so as to reflect, at all times, their realisable value. This value adjustment (impairment loss) could not be inferior to that determined, according with Notice no. 3/95, of Banco de Portugal, which established the minimum reference framework for the constitution of specific and general provisions. On 7 December 2015, Banco de Portugal issued Notice no. 5/2015, effective as from 1 January 2016 that established the adoption of the criteria defined in the International Accounting Standards, repealing Notice no. 3/95.

The loan 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;
- The full amount of the loan must be registered as overdue loan with no portion being recorded as outstanding debt;
- Loans cannot be marked as renegotiated overdue loans, or be involved in an active settlement agreement;
- The impairment loss has to cover at least 95% of the amount, except in respect of residential 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

After its initial recognitions, financial assets at fair value, through profit or loss are subsequently carried at fair value and gains and losses arising from changes in their fair value are recognised in the income statement in the caption "Profit / (loss) from financial assets and liabilities at fair value through profit or loss."

Available-for-sale financial assets are also carried at fair value. Gains and losses arising from changes in their fair value are, however, recognised directly in reserves (other comprehensive income) until the financial assets are derecognised or an impairment loss is identified, at which time the cumulative gain or loss previously recognised in reserves is recognised in the income statement in the caption "Net gains/(losses) from available-for-sale financial assets". Foreign exchange differences associated with shares and other equity instruments are also recognised in reserves, whilst foreign exchange differences arising from debt instruments are recognised in the income statement. Interest, calculated using the effective interest rate method, and dividends are recognised in the income statement.

Held-to-maturity investments are carried at amortised cost using the effective interest rate method, net of any impairment losses recognised.

The fair values of investments listed on active markets are based on bid prices, the bid price of the last transaction or on the last bid known. For unlisted securities, the Bank establishes fair value using (i) valuation techniques, including the use of recent similar arm's length transactions, discounted cash flow analyses and option pricing models customised to reflect the specificities and circumstances of the instrument, and (ii) valuation assumptions based on market information.

Reclassifications between categories

The Bank only reclassifies non-derivative financial assets with fixed or determinable payments and fixed maturities, from the available-for-sale financial assets category to the held-to-maturity investments category, provided it has the intention and ability to hold those financial assets to maturity.

Reclassifications between these categories are made at the fair value of the assets reclassified, determined at the date of the 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.

After initial recognition, financial assets cannot be reclassified to the category of financial assets at fair value through profit or loss.

Transfers of available-for-sale financial assets to loans and advances to customers - securitised 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 (other comprehensive income), measured as the difference between the acquisition cost and the current fair value, net of any impairment loss on that financial asset previously recognised in the income statement, is taken to the income statement. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is reversed through the income statement up to the acquisition cost if the increase is objectively related to an event occurring after the impairment loss was recognised, except in relation to equity securities, for which impairment losses may not be reversed and gains are recognised in reserves.

2.6. Assets sold with repurchase agreements, securities loaned and short sales

Securities sold subject to repurchase agreements (repos) at a fixed price or at a price that corresponds to the sales price plus a lender's return are not derecognised from the balance sheet. The corresponding liability is included under amounts due to banks or to customers, as appropriate. The difference between the sale and repurchase price is treated as interest and deferred over the life of the agreement, using the effective interest rate method.

Securities purchased under agreements to resell (reverse repos) at a fixed price or at a price that corresponds to the purchase price plus a lender's return are not recognised in the balance sheet, the purchase price paid being recorded as loans and advances to banks or customers, as appropriate. The difference between the purchase and resale price is treated as interest and deferred over the life of the agreement, using the effective interest rate method.

Securities lent under loan agreements are not derecognised in the balance sheet, being classified and measured in accordance with the accounting policy described in Note 2.5. Securities received under borrowing agreements are not recognised in the balance sheet.

Short sales correspond to securities sold that are not included in the Bank's assets. They are recorded as financial liabilities held for trade, at the fair value of the assets to be returned in the scope of the repurchase agreement. Gains and losses resulting from the change in their respective fair value are recognised directly in the income statement.

2.7. Financial liabilities

An instrument is classified as a financial liability when it contains a contractual obligation to transfer cash or another financial asset, regardless of its legal form. Financial liabilities are derecognised when the underlying obligation is liquidated, expires or is cancelled.

Non-derivatives financial liabilities include deposits from banks and customers, loans, debt securities, subordinated debt and short sales.

These financial liabilities are recognised (i) initially at fair value less transaction costs and (ii) subsequently at amortised cost, using the effective interest rate method, except for short sales and financial liabilities designated at fair value through profit or loss, which are measured at fair value.

The Bank designates, at inception, certain financial liabilities at fair value through profit or loss when:

- such financial liabilities are being hedged (from an economic perspective) in order to eliminate accounting mismatches between the valuation of the assets and the derivatives; or
- such financial liabilities contain embedded derivatives.

The structured products issued by the Bank, 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 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 and performance guarantees

Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss due to non-compliance with the contractual terms of a debt instrument, namely the payment of principal and / or interest.

Financial guarantees are initially recognised in the financial statements at fair value. Financial guarantees are subsequently measured at the higher of (i) the fair value recognised on initial recognition and (ii) the amount of any financial obligation arising as a result of guarantee contracts, measured at the balance sheet date. Any change in the amount of the liability relating to guarantees is taken to the income statement.

Financial guarantee contracts issued by the Bank normally have a stated maturity date and a periodic fee, usually paid in advance, which varies in function of the counterpart risk, the amount and the time period of the contract. Consequently, the fair value of the financial guarantee contracts issued by the Bank, at the inception date, is approximately equal to the initial fee received, considering that the conditions agreed to are market conditions. Hence, the amount recognised at the contract date is equal to the amount of the fee initially received, which is recognised in the income statement over the period to which it relates. Subsequent periodic fees are recognised in the income statement in the period to which they relate.

Performance guarantees

Performance guarantees are contracts that result in the compensation of a party if the other does not comply with its contractual obligation. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of the fee received during the contract period. When there is a breach of contract, the Bank has the right to reverse the guarantee, recognising the amounts in Loans and advances to customers after transferring the compensation for the losses to the collateral taker.

2.10. Equity instruments

An instrument is classified as an equity instrument when it does not contain a contractual obligation to deliver cash or another financial asset, regardless of its legal form, but evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Transaction costs directly attributable to the issuance of equity instruments are recorded against equity as a deduction from the amount issued. Amounts paid or received relating to acquisitions or sales of equity instruments are recognised in equity, net of transaction costs.

Distributions to holders of an equity instrument are deducted directly from equity as dividends, when declared.

2.11. Foreclosed properties and non-current assets held for sale

Non-current assets or disposal groups (groups of assets to be disposed of together and related liabilities that include at least one non-current asset) are classified as held for sale when their carrying values will be recovered mainly through a sale transaction (including those acquired exclusively with a view to their subsequent disposal), the assets or disposal groups are available for immediate sale and the sale is highly probable (within the period of one year).

Immediately before the initial classification as held for sale, the measurement of the non-current assets (or of all the assets and liabilities in a disposal group) is brought up to date in accordance with the applicable IFRS. Subsequently, these assets or disposal groups are remeasured at the lower of their carrying value and fair value less costs to sell, with the unrealised losses so determined being recognised in the income statement. When the carrying book value of non-current assets corresponds to fair value less costs to sell, the fair value level of the IFRS 13 hierarchy corresponds to level 3.

In the scope of its loan granting activity, the Bank incurs in the risk of the borrower failing to repay all the amounts due. In case of loans and advances with mortgage collateral, the Bank executes these and receives real estate properties and other assets resulting from foreclosure. Due to the provisions of the General Law on Credit Institutions and Financial Companies ("Regime Geral das Instituições de Crédito e Sociedades Financeiras" - RGICSF), banks are prevented, unless authorised by Banco de Portugal, from acquiring real estate property that is not essential to their installation and daily operations and the pursuit of their corporate purpose (no. 1 of article 112 of RGICSF), however they can acquire real estate property as loan reimbursement. The real estate property so acquired must be made regular within 2 years, period that may, based on solid grounds, be extended by Banco de Portugal, on the conditions to be determined by this Authority (article 114 of RGICSF).

Although the Bank's objective is to immediately dispose of all real estate property acquired as payment resulting from foreclosure loans, during the 2016 financial year the Bank changed the classification of this real estate property from Non-current assets held for sale to Other assets, due to the permanence of the same in the portfolio exceeding 12 months. However, the accounting method has not changed, with these being initially recognised at the lower of their fair value less estimated costs to sell and the carrying book value of the subjacent loans. Subsequently, this real estate property is measured at the lower of its initial carrying value and the corresponding fair value less costs to sell and is not depreciated. Unrealised losses 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, gauging the adequacy of the processes, comparing the sales value with the revalued amounts of the real estate properties.

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 equipments	4 to 5
Furniture	4 to 10
Fixtures	5 to 10
Security equipment	4 to 10
Machinery and tools	4 to 10
Motor vehicles	4
Other equipment	5

The useful lives and residual values of the tangible fixed assets are revised at each reporting date.

When there is an indication that an asset may be impaired, IAS 36 requires that its recoverable amount be estimated and an impairment loss be recognised when the book value of the asset exceeds its recoverable amount. Impairment losses are recognised in the income statement, being reversed in subsequent periods, when the reasons that led to their initial recognition cease to exist. For this purpose, the new depreciated amount shall not exceed that which would be recorded had the impairment losses not been imputed to the asset, but considering the normal depreciation the asset would have been subject to.

The recoverable amount is determined as the higher of its net selling price and its value in use, which is based on the net present value of the estimated future cash flows arising from the continued use and ultimate disposal of the asset at the end of its useful life.

On the date of the de-recognition of a tangible fixed asset, the gain or loss determined as the difference between the fair value less selling costs 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 year, are recognised and recorded as intangible assets. These include employee costs borne by the Group companies specialised in information technology directly associated with the development of said software.

All remaining costs associated with information technology services are recognised as an expense as incurred.

2.14. 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

Finance lease contracts are recorded at inception date as an asset and a liability at the lower of the fair value of the asset leased and the present value of the minimum lease payments. 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 (“Acordo Coletivo de Trabalho” - ACT) for the banking sector and its subsequent amendments resulting from the 3 tripartite agreements, as referred to 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 - Sociedade Gestora de Fundos de Pensões, SA, subsidiary of the Group.

The pension plans are defined as benefit plans, given that they define the criteria used to determine the pension benefit to be received by employees during retirement, usually dependent on one or more factors such as age, years of service and salary level.

The retirement pension liabilities were calculated as at 31 December 2016 and 31 December 2015, 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 employees retiring before turning 65. Whenever the possibility of the early retirement provided for in the pension fund regulation is invoked, the responsibilities of same must be incremented by the value of the actuarial calculation of the liabilities corresponding to the period between the early retirement and the employee turning 65.

The Bank makes payments to the funds in order to assure their solvency, the minimum levels set by Banco de Portugal being: (i) the liability with pensioners must be totally funded at the end of each period, and (ii) the liability relating to past 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.

Arising from the signature of the new Collective Labour Agreement (ACT) on 5 July 2016, published in Labour Bulletin (Boletim do Trabalho) no. 29, of 8 August 2016, the Bank's contributions to SAMS as from 1 February 2017, will correspond to a fixed amount (as per Annex VI of the new ACT) for each employee, 14 times a year.

The calculation and recognition of the Bank's liability with post-retirement health-care benefits is similar to the calculation and recognition of the pension liability described above. These benefits are covered by the Pension Fund, which presently covers all liabilities with pensions and health-care benefits.

Long-term service bonuses and Career bonuses

In accordance with the previous ACT ("Acordo Coletivo de Trabalho") for the Banking Sector, in force until July 2016, NOVO BANCO had assumed the commitment to pay active employees who completed 15, 25 and 30 years of service in the Bank, long-term service bonuses corresponding, respectively, to one, two and three times their monthly remuneration earned at the date the bonuses are paid out.

At the date of early retirement due to disability or presumed disability, employees had the right to a long-term service bonus proportional to that which they would receive if they were to remain in service until meeting the next bonus level.

These long-term service bonuses were accounted for by the Bank in accordance with IAS 19, as other long-term employee benefits.

The Bank’s liability with these long-term service bonuses were periodically estimated using the Projected Unit Credit Method. The actuarial assumptions used were based on expectations as to future salary increases and mortality tables. The discount rate used in this calculation was determined using the methodology described for retirement pensions.
In each period, the increase in the liability for long-term service bonuses, including actuarial gains and losses and past service costs, was charged to the income statement.

Arising from the signature of the new ACT on 5 July 2016, the long-term service bonus has ceased, with the Bank having paid its employees the proportional amounts relating to the premium which would have been due on the entry into force of the new ACT.

Instead of the long-term service bonus, the new ACT provides for the payment by the Bank of a career bonus, due the moment immediately prior to the retirement of the employee when said employee retires at the service of the Bank, corresponding to 1.5 of his/her salary at the time of its payment.

The career bonus is accounted for by the Bank in accordance with IAS 19, as a long-term employee benefit. The effects of the re-measurement and past service cost are recognised in results, as occurred with the accounting model for long-term service bonuses.

The amount of the Bank's liabilities with this career bonus is likewise periodically estimated based on the Projected Unit Credit Method. The actuarial assumptions used are based on expectations of future salary increases and mortality tables. The discount rate used in this calculation is determined applying the same methodology described above for retirement pensions.

Employees’ variable remuneration

The Bank recognises in costs the short-term benefits of the employees who rendered services in the respective accounting period.

- Profit-sharing and bonus plans

The Bank recognises the cost expected with profit-sharing pay-outs and bonuses when it has a present, legal or constructive, obligation to make such payments as a result of past events, and can make a reliable estimate of the obligation.

- Obligations with holidays, holiday subsidy and Christmas subsidy

In accordance with the legislation in force in Portugal, employees are annually entitled to one month of holidays and one month of holiday subsidy, this being a right acquired in the year prior to their payment. In addition, employees are annually entitled to one month of Christmas subsidy, which right is acquired throughout the year and settled during the month of December of each calendar year. Hence, these liabilities are recorded in the period in which the employees acquire the right to the same, regardless of the date of their respective payment.

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 under deferred tax reserves (other comprehensive income). 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. Income tax expense is recognised at each reporting date based on management's estimate of the weighted average effective annual income tax rate expected for the full tax year.

Deferred tax is calculated, on timing differences arising between the carrying book values of assets and liabilities for financial reporting purposes and their respective tax base, and is calculated using the tax rates enacted or substantively enacted at the balance sheet date in each jurisdiction and that are expected to apply when the timing differences are reversed.

Deferred tax liabilities are recognised for all taxable timing differences except for 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.

Provisions related to lawsuits opposing the Bank to third parties, are constituted according to internal risk assessments carried out by Management, with the support and advice of its legal advisors.

When the effect of the passage of time (discounting) is material, the provision corresponds to the net present value of the expected future payments, discounted at an appropriate rate considering the risk associated with the obligation. In these cases, the increase in the provision due to the passage of time is recognised in financial expenses.

Restructuring provisions are recognised when the Bank has approved a formal, detailed restructuring plan and such restructuring has either commenced or has been publicly announced.

A provision for onerous contracts 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 book value of the financial asset or liability. The effective interest rate is calculated at inception and is not subsequently revised, except in respect of financial assets and liabilities with a variable interest rate. In this case, the effective interest rate is periodically revised, taking into consideration the impact of the change in the interest rate of reference on the estimated future cash flows.

When calculating the effective interest rate, the Bank estimates the cash flows considering all the contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all the commissions that are an integral part of the effective interest rate, transaction costs and all other related premiums or discounts.

Interest on loans and advances to customers includes the interest for which impairment losses have been recognised.

For derivative financial instruments, excluding derivatives held for risk management purposes (see Note 2.3), the interest component of the changes in their fair value is not separated and is classified under net gains / (losses) from financial assets and liabilities at fair value through profit or loss. The interest component of the changes in the fair value of derivatives held for risk management purposes is recognised under interest and similar income or interest expense and similar charges.

2.19. Recognition of fee and commission income

Fees and 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 year in which the services are provided;
- Fees and commissions that are an integral part of the effective interest rate of a financial instrument are recognised as income using the effective interest rate method.

2.20. Recognition of dividend income

Dividend income is recognised when the right to receive the dividend payment is established.

2.21. Segmental reporting

Pursuant to paragraph 4 of IFRS 8 – Operating segments, the Bank is exempt 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 maturity of less than three month from the date of acquisition / contracting and whose risk of change in value is immaterial, including cash, deposits with Central Banks and deposits with other credit institutions. Cash and cash equivalents exclude restricted balances with Central Banks.

2.24. Insurance and reinsurance brokerage services

NOVO BANCO is an entity authorised by the Instituto de Seguros de Portugal (hereafter also “Portuguese Insurance Institute”) to practice insurance brokerage activities, under the Category of Dependent Insurance Broker, pursuant to article 8, paragraph a), subparagraph i), of Decree-Law no. 144/2006, of 31 July, carrying out this insurance intermediation activity through the sale of life and non-life insurance contracts. As compensation for the insurance intermediation services provided, the Bank receives commissions that are defined in agreements / protocols established between the Bank and the Insurance Companies.

The commissions received for the insurance intermediation services take the following forms:

- commissions that include a fixed and a variable component. The fixed component is determined by applying a predetermined rate to the amount of the subscriptions realised through the Bank and the variable component is calculated monthly following pre-established criteria, with the total annual commission being equal to the sum of the commissions calculated monthly;
- other variable commissions, which are determined annually and paid over by the Insurance Company at the beginning of the subsequent year to which it relates.

The commissions received for insurance brokering services are recognised on an accrual basis, meaning that commissions which are settled in a period different to that to which they relate are recorded as an account receivable under a caption of Other assets.

NOTE 3 – MAIN ACCOUNTING ESTIMATES AND JUDGMENTS USED IN PREPARING THE FINANCIAL STATEMENTS

Considering that the current accounting framework requires estimate judgments and calculations to involve some degree of subjectivity, the use of different parameters or judgments based on different evidence may result in different estimates. The main accounting estimates and judgments used in the application of the accounting principles by the Bank are discussed in this Note in order to improve the understanding of how their application affects the reported results of the Bank and its disclosure.

3.1. Impairment of available-for-sale financial assets

The Bank determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decline in their fair value or when it foresees an impact on the assets' future cash flows. This determination requires a judgment 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 judgment in defining fair value estimates.

The use of alternative methodologies and different assumptions and estimates can result in a different level of impairment losses being recognised. The amount of the impairment of available-for-sale financial assets determined based on the above criteria is presented in Note 20.

3.2. Fair value of derivative financial instruments and other assets and liabilities measured at fair value

Fair values are based on listed market prices when available; otherwise fair value is determined with reference to similar recent arm's length transaction prices or using valuation methodologies based on the net present value of estimated future cash flows taking into consideration market conditions for the underlying instruments, the time value, the yield curve and volatility factors, in accordance with IFRS 13 - Fair Value. 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 from those summarised in Notes 41 and 42.

3.3. Impairment losses of loans and advances to customers

The Bank reviews its loan portfolio on a regular basis to assess impairment, as described in Note 2.4.

The assessment process applied to the loan portfolio to determine whether an impairment loss should be recorded in the income statement is subject to numerous estimates and judgements. The default frequency, risk ratings, loss recovery rates and the estimation of both the amount and timing of future cash flows, amongst other factors, are considered in making this assessment.

The use of alternative methodologies and different assumptions and estimates could result in a different level of impairment losses being recognised. The amount of the impairment of loans and advances to customers determined based on the above criteria is indicated in Note 22.

3.4. Corporate Income tax

The Bank is subject to corporate income tax in numerous jurisdictions. Certain interpretations and estimates are required in determining the overall corporate income tax amount. Different interpretations and estimates could result in a different level of income tax, current and deferred, being recognised in the period and evidenced in Note 34.

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 year during which they were assessed). Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of tax law. However, it is of conviction of the Management that concerning the separate financial statements no additional charges of significant value will occur.

3.5. Pensions and other employee benefits

The determination of the retirement pension liabilities presented in Note 13 requires the use of assumptions and estimates, including the use of actuarial tables, assumptions regarding the growth of pensions, salaries and discounts rates. These assumptions are based on the expectations of NOVO BANCO for the period during which the liabilities will be settled as well as other factors that may impact the costs and liabilities of the pension plan. The sensitivity analysis of the above assumptions is presented in Note13.

Changes in these assumptions could materially affect the amounts determined.

3.6. 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 and CMVM. The amount of the provisions reflects NOVO BANCO's best estimate at each reporting date. The subjectivity inherent to the determination of the probability and amount of the internal resources required for the payment of the obligations may lead to significant adjustments (a) due to variations in the assumptions used (b) for the future recognition of provisions previously disclosed as contingent liabilities; and/or (c) for the future write-off of provisions, when they start to classify as contingent liabilities only. The provisions are detailed in Note 33.

NOTE 4 – NET INTEREST INCOME

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2016			31.12.2015		
	From assets / liabilities at amortised cost and available-for-sale assets	From assets / liabilities at fair value through profit or loss	Total	From assets / liabilities at amortised cost and available-for-sale assets	From assets / liabilities at fair value through profit or loss	Total
Interest and similar income						
Interest from loans and advances	766 977	16 507	783 484	872 177	12 956	885 133
Interest from financial assets at fair value through profit or loss	-	89	89	-	7 359	7 359
Interest from deposits with and loans and advances to banks	62 399	-	62 399	54 585	207	54 792
Interest from available-for-sale financial assets	87 314	-	87 314	90 016	-	90 016
Interest from derivatives held for risk management purposes	-	34 382	34 382	-	85 079	85 079
Other interest and similar income	6 130	-	6 130	25 789	-	25 789
	922 820	**50 978**	**973 798**	**1 042 567**	**105 601**	**1 148 168**
Interest expense and similar charges						
Interest on debt securities	270 975	1 841	272 816	390 338	5 337	395 675
Interest on amounts due to customers	216 324	2 200	218 524	299 545	44 492	344 037
Interest on deposits from Central Banks and other banks	56 897	14 811	71 708	88 995	14 688	103 683
Interest on derivatives held for risk management purposes	-	24 180	24 180	-	52 186	52 186
Other interest and similar charges	11 736	-	11 736	4 905	-	4 905
	555 932	**43 032**	**598 964**	**783 783**	**116 703**	**900 486**
	366 888	**7 946**	**374 834**	**258 784**	**(11 102)**	**247 682**

The interest from (i) deposits with and loans and advances to banks, (ii) on amounts due to customers and (iii) on deposits from Central Banks and other banks include, as at 31 December 2016, respectively, amounts of Euros 533 thousand, Euros 6 thousand and Euros 18 415 thousand in operations with repurchase agreements (31 December 2015: Euros 700 thousand of interest from loans and advances, Euros 418 thousand from deposits with and loans and advances to banks and Euros 18 623 thousand of interest on deposits from Central Banks and other banks).

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 2.3 and 2.18, interest from hedging derivatives and from derivatives used to manage the economic risk of certain financial assets and liabilities designated at fair value through profit or loss, as per the accounting policies described in Notes 2.4, 2.5 and 2.7.

NOTE 5 – INCOME FROM EQUITY INSTRUMENTS

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Dividends from subsidiaries and associated companies	139 932	44 562
Dividends from available-for-sale financial assets	19 906	6 270
	159 838	**50 832**

As at 31 December 2016, this caption includes dividends received from GNB Gestão de Ativos in the amount of Euros 100 000 thousand, from Unicre, Euros 14 442 thousand, and from ES Health Care, Euros 9 400 thousand.

NOTE 6 – NET FEE AND COMMISSION INCOME

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Fee and commission income		
From banking services	212 458	223 035
From guarantees provided	72 991	103 531
From transactions of securities	5 453	5 101
From commitments to third parties	12 255	18 274
Other fee and commission income	32 775	42 804
	335 932	**392 745**
Fee and commission expense		
With banking services rendered by third parties	46 721	49 957
With guarantees received	33 374	34 847
With transactions of securities	5 748	7 977
Other fee and commission expenses	5 293	5 447
	91 136	**98 228**
	244 796	**294 517**

The caption Fee and commission expense with guarantees received includes, as at 31 December 2016 and 2015, an amount of Euros 32.9 million and Euros 34.4 million, respectively, relating to fees with the guarantee received from the Portuguese Government on the debt securities issue (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)

	31.12.2016			31.12.2015		
	Gains	Losses	Total	Gains	Losses	Total
Securities held for trading						
Bonds and other fixed income securities						
Issued by government and public entities	-	2	(2)	2 874	1 477	1 397
Issued by other entities	373	221	152	2 461	18 231	(15 770)
Shares	212	175	37	471	19 682	(19 211)
Other variable income securities	27	-	27	-	53	(53)
	612	**398**	**214**	**5 806**	**39 443**	**(33 637)**
Derivative financial instruments						
Foreign exchange rate contracts	56 827	51 601	5 226	216 409	173 686	42 723
Interest rate contracts	1 370 670	1 471 948	(101 278)	2 516 088	2 588 090	(72 002)
Equity / Index contracts	52 595	19 673	32 922	379 851	400 698	(20 847)
Credit default contracts	107 091	121 002	(13 911)	122 515	123 648	(1 133)
Other	24 668	9 791	14 877	73 100	53 355	19 745
	1 611 851	**1 674 015**	**(62 164)**	**3 307 963**	**3 339 477**	**(31 514)**
Financial assets at fair value through profit or loss						
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	-	-	-	-	69	(69)
Issued by other entities	38 214	517	37 697	8 345	655	7 690
Shares	-	3 119	(3 119)	19	-	19
Other variable income securities	8	2 277	(2 269)	25 331	54 891	(29 560)
	38 222	**5 913**	**32 309**	**33 695**	**55 615**	**(21 920)**
Other financial assets (1)						
Loans and advances to customers	35 972	5 656	30 316	14 114	15 442	(1 328)
	35 972	**5 656**	**30 316**	**14 114**	**15 442**	**(1 328)**
Financial liabilities (1)						
Deposit from banks	78 506	-	78 506	9 622	1 215	8 407
Due to customers	21 381	37	21 344	26 756	6 795	19 961
Debt securities issued	685	-	685	4 963	893	4 070
	100 572	**37**	**100 535**	**41 341**	**8 903**	**32 438**
	174 766	**11 606**	**163 160**	**89 150**	**79 960**	**9 190**
	1 787 229	**1 686 019**	**101 210**	**3 402 919**	**3 458 880**	**(55 961)**

(1) Includes the fair value change of hedged assets / liabilities or at fair value option, as presented in Note 23

As at 31 December 2016, this caption includes a positive effect of Euros 24.2 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 2015: positive effect of Euros 23.9 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.

As at 31 December 2016, the gains recognised in the income statement arising from built-in intermediation fees amounted to approximately Euros 6 597 thousand (31 December 2015: Euros 9 610 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:

(in thousands of Euros)

	31.12.2016			31.12.2015		
	Gains	**Losses**	**Total**	**Gains**	**Losses**	**Total**
Bonds and other fixed income securities						
Issued by government and public entities	26 598	20 367	6 231	57 235	49 772	7 463
Issued by other entities	273	88	185	5 989	11 681	(5 692)
Shares	45 595	2 054	43 541	8 544	4 710	3 834
Other variable income securities	4 948	43 312	(38 364)	10 386	29 616	(19 230)
	77 414	**65 821**	**11 593**	**82 154**	**95 779**	**(13 625)**

In the scope of the Visa Europe acquisition by Visa International, the Bank recognised a gain of Euros 26 583 thousand in 2016.

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

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2016			31.12.2015		
	Gains	**Losses**	**Total**	**Gains**	**Losses**	**Total**
Foreign exchange revaluation	956 000	950 996	5 004	1 620 902	1 628 347	(7 445)
	956 000	**950 996**	**5 004**	**1 620 902**	**1 628 347**	**(7 445)**

This caption includes the results of the foreign exchange revaluation of monetary assets and liabilities denominated in foreign currency in accordance with the accounting policy described in Note 2.2.

NOTE 10 – NET GAINS / (LOSSES) FROM THE SALE OF OTHER ASSETS

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Loans and advances to customers	(215)	(2 239)
Real estate properties	(19 774)	11 092
Equipment	(2 325)	(4 139)
Other	6 756	5 316
	(15 558)	**10 030**

NOTE 11 – OTHER OPERATING INCOME AND EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Other operating income		
IT services	251	176
Gains / (losses) on recoveries of loans	31 605	17 653
Non-recurring advisory services	1 605	3 192
Renegotiation of ACT (Collective Labour Agreement)	28 189	-
Other income	19 823	26 945
	81 473	**47 966**
Other operating expenses		
Net gains / (losses) on repurchase of Group debt securities (see Note 32)	-	(9 570)
Direct and indirect taxes	(8 638)	(8 803)
Contributions to the Deposits Guarantee Fund	(78)	(1 310)
Contributions to the Resolution Fund	(6 599)	(6 591)
Contributions to the Sole Resolution Fund	(25 030)	(25 190)
Banking levy	(36 342)	(31 159)
Membership subscriptions and donations	(2 066)	(2 247)
Charges with Supervisory entities	(1 615)	(1 519)
Contractual indemnities (SPE)	(11 838)	(506)
Other expenses	(33 128)	(21 438)
	(125 334)	(108 333)
Other operating income / (expenses)	**(43 861)**	**(60 367)**

NOTE 12 – STAFF COSTS

The breakdown of Staff costs is as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Wages and salaries	196 765	233 010
Remuneration	196 765	231 532
Long-term service / Career bonuses (see Note 13)	-	1 478
Mandatory social charges	64 129	68 490
Costs with post-employment benefits (see Note 13)	1 246	18 065
Other costs	5 284	14 085
	267 424	**333 650**

The cost with salaries and other benefits attributed to key management personnel of NOVO BANCO, is presented in Note 39.

The number of employees of the Bank, considering both permanent and fixed-term employees, has the following breakdown by professional category:

	31.12.2016	31.12.2015
Senior management functions	452	548
Middle management functions	658	717
Specific functions	2 172	2 558
Administrative and other functions	1 976	2 227
	5 258	**6 050**

The provisions and costs related to the restructuring process carried out during 2016 are presented in Note 33.

NOTE 13 – EMPLOYEE BENEFITS

Pension and health-care benefits

In compliance with the Collective Labour Agreement (*Acordo Coletivo de Trabalho* - 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.

Arising from the signature of the new Collective Labour Agreement (ACT) on 5 July 2016, published in Labour Bulletin (Boletim do Trabalho) no. 29, of 8 August 2016, the Bank's contributions to SAMS as from 1 February 2017, will correspond to a fixed amount (as per Annex VI of the new ACT) for each employee, 14 times a year.

The measurement and recognition of the Bank's liability with post-retirement health-care benefits is similar to the measurement and recognition of the pension liability. These benefits are covered by the Pension Fund, which currently covers all liabilities with pensions and health-care benefits.

For employees hired before 31 December 2008, the retirement pension and the disability, survival and death pensions consecrated under the ACT, as well as the liabilities for health-care benefits (SAMS), are covered by a closed pension fund, managed by GNB – Sociedade Gestora de Fundos de Pensões, S.A..

Protection of employees in the event of maternity, paternity and adoption, as well as old age, is covered by the General Social Security Regime, given that with the publication of Decree-Law no. 1-A/2011, of 3 January, all banking employees that were beneficiaries of "CAFEB – Caixa de Abono de Família dos Empregados Bancários" were integrated in the General Social Security Regime as from 1 January 2011.

Employees hired after 31 December 2008 are covered by the Portuguese General Social Security Regime.

Retirement pensions of banking employees integrated in the General Social Security Regime within the scope of the second tripartite agreement continue to be calculated in accordance with the provisions of the ACT and other conventions, however, banking employees are entitled to receive a pension under the General Regime, that takes into account the number of years of contributions under that regime. The banks are responsible for the difference between the pension determined in accordance with the provisions of the ACT and that which the banking employees are entitled to receive from the General Social Security Regime.

The contribution rate is 26.6%, 23.6% paid by the employer and 3% paid by the employees to the General Social Security Regime in substitution of the Caixa de Abono de Família dos Empregados Bancários (CAFEB), abolished by said Decree-law. In consequence of this change, pension entitlements of active employees are to be covered on the terms defined under the General Social Security Regime, for the length of their employment between 1 January 2011 and their retirement date. The differential required to make up the 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 Coletiva de Trabalho (IRCT)" applicable to banking employees, including the eventualities of death, disability and survival. The liabilities relating to the updating of pension amounts, pension benefits other than those to be borne by Social Security, health-care contributions to SAMS, death allowances and deferred survivor' 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 (5 p.m.), and the additional clarifications contained in the deliberation of the Board of Directors of Banco de Portugal, of 11 February 2015, it was clarified that the BES responsibilities not transferred to NOVO BANCO relate to the retirement and survival pensions and complementary retirement and survival pensions of the Directors of BES who had been members of its Executive Committee, as defined in BES's Articles of Association and BES's General Assembly Regulations to which the Articles of Association refers, not having, therefore, been transferred to NOVO BANCO, without prejudice to the responsibilities relating exclusively to the employment contracts with BES.

Given the aforementioned, the liabilities arising exclusively from the employment contracts with BES were transferred to NOVO BANCO. In light of the foregoing, only the pension fund liabilities arising from the Complementary Executive Committee Plan were split, with a part (described above) remaining in BES, with the other part being transferred to NOVO BANCO, together with the 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 the decision of Banco de Portugal of 11 February 2015, from those that were transferred to NOVO BANCO, the assets existing on 3 August 2014 were split in proportion to the liabilities calculated on the same date, allocated to each of the groups of former participants and beneficiaries allocated to each of the entities. The split performed on these terms will result, on 3 August 2014, in a level of funding of the Complementary Plan of the Executive Committee 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, up to the present date, the formalisation of the effective splitting of the liabilities / assets of BES and NB has not yet occurred, with both formally continuing to be members of the same Pension Fund.

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

	31.12.2016			31.12.2015		
	Assumptions		Actual	Assumptions		Actual
Actuarial Assumptions						
Projected rate of return on plan assets	2.10%		-0.89%	2.50%		-1.34%
Discount rate	2.10%		-	2.50%		-
Pension increase rate	0.25%	(1)	0.50%	0.00%	(3)	0.11%
Salary increase rate	0.50%	(2)	1.87%	0.50%	(4)	1.47%
Mortality table men	TV 73/77 - 2 years			TV 73/77 - 2 years		
Mortality table women	TV 88/90 - 2 years			TV 88/90 - 2 years		

(1) 0.75% in 2017; in 2018 and 2019 a growth rate of 0.00% was considered and from 2020 a growth rate of 0.25% was considered

(2) 0.75% in 2017; from 2018 a growth rate of 0.50% was considered

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

(4) 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 2016 and 2015 was based on: (i) the evolution in the main indices for high quality corporate bonds and (ii) the duration of the liabilities.

The pension plan participants have the following breakdown:

	31.12.2016	31.12.2015
Employees	4 629	4 953
Pensioners and survivors	6 326	6 083
TOTAL	**10 955**	**11 036**

The application of IAS 19 in terms of liabilities and coverage levels as at 31 December 2016 and 2015 is presented as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Assets / (liabilities) recognised in the balance sheet		
Total liabilities	**(1 542 016)**	**(1 513 154)**
Liabilities with retirement pensions		
Pensioners	(891 720)	(712 715)
Employees	(650 296)	(800 439)
Coverage		
Fair value of plan assets	**1 523 694**	**1 481 484**
Net assets / (liabilities) in the balance sheet (See Notes 28 and 35)	**(18 322)**	**(31 670)**
Accumulated actuarial deviations recognised in other comprehensive income	383 704	304 267

According to the policy defined in Note 2.15 – Employees Benefits, the Bank calculates liabilities for pensions and the actuarial gains and losses half-yearly and evaluates at each balance sheet date and for each plan separately, the recoverability of the excess cover in light of the respective pensions liabilities.

The sensitivity analysis to a 0.25% increase in the rate of the assumptions and to a one-year increase in the mortality table results in the following changes in the present value of the liabilities determined for past services:

(in thousands of Euros)

Assumptions	**Change in the amount of liabilities due to the change:**	
	of +0.25% in the rate used	of -0.25% in the rate used
Discount rate	(58 752)	58 751
Salary increase rate	16 571	(15 065)
Pension increase rate	21 090	(21 091)
	of +1 year	of -1 year
Mortality table	(48 207)	46 700

The evolution of liabilities for pension and health-care benefits can be analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Retirement pension liabilities at beginning of period	**1 513 154**	**1 470 481**
Current service cost	1 036	3 738
Interest cost	36 888	36 350
Plan participants' contribution	2 808	2 871
Contributions from other entities	287	302
Actuarial (gains) / losses in the period:		
- Changes in demographic assumptions	-	(76 107)
- Changes in financial assumptions	25 700	109 667
- Experience adjustments (gains) / losses	11 667	(2 835)
Pensions paid by the fund / transfers and once-off bonuses	(68 013)	(40 324)
Early retirement	38 473	12 791
Foreign exchange differences and other	(19 984)	(3 780)
Retirement pension liabilities at end of period	**1 542 016**	**1 513 154**

The evolution of the fair value of the pension funds' assets may be analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Fair value of fund assets at beginning of period	**1 481 484**	**1 410 335**
Net return from the fund	(5 381)	19 553
- Share of the net interest on the assets	36 737	35 714
- Return on assets excluding net interest	(42 118)	(16 161)
Bank contributions	116 871	94 449
Plan participants' contributions	2 808	2 871
Pensions paid by the fund	(68 013)	(40 324)
Foreign exchange differences and other	(4 075)	(5 400)
Fair value of fund assets at end of period	**1 523 694**	**1 481 484**

The assets of the pension funds may be analysed as follows:

(in thousands of Euros)

	31.12.2016			31.12.2015		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equity instruments	61 225	58 532	119 757	141 565	45 930	187 495
Debt instruments	600 908	-	600 908	487 005	-	487 005
Investment funds	451 606	64 858	516 464	417 451	71 890	489 341
Structured debt	-	5 803	5 803	-	-	-
Derivative instruments	-	-	-	-	-	-
Real estate properties	-	129 806	129 806	-	138 871	138 871
Cash and cash equivalents	-	150 956	150 956	-	178 772	178 772
Total	**1 113 739**	**409 955**	**1 523 694**	**1 046 021**	**435 463**	**1 481 484**

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

(in thousands of Euros)

	31.12.2016	31.12.2015
Real estate properties	85 067	83 212
Total	**85 067**	**83 212**

The evolution of the actuarial gains and losses in the balance sheet can be analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Accumulated actuarial losses recognised in other comprehensive income at beginning of period	**304 267**	**256 906**
Actuarial (gains) / losses in the period:		
- Changes in assumptions	25 700	33 560
- Experience adjustments (gains) / losses	53 785	13 326
Other	(48)	475
Accumulated actuarial losses recognised in other comprehensive income at end of period	**383 704**	**304 267**

The cost for financial years 2016 and 2015 with retirement pensions and health-care benefits are analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Current service cost	1 036	3 738
Interest cost / (income)	2 294	2 208
Early retirement	-	12 791
Other	210	1 536
Cost with post-employment benefits	**3 540**	**20 273**

In 2016, the cost of the early retirements totalling Euros 35.1 million were part of the Bank's restructuring process and, as such, was recognised against the use of the restructuring provision (see Note 33).

In 2016, the amount of the early retirement costs totalled Euros 38.5 million, of which Euros 36.5 million were part of the Group's restructuring process and, as such, were recognised against the use of the restructuring provision (see Note 39), with the remaining Euros 2.0 million being recorded as a cost in 2015.

The evolution of net assets / (liabilities) recognised in the balance sheet are analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
At beginning of period	**(31 670)**	**(60 146)**
Cost for period	(3 540)	(20 273)
Actuarial gains / (losses) recognised in other comprehensive income	(79 485)	(46 886)
Contributions made in the period	116 871	94 449
Other	(20 498)	1 186
At end of period	**(18 322)**	**(31 670)**

The summary of the liabilities and balances of the funds, as well as the experience profit and loss at 31 December 2016 and 2015 is analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015	31.12.2014
Retirement pension liabilities	(1 542 016)	(1 513 154)	(1 470 481)
Fair value of plan assets	1 523 694	1 481 484	1 410 335
(Under) / overfunding of liabilities	**(18 322)**	**(31 670)**	**(60 146)**
(Gains) / losses on experience adjustments in retirement pension liabilities	11 667	(2 835)	13 005
(Gains) / losses on experience adjustments in plan assets	42 118	16 161	118 921

The average duration of the liabilities of the defined benefit plans is approximately 17 years (31 December 2015: approximately 17 years). The table below presents the temporal breakdown of the estimated benefits payable:

(in thousands of Euros)

	Up to 1 year	From 1 to 2 years	From 2 to 5 years	More than 5 years
Estimated amount of benefits payable	46 785	96 328	153 538	1 741 593

As at 31 December 2016, the on-balance sheet liabilities are fully funded for the base and complementary plan (see Note 28). No contribution was made to the EC complementary plan, with the same being conditioned by the formalisation of the split of the liabilities and assets between NB and BES following the Banco de Portugal deliberation of 11 February 2015. The amount not funded totals Euros 18 322 thousand. No additional contributions to the defined benefit plans for the following financial year are anticipated, since the fund's income is expected to be sufficient to cover the changes in liabilities.

Long-term service bonuses and Career bonuses

As at 31 December 2016, the liabilities assumed by the Bank amounted to Euros 5 056 thousand (31 December 2015: Euros 28 396 thousand), corresponding to the liabilities for past services subjacent to the career bonuses, as described in Note 2.15 – Employee benefits – Long-term service bonuses and Career bonuses (see Note 35).

In 2016, there were no costs with long-term service bonuses / career bonuses, due to the fact that, consequence of the change in the ACT, the liabilities determined for the career bonuses, increased by the proportional amounts payable for the long-term service bonuses are lower than the liabilities related to the long-term service bonuses determined and recorded on 31 December 2015 (see Note 12).

NOTE 14 – GENERAL AND ADMINISTRATIVE EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Rentals	36 740	43 549
Advertising	10 850	11 539
Communication	14 837	18 617
Maintenance and repairs expenses	9 160	10 318
Travelling and representation	3 433	5 148
Transportation of valuables	3 988	4 975
Insurance	3 739	4 633
IT services	51 370	53 628
Independent work	4 795	5 728
Temporary work	1 477	3 414
Electronic payment systems	9 543	9 265
Legal costs	22 500	21 271
Consultancy and audit fees	16 488	17 127
Water, energy and fuel	7 637	7 610
Consumables	2 131	2 620
Cleaning and hygiene	4 216	4 856
Security and vigilance	2 042	3 125
Other costs	29 957	37 334
	234 903	**264 757**

The caption Rentals includes Euros 5 781 thousand (31 December 2015: Euros 6 997 thousand) related to costs with operating leases of vehicles, being the Bank allowed, at any moment, to cancel the same and, therefore, the future payments.

The caption Other costs includes, among others, costs incurred with training and services rendered by the Joint Ventures (ACEs) in which NOVO BANCO participates.

The fees invoiced during 2016 by the Statutory Audit Firm, according to that laid down in article 508-F of the Portuguese Companies Code, have the following breakdown:

(in thousands of Euros)

	31.12.2016
Annual statutory audit	3 235
Other assurance services	1 335
Other services	522
Amount of total services billed	**5 092**

The fees related to the statutory audit and limited review services include prior year fees that were only invoiced in 2016.

NOTE 15 – EARNINGS PER SHARE

Basic earnings per share

The basic earnings per share are calculated dividing the net profit attributable to the shareholders of the Bank by the weighted average number of ordinary shares in circulation during the year.

(in thousands of Euros)

	31.12.2016	31.12.2015
Net profit / (loss) attributable to shareholders of the Bank	**(744 744)**	**(1 064 641)**
Weighted average number of ordinary shares outstanding (thousands)	4 900 000	4 900 000
Basic earnings per share from continuing activities attributable to shareholders of the Bank (in Euros)	**(0.15)**	**(0.22)**

Diluted earnings per share

The diluted earnings per share is calculated considering the net profit attributable to the shareholders of the Bank and the weighted average number of ordinary shares in circulation, adjusted for the effects of all potential dilutive ordinary shares.

The diluted earnings per share do not differ from the basic earnings per share, since no dilution effects exist.

NOTE 16 – CASH AND DEPOSITS WITH CENTRAL BANKS

As at 31 December 2016 and 2015, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Cash	175 575	174 223
Demand deposits with Central Banks		
Banco de Portugal	1 234 082	544 814
Other Central Banks	54 745	19 323
	1 288 827	564 137
	1 464 402	**738 360**

As at 31 December 2016, the caption Demand deposits with Banco de Portugal includes mandatory deposits to comply with the minimum legal cash reserve requirements, in an amount of Euros 198.7 million (31 December 2015: Euros 228.6 million). According to European Central Bank Regulation (EU)no. 1358/2011, of 12 December 2011, minimum cash requirements of demand deposits with Banco de Portugal are interest-bearing and correspond to 1% of the deposits and debt certificates maturing in less than 2 years, after excluding from these the deposits and debt securities of institutions subject to the European Central Bank Systems' minimum reserve requirements. At 31 December 2016, the average interest rate on these deposits was 0.01% (31 December 2015: 0.05%).

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 2016 was included in the observation period running from 14 December 2016 to 24 January 2017.

NOTE 17 – DEPOSITS WITH OTHER BANKS

As at 31 December 2016 and 2015, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Deposits with banks in Portugal		
Uncollected cheques	60 034	87 875
Repayable on demand	13 035	12 274
	73 069	**100 149**
Deposits with banks abroad		
Repayable on demand	43 705	32 604
	43 705	**32 604**
	116 774	**132 753**

The 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 2016 and 2015, the caption Financial assets and liabilities held for trading has the following breakdown:

(in thousands of Euros)

	31.12.2016	31.12.2015
Financial assets held for trading		
Securities		
Bonds and other fixed income securities		
Issued by government and public entities	-	1 128
Issued by other entities	1	30
Shares	215	14 550
Other variable income securities	-	76
	216	**15 784**
Derivatives		
Derivative financial instruments with a positive fair value	665 148	771 299
	665 364	**787 083**
Financial liabilities held for trading		
Derivatives		
Derivative financial instruments with a negative fair value	645 359	758 446
	645 359	**758 446**

As at 31 December 2016 and 2015, the analysis of the securities held for trading, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Up to 3 months	1	1 096
More than 5 years	-	62
Undetermined	215	14 626
	216	**15 784**

As at 31 December 2016 and 2015, the caption Financial assets held for trading, split between quoted and unquoted securities, has the following breakdown:

(in thousands of Euros)

	31.12.2016			31.12.2015		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Bonds and other fixed income securities						
Issued by government and public entities	-	-	-	1 128	-	1 128
Issued by other entities	-	1	1	-	30	30
Shares	139	76	215	299	14 251	14 550
Other variable income securities	-	-	-	76	-	76
	139	**77**	**216**	**1 503**	**14 281**	**15 784**

A breakdown of the securities held for trading, by fair value hierarchy, is presented in Note 41.

As at 31 December 2016 and 2015, the exposure to sovereign debt of "peripheral" Eurozone countries is analysed in Note 42 – Risk management.

As at 31 December 2016 and 2015, derivative financial instruments are analysed as follows:

(in thousands of Euros)

	31.12.2016			31.12.2015		
	Notional	Fair value		Notional	Fair value	
		Assets	Liabilities		Assets	Liabilities
Trading derivatives						
Exchange rate contracts						
Forwards						
- buy	483 958	8 730	7 572	604 212	8 576	13 926
- sell	482 707			609 382		
Currency Swaps						
- buy	1 088 802	903	548	850 591	393	204
- sell	1 082 763			845 685		
Currency Futures a)						
- buy	-	-	-	1 998	-	-
- sell	-			-		
Currency Interest Rate Swaps						
- buy	25 935	23 017	23 273	28 946	23 927	23 900
- sell	25 913			28 931		
Currency Options						
- buy	320 846	8 289	7 713	410 392	7 246	5 969
- sell	270 183			229 544		
		40 939	**39 106**		**40 142**	**43 999**
Interest rate contracts						
Interest Rate Swaps						
- buy	7 146 548	600 965	577 654	8 915 266	706 128	684 712
- sell	7 175 625			8 939 736		
Interest Rate Caps & Floors						
- buy	45 616	1 078	1 035	35 314	1 563	1 597
- sell	60 100			38 556		
		602 043	**578 689**		**707 691**	**686 309**
Equity / Index contracts						
Equity / Index Swaps						
- buy	16 702	740	251	14 283	386	54
- sell	16 702			14 283		
Equity / Index Options						
- buy	312 664	2 499	13 698	191 097	1 683	11 519
- sell	405 119			232 021		
Equity / Index Futures a)						
- buy	10 735	-	-	21 527	-	-
- sell	59 218			462		
Future Options a)						
- buy	550 232	-	-	325 160	-	-
- sell	-			-		
		3 239	**13 949**		**2 069**	**11 573**
Credit default contracts						
Credit Default Swaps						
- buy	108 888	18 927	13 615	327 429	21 397	16 565
- sell	108 888			327 429		
		18 927	**13 615**		**21 397**	**16 565**
Total		**665 148**	**645 359**		**771 299**	**758 446**

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 2016, the Bank recognised a loss of Euros 8.1 million related with the CVA of the derivative instruments (31 December 2015: loss of Euros 45.9 million).

As at 31 December 2016 and 2015, the analysis of derivative financial instruments held for trading, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2016			31.12.2015		
	Notional		Fair value (net)	Notional		Fair value (net)
	Buy	Sell		Buy	Sell	
Up to 3 months	1 666 901	1 635 672	(23 243)	1 892 243	1 599 155	(41 257)
3 months to 1 year	1 387 394	885 899	(11 686)	774 329	494 107	3 643
1 to 5 years	1 818 555	1 873 335	(14 171)	2 662 353	2 727 178	(1 311)
More than 5 years	5 238 076	5 292 312	68 889	6 397 290	6 445 589	51 778
	10 110 926	**9 687 218**	**19 789**	**11 726 215**	**11 266 029**	**12 853**

NOTE 19 – OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Bonds and other fixed income securities		
Issued by other entities	1 414	1 785
Shares and other variable income securities	3 462	225 608
	4 876	**227 393**

The Bank's option, considering IAS 39 and in accordance with the accounting policy described in Note 2.5, to define these financial assets at fair value through profit or loss, is in accordance with its documented risk management strategy, given that these financial assets (i) are managed and their performance evaluated on a fair value basis and/or (ii) have embedded derivative instruments.

As at 31 December 2016 and 2015, the analysis of the financial assets at fair value through profit or loss, by maturity period, is as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Up to 3 months	-	62
More than 5 years	1 414	1 552
Undetermined	3 462	225 779
	4 876	**227 393**

This caption, split between quotes and unquoted securities, has the following breakdown:

(in thousands of Euros)

	31.12.2016			31.12.2015		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Bonds and other fixed income securities						
Issued by other entities	1 414	-	1 414	1 615	170	1 785
Shares and other variable income securities	2 936	526	3 462	6 053	219 555	225 608
	4 350	**526**	**4 876**	**7 668**	**219 725**	**227 393**

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 2016 and 2015, 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	**4 693 978**	**51 348**	**(7 329)**	**-**	**4 737 997**
Resident	2 164 428	41 349	(1 525)	-	2 204 252
Non-resident	2 529 550	9 999	(5 804)	-	2 533 745
Issued by other entities	**2 566 658**	**42 554**	**(97 042)**	**(209 232)**	**2 302 938**
Resident	1 339 877	42 494	(18 078)	(179 742)	1 184 551
Non-resident	1 226 781	60	(78 964)	(29 490)	1 118 387
Shares	**1 481 077**	**62 653**	**(18 044)**	**(646 547)**	**879 139**
Resident	691 670	9 970	(1)	(486 861)	214 778
Non-resident	789 407	52 683	(18 043)	(159 686)	664 361
Other variable income securities	**2 677 160**	**29 436**	**(2 798)**	**(653 173)**	**2 050 625**
Resident	2 598 297	27 193	(2 798)	(616 221)	2 006 471
Non-resident	78 863	2 243	-	(36 952)	44 154
Balance at 31 December 2016	**11 418 873**	**185 991**	**(125 213)**	**(1 508 952)**	**9 970 699**
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 at 31 December 2015	**11 833 207**	**150 341**	**(61 747)**	**(1 326 870)**	**10 594 931**

(1) Acquisition cost for shares and other variable income securities and amortised cost for debt securities

As at 31 December 2016, this caption includes assets amounting to Euros 16 601 thousand measured at acquisition cost net of impairment (31 December 2015: Euros 2 918 thousand).

In accordance with the accounting policy presented in Note 2.5, the Bank performs periodic assessments in order to confirm if there is objective evidence of impairment in its portfolio of Available-for-sale financial assets, applying the judgment criteria described in Note 3.1.

As at 31 December 2016 and 2015, the exposure, under this caption, to sovereign debt of the Eurozone "peripheral" countries is presented in Note 42 – Risk management.

The changes occurring in the impairment losses of Available-for-sale financial assets are presented as follows:

(in thousands of Euros)

	31.12.2016					31.12.2015
	Bonds		Shares	Other var. income securities	Total	
	Gov. & public entities	Other entities				
Balance at the beginning of the period	-	159 417	534 786	632 667	1 326 870	824 748
Allocation for the period	-	68 367	207 708	69 209	345 284	238 692
Utilisation during the period	-	(417)	(114 788)	(48 703)	(163 908)	(57 045)
Write-back for the period	-	(17 307)	(1 423)	-	(18 730)	(28 872)
Foreign exchange differences and other [(1)]	-	(828)	20 264	-	19 436	349 347
Balance at the end of the period	**-**	**209 232**	**646 547**	**653 173**	**1 508 952**	**1 326 870**

[(1)] - Includes, in the first half of 2015, Euros 360 842 thousand of impairment of securities transferred in the scope of the Avistar merger in NOVO BANCO

As at 31 December 2016 and 2015, the analysis of Available-for-sale financial assets, by residual maturity period, is presented as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Up to 3 months	1 098 669	800 925
3 months to 1 year	1 763 058	2 570 338
1 to 5 years	1 718 836	1 796 545
More than 5 years	2 460 372	2 214 628
Undetermined	2 929 764	3 212 495
	9 970 699	**10 594 931**

Available-for-sale financial assets, split between quoted and unquoted securities, are as follows:

(in thousands of Euros)

	31.12.2016			31.12.2015		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Bonds and other fixed income securities						
Issued by government and public entities	4 255 874	482 123	4 737 997	4 719 553	442 842	5 162 395
Issued by other entities	158 730	2 144 208	2 302 938	129 485	2 121 864	2 251 349
Shares	56 066	823 073	879 139	83 141	820 787	903 928
Other variable income securities	-	2 050 625	2 050 625	-	2 277 259	2 277 259
	4 470 670	**5 500 029**	**9 970 699**	**4 932 179**	**5 662 752**	**10 594 931**

A breakdown of the available-for-sale securities, by fair value, is presented in Note 41.

NOTE 21 – LOANS AND ADVANCES TO BANKS

As at 31 December 2016 and 2015, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Loans and advances to banks in Portugal		
Deposits with banks	244 825	1 102 676
Loans	24 850	29 339
Very short-term deposits	12 808	-
Operations with reverse repurchase agreements	12 772	13 226
Other loans and advances	6	10
	295 261	**1 145 251**
Loans and advances to banks abroad		
Deposits with banks	91 279	137 703
Very short-term deposits	41 722	71 495
Loans	538 196	1 273 194
Other loans and advances	440 073	57 405
	1 111 270	**1 539 797**
Overdue loans and advances	391 506	50 000
	1 798 037	**2 735 048**
Impairment losses	(472 414)	(186 900)
	1 325 623	**2 548 148**

As at 31 December 2016, impairment losses include Euros 341.5 million for the exposure in ES Bank Panamá that is totally provided against, arising from the merger by incorporation of BIBL.

Operations with repurchase agreements, as at 31 December 2016 and 2015, relate to operations with a maturity of one to five years.

The 2015 annual financial statements already incorporated the set of financial restructuring measures applied in 2014 by Banco Nacional de Angola (BNA) to BES Angola (now Banco Económico) with an impact on the NOVO BANCO loan. As at 31 December 2016, the gross exposure to Banco Económico was Euros 647 207 thousand including accrued interest (31 December 2015: Euros 838 088 thousand), which included (i) a senior loan in the amount of Euros 202 735 thousand, maturing in August 2018, (ii) a subordinated loan of Euros 406 526 thousand, maturing on 30 October 2024 and (iii) 9.7% of Banco Económico's share capital (Euros 37 946 thousand).

As at 31 December 2016 and 2015, the analysis of loans and advances to banks, by residual maturity period, is presented as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Up to 3 months	460 529	947 030
3 months to 1 year	221 019	424 521
1 to 5 years	275 809	880 218
More than 5 years	449 174	433 279
Undetermined (overdue loans)	391 506	50 000
	1 798 037	**2 735 048**

The movements occurring during 2016 and 2015 in the impairment losses of loans and advances to banks are presented as follows:

(in thousands of Euros)

	31.12.2016			31.12.2015
	Loans and advances	**Overdue loans and advances**	**Total**	
Balance at beginning of period	186 900	-	186 900	108 813
Increase for the period	2 482	50 000	52 482	82 322
Reversals	-	(1)	(1)	(3 166)
Foreign exchange differences and other [a)]	(108 464)	341 497	233 033	(1 069)
Balance at end of period	**80 918**	**391 496**	**472 414**	**186 900**

a) Includes in Loans Euros 110 678 thousand relating to the impairment the Bank had for the exposure to BIBL at the date of the respective merger and in Loans and advances overdue Euros 341 497 thousand relating to the impairment of the deposit with ES Bank Panamá, resulting from the merger of BIBL (see Note 45)

NOTE 22 – LOANS AND ADVANCES TO CUSTOMERS

As at 31 December 2016 and 2015, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Domestic loans and advances		
Corporate		
Current account loans	1 685 362	2 303 912
Loans	9 358 615	10 216 410
Discounted bills	95 888	127 387
Factoring	811 974	787 999
Overdrafts	13 961	21 388
Finance leases	1 561 954	1 653 040
Other loans and advances	54 983	30 598
Individuals		
Mortgage loans	6 554 510	6 556 856
Consumer credit and other loans	793 951	849 304
	20 931 198	**22 546 894**
Foreign loans and advances		
Corporate		
Loans	2 783 886	3 346 951
Current account loans	396 674	632 859
Overdrafts	65 415	88 953
Discounted bills	288 439	549 775
Finance leases	48 118	50 232
Factoring	90 045	82 385
Other loans and advances	5 274	8 336
Individuals		
Mortgage loans	759 513	741 422
Consumer credit and other loans	334 361	311 145
	4 771 725	**5 812 058**
Overdue loans and advances and interest		
Up to 3 months	71 416	261 941
3 months to 1 year	937 544	1 280 658
1 to 3 years	2 847 499	2 050 641
More than 3 years	1 854 160	1 758 184
	5 710 619	**5 351 424**
	31 413 542	**33 710 376**
Impairment losses	**(5 508 133)**	**(5 705 018)**
	25 905 409	**28 005 358**

As at 31 December 2016, the balance for Loans and advances to customers includes Euros 4 621.9 million (31 December 2015: Euros 4 233.6 million) in residential mortgage loans that collateralise the issue of covered bonds (see Note 32).

This caption includes, as at 31 December 2016, Euros 657 093 thousand (31 December 2015: Euros 430 560 thousand) recorded in the balance sheet at fair value through profit or loss (see Note 41).

As at 31 December 2016, the amount of interest income and fees recorded in the balance sheet relating to credit operations totals Euros 33 025 thousand (31 December 2015: Euros 367 thousand).

The caption Residential mortgage loans includes a negative fair value of Euros 102 849 thousand related to the fair value adjustments of items hedge (see Note 23).

As at 31 December 2016 and 2015, the analysis of Loans and advances to customers, by residual maturity date, is as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Up to 3 months	3 676 722	3 570 552
3 months to 1 year	2 117 294	2 928 249
1 to 5 years	5 310 284	6 905 157
More than 5 years	14 598 623	14 954 994
Undetermined (overdue loans)	5 710 619	5 351 424
	31 413 542	**33 710 376**

The changes occurring in the impairment losses of Loans and advances to customers are presented as follows:

(in thousands of Euros)

	31.12.2016				31.12.2015
	Corporate loans	Individuals - Mortgage loans	Individuals - Other loans	Total	
Balance at the beginning of the period	5 285 706	150 831	268 481	5 705 018	5 250 636
Allocation / reversals	469 583	13 381	72 909	555 873	410 183
Utilisation	(571 492)	(27 330)	(44 259)	(643 081)	(163 363)
Transfers	(126 492)	-	-	(126 492)	-
Foreign exchange differences and other	72 706	3 571	(59 462)	16 815	207 562
Balance at the end of the period	**5 130 011**	**140 453**	**237 669**	**5 508 133**	**5 705 018**

Loans and advances to customers by interest rate type are as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Fixed interest rate	3 282 970	3 512 286
Variable interest rate	28 130 572	30 198 090
	31 413 542	**33 710 376**

An analysis of finance lease loans, by maturity period, is presented as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Gross investment in finance leases receivable		
Up to 1 year	262 839	282 384
1 to 5 years	792 953	845 363
More than 5 years	806 072	855 776
	1 861 864	1 983 523
Unrealised finance income in finance leases		
Up to 1 year	42 329	47 881
1 to 5 years	112 432	127 548
More than 5 years	59 029	66 621
	213 790	242 050
Present value of minimum lease payments receivable		
Up to 1 year	220 511	234 503
1 to 5 years	680 521	717 815
More than 5 years	747 043	789 155
	1 648 075	1 741 473
Impairment	(265 578)	(287 191)
	1 382 497	**1 454 282**

NOTE 23 – DERIVATIVES HELD FOR RISK MANAGEMENT PURPOSES

As at 31 December 2016 and 2015, the fair value of the derivatives held for risk management purposes is analysed as follows:

(in thousands of Euros)

	31.12.2016			31.12.2015		
	Hedging	Risk management	Total	Hedging	Risk management	Total
Derivatives held for risk management purposes						
Derivatives held for risk management purposes - assets	7 106	216 477	223 583	90 648	231 407	322 055
Derivatives held for risk management purposes - liabilities	(106 478)	(1 785)	(108 263)	(75 806)	(2 040)	(77 846)
	(99 372)	**214 692**	**115 320**	**14 842**	**229 367**	**244 209**
Fair value component of assets and liabilities hedged or recorded at fair value through profit or loss						
Financial assets						
Loans and advances to customers	102 849	-	102 849	72 533	-	72 533
	102 849	**-**	**102 849**	**72 533**	**-**	**72 533**
Financial liabilities						
Deposits from banks	(2 394)	-	(2 394)	(80 949)	-	(80 949)
Due to customers	-	(2 067)	(2 067)	-	(22 017)	(22 017)
Debt securities issued	(82)	-	(82)	(767)	(1 395)	(2 162)
	(2 476)	**(2 067)**	**(4 543)**	**(81 716)**	**(23 412)**	**(105 128)**
	100 373	**(2 067)**	**98 306**	**(9 183)**	**(23 412)**	**(32 595)**

As mentioned in the accounting policy described in Note 2.3, the caption Derivatives held for risk management purposes include hedging derivatives and derivatives contracted to manage the economic risk of certain Financial assets and liabilities designated at fair value through profit or loss (and that were not designated as hedging derivatives).

Hedging derivatives – fair value

As at 31 December 2016 and 2015, fair value hedging operations may be analysed as follows:

(in thousands of Euros)

31.12.2016							
Derivative	Hedged item	Hedged risk	Notional	Fair value of derivative (1)	Change in fair value of derivative in period	Fair value component of item hedged (2)	Change in fair value of item hedged in period (2)
Interest Rate Swap/CIRS	Loans and advances to customers	Interest and exchange rates	1 160 962	(105 001)	(31 092)	102 849	30 316
Interest Rate Swap	Deposit from banks	Interest rate	196 000	3 948	(81 169)	(2 394)	78 506
Interest Rate Swap	Debt securities issued	Interest rate	80 000	1 681	(726)	(82)	685
			1 436 962	**(99 372)**	**(112 987)**	**100 373**	**109 507**

(1) Includes accrued interest
(2) Attributable to hedged risk

(in 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 item hedged in period (2)
Interest Rate Swap/CIRS	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	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

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 2016, the ineffective portion of the fair value hedging operations resulted in a loss of Euros 3.5 million that was recognised in the income statement (31 December 2015: gain of Euros 2.7 million). The Bank periodically evaluates the effectiveness of the hedges.

As at 31 December 2016, the fair value of the financial liabilities at fair value through profit or loss includes a positive cumulative effect of Euros 185.2 million (31 December 2015: positive cumulative effect of Euros 161.0 million) attributable to the Bank's own credit risk. The Bank recognised in the 2016 income statement a positive effect of Euros 24.2 million relating to the change in the value of the financial liabilities designated at fair value through profit or loss attributable to the entity's own credit risk (31 December 2015: gain of Euros 23.9 million) (see Note 7).

Other derivatives held for risk management purposes

Other derivatives held for risk management purposes include derivatives used to hedge financial assets and liabilities at fair value through profit or loss, in accordance with the accounting policies described in Notes 2.4, 2.5 and 2.7 and that the Bank did not designate for hedge accounting.

The book value of financial assets and liabilities at fair value through profit or loss may be analysed as follows:

(in thousands of Euros)

31.12.2016									
		Derivative			Associated financial asset / liability				
Derivative	Associated financial asset / liability	Notional	Fair value	Change in fair value during period	Fair value	Change in fair value during period	Carrying book value	Redemption amount at maturity
	Assets							
Credit default swaps	Loans and advances to customers	398 370	105 570	-	-	-	-	199 185
	Liabilities							
Interest Rate Swap	Deposits from Banks	468 494	101 582	1 043	-	-	143 428	234 168
Interest Rate Swap	Due to customers	730 000	4 666	(16 761)	(2 067)	21 344	264 723	262 656
Interest Rate Swap/FX Forward/Index Swap	Debt securities issued	8 160	2 874	(15 303)	-	-	-	-
		1 605 024	**214 692**	**(31 021)**	**(2 067)**	**21 344**	**408 151**	**696 009**

(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 book value	Redemption amount at maturity
	Assets							
Credit default swaps	Loans and advances to customers	532 458	102 797	-	-	-	-	266 230
	Liabilities							
Interest Rate Swap	Deposits 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	Debt securities issued	173 353	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**

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 2016 and 2015, the analysis of derivatives held for risk management and hedging purposes, by residual maturity period, may be analysed as follows:

(in thousands of Euros)

	31.12.2016			31.12.2015		
	Notional		Fair value (net)	Notional		Fair value (net)
	Buy	Sell		Buy	Sell	
Up to 3 months	165 000	165 000	2 628	215 621	215 714	875
3 months to 1 year	307 080	307 080	8 796	12 736	12 962	83
1 to 5 years	208 000	208 000	(16 182)	491 160	491 160	16 777
More than 5 years	840 913	840 913	120 078	951 262	951 262	226 474
	1 520 993	**1 520 993**	**115 320**	**1 670 779**	**1 671 098**	**244 209**

NOTE 24 – NON-CURRENT ASSETS HELD FOR SALE

This caption as at 31 December 2016 and 2015, is analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Non-current tangible fixed assets held for sale		
Real estate properties	-	1 642 904
Equipment	-	25 490
	-	**1 668 394**
Other non-current assets held for sale	**94 868**	**12 875**
Impairment losses	(10 394)	(429 219)
	84 474	**1 252 050**

The amounts presented in non-current tangible fixed assets held for sale relate to property and equipment acquired in exchange for loans and discontinued facilities available for immediate sale.

The other non-current assets held for sale include, in December 2015, the shareholding in Banco Internacional de Cabo Verde that was reclassified, under IFRS5, to non-current assets held for sale (see Note 27). During 2016, the shareholdings in BES Vénétie, NB Ásia and Quinta dos Cónegos, and respective shareholder loans, were also reclassified to non-current assets held for sale (see Note 27).

The Bank implemented a plan aimed at the immediate sale of all non-current assets held for sale. However, due to the incomplete status of the updating process for these properties with the Property Registrars and given current market conditions it has been unable to sell some of them within the expected time frame. However, the Bank continues its efforts to meet the disposal plan established, which efforts include (i) a web site specifically aimed at the sale of 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.

The changes occurring in non-current assets held for sale are as follows:

(in thousands of Euros)

	31.12.2016		31.12.2015	
	Non-current tangible fixed assets held for sale	Other non-current assets held for sale	Non-current tangible fixed assets held for sale	Other non-current assets held for sale
Balance at the beginning of the period	1 668 394	12 875	2 165 560	7 365
Transfers to other assets (see Note 28)	(1 473 791)	-	-	-
Transfers [a)]	-	81 182	-	1
Additions	206 550	-	269 911	5 509
Sales	(401 155)	(384)	(767 078)	-
Other	2	1 195	1	-
Balance at the end of the period	**-**	**94 868**	**1 668 394**	**12 875**

(a) Transfers of the shareholdings and shareholder loans of BES Vénétie, NB Ásia and Quinta dos Cónegos to non-current assets held for sale, according to IFRS 5

The changes occurring in impairment losses are presented as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Balance at the beginning of the period	429 219	459 196
Allocation / write-back for the period	56 509	67 473
Utilisation during the period	(112 489)	(97 452)
Transfers **(a)**	(362 845)	-
Foreign exchange differences and other	-	2
Balance at the end of the period	**10 394**	**429 219**

a) Includes Euros 366 297 thousand of impairment losses relating to the assets transferred to other assets (see Note 28) and the transfer of Euros 3 452 thousand relating to the impairment of the shareholding in Quinta dos Cónegos that was transferred to Investments in subsidiaries and associated companies (see Note 27)

As at 31 December 2015, 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 real estate properties	Gross value	Impairment	Net book 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 net book value of this caption is negative due to the imputation of costs incurred with the sale of real estate properties
(b) Determined in accordance with accounting policy 2.11

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 book 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 book value of this caption is negative due to the imputation of costs incurred with the sale of real estate properties

NOTE 25 – OTHER TANGIBLE ASSETS

As at 31 December 2016 and 2015, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Real estate properties		
For own use	243 436	268 443
Improvements in leasehold properties	168 011	178 684
	411 447	**447 127**
Equipment		
Computer equipment	213 118	213 360
Fixtures	119 983	124 119
Furniture	105 050	111 226
Security equipment	33 876	33 954
Office equipment	27 618	27 657
Transport equipment	804	870
Other	629	573
	501 078	**511 759**
Work in progress		
Improvements in leasehold properties	16	177
Real estate properties	7	61
Equipment	396	199
Other	427	-
	846	**437**
	913 371	**959 323**
Accumulated depreciation	(713 688)	(729 763)
	199 683	**229 560**

The movement in this caption is as follows:

(in thousands of Euros)

	Real estate properties	Equipment	Other	Work in progress	Total
Acquisition cost					
Balance at 31 December 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)
Reclassifications (a)	(6 096)	3 163	-	(4 539)	(7 472)
Foreign exchange differences and other	(47 272)	(17 677)	-	-	(64 949)
Balance at 31 December 2015	**447 127**	**511 735**	**24**	**437**	**959 323**
Acquisitions	124	6 116	-	1 958	8 198
Disposals / write-offs	(36 825)	(17 475)	-	-	(54 300)
Reclassifications (b)	(670)	193	-	(1 549)	(2 026)
Foreign exchange differences and other	1 691	485	-	-	2 176
Balance at 31 December 2016	**411 447**	**501 054**	**24**	**846**	**913 371**
Accumulated depreciation					
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)
Reclassifications (a)	(2 468)	(197)	-	-	(2 665)
Foreign exchange differences and other	(3 690)	(8 089)	-	-	(11 779)
Balance at 31 December 2015	**269 111**	**460 652**	**-**	**-**	**729 763**
Depreciation	9 705	14 844	-	-	24 549
Disposals / write-offs	(29 296)	(13 413)	-	-	(42 709)
Reclassifications (b)	(729)	(213)	-	-	(942)
Foreign exchange differences and other	1 536	1 491	-	-	3 027
Balance at 31 December 2016	**250 327**	**463 361**	**-**	**-**	**713 688**
Carrying book value at 31 December 2016	**161 120**	**37 693**	**24**	**846**	**199 683**
Carrying book value at 31 December 2015	**178 016**	**51 083**	**24**	**437**	**229 560**

(a) Includes Euros 7 472 thousand of tangible fixed assets (real estate properties and equipment) and Euros 2 665 thousand in accumulated depreciation relating to branches discontinued that were reclassified at their carrying book value to the appropriate captions of the balance sheet

(b) Includes Euros 1 997 thousand of tangible fixed assets (real estate properties and equipment) and Euros 914 thousand in accumulated depreciation relating to branches discontinued that were reclassified at their carrying book value to the appropriate captions of the balance sheet

NOTE 26 – INTANGIBLE ASSETS

As at 31 December 2016 and 2015, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Internally developed		
Software - Automatic data processing system	79 690	76 610
Acquired from third parties		
Software - Automatic data processing system	642 153	638 319
Work in progress	6 798	12 207
	728 641	**727 136**
Accumulated amortisation	(686 316)	(658 667)
	42 325	**68 469**

The caption Intangible assets internally developed include 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:

(in thousands of Euros)

	Software	Work in progress	Total
Acquisition cost			
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 **(a)**	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**
Acquisitions:			
Internally developed	(1)	4 257	4 256
Acquired from third parties	2 334	3 350	5 684
Disposals / write-offs	(22)	-	(22)
Transfers **(b)**	5 955	(13 016)	(7 061)
Foreign exchange differences and other	(1 352)	-	(1 352)
Balance at 31 December 2016	**721 843**	**6 798**	**728 641**
Accumulated amortisation			
Balance at 31 December 2014	**633 235**	-	**633 235**
Amortisation for the period	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**
Amortisation for the period	29 409	-	29 409
Disposals / write-offs	(22)	-	(22)
Foreign exchange differences and other	(1 738)	-	(1 738)
Balance at 31 December 2016	**686 316**	**-**	**686 316**
Carrying book value at 31 December 2016	**35 527**	**6 798**	**42 325**
Carrying book value at 31 December 2015	**56 262**	**12 207**	**68 469**

(a) Includes Euros 4 120 thousand in discontinued investment projects that were imputed to costs

(b) Includes Euros 7 074 thousand in discontinued investment projects that were imputed to costs

NOTE 27 – INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES

The financial information relating to subsidiaries and associated companies is presented in the following table:

(in thousands of Euros)

	31.12.2016				31.12.2015			
	No. shares	Direct shareholding	Nominal amount (Euros)	Shareholding cost	No. shares	Direct shareholding	Nominal amount (Euros)	Shareholding cost
NB AÇORES	2 144 404	57.53%	5.00	10 308	2 144 191	57.52%	5.00	10 308
NB ÁSIA (1)	-	-	-	-	200 000	100.00%	115.06	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%	1.00	1 700	100 000	100.00%	17	1 700
BEST	62 999 700	100.00%	1.00	100 418	62 999 700	100.00%	1.00	100 418
BES VÉNÉTIE (1)	-	0.00%	0.00	-	2 244 082	44.81%	15.00	55 070
BIBL	-	0.00%	0.00	-	10 200 000	100.00%	1.00	224 197
ES Plc	30 000	100.00%	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
GNB GA	2 350 000	100.00%	5.00	86 722	2 114 700	89.99%	5.00	60 388
GNB CONCESSÕES	682 306	71.66%	5.00	20 602	682 306	71.66%	5.00	20 602
ESEGUR	242 000	44.00%	5.00	9 634	242 000	44.00%	5.00	9 634
E.S. REPRESENTAÇÕES	49 995	99.99%	0.29	14	49 995	99.99%	0.23	14
LOCARENT	525 000	50.00%	5.00	2 967	525 000	50.00%	5.00	2 967
QUINTA DOS CONEGOS (1)	-	-	-	-	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
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	13 300 000	100.00%	5.00	66 500
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%	85.93	12 362	122 499	35.00%	85.76	12 362
EDENRED PORTUGAL	101 477 601	50.00%	0.01	4 984	101 477 601	50.00%	0.01	4 984
NANIUM	6 158 777	41.06%	1.00	1 481	6 158 777	41.06%	6 158.78	1 481
MULTIPESSOAL	20 000	22.52%	5.00	100	20 000	22.52%	5.00	100
				1 430 681				**1 752 613**
Impairment losses				(263 236)				(336 850)
				1 167 445				**1 415 763**

(1) Shareholdings transferred to non-current assets held for sale (see Note 24)

In May 2016, NOVO BANCO acquired from Companhia de Seguros Tranquilidade 235 100 shares of GNB GA, representative of 10% of the share capital of that company, for Euros 26 330 thousand. Subsequently, NOVO BANCO acquired 200 shares of GNB GA from NOVO BANCO dos Açores and from BEST, with each lot of 100 shares being acquired for Euros 2 thousand.

In June 2016, NOVO BANCO sold to GNB GA the entire 50% shareholding it held in Novo Ativos Financieros (NOVO AF), having recorded a capital gain of Euros 5 237 thousand, considering dividends attributed to the shareholders of NOVO AF of Euros 19 761 thousand.

In December 2016, BIBL was incorporated in NOVO BANCO, having generated a positive merger reserve amounting to Euros 1 346 thousand (see Note 45).

The movements occurring in impairment losses are as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Balance at the beginning of the period	336 850	642 863
Allocations / write-back for the period	171 239	(7 497)
Utilisation during the period (1)	(17 205)	-
Transfers (2)	(3 452)	-
Other (3)	(224 196)	(298 516)
Balance at the end of the period	**263 236**	**336 850**

(1) In 2016 refers to the sale of Novo AF to GNB GA

(2) In 2016 refers to the impairment for Quinta dos Cónegos, which was transferred together with the respective shareholding to the caption Non-current assets held for sale (see Note 24)

(3) In 2015 includes the impairment of Euros 300 000 thousand for the financial shareholding in Avistar that, through the merger of that company in the Bank in June 2015, was annulled, and in 2016 includes Euros 224 197 thousand in the scope of the BIBL merger

NOTE 28 – OTHER ASSETS

At 31 December 2016 and 2015, the caption Other assets is analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Collateral deposits placed	707 317	948 293
Derivative products	*441 372*	*617 850*
Collateral CLEARNET, VISA and EBA	*27 187*	*40 835*
Collateral deposits relating to reinsurance operations	*238 758*	*289 608*
Recoverable government subsidies on mortgage loans	1 741	10 806
Public sector	328 664	165 732
Other debtors	741 263	739 377
Income receivable	25 204	37 134
Deferred costs	74 250	97 755
Precious metals, numismatics, medal collection and other liquid assets	9 226	9 423
Stock exchange transactions pending settlement	35 660	10 334
Other transactions pending settlement	32 912	95 457
Real estate properties a)	1 406 570	-
Equipment a)	23 204	-
Other assets	185 158	200 037
	3 571 169	**2 314 348**
Impairment losses		
Real estate properties a)	*(343 424)*	-
Equipment a)	*(11 694)*	-
Other debtors - Shareholder loans, supplementary capital contributions	*(125 197)*	*(125 887)*
Other assets	*(65 087)*	*(70 255)*
	(545 402)	**(196 142)**
	3 025 767	**2 118 206**

a) Real estate properties received as payment in kind, on recovery of loans, and discontinued

The caption Collateral deposits placed includes, amongst others, deposits made by the Bank as collateral in order to celebrate certain derivative contracts on organised markets (margin accounts) and in over-the-counter markets (Contract Support Annex – CSA).

The Other debtors amount includes, amongst others:

- Euros 112.3 million of shareholder loans and supplementary capital resulting from the assignment of loans and advances, which were provided for in Euros 112.3 million (31 December 2015: Euros 112.9 million, of which Euros 112.9 million were provided for); and
- Euros 100 million relating to shareholder loans granted to Locarent – Companhia Portuguesa de Aluguer de Viaturas, S.A. (31 December 2015: Euros 100 million).

As at 31 December 2016, the caption Deferred costs includes an amount of Euros 54 168 thousand (31 December 2015: Euros 70 790 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, 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)

	31.12.2016	31.12.2015
Balance at the beginning of the period	196 142	300 305
Allocation for the period	26 492	60 264
Utilisation during the period	(35 802)	(27 425)
Write-back for the period	(7 718)	(597)
Transfers [(a)]	366 297	-
Foreign exchange differences and other [(b)]	(9)	(136 405)
Balance at the end of the period	**545 402**	**196 142**

a) Relating to assets transferred from Non-current assets held for sale (see Note 24)

b) At 31 December 2015 includes Euros 156 977 thousand relating to the provision against the supplementary capital in Avistar, which on the merger of this entity in the Bank, was annulled (see Note 45)

The movement in real estate properties was as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Balance at the beginning of the period	-	-
Transfers from non-current assets held for sale	1 451 519	-
Additions	101 620	-
Sales	(146 569)	-
Balance at the end of the period	**1 406 570**	**-**

As at 31 December 2016, the detail of real estate properties, by type, is as follows:

(in thousands of Euros)

	31.12.2016				
	Number of properties	Gross value	Impairment	Net book value	Fair value of asset (b)
Land					
Urban	1 733	301 340	71 467	229 873	240 023
Rural	538	221 768	65 306	156 462	162 690
	2 271	523 108	136 773	386 335	402 713
Buildings under construction					
Commercial	14	957	67	890	1 595
Residential	32	13 056	7 047	6 009	7 948
Other	8	16 180	11 309	4 871	5 450
	54	30 193	18 423	11 770	14 993
Buildings constructed					
Commercial	1 425	212 331	48 789	163 542	178 143
Residential	4 413	445 559	71 089	374 470	389 712
Other	662	194 762	45 137	149 625	165 683
	6 500	852 652	165 015	687 637	733 538
Other (a)	**1**	**617**	**23 213**	**(22 596)**	**(22 330)**
	8 826	**1 406 570**	**343 424**	**1 063 146**	**1 128 914**

(a) The net book value of this caption is negative due to the imputation of costs incurred with the sale of real estate properties
(b) Determined in accordance with accounting policy 2.11

The amount of Collateral - mortgages, presented above, represents the maximum coverage value of the covered assets, i.e., considered up to the gross amount of the individual loans covered.

The detail of the real estate properties, by ageing, is as follows:

(in thousands of Euros)

	31.12.2016				
	Up to 1 year	1 to 2.5 years	2.5 to 5 years	More than 5 years	Total net book value
Land					
Urban	47 609	36 783	108 359	37 122	229 873
Rural	18 854	44 477	76 197	16 934	156 462
	66 463	81 260	184 556	54 056	386 335
Buildings under construction					
Commercial	-	373	452	65	890
Residential	434	-	879	4 696	6 009
Other	-	1 447	-	3 424	4 871
	434	1 820	1 331	8 185	11 770
Buildings constructed					
Commercial	43 211	27 237	55 243	37 851	163 542
Residential	90 142	92 135	124 456	67 737	374 470
Other	33 333	32 013	58 835	25 444	149 625
	166 686	151 385	238 534	131 032	687 637
Other (a)	**(22 810)**	**-**	**214**	**-**	**(22 596)**
	210 773	**234 465**	**424 635**	**193 273**	**1 063 146**

(a) The net book value of this caption is negative due to the imputation of costs incurred with the sale of real estate properties

At 31 December 2016, the amount related to discontinued facilities included in the caption Real estate properties is Euros 13 132 thousand, with the Bank having recorded impairment losses for these assets in the total amount of Euros 5 643 thousand.

NOTE 29 – DEPOSITS FROM CENTRAL BANKS

The caption Deposits from Central Banks is presented as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
From the European System of Central Banks		
Deposits	-	145 794
Other funds	6 410 033	7 340 000
	6 410 033	**7 485 794**

As at 31 December 2016, the balance of the caption Other funds from the European System of Central Banks includes Euros 6 410 million, covered by Bank financial assets pledged as collateral (31 December 2015: Euros 7 340 million) (see Note 38).

As at 31 December 2016 and 2015, the analysis of deposits from Central Banks, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Up to 3 months	33	5 342 613
3 months to 1 year	-	500 010
1 to 5 years	6 410 000	1 643 171
	6 410 033	**7 485 794**

Deposits from Central Banks are renewable after the maturity date.

NOTE 30 – DEPOSITS FROM BANKS

The caption Deposits from banks is presented as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Domestic		
Deposits	710 885	753 738
Very short-term funds	18 975	27 785
Repurchase agreements	-	39 977
Other funds	3 697	4 177
	733 557	**825 677**
International		
Deposits	1 416 962	830 658
Loans	862 978	1 164 434
Very short-term funds	1	75 801
Repurchase agreements	1 625 020	2 103 659
Other funds	55 735	129 631
	3 960 696	**4 304 183**
	4 694 253	**5 129 860**

At 31 December 2016, this caption includes funds in the amount of Euros 243 822 thousand recorded in the balance sheet at fair value through profit or loss (31 December 2015: Euros 421 501 thousand) (see Note 41).

The balance of the caption Repurchase agreements corresponds to sales of securities with repurchase agreements (repos), recorded in accordance with the accounting policy described in Note 2.6.

As at 31 December 2016 and 2015, the analysis of Deposits from banks, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Up to 3 months	2 302 016	2 339 555
3 months to 1 year	1 134 548	586 897
1 to 5 years	500 405	1 058 664
More than 5 years	757 284	1 144 744
	4 694 253	**5 129 860**

The maturities of the operations with repurchase agreements (repos) are as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Domestic		
Up to 3 months	-	39 977
International		
Up to 3 months	937 236	1 409 937
3 months to 1 year	600 739	-
1 to 5 years	87 044	693 722
	1 625 020	**2 143 636**

NOTE 31 – DUE TO CUSTOMERS

The caption Due to customers has the following breakdown:

(in thousands of Euros)

	31.12.2016	31.12.2015
Repayable on demand		
Demand deposits	7 999 379	7 882 099
Time deposits		
Time deposits	14 049 714	16 245 677
Other	355	719
	14 050 069	**16 246 396**
Savings accounts		
Pensioners	303 307	436 478
Other	2 847 800	2 465 137
	3 151 107	**2 901 615**
Other funds		
Repurchase agreements	216 625	44 864
Other	182 777	162 900
	399 402	**207 764**
	25 599 957	**27 237 874**

As at 31 December 2016, the caption Due to customers – Time deposits includes funds in the amount of Euros 264 723 thousand recorded in the balance sheet at fair value through profit or loss (31 December 2015: Euros 1 038 486 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 2016, of the total sales operations with repurchase agreements, around Euros 29.1 million have a maturity period of under 3 months and the remainder having a maturity period of between 3 months and one year (31 December 2015: Euros 43.7 million matured in the period of up to 3 months and Euros 1.2 million in the period of 3 months and one year).

As at 31 December 2016 and 2015, the analysis of Due to customers, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Repayable on demand	**7 999 379**	**7 882 099**
Term Deposits		
Up to 3 months	7 594 918	9 223 020
3 months to 1 year	7 013 729	7 702 959
1 to 5 years	2 646 455	2 052 611
More than 5 years	345 476	377 185
	17 600 578	**19 355 775**
	25 599 957	**27 237 874**

NOTE 32 – DEBT SECURITIES ISSUED

The caption Debt securities issued has the following breakdown:

(in thousands of Euros)

	31.12.2016	31.12.2015
Euro Medium Term Notes (EMTN)	2 700 185	3 272 563
Certificates of deposit	-	4 615
Bonds	283 308	93 351
Covered bonds	42 010	119 036
	3 025 503	**3 489 565**

As at 31 December 2016, the Bank had debt securities issued with the guarantee of the Portuguese Republic, in a nominal value of Euros 1 800 million, of which Euros 1 517 million were held by the Bank at the balance sheet date (31 December 2015: nominal value of Euros 3 500 million, of which Euros 3 407 million had been acquired by the Bank at the balance sheet date). In 2015, the Bank extended the maturity of these bonds, guaranteed by the Portuguese Republic, 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 Bank issued covered bonds of which an amount of Euros 4 190 million remain in its portfolio as at 31 December 2016 (31 December 2015: Euros 3 815 million). The main characteristics of the outstanding issues as at 31 December 2016 and 2015 are as follows:

Description	Nominal value (in thousands of Euros)	Carrying book value (in thousands of Euros)	Issue date	Maturity date	Interest payment	Interest rate	Rating		
31.12.2016							Moody's	Fitch	DBRS
BES Covered bonds DUE 4.6%	40 000	42 010	15-12-2010	26-01-2017	Annually	Fixed rate 4.6%	Ba1	-	BBB
NB 2015 SR.1	1 000 000	-	07-10-2015	07-10-2018	Quarterly	Euribor 3 Months + 0.25%	Baa1	-	A
NB 2015 SR.2	1 000 000	-	07-10-2015	07-10-2019	Quarterly	Euribor 3 Months + 0.25%	Baa1	-	A
NB 2015 SR.3	1 000 000	-	07-10-2015	07-10-2020	Quarterly	Euribor 3 Months + 0.25%	Baa1	-	A
NB 2015 SR.4	700 000	-	07-10-2015	07-10-2022	Quarterly	Euribor 3 Months + 0.25%	Baa1	-	A
NB 2015 SR.5	450 000	-	22-12-2016	22-12-2023	Quarterly	Euribor 3 Months + 0.25%	Baa1	-	A
	4 190 000	**42 010**							

Description	Nominal value (in thousands of Euros)	Carrying book value (in thousands of Euros)	Issue date	Maturity date	Interest payment	Interest rate	Rating		
31.12.2015							Moody's	Fitch	DBRS
BES Covered bonds DUE 4.6%	40 000	40 855	15-12-2010	26-01-2017	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
Mortgage bonds	75 000	78 181	09-06-2006	09-06-2016	Annually	Fixed rate 4.25%	A3	BB	-
	3 815 000	**119 036**							

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 bonds are foreseen in Decree-Law no. 59/2006, and in Notices nos. 5, 6, 7 and 8 and Instruction 13 of Banco de Portugal.

As at 31 December 2016, the assets that collateralise these covered bonds amount to Euros 4 621.9 million (31 December 2015: Euros 4 233.6 million) (see Note 22).

The movement that occurred in debt securities issued, during 2016 and 2015, is as follows:

(in thousands of Euros)

	Balance at 31.12.2015	Issues	Redemptions	Net purchases	Other movements a)	Balance at 31.12.2016
Euro Medium Term Notes (EMTN)	3 272 563	-	(239 702)	(393 914)	61 238	2 700 185
Certificates of deposit	4 615	-	(4 615)	-	-	-
Bonds	93 351	-	-	(14)	189 971	283 308
Covered bonds	119 036	450 000	(75 000)	(449 975)	(2 051)	42 010
	3 489 565	**450 000**	**(319 317)**	**(843 903)**	**249 158**	**3 025 503**

[a] Other movements include accrued interest, corrections for hedging operations, fair value adjustments and foreign exchanges differences

(in thousands of Euros)

	Balance at 31.12.2014	Issues	Retransmission to BES	Redemptions	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	965 848	3 700 000	-	(4 516 850) c)	-	(29 962)	119 036
	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) In the specific case of certificates of deposit, due to being equity instruments, the value of the issues is presented net of redemptions

c) Includes Euros 3 700.0 million relating to early redemptions

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 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 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 2015 financial year, the Bank recognised a gain of Euros 9 570 thousand (see Note 11).

Under the scope of the tender offer to repurchase own debt launched at the end of June 2016, the Bank registered a gain of Euros 33.3 million.

As at 31 December 2016 and 2015, the analysis of Debt securities issued, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Up to 3 months	325 317	419 040
3 months to 1 year	20 942	82 796
1 to 5 years	1 525 484	1 682 663
More than 5 years	1 153 760	1 305 066
	3 025 503	**3 489 565**

The main characteristics of the debt securities, as at 31 December 2016 and 2015, are as follows:

(in thousands of Euros)

Entity	Description		31.12.2016 Currency	Issue date	Carrying book value	Maturity	Interest rate	Market
Bonds								
Novo Banco	BES GUAR FEB 16		EUR	2012	183 163	2017	Euribor 3m + 0.9%	XLIS
Novo Banco	PTBENHOM0017		EUR	2012	100 145	2017	Euribor 3m + 0.9%	XLIS
Euro Medium Term Notes								
NB (London Branch)	EMTN Series 3		EUR	2012	111 800	2022	Fixed rate 5%	XLUX
NB (London Branch)	EMTN Series 6		EUR	2012	78 572	2022	Fixed rate 5%	XLUX
NB (London Branch)	EMTN Series 7		EUR	2012	164 238	2019	Fixed rate 5%	XLUX
NB (London Branch)	EMTN Series 10		EUR	2012	548 201	2019	Fixed rate 5%	XLUX
NB (London Branch)	EMTN Series 12		EUR	2012	351 653	2019	Fixed rate 5%	XLUX
NB (London Branch)	EMTN Series 13		EUR	2012	236 937	2019	Fixed rate 5%	XLUX
NB (London Branch)	EMTN Series 14		EUR	2012	224 455	2019	Fixed rate 5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 5.75% 28/06/17		EUR	2012	20 942	2017	Fixed rate 5.75%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3% 21/06/22		USD	2012	59 573	2022	Fixed rate 3%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3.5% 02/01/43		EUR	2013	55 034	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3.5% 23/01/43		EUR	2013	107 377	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3.5% 19/02/2043		EUR	2013	82 783	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3.5% 18/03/2043		EUR	2013	58 644	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC		EUR	2013	41 499	2048	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 22/01/2049		EUR	2014	32 496	2049	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 29/01/2049		EUR	2014	44 621	2049	Zero Coupon	XLUX
NB (Luxembourg Branch)	Banco Esp San Lux ZC 05/02/49		EUR	2014	38 292	2049	Zero Coupon	XLUX
NB (Luxembourg Branch)	Banco Esp San Lux ZC 12/02/49		EUR	2014	49 310	2049	Zero Coupon	XLUX
NB (Luxembourg Branch)	Banco Esp San Lux ZC 19/02/49		EUR	2014	48 655	2049	Zero Coupon	XLUX
NB (Luxembourg Branch)	Banco Esp San Lux ZC 27/02/51		EUR	2014	39 893	2051	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 06/03/2051		EUR	2014	41 456	2051	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 13/03/48		EUR	2014	35 630	2048	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 25/03/50		EUR	2014	41 304	2050	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 27/03/47		EUR	2014	50 320	2047	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 03/04/48		EUR	2014	45 113	2048	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 09/04/52		EUR	2014	41 276	2052	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 16/04/46		EUR	2014	50 111	2046	Zero Coupon	XLUX
Covered bonds								
Novo Banco	BES DUE 4.6%	a)	EUR	2010	42 010	2018	Fixed rate 4.6%	XLIS
					3 025 503			

a) Liabilities at fair value through profit or loss or with embedded derivatives

(in thousands of Euros)

Entity	Description		31.12.2015 Currency	Issue date	Carrying book value	Maturity	Interest rate	Market
Bonds								
Novo Banco	BES GUAR FEB 16		EUR	2012	93 351	2017	Euribor 3m + 1.5%	XLIS
Euro Medium Term Notes								
Novo Banco	BES 4 YEARS 7%		EUR	2012	142 627	2016	Fixed rate 7%	XLIS
NB (London Branch)	EMTN Series 2		EUR	2012	136 037	2016	Fixed rate 7%	XLUX
NB (London Branch)	EMTN Series 3		EUR	2012	118 196	2022	Fixed rate 5%	XLUX
NB (London Branch)	EMTN Series 5		EUR	2012	47 025	2016	Fixed rate 7%	XLUX
NB (London Branch)	EMTN Series 6		EUR	2012	174 840	2022	Fixed rate 5%	XLUX
NB (London Branch)	EMTN Series 7		EUR	2012	178 990	2019	Fixed rate 5%	XLUX
NB (London Branch)	EMTN Series 10		EUR	2012	580 775	2019	Fixed rate 5%	XLUX
NB (London Branch)	EMTN Series 12		EUR	2012	363 844	2019	Fixed rate 5%	XLUX
NB (London Branch)	EMTN Series 13		EUR	2012	257 340	2019	Fixed rate 5%	XLUX
NB (London Branch)	EMTN Series 14		EUR	2012	241 091	2019	Fixed rate 5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 5.75% 28/06/17		EUR	2012	19 768	2017	Fixed rate 5.75%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3% 21/06/22		USD	2012	133 761	2022	Fixed rate 3%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3.5% 02/01/43		EUR	2013	54 526	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3.5% 23/01/43		EUR	2013	106 628	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3.5% 19/02/2043		EUR	2013	82 057	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3.5% 18/03/2043		EUR	2013	58 127	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC		EUR	2013	39 412	2048	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 22/01/2049		EUR	2014	32 036	2049	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 29/01/2049		EUR	2014	42 635	2049	Zero Coupon	XLUX
NB (Luxembourg Branch)	Banco Esp San Lux ZC 05/02/49		EUR	2014	42 617	2049	Zero Coupon	XLUX
NB (Luxembourg Branch)	Banco Esp San Lux ZC 12/02/49		EUR	2014	46 448	2049	Zero Coupon	XLUX
NB (Luxembourg Branch)	Banco Esp San Lux ZC 19/02/49		EUR	2014	45 778	2049	Zero Coupon	XLUX
NB (Luxembourg Branch)	Banco Esp San Lux ZC 27/02/51		EUR	2014	39 266	2051	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 06/03/2051		EUR	2014	39 170	2051	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 13/03/48		EUR	2014	33 676	2048	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 25/03/50		EUR	2014	39 465	2050	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 27/03/47		EUR	2014	48 322	2047	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 03/04/48		EUR	2014	42 161	2048	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 09/04/52		EUR	2014	38 996	2052	Zero Coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 16/04/46		EUR	2014	46 949	2046	Zero Coupon	XLUX
Certificates of deposit								
NB (London Branch)	Certificates of deposit		USD	2015	4 615	2016	Fixed rate 1.10%	-
Covered bonds								
Novo Banco	BES DUE 4.6%	a)	EUR	2010	40 855	2018	Fixed rate 4.6%	XLIS
NB (Spain Branch)	Mortages bonds	a)	EUR	2006	78 181	2016	Fixed rate 4.25%	AIAF
					3 489 565			

a) Liabilities at fair value through profit or loss or with embedded derivatives

This caption includes Euros 42 010 thousand in liabilities for debt securities recorded in the balance sheet at fair value through profit or loss (31 December 2015: Euros 42 635 thousand).

NOTE 33 – PROVISIONS

During financial years 2016 and 2015, the caption Provisions presents the following movements:

(in thousands of Euros)

	Restructuring provisions	Provision for guarantees	Commercial offers	Other provisions	Total
Balance at 31 December 2014	**-**	**-**	**454 873**	**47 173**	**502 046**
Allocation / (write-backs) for the period	-	-	18 000	82 690	100 690
Utilisation during the period	-	-	(177 064)	(3 784)	(180 848)
Foreign exchange differences and other	-	-	(29)	268	239
Balance at 31 December 2015	**-**	**-**	**295 780**	**126 347**	**422 127**
Allocation / (write-backs) for the period	94 480	5 805	2 500	(51 883)	50 902
Utilisation during the period	(85 043)	-	(145 025)	(13 982)	(244 050)
Transfers a)	-	106 492	-	-	106 492
Foreign exchange differences and other	-	293	-	(1 218)	(925)
Balance at 31 December 2016	**9 437**	**112 590**	**153 255**	**59 264**	**334 546**

a) Provisions for guarantees that in 2016 were transferred from Loans and advances to customers

At the end of 2015, the Board of Directors of NOVO BANCO presented to the European Commission a Restructuring Plan that was prepared in strict collaboration with Banco de Portugal and involved a set of measures, highlighting the concentration of the retail and corporate banking activities in Portugal and Spain, the disinvestment in non-strategic assets and the reduction, in 2016, of Euros 150 million in recurring operating costs (excluding restructuring costs) associated with a decrease of 1 000 employees and a re-sizing of the distribution network to 550 branches (figures defined solely in Group terms). In the scope of IAS 37, during 2016 a provision for this restructuring was created in the amount of Euros 94.5 million, to cover the costs for closure of facilities and employee downsizing.

The restructuring plan was executed during the year 2016, and at 31 December 2016 the jobs reduction objective had been met, and operating costs recorded a decrease surpassing the objective. Up to 31 December 2016, circa Euros 85.0 million of the created provision had been used; the remaining balance of Euros 9.4 million balance existing as at this date is intended to cover costs that are still to be incurred related to this restructuring process.

Provisions for commercial offers, in the amount of Euros 153.3 million (31 December 2015: Euros 295.8 million), are intended to cover costs resulting from commercial offers approved by the Board of Directors of NOVO BANCO, directed at retail customers holding NOVO BANCO unsubordinated bonds. The Board of Directors considers the amount of this provision adequate based on the experience gained in the negotiations already completed and sales price expectations concerning the bonds and financial instruments subscribed by the customers.

Other provisions, amounting to Euros 59.3 million (31 December 2015: Euros 126.3 million) are intended to cover certain duly identified contingencies related to the Bank’s activities, the most relevant of which being:

- Contingencies associated with ongoing tax processes. To cover these contingencies, the Bank maintains provisions of Euros 8.9 million (31 December 2015: Euros 7.1 million);
- The remaining balance, of circa Euros 50.4 million (31 December 2015: Euros 119.2 million), is maintained to cover losses in connection with the normal activities of the Bank, such as, amongst others, fraud, theft and robbery and ongoing judicial cases.

Contingent liabilities are disclosed in Note 38.

NOTE 34 – INCOME TAXES

NOVO BANCO is subject, individually, to taxation in accordance with the Corporate Income Tax Code (IRC Code). Likewise, NOVO BANCO is subject to the Special Regime applicable to Deferred Tax Assets approved by Law no. 61/2014, of 26 August, to which it adhered and standalone legislation.

For the financial year ended on 31 December 2016, NOVO BANCO was subject to corporate income tax (IRC) at the general rate of 21%, which remained unchanged from the previous year.

Corporate income taxes (current or deferred) are recognised in the income statement except in cases where the underlying transactions 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 2016, and as occurred in the periods following 3 August 2014, the following aspects were taken into consideration:

- The transfer of assets, liabilities, off-balance sheet elements and assets under management of BES, made under 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 also transferred to NOVO BANCO. Accordingly, the corresponding deferred tax assets were also transferred to NOVO BANCO. An application was submitted to the Ministry of Finance, under no. 4 of article 145-AU of the RGICSF, requesting the confirmation that the tax losses generated by BES and subject to carry forward could be transmitted to NOVO BANCO, which was deferred. In the tax year 2015, and to the extent no response to the application had been received, the deferred tax assets amounting to Euros 159 756 thousand, corresponding to those tax losses, were written off. As explained below, based on the assessment of the deferred tax assets associated with tax losses, and notwithstanding the deferral of the request for the transfer of tax losses generated by BES and subject to reporting, the corresponding deferred tax assets were not re-recognised.
- Decree-Law no. 127/2011, of 31 December, which regulates the transfer of the retirement pension and survival benefit liabilities of the retirees and pensioners to the General Social Security Regime and that, in conjunction with article 183 of Law no. 64-B/2011, of 30 December (2012 State Budget Law), established a special tax deductibility regime for expenses and other equity changes arising on such transfer:
  - The negative equity change arising on the accounting policy change regarding the recognition of actuarial gains and losses, which were previously deferred, will be fully deductible in equal parts over 10 years (counting from the financial year started on 1 January 2012);
  - The settlement effect (determined as the difference between the liability measured in accordance with IAS 19 criteria and with the criteria established in the agreement) will also be fully deductible for purposes of determining taxable income, in equal parts, over 16 years (counting from the financial year started on 1 January 2012), according to the average life expectancy of the pensioners whose liabilities were transferred.
- The Special Regime applicable to Deferred Tax Assets approved by Law no. 61/2014, of 26 August, to which NOVO BANCO adhered, foresees that said special regime of tax deductibility of costs and other equity changes related to retirement pension and survival benefit liabilities vis-à-vis retirees and pensioners not be applicable to a specific financial year in the event in said period a tax loss is determined.
- In accordance with the previous paragraphs:
  - As at 31 December 2015, the deferred tax assets arising on the transfer of liabilities and on the accounting policy change regarding the recognition of actuarial gains and losses, in the amount of Euros 25 022 thousand and Euros 159 188 thousand, respectively, are therefore recoverable over the minimum periods of 12 and 6 years, and are also eligible for purposes of the conversion into tax credits foreseen in the Special Regime applicable to Deferred Tax Assets approved by Law no. 61/2014, of 26 August.
  - As at 31 December 2016, following the determination of a negative net result for 2015, the approval of the annual accounts by the corporate bodies and the application of said Special Regime for Deferred Tax Assets, part of the deferred tax assets arising on the transfer of the liabilities to the

Social Security and on the accounting policy change regarding the recognition of actuarial gains and losses, were converted into tax credits in the amount of Euros 160 866 thousand.

- The merger by incorporation of Avistar SGPS, with accounting effects 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, as at 31 December 2016 and 2015:

- the deferred tax related to tax losses carried forward was determined using the IRC rate of 21%.
- the deferred tax related to temporary differences was determined based on an aggregate rate of 29%, resulting from the sum of the IRC general 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 levied on the average annual liabilities recorded on the balance sheet net of own funds and of deposits covered by the guarantee of the Deposit Guarantee Fund (*Fundo de Garantia de Depósitos*) and on the notional amount of derivative financial instruments. The Bank Levy is not eligible as a tax cost, and the respective regime was extended by Law no. 64-B/2011, of 30 December, by Law no. 66-B/2012, of 31 December, by Law no. 83-C/2013, of 31 December, by Law no. 82-B/2014, of 31 December and by Law no.159-C/2015, of 30 December. As at 31 December 2015, NOVO BANCO recognised Bank Levy charges as a cost in the amount of Euros 31 159 thousand. As at 31 December 2016, NOVO BANCO recognised as a cost in respect of Bank Levy the amount of Euros 36 342 thousand. The cost recognised on 31 December 2016 was calculated and paid based on the maximum rate of 0.110% levied on the average balance sheet annual liabilities net of own funds and deposits covered by the guarantee of the Deposit Guarantee Fund, approved by Law no. 7-A/2016, of 30 March and by Ordinance no. 165-A/2016, of 14 June.

The deferred tax assets and liabilities recognised in the balance sheet at 31 December 2016 and 2015 may be analysed as follows:

(in thousands of Euros)

	Assets		Liabilities		Net	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Financial instruments	297 260	182 266	(70 447)	(58 970)	226 813	123 296
Loans and advances to customers	1 256 637	1 117 561	-	-	1 256 637	1 117 561
Other tangible assets	17 340	17 340	(16 283)	(15 807)	1 057	1 533
Intangible assets	-	-	-	-	-	-
Investments in subsidiaries and associated companies	-	5 535	(989)	(989)	(989)	4 546
Provisions	86 261	109 897	-	-	86 261	109 897
Pensions	65 049	203 737	-	-	65 049	203 737
Long-term service bonuses	5 109	8 248	-	-	5 109	8 248
Other	-	3 104	(260)	(3 190)	(260)	(86)
Tax losses carried forward	909 030	906 987	-	-	909 030	906 987
Net Deferred tax asset / (liability)	**2 636 686**	**2 554 675**	**(87 979)**	**(78 956)**	**2 548 707**	**2 475 719**

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 till 2028.

As at 31 December 2016, deferred tax assets related to tax losses by year of expiry are analysed as follows:

(in thousands of Euros)

Use by date	Amount
2026	667 573
2027	148 574
2028	92 883

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 2017-2021.

The expectation of generating future taxable income in Portugal is supported fundamentally on the following:

- 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;
- an increase, in the long-term, of the reference interest rates;
- reduction of operating costs, reflecting the favourable impact of the reduction in the number of employees and bank branches and, generally by simplifying and increasing processes efficiency; and
- loans impairment in line with the evolution of the activity of the Bank, based on macroeconomic projections.

The projections made by the Management for the period 2017-2021 and which support the future taxable income estimated by NOVO BANCO incorporate provisional information resulting from the sale agreement signed on 31 March 2017 between the Fundo de Resolução and LONE STAR. The aforementioned projections were performed on a going concern basis and based on historical and provisional information considered until today as adequate for the purposes, but subject to review after concluding the sale process of NOVO BANCO, namely taking into account possible new commitments that the Bank could assume against the European Commission's Directorate General for Competition, as well as strategic options for the development of the activity that the future stakeholder of the Bank may choose to adopt.

As a result of said assessment of the recoverability of deferred tax assets associated with tax losses, the following amounts are not recognised in the balance sheet:

- Euros 105 071 thousand, which can be used until 2018;
- Euros 170 795 thousand, which can be used until 2026;
- Euros 18 674 thousand, which can be used until 2027.

The movements in the deferred tax captions were recognised as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Balance at the beginning of the period	2 475 719	2 392 046
Recognised in Results for the period	212 905	66 179
Recognised in Fair value reserves	9 208	(5 401)
Recognised in Other reserves	11 710	21 576
Conversion of Deferred taxes into Tax credits	(160 866)	-
Foreign exchange differences and other	31	1 319
Balance at the end of the period (Assets / (Liabilities))	2 548 707	2 475 719

Current tax assets and liabilities recognised in the balance sheet at 31 December 2016 and 2015 may be analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Assets		
Corporate tax recoverable	-	19
Other	10 201	1 509
	10 201	1 528
Liabilities		
Corporate tax payable	7 243	26 371
Other	5 609	3 432
	12 852	29 803

The current and deferred taxes recognised in the income statement and in reserves, in financial years 2016 and 2015, had the following origins:

(in thousands of Euros)

	31.12.2016		31.12.2015	
	Recognised in the income statement	Recognised in reserves	Recognised in the income statement	Recognised in reserves
Deferred taxes				
Financial Instruments	(94 286)	(9 208)	(36 639)	5 401
Loans and advances to customers	(120 385)	(18 691)	(64 317)	-
Other tangible assets	(297)	773	(854)	(21 576)
Intangible assets	-	-	-	-
Investments in subsidiaries and associated companies	5 535	-	(8 649)	-
Provisions	20 787	2 849	17 251	-
Pensions	(19 245)	(2 933)	8 214	-
Long-term service bonuses	3 139	-	179	-
Other	184	-	18 636	-
Tax losses carried forward	(8 337)	6 292	-	-
Deferred taxes	**(212 905)**	**(20 918)**	**(66 179)**	**(16 175)**
Current taxes	**6 888**	**-**	**12 179**	**-**
Total tax recognised (income) / cost	**(206 017)**	**(20 918)**	**(54 000)**	**(16 175)**

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)

	31.12.2016		31.12.2015	
	%	Amount	%	Amount
Profit / (Loss) before tax		**(950 761)**		**(1 118 641)**
Bank levy		36 342		31 159
Profit / (Loss) before tax for the tax rate reconciliation		**(914 419)**		**(1 087 482)**
Tax rate	21.0		21.0	
Income tax calculated based on the tax rate		(192 028)		(228 371)
Tax-exempt dividends	2.9	(26 750)	0.6	(6 540)
Impairment on investments in subsidiaries or associated companies not subject to participation exemption	7.0	(64 280)	1.2	(12 697)
Impairment on investments in subsidiaries or associated companies subject to participation exemption	(6.1)	55 522	(3.8)	41 325
Non-deductible costs	(8.1)	74 432	(1.5)	16 803
Taxes of Bank Branches and tax withheld abroad	(1.1)	10 121	(0.9)	9 560
Differences in rates on the generation / (reversal) of timing differences	6.2	(56 622)	(0.1)	1 607
Elimination of DTA associated with tax losses of 2013 not transferred from BES	-	-	(14.7)	159 756
Other	0.7	(6 412)	3.3	(35 443)
Total tax recognised	**22.5**	**(206 017)**	**5.0**	**(54 000)**

During financial year 2015, tax losses available for carry forward from financial year 2013, in the amount of Euros 159 756 thousand, were written off.

NOTE 35 – OTHER LIABILITIES

At 31 December 2016 and 2015, the caption Other liabilities is analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Public sector	38 938	46 683
Security deposit accounts	132 489	122 589
Suppliers	199 196	218 610
Long-term service / Career bonuses (see Note 13)	5 056	28 396
Retirement pensions and health-care benefits (see Note 13)	18 322	31 670
Other accrued expenses	77 541	75 521
Deferred income	6 706	10 971
Stock exchange transactions pending settlement	14 500	36 412
Other transactions pending settlement	71 524	47 166
	564 272	**618 018**

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

At 31 December 2016 and 2015, 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 Fundo de Resolução (the Resolution Fund).

NOVO BANCO adhered to the Special Regime applicable to Deferred Tax Assets (DTA) approved by Law no. 61/2014, of 26 August. Said regime applies to deferred tax assets related to the non-deduction, for corporate income tax purposes, of costs and negative equity changes recorded up to 31 December 2016 for impairment losses of loans and advances to customers and with employee post-employment or long-term benefits. Said regime foresees that those assets may be converted into tax credits when the taxable entity reports an annual net loss.

Law no. 23/2016, of 19 August, changed the time scope of this Special Regime, establishing that it was not applicable to expenses and eligible negative changes in shareholders equity accounted for in taxable periods that were to begin in or after 1 January 2016.

Hence, following the determination of a negative net result for the 2016 financial year and the approval of the annual accounts by the corporate bodies, the application of said Special Regime implied, in 2016, the conversion of the eligible deferred tax assets into tax credits and the simultaneous constitution of a special reserve.

The conversion of the eligible deferred tax assets into tax credits was made in function of the proportion of the amount of said net loss to total equity at the individual company level. The amount of the deferred tax assets converted into tax credits totalled approximately Euros 161 million.

A special reserve was constituted with an amount identical to the tax credit determined, increased by 10%, totalling Euros 177 million. This special reserve was constituted using the originating reserve and is to be incorporated in the share capital.

The constitution of conversion rights in shares representing share capital attributable to the State, which, should have been realised simultaneously with the conversion of deferred tax assets eligible in a tributary credit and with the constitution of a special reserve, mentioned above, was pending from specific regulation regarding the right-handed of shareholders at the time of the issue of the conversion rights to acquire the conversion rights from the State, which was only published on 17 November 2016 (Ordinance / "*Portaria*" no. 293-A/2016, of 18 November). The constitution of the conversion rights into shares representing share capital attributable to the State, related to the 2015 net loss, will occur during 2017.

The conversion rights are securities that grant the State the right to demand to 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. Fundo de Resolução whilst sole shareholder of NOVO BANCO has the unilateral right to acquire the conversion rights from the State.

It is estimated that the conversion rights to be issued and allocated to the State will confer on it a shareholding of about 3.2% of the share capital of NOVO BANCO.

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 still be certified by the statutory auditor, process which is ongoing.

Considering Ordinance n. 259/2016, on 4 October, the amount of deferred tax assets converted in tax credit is also dependent of approval by the Tax Authority (*Autoridade Tributária e Aduaneira*), through tax inspection proceedings. Regarding the 2015 taxation period, the aforementioned proceeding of tax inspection has already started.

Regarding the net loss for 2016, and after the annual accounts for that year have been approved by the Corporate Bodies, the application of the aforementioned Special Regime will imply again, in 2017, the conversion of the eligible deferred tax assets into tax credit in proportion of the net loss on the value of equity, the simultaneous constitution of a special reserve, and the constitution of the conversion rights in shares representing share capital attributable to the state. The amount of deferred tax assets that is estimated to convert considering 2016 net loss, is approximately Euros 121 million.

NOTE 37 – RESERVES, RETAINED EARNINGS AND OTHER COMPREHENSIVE INCOME

Originating reserve

The originating reserve, in the amount of Euros 2 704 737 thousand (31 December 2015: Euros 2 704 737 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 of 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 were the following:

(in thousands of Euros)

	Fair value reserves			Other comprehensive income, Other reserves and Retained earnings			
	Available-for-sale financial assets	Deferred tax reserves	Total Fair value reserves	Actuarial deviations (net of taxes)	Other reserves and Retained earnings	Total Other reserves and Retained earnings	Total
Balance at 1 January 2015 *	**78 109**	**(21 903)**	**56 206**	**(256 906)**	**55 092**	**(201 814)**	**(145 608)**
Actuarial deviations	-	-	-	(47 361)	-	(47 361)	(47 361)
Changes in fair value	23 666	(4 997)	18 669	-	-	-	18 669
Revaluation reserves of Avistar	(13 322)	-	(13 322)	-	-	-	(13 322)
Merger reserve of Avistar	-	-	-	-	(13 316)	(13 316)	(13 316)
Adjustments to originating reserve **(a)**	-	-	-	-	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)**	**1 906 833**	**1 602 566**	**1 664 119**
Actuarial deviations	-	-	-	(76 504)	-	(76 504)	(76 504)
Changes in fair value	(27 675)	9 208	(18 467)	-	-	-	(18 467)
Appropriation of the Net profit / (loss) of the previous year to Retained earnings	-	-	-	-	(1 064 641)	(1 064 641)	(1 064 641)
Merger reserve of BIC International Bank (BIBL)	-	-	-	-	1 346	1 346	1 346
Foreign exchange differences	-	-	-	-	1 870	1 870	1 870
Other	-	-	-	-	11 727	11 727	11 727
Balance at 31 December 2016	**60 778**	**(17 692)**	**43 086**	**(380 771)**	**857 135**	**476 364**	**519 450**

(a) Results from the Banco de Portugal deliberation published on 29 December 2015 on the resolution measure applied to BES
* Restated

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, 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 are analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Amortised cost of available-for-sale financial assets	11 418 873	11 990 140
Accumulated impairment recognised	(1 508 952)	(1 326 870)
Amortised cost of available-for-sale financial assets, net of impairment	9 909 921	10 663 270
Market value of available-for-sale financial assets	9 970 699	10 751 864
Unrealised gains / (losses) recognised in fair value reserves	60 778	88 453
Deferred taxes	(17 692)	(26 900)
	43 086	**61 553**

The movement in fair value reserves, net of deferred taxes, impairment losses and non-controlling interests may be analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Balance at the beginning of the period	**61 553**	**56 206**
Changes in fair value	(145 601)	(81 786)
Disposals during period	7 674	(13 908)
Impairment recognised during the period	110 252	106 038
Deferred taxes recognised in reserves during the period (see Note 34)	9 208	(4 997)
Balance at the end of the period	**43 086**	**61 553**

NOTE 38 – CONTINGENT LIABILITIES AND COMMITMENTS

As at 31 December 2016 and 2015, and in addition to derivative financial instruments, off-balance sheet elements are as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Contingent liabilities		
Guarantees and standby letters	4 485 029	5 101 998
Financial assets pledged as collateral	13 580 555	15 408 961
Open documentary credits	1 040 679	1 035 580
Other	2 985	11 631
	19 109 248	**21 558 170**
Commitments		
Revocable commitments	5 844 537	5 854 980
Irrevocable commitments	1 618 561	1 435 670
	7 463 098	**7 290 650**

Guarantees and standby letters provided are banking operations that do not imply any funds outflow for the Bank.

At 31 December 2016, 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 12.8 thousand million (31 December 2015: Euros 14.5 thousand million);
- 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 12.8 million (31 December 2015: Euros 13.2 million);
- Securities pledged as collateral to the Deposits Guarantee Fund (Fundo de Garantia de Depósitos) in an amount of Euros 75.0 million (31 December 2015: Euros 78.9 million); and
- Securities pledged as collateral to the European Investment Bank in an amount of Euros 446.7 million (31 December 2015: Euros 740.4 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:

(in thousands of Euros)

	31.12.2016	31.12.2015
Deposit and custodianship of securities and other items for customers	33 224 939	41 835 867
Assets received for subsequent collection on behalf of clients	207 336	178 939
Securitised loans under management (servicing)	4 103 320	4 444 600
Other responsibilities related with banking services	2 494 880	2 199 566
	40 030 475	**48 658 972**

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 (…)*".

Under the terms of the point and paragraph referred to above and sub point (v), the excluded liabilities also include *"any liabilities or contingencies, namely those resulting from fraud or the violation of regulatory, penal or administrative offense provisions or regulations".*

On 29 December 2015, Banco de Portugal adopted a new deliberation for the "*Clarification and retransmission of liabilities and contingencies defined as excluded liabilities in subparagraphs (v) through (vii) of paragraph (b) of no. 1 of Appendix 2 of the Deliberation of Banco de Portugal of 3 August 2014 (8 p.m.), with the wording given to 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 8 *p.m.* on 3 August 2014;
   d. All indemnities related to life insurance contracts, in which the insurer was BES - Companhia de Seguros de Vida, S.A.;
   e. All liabilities and indemnities related to the alleged annulment of certain clauses in loan agreements in which BES was the lender;
   f. All the indemnities and liabilities arising from the cancellation of operations carried out by BES whilst financial and investment service provider; and
   g. Any liability that is the object of any of the processes described in Appendix I of said deliberation.

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 8 *p.m.* of 3 August 2014.

In the preparation of its separate financial statements for 2015, NOVO BANCO incorporated the decisions resulting from the referred resolution measure regarding the transfer of the assets, liabilities, off-balance sheet elements and assets under management of BES, as well as from the deliberation of 29 December 2015 of Banco de Portugal, in particular, as regards the clarification of the non-transmission to NOVO BANCO of contingent and unknown liabilities as well as the clarifications relating to the liabilities listed in paragraph b) above, herein also including the lawsuits listed in said deliberation.

In addition, also by deliberation of Banco de Portugal of 29 December 2015, it was decided that it is the responsibility of Fundo de Resolução to 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's scope or give rise to the setting of indemnities in the scope of the implementation of court sentences annulling decisions adopted by Banco de Portugal.

Considering that the establishment of the Bank results from the application of a resolution measure to BES, which had a significant impact on the net worth of third parties, and notwithstanding the deliberations of Banco de Portugal of 29 December 2015, there are still relevant litigation risks, albeit mitigated, namely in respect of the various disputes relating to the loan made by Oak Finance to BES and in respect of the senior bonds issues retransmitted to BES, as well as the risk of the non-recognition and/or non-implementation of the various decisions of Banco de Portugal by Portuguese or foreign courts in disputes relating to the definition of the perimeter of the assets, liabilities, off-balance sheet items and assets under management transferred to NOVO BANCO.

In the preparation of the separate and consolidated financial statements of the Bank as at 31 December 2016 and 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 regards the clarification of contingencies, as well as regards 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 items and assets under management transferred from BES to NOVO BANCO, as determined by Banco de Portugal and taking as reference the current legal bases and the information available at the present date.

Relevant lawsuits

For the purpose of determining the contingent liabilities, and without prejudice to the information contained in these notes to the accounts, namely with regard to the conformity of the policy for the constitution of provisions with the resolution measure and subsequent decisions of Banco de Portugal (and criteria for the allocation of responsibilities and contingencies arising therefrom), it is also necessary to identify the following disputes which effects or impacts on the financial statements of NOVO BANCO are, on this date, not susceptible of determination or quantification:

(i) Lawsuit brought by Partran, SGPS, S.A., Massa Insolvente da Espírito Santo Financial Group, S.A. and Massa Insolvente da Espírito Santo Financial (Portugal), S.A. against NOVO BANCO and Calm Eagle Holdings, S.A.R.L. through which it is intended that the pledge of the shares of Companhia de Seguros Tranquilidade, S.A. be declared invalid and, secondarily, that said pledge be annulled or declared ineffective.

(ii) Lawsuit brought by NOVO BANCO, S.A. challenging the resolution decided in 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 (Euros 25 000 000, susceptible of a positive adjustment) on the sale of the shares of Companhia de Seguros Tranquilidade, S.A.. NOVO BANCO challenged judicially, on 19 December 2015, the resolution act, with this process running its course appended to the insolvency proceedings of Partran, SGPS, S.A.

At the end of January 2016, NOVO BANCO became aware of two lawsuits lodged with the Supremo Tribunal de Justiça da Venezuela (Supreme Court) by Banco de Desarrollo Económico y Social de Venezuela and by Fondo de Desarrollo Nacional. These lawsuits were brought against Banco Espírito Santo, S.A. (BES) and NOVO BANCO relating to the sale of debt instruments issued by entities held by the Espírito Santo Group in the amounts of USD 37 million and USD 335 million, respectively, and in which they seek the reimbursement of the amount invested plus interest, compensation for the inflation amount and court costs. Under the resolution measure applied to BES by Banco de Portugal, these responsibilities have not been transferred to NOVO BANCO. Nevertheless, in the first half-year of 2016, precautionary measures were decreed for the seizure of the assets of BES and NOVO BANCO, awaiting the execution of the measure and the Court's decision on the opposition presented by NOVO BANCO.

Fundo de Resolução

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 Banco Espírito Santo, S.A. (“BES”), under no. 5 of article 145-G of the General Law on Credit Institutions and Financial Companies (“RGICSF”), which consisted of the transfer of most of its activity to a transition bank, called NOVO BANCO, S.A. (NOVO BANCO), created specifically for this purpose. According to Community legislation, the capitalisation of NOVO BANCO was assured by Fundo de Resolução, created by Decree-Law no. 31-A/2012, of 10 February.

To realise the share capital of NOVO BANCO, Fundo de Resolução made available Euros 4 900 million. Of this amount, Euros 365 million corresponds to Fundo de Resolução’s own funds. A loan was also granted to Fundo de Resolução by a bank syndicate amounting to Euros 700 million, with the participation of each credit institution being weighted by on various factors, including their respective size. The remaining amount (Euros 3 900 million) was originated from a loan granted by the Portuguese Republic, which will be reimbursed and remunerated by Fundo de Resolução. The funds that may come to be generated with the sale of NOVO BANCO shall be fully allocated to Fundo de Resolução.

On 29 December 2015, Banco de Portugal determined to retransmit to BES the responsibility for the non-subordinated debt instruments issued by same, with a nominal amount of approximately Euros 2 thousand million, and that were intended for institutional investors, and made a final adjustment to the perimeter of the assets, liabilities, off-balance sheet items and assets under management transferred to NOVO BANCO.

Also during the month of December 2015, the national authorities decided to sell most of the assets and liabilities associated with the activity of Banif - Banco Internacional do Funchal, SA ("Banif") to Banco Santander Totta, for Euros 150 million, in the scope of the application of a resolution measure. This operation involved an estimated Euros 2 255 million of public funding, aimed at covering future contingencies, financed in Euros 489 million by Fundo de Resolução and in Euros 1 766 million directly by the Portuguese Republic, 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. In the context of this resolution measure, the assets of Banif identified as problematic were transferred to an asset management vehicle, created for the purpose – Oitante, S.A., with Fundo de Resolução being its sole shareholder, through the issue of debt securities of that vehicle, in the amount of Euros 746 million, guaranteed by Fundo de Resolução and counter-guaranteed by the Portuguese Republic. A restricted set of assets, as well as the shareholders, the subordinated creditors and related parties positions will remain in Banif, which will be the subject to a future liquidation.

As provided for in Decree-Law no. 31-A/2012, Fundo de Resolução funds derive from the payment of contributions due by the institutions participating in the Fund and from the Bank Levy. In addition, it is also envisaged that, whenever such funds reveal themselves insufficient to meet its obligations, other means of financing may be used, namely: (i) special contributions from credit institutions; and (ii) amounts obtained through loans.

As a result of the deliberations referred to above, the risk of litigation involving Fundo de Resolução is significant, as is the risk of an insufficiency of funds to ensure its compliance with its responsibilities, namely the short-term repayment of the loans contracted.

In this context, in the second half of 2016, the Portuguese Government reached an agreement with the European Commission to change the terms of the financing granted by the Portuguese Republic and by the banks participating in Fundo de Resolução in order to preserve its financial stability, through the promotion of conditions that endow predictability and stability to the contributory efforts to Fundo de Resolução. To this end, an addendum to the loan agreements with Fundo de Resolução has been recently formalised, which introduces a number of changes to the repayment schedule, remuneration rates and other terms and conditions associated with said loans such that these are adjusted to Fundo de Resolução's ability to fully meet its obligations based on its regular revenues, that is, without the need to charge the banks participating in Fundo de Resolução for special contributions or any other extraordinary contribution.

In this context, based on the information currently available, it is the understanding of the Board of Directors that the risks that may result in additional charges for the Bank, in respect of the responsibilities explained above and that fall on Fundo de Resolução, are reduced.

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, could result in an insufficient funding of Fundo de Resolução and, if so, how this will be financed.

In these circumstances, it is not possible to assess whether these situations could, 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 the companies that, on the one hand, the Bank controls, directly or indirectly, or has an interest in that gives it significant influence over the management, i.e. joint ventures and subsidiary and associated companies and, on the other, 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 2016 and 2015, is summarised as follows:

(in thousands of Euros)

	31.12.2016					31.12.2015				
	Assets	Liabilities	Guarantees	Income	Expenses	Assets	Liabilities	Guarantees	Income	Expenses
Shareholder										
FUNDO DE RESOLUÇÃO	-	-	-	-	6 599	-	-	-	-	6 591
Subsidiaries										
GNB RECUPERAÇÃO DE CRÉDITO	-	298	-	109	3 937	-	417	-	176	4 495
GNB CONCESSÕES	105 821	433	9 422	1 364	-	105 196	821	9 422	1 375	-
NB ACE	-	627	-	156	4 364	-	954	-	889	5 397
ESAF SGPS	2 782	37 749	4 026	4 924	19	1 348	108 922	4 020	5 831	179
NOVO ACTIVOS FINANCIEROS	-	-	-	2 230	185	583	47 556	-	5 929	397
NOVO BANCO SERVICIOS	60 413	22	-	988	2 626	64 799	45	-	1 907	1 785
BES GMBH	-	4 481	-	-	-	-	5 082	-	-	-
BESIL	-	95 015	-	123	127	-	24	-	145	-
NB Ásia	4 293	60 064	531	18	381	10 387	3 864	341	2	106
ES Plc	585 659	1 177	28 460	105 087	82 884	694 855	2 786	27 556	325 763	248 875
ES TECH VENTURES	46 732	31 845	-	-	55	46 732	28 051	-	-	208
BEST	780	328 532	-	476	3 953	4 053	240 768	-	388	2 441
NB AÇORES	254 291	224 738	1 456	3 942	4 467	352 901	313 989	1 456	2 435	2 590
QUINTA DOS CONEGOS	1 002	-	-	35	-	1 048	-	-	36	-
BIBL	-	-	-	5 828	6 022	131 378	98 347	-	6 006	5 527
FCR PME	-	2 579	-	-	-	-	3 522	-	-	1
FCR VENTURES II	-	-	-	-	-	16 519	280	-	905	1
GNB SISTEMAS DE INFORMAÇÃO	-	680	-	152	5 241	-	724	-	210	9 003
FT LPF1	10 770	6 370	-	1 134	-	17 056	10 783	-	1 534	-
SPE-LM6	245 337	8 123	-	472	-	249 512	6 837	-	1 514	-
SPE-LM7	979 978	12 477	-	141	-	1 079 492	20	-	1 702	-
PRAÇA DO MARQUES	-	1 811	-	-	681	-	865	-	-	1 771
SPE-SME1	-	-	-	-	-	-	-	-	-	-
AVISTAR	-	-	-	-	-	-	-	-	700	405
FCR BES GROWTH	15 414	872	-	-	-	15 414	158	-	-	-
FCR VENTURES III	-	-	-	-	-	11 604	8	-	618	-
OBLOG	-	1 170	-	12	1	-	1 419	-	26	1
NB ÁFRICA	-	10 650	-	-	12	-	10 697	-	-	2
BANCO INTERNACIONAL DE CABO VERDE	-	64 866	-	-	414	-	66 316	-	-	-
GNB Vida	21 224	351 749	-	21 744	7 392	112 387	302 212	-	22 235	10 840
NOVO VANGUARDA	467	1	-	-	2 077	-	117	-	-	1 989
FLITPTREL VIII	15 149	46	-	-	-	15 149	118	-	-	-
FUNGEPI	-	21 270	2 217	46	76	-	47 622	853	21	112
FUNGEPI_II	-	26 745	96	50	60	-	15 826	41	39	2
FUNGERE	-	10 067	60	33	26	-	31 254	185	26	73
IMOINVESTIMENTO	-	1 702	-	62	-	-	2 387	-	84	3
PREDILOC	-	240	-	-	-	-	333	-	-	3
IMOGESTÃO	-	-	883	15	-	-	1 127	883	17	-
ARRABIDA	-	866	-	-	3	-	1 521	-	-	21
INVESFUNDO VII	-	345	-	16	-	-	178	-	10	-
BES VÉNÉTIE	358 309	720	325 506	15 457	334	510 538	2 414	225 133	13 788	1 541
NB LOGÍSTICA	-	3 878	-	-	-	-	3 004	-	-	23
NB PATRIMÓNIO	20 926	-	648	1 209	7 130	39 417	-	387	3 054	6 051
FUNDES	-	5 324	-	-	58	-	27 782	-	-	-
AMOREIRAS	-	1 819	15 671	-	-	-	1 245	884	-	-
FIMES ORIENTE	219	74	114	64	-	60	462	114	-	-
NB ARRENDAMENTO	-	1 187	-	-	6	-	6 533	-	-	5
NB FINANCE	94 862	391 767	483 125	32 855	25 813	91 905	442 162	480 867	56 923	25 930
SOLID	-	-	-	-	-	573	-	-	-	-
ASAS INVEST	18	3	-	-	-	-	-	-	-	-
FEBAGRI	-	356	-	-	-	-	-	-	-	-
AUTODRIL	-	98	-	-	-	-	-	-	-	-
JCN	17 938	114	-	-	-	-	-	-	-	-
PORTUCALE	-	80	1 127	-	-	-	-	-	-	-
GREENWOODS	-	26	4 797	-	-	-	-	-	-	-
QUINTA D. MANUEL I	-	2	-	-	-	-	-	-	-	-
QUINTA DA AREIA	-	56	-	-	-	-	-	-	-	-
VÁRZEA DA LAGOA	-	-	-	-	-	-	-	-	-	-
PROMOTUR	-	24	-	-	-	-	-	-	-	-
HERDADE DA BOINA	-	10	-	-	-	-	-	-	-	-
RIBAGOLFE	-	11	-	-	-	-	-	-	-	-
BENAGIL	-	225	-	-	-	-	-	-	-	-
IMOASCAY	-	661	-	-	-	-	-	-	-	-
PALEXPO	142	30	-	-	-	-	-	-	-	-
	2 842 526	**1 714 075**	**878 139**	**198 742**	**164 943**	**3 572 906**	**1 839 552**	**752 142**	**454 288**	**336 368**
Associated companies										
ASCENDI GROUP SGPS	272 326	899	3 844	13 694	10	574 072	20 265	3 844	32 744	48
LOCARENT	100 898	678	-	2 960	5 713	100 549	506	-	2 198	7 618
NANIUM	26 244	1 411	150	338	-	31 018	5 602	188	143	12
ASCENDI PINHAL INTERIOR	150 884	35 661	7 639	15 142	17 545	155 810	23 748	7 639	15 530	29 978
PALEXPO	-	-	-	-	-	2 897	-	-	-	-
GNB SEGUROS	-	14 290	-	3	5	-	6 598	-	2 047	22
ESEGUR	5 985	1 363	928	1	1	6 871	-	941	4	1
ES CONTACT CENTER	-	-	-	-	-	-	227	-	1	-
UNICRE	-	74	-	-	1	8	13 882	-	1 197	1
MULTIPESSOAL	8 023	13	258	187	-	10 154	17	798	362	-
OTHER	171 965	54 511	1 609	5 003	410	63 646	77 184	9 973	1 111	446
	736 325	**108 900**	**14 428**	**37 328**	**23 685**	**945 025**	**148 029**	**23 383**	**55 337**	**38 126**
Other (*)	**3**	**1 695**	**-**	**-**	**-**	**2**	**694**	**-**	**-**	**-**

(*) Companies directly or indirectly dominated by the members of the corporate bodies

The assets in the balance sheet 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 loans and advances granted by the Bank in the scope of its activity. All assets placed with related parties earn interest at between 0% and 10.4% (the rates indicated correspond to the rates applied according to the original currency of the asset).

As at 31 December 2016 (in accordance with the scope defined in IAS 24) loans granted to members of the Board of Directors of NOVO BANCO and their immediate families amounted to Euros 96 thousand (31 December 2015: Euros 269 thousand); the members of the Statutory Supervisory Board of NOVO BANCO and their immediate family had no credit conceded to them; and the amount of loans granted to Other Key Management Personnel amounted to Euros 858 thousand (31 December 2015: Euros 1 556 thousand). Other Key Management Personnel are the General Managers and Advisors of the Board of Directors of NOVO BANCO.

The costs with remuneration and other benefits attributed to Key Management Personnel of NOVO BANCO are presented as follows:

(in thousands of Euros)

	Board of Directors	Statutory Supervisory Board	Other key management personnel	Total
31 December 2016				
Short-term employment benefits	1 696	255	1 741	3 692
Post-employment benefits	2	-	15	17
Other long-term benefits	-	-	-	-
Employment termination benefits	-	-	-	-
Share-based payments	-	-	-	-
	1 698	**255**	**1 756**	**3 709**
31 December 2015				
Short-term employment benefits	2 124	294	2 856	5 274
Post-employment benefits	1	-	37	38
Other long-term benefits	-	-	-	-
Employment termination benefits	-	-	-	-
Share-based payments	-	-	-	-
	2 125	**294**	**2 893**	**5 312**

NOTE 40 – SECURITISATION OF ASSETS

As at 31 December 2016 and 2015, the outstanding securitisation transactions realised by NOVO BANCO were as follows:

(in thousands of Euros)

Issue	Start date	Original amount	Current amount		Asset securitised
			31.12.2016	31.12.2015	
Lusitano Mortgages No.1 plc	December 2002	1 000 000	240 096	270 081	Mortgage loans (subsidised regime)
Lusitano Mortgages No.2 plc	November 2003	1 000 000	242 285	271 697	Mortgage loans (general and subsidised regime)
Lusitano Mortgages No.3 plc	November 2004	1 200 000	370 284	409 651	Mortgage loans (general regime)
Lusitano Mortgages No.4 plc	September 2005	1 200 000	437 689	478 582	Mortgage loans (general regime)
Lusitano Mortgages No.5 plc	September 2006	1 400 000	623 232	675 212	Mortgage loans (general regime)
Lusitano SME No.1 plc	October 2006	862 607	95 276	118 038	Loans to small- and medium-sized companies
Lusitano Mortgages No.6 plc	July 2007	1 100 000	612 683	649 914	Mortgage loans (general regime)
Lusitano Project Finance No.1, FTC	December 2007	1 079 100	56 266	88 359	Project Finance
Lusitano Mortgages No.7 plc	September 2008	1 900 000	1 482 197	1 575 737	Mortgage loans (general regime)
Lusitano Finance No.3	November 2011	657 981	82 661	124 115	Consumer loans
Lusitano SME No.3	November 2016	630 385	558 478	-	Loans to small- and medium-sized companies

Additionally, as at 31 December 2016 and 2015, the following synthetic securitisation operations were in progress:

(in thousands of Euros)

Issue	Start date	Initial amount of CDS	Current amount of CDS		Asset securitised
			31.12.2016	31.12.2015	
Lusitano Synthetic Limited	December 2012	1 000 000	719 219	889 397	Medium/Long-term financing of SME's
Lusitano Synthetic II Ltd.	December 2013	2 000 000	1 592 605	1 736 459	Current accounts

In 2016 a securitisation operation involving loans and advances to small and medium enterprises was realised with loans granted by NOVO BANCO (Lusitano SME No. 3).

The loans and advances to customers covered by the securitisation operations Lusitano Finance No.3 and Lusitano SME No. 3 were not derecognised from the balance sheet since the Bank substantially retained all the risks and rewards of ownership associated with the securitised assets. The remaining 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. As at 31 December 2016, the fair value of the CDS of these transactions is positive in Euros 105 570 thousand (31 December 2015: positive fair value of Euros 102 796 thousand).

The main characteristics of these operations, as at 31 December 2016 and 2015, may be analysed as follows:

(in thousands of Euros)

31.12.2016														
Issue	Bonds issued	Initial nominal value	Current nominal value	Interest held by Bank (Nominal value)	Interest held by Bank (Book value)	Maturity date	Initial rating of the bonds				Current rating of the bonds			
							Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Lusitano Mortgages No.1 plc	Class A	915 000	143 629	-	-	December 2035	AAA	Aaa	AAA	-	A+	A1	A+	-
	Class B	32 500	32 500	-	-	December 2035	AA	Aa3	AA	-	A+	A1	A-	-
	Class C	25 000	25 000	-	-	December 2035	A	A2	A	-	A+	A1	BB-	-
	Class D	22 500	22 500	-	-	December 2035	BBB	Baa2	BBB	-	A+	Ba2	B+	-
	Class E	5 000	5 000	-	-	December 2035	BB	Ba1	BB	-	A	Caa1	B-	-
	Class F	10 000	10 000	-	-	December 2035	-	-	-	-	-	-	-	-
Lusitano Mortgages No.2 plc	Class A	920 000	156 202	-	-	December 2035	AAA	Aaa	AAA	-	A+	A1	A-	-
	Class B	30 000	30 000	-	-	December 2046	AA	Aa3	AA	-	A+	A1	BB+	-
	Class C	28 000	28 000	-	-	December 2046	A	A3	A	-	A+	A2	B+	-
	Class D	16 000	16 000	-	-	December 2046	BBB	Baa3	BBB	-	BBB+	Ba1	B	-
	Class E	6 000	6 000	-	-	December 2046	BBB-	Ba1	BB	-	BB	B3	B-	-
	Class F	9 000	9 000	-	-	December 2046	-	-	-	-	-	-	-	-
Lusitano Mortgages No.3 plc	Class A	1 140 000	321 423	-	-	December 2047	AAA	Aaa	AAA	-	A-	A2	A-	-
	Class B	27 000	12 613	-	-	December 2047	AA	Aa2	AA	-	BBB	Ba2	B+	-
	Class C	18 600	8 689	-	-	December 2047	A	A2	A	-	BB	B1	B	-
	Class D	14 400	6 727	-	-	December 2047	BBB	Baa2	BBB	-	B	B3	B-	-
	Class E	10 800	6 290	-	-	December 2047	-	-	-	-	-	-	-	-
Lusitano Mortgages No.4 plc	Class A	1 134 000	345 890	-	-	December 2048	AAA	Aaa	AAA	-	BB	A1	A-	-
	Class B	22 800	21 553	-	-	December 2048	AA	Aa2	AA	-	BB	Baa3	BB	-
	Class C	19 200	18 150	-	-	December 2048	A+	A1	A+	-	BB	B2	B	-
	Class D	24 000	22 687	-	-	December 2048	BBB+	Baa1	BBB-	-	CCC	Caa3	B-	-
	Class E	10 200	10 200	-	-	December 2048	N/A	-	N/A	-	-	-	-	-
Lusitano Mortgages No.5 plc	Class A	1 323 000	522 040	-	-	December 2059	AAA	Aaa	AAA	-	BB	Baa1	BB+	-
	Class B	26 600	25 494	-	-	December 2059	AA	Aa2	AA	-	BB-	B3	B	-
	Class C	22 400	21 469	-	-	December 2059	A	A1	A	-	CCC	Caa3	B-	-
	Class D	28 000	26 836	-	-	December 2059	BBB+	Baa2	BBB	-	CC	Ca	CCC	-
	Class E	11 900	11 900	-	-	December 2059	N/A	-	N/A	-	-	-	-	-
Lusitano SME No.1 plc	Class A	759 525	-	-	-	December 2028	A+	-	A-	-	-	-	-	-
	Class B	40 974	2 917	-	-	December 2028	AAA	-	AAA	-	AAA	-	AAA	-
	Class C	34 073	16 235	-	-	December 2028	CCC	-	B	-	B-	-	BBB+	-
	Class D	28 035	13 358	-	-	December 2028	-	-	-	-	-	-	-	-
	Class E	8 626	4 313	-	-	December 2028	-	-	-	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943 250	418 516	90 053	79 031	March 2060	AAA	Aaa	AAA	-	BBB	A1	BBB+	-
	Class B	65 450	65 450	63 950	41 630	March 2060	AA	Aa3	AA	-	BB-	Baa3	BB+	-
	Class C	41 800	41 800	41 800	23 488	March 2060	A	A3	A	-	B-	B3	B	-
	Class D	17 600	17 600	17 600	8 824	March 2060	BBB	Baa3	BBB	-	CCC	Caa3	CCC	-
	Class E	31 900	31 900	31 900	10 804	March 2060	BB	-	BB	-	CC	-	D	-
	Class F	22 000	22 000	-	-	March 2060	-	-	-	-	-	-	-	-
Lusitano Project Finance No.1 FTC		198 101	87 740	15 103	15 414	March 2025	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1 425 000	979 978	979 973	857 143	October 2064	-	-	AAA	AAA	-	-	A-	AAH
	Class B	294 500	294 500	-	-	October 2064	-	-	BBB-	-	-	-	BB-	-
	Class C	180 500	180 500	-	-	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	57 000	-	-	October 2064	-	-	-	-	-	-	-	-
Lusitano Finance No.3	Class A	450 700	-	-	-	November 2029	-	-	-	-	-	-	-	-
	Class B	207 200	78 683	78 683	68 327	November 2029	-	-	-	-	-	-	-	-
	Class C	24 800	10 000	10 000	8 079	November 2029	-	-	-	-	-	-	-	-
Lusitano SME No.3	Class A	385 600	335 018	-	-	December 2037	-	A3	-	AA	-	A3	-	AA
	Class B	62 700	62 700	62 700	62 700	December 2037	-	Baa3	-	BBB	-	Baa3	-	BBB
	Class C	62 700	62 700	62 700	62 700	December 2037	-	B1	-	B	-	B1	-	B
	Class D	116 000	116 000	116 000	116 000	December 2037	-	-	-	-	-	-	-	-
	Class E	9 500	9 500	9 500	9 500	December 2037	-	-	-	-	-	-	-	-
	Class S	88 771	56 766	56 766	56 766	December 2037	-	-	-	-	-	-	-	-
Lusitano Synthetic Limited	Senior	900 000	664 581	664 581	-	April 2034	-	-	-	-	-	-	-	-
	Mezzanine	80 000	80 000	-	-	April 2034	-	-	-	-	-	-	-	-
	Junior	20 000	8 074	6 459	-	April 2034	-	-	-	-	-	-	-	-
Lusitano Synthetic II Ltd.	Senior	1 800 000	1 365 888	1 365 888	-	November 2023	-	-	-	-	-	-	-	-
	Mezzanine	180 000	85 007	-	-	November 2023	-	-	-	-	-	-	-	-
	Junior	20 000	-	-	-	November 2023	-	-	-	-	-	-	-	-

(in 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 (Book value)	Maturity date	Initial rating of the bonds				Current rating of the bonds			
							Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Lusitano Mortgages No.1 plc	Class A	915 000	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	-	-	-	-	-	-	-	-

NOTE 41 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The governance model of the valuation of the Bank's financial instruments is defined in internal regulations, which establishes the policies and procedures to be followed in the identification and valuation of financial instruments, the control procedures and the definition of the responsibilities of the parties involved in this process.

In accordance with the fair value valuation methodology of assets and liabilities followed, these are classified in the corresponding hierarchy of fair value defined in IFRS 13 - Fair Value. The following is a brief description of the type of assets and liabilities included in each level of the hierarchy and the corresponding valuation method:

Quoted market prices (level 1)

This category includes financial instruments with market prices quoted on official markets and those with dealer price quotations provided by entities that usually disclose transaction prices for these instruments traded on active markets.

The priority in terms of which price is used is given to those observed on official markets; where there is more than one official market the choice falls on the main market on which those instruments are traded.

The Bank considers market prices those disclosed by independent entities, 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 listed on a stock exchange;
iii) Open investment funds (securities) listed on a stock exchange;
iv) Closed investment funds whose subjacent assets are solely financial instruments listed on a stock exchange;
v) Bonds with more than one provider and for which the instruments are listed on a stock exchange;
vi) Financial instruments with market offers even if these are not available at the normal information sources (e.g. Securities traded based on recovery rate).

Valuation models based on observable market parameters / prices (level 2)

In this category, the financial instruments are valued using internal valuation techniques, namely discounted cash flow models and option pricing models which imply the use of estimates and require judgments that vary in accordance with the complexity of the financial instruments. Notwithstanding, the Bank uses as inputs in its models observable market data such as interest rate curves, credit spreads, volatility and market indexes. This category also includes instruments with dealer price quotations but which markets have a lower liquidity. Additionally, the Bank also uses as observable market variables, those that result from transactions with similar instruments and that are observed with a certain regularity on the market.

This category includes, amongst others, the following financial instruments:

i) Unquoted bonds; and
ii) OTC (over-the-counter) derivatives.

Valuation models based on 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 are used. The bases and assumption of the calculation of fair value are in accordance with IFRS 13.

This category includes, amongst others, the following financial instruments:

i) Debt securities valued using non-observable market inputs;

ii) Unquoted shares;

iii) Closed real estate funds;

iv) Hedge Funds;

v) Private equities;

vi) Restructuring Funds; and

vii) Derivatives over-the-counter (OTC) with valuations provided by third parties

The valuation models used by type of instrument are as follows:

Money market operations and loans and advances to customers: fair value is determined by the discounted cash flows method, with future cash flow being discounted considering the currency yield curve plus the credit risk of the entity contractually liquidating that flow.

Commercial paper: its fair value is determined by discounting future cash flows considering the currency yield curve plus the credit risk of the issuer determined in the issuance programme.

Debt instruments (bonds) with liquidity: the selective independent valuation methodology is used based on observations available on Bloomberg, designated as 'Best Price', where all the valuations available are requested, but only considered as input the previously validated sources, with the model considering the excluding prices due to seniority and of outliers. In the specific case of the Portuguese sovereign debt, and due to the market making activity and the materiality of the Bank's positions, the CBBT source valuations are always considered (the CBBT is a composite of valuations prepared by Bloomberg, which considers the average of executable prices and with high liquidity).

Debt instruments (bonds) with reduced liquidity: the models considered for the valuation of low liquidity bonds without observable market valuations are determined taking into account the information available on the issuer and the instrument, with the following models being considered: (i) discounted cash flows - cash flows are discounted considering the interest rate risk, credit risk of the issuer and any other risks subjacent to the instrument; or (ii) valuations made available by external counterparties, when it is impossible to determine the fair value of the instrument, with the selection always falling on reliable sources with reputed credibility in the market and impartiality in the valuation of the instruments being analysed.

Convertible bonds: cash flows are discounted considering the interest rate risk, the issuer's credit risk and any other risks that may be associated with the instrument, plus the net present value ('NPV') of the convertibility options embedded in the instrument.

Shares and quoted funds: in quoted market products, the quotation on the respective stock exchange is considered.

Unquoted Shares: the valuation is carried out using external valuations made of the companies in which the shareholding is held. In the event the request for an external valuation is not justified due to the immateriality of this position in the balance sheet, the position is revalued considering the book value of the entity, or is maintained at the acquisition cost with the respective analysis of impairment.

Unquoted funds: the valuation is performed by external valuations to the company where it holds the equity participation. In the event that there are calls for capital after the reference date of the last available valuation, the valuation is recalculated considering the capital calls subsequent to the reference date at the amount at which these were made, until a new valuation is made available by the management company already considering the capital calls realised. It should be noted that although the valuations made available by the management companies are accepted, whenever applicable, in accordance with the funds' regulations, the bank requests the legal certification of the accounts issued by independent auditors in order to obtain the additional comfort necessary as regards the information made available by the management company.

Derivative instruments: if they are traded on organised markets, the valuations are observable in the market, otherwise these are valued using standard models and relying on observable variables in the market, namely:

- Foreign currency options: are valued through the front office system, which considers models such as Garman-Kohlhagen, Binomial, Black & Scholes, Levy or Vanna-Volga.
- Interest rate swaps and foreign currency swaps: the valuation of these instruments is done through the front office system, where the fixed leg cash flows of the instrument are discounted based on the yield curve of the respective currency, and the cash flows of the variable leg are projected considering the forward curve and discounted, also considering discount factors and forward rates based on the yield curve of the respective currency.
- Credit Default Swaps (CDS): both legs of the CDS are composed of cash flows contingent on the credit risk of the underlying asset and are therefore valued through market credit spreads.
- Futures and Options: the Bank trades these products on an organised market, but there is the possibility of trading on the OTC market. For the futures and options traded in organised market the valuations are observable in the market, with the valuation being received daily through the broker selected for these products. For the futures and options traded on the OTC market, and based on the type of product and the underlying asset type, discrete (binominal) or continuous time (Black & Scholes) models may be considered.

The fair value of the financial assets and liabilities measured at fair value of the Bank is as follows:

(in thousands of Euros)

	At fair value			
	Quoted Market Prices (Level 1)	**Valuation models based on observable market information (Level 2)**	**Valuation models based on unobservable market information (Level 3)**	**Total Fair Value**
31 December 2016				
Financial assets held for trading	139	663 051	2 174	665 364
Securities				
Bonds issued by other entities	-	-	1	1
Shares	139	-	76	215
Derivatives				
Exchange rate contracts	-	40 939	-	40 939
Interest rate contracts	-	599 946	2 097	602 043
Credit default contracts	-	18 927	-	18 927
Other	-	3 239	-	3 239
Other financial assets at fair value through profit or loss	4 350	-	526	4 876
Bonds issued by other entities	1 414	-	-	1 414
Shares and other variable income securities	2 936	-	526	3 462
Available-for-sale financial assets	4 483 129	627 670	4 806 148	9 916 947
Bonds issued by government and public entities	4 255 874	479 690	2 433	4 737 997
Bonds issued by other entities	164 174	147 980	1 990 784	2 302 938
Shares	63 081	-	762 376	825 457
Other variable income securities	-	-	2 050 555	2 050 555
Loans and advances to customers	-	657 093	-	657 093
Derivatives held for risk management purposes	-	118 014	105 569	223 583
Exchange rate contracts	-	118 014	-	118 014
Credit default contracts	-	-	105 569	105 569
Assets at fair value	**4 487 618**	**2 065 828**	**4 914 417**	**11 467 863**
Financial liabilities held for trading	-	642 943	2 416	645 359
Derivatives				
Exchange rate contracts	-	39 106	-	39 106
Interest rate contracts	-	576 273	2 416	578 689
Credit default contracts	-	13 615	-	13 615
Other	-	13 949	-	13 949
Deposits from banks	-	243 822	-	243 822
Due to customers and other loans	-	264 723	-	264 723
Debt securities issued	-	42 010	-	42 010
Financial liabilities associated with assets transferred	-	685 588	-	685 588
Derivatives held for risk management purposes	-	108 263	-	108 263
Interest rate contracts	-	108 263	-	108 263
Liabilities at fair value	**-**	**1 987 349**	**2 416**	**1 989 765**

(in thousands of Euros)

	At fair value			
	Quoted Market Prices (Level 1)	Valuation models based on observable market information (Level 2)	Valuation models based on unobservable market information (Level 3)	Total Fair Value
31 December 2015				
Financial assets held for trading	1 503	771 299	14 281	787 083
Securities				
Bonds issued by government and public entities	1 128	-	-	1 128
Bonds issued by other entities	-	-	30	30
Shares	299	-	14 251	14 550
Other variable income securities	76	-	-	76
Derivatives				
Exchange rate contracts	-	40 142	-	40 142
Interest rate contracts	-	707 691	-	707 691
Credit default contracts	-	21 397	-	21 397
Other	-	2 069	-	2 069
Other financial assets at fair value through profit or loss	7 668	-	219 725	227 393
Bonds issued by other entities	1 615	-	170	1 785
Shares and other variable income securities	6 053	-	219 555	225 608
Available-for-sale financial assets	4 932 179	590 029	5 069 801	10 592 009
Bonds issued by government and public entities	4 719 553	438 890	3 952	5 162 395
Bonds issued by other entities	129 485	151 139	1 970 725	2 251 349
Shares	83 141	-	817 869	901 010
Other variable income securities	-	-	2 277 255	2 277 255
Loans and advances to customers	-	430 560	-	430 560
Derivatives held for risk management purposes	-	322 055	-	322 055
Exchange rate contracts	-	295	-	295
Interest rate contracts	-	218 964	-	218 964
Credit default contracts	-	102 796	-	102 796
Assets at fair value	**4 941 350**	**2 113 943**	**5 303 807**	**12 359 100**
Financial liabilities held for trading	-	758 446	-	758 446
Derivatives				
Exchange rate contracts	-	43 999	-	43 999
Interest rate contracts	-	686 309	-	686 309
Credit default contracts	-	16 565	-	16 565
Other	-	11 573	-	11 573
Deposits from banks	-	421 501	-	421 501
Due to customers and other loans	-	1 038 486	-	1 038 486
Debt securities issued	-	42 635	-	42 635
Financial liabilities associated with assets transferred	-	168 565	-	168 565
Derivatives held for risk management purposes	-	77 846	-	77 846
Exchange rate contracts	-	13	-	13
Interest rate contracts	-	77 833	-	77 833
Liabilities at fair value	**-**	**2 507 479**	**-**	**2 507 479**

The movement in financial assets valued based on non-observable market information (level 3 of the fair value hierarchy) during financial years 2016 and 2015, may be analysed as follows:

(in thousands of Euros)

31.12.2016	Financial assets held for trading - derivatives	Financial assets held for trading - securities	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Derivatives for risk management	Total
Balance at the beginning of the period	-	14 281	219 725	5 069 801	-	5 303 807
Acquisitions	-	(3)	309 143	6 225 629	-	6 534 769
Attainment of maturity	-	-	(142)	(4 480 755)	-	(4 480 897)
Liquidation	-	(15 209)	(422 846)	(1 804 177)	-	(2 242 232)
Transfers in	2 341	-	-	625	102 796	105 762
Transfers out	-	-	-	(2 758)	-	(2 758)
Changes in value	(244)	1 008	(105 354)	(202 217)	2 773	(304 034)
Balance at the end of the period	**2 097**	**77**	**526**	**4 806 148**	**105 569**	**4 914 417**

(in thousands of Euros)

31.12.2015	Financial assets held for trading - derivatives	Financial assets held for trading - securities	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Derivatives for risk management	Total
Balance at the beginning of the period	-	32 884	1 180 261	3 249 393	-	4 462 538
Acquisitions	-	-	-	1 018 338	-	1 018 338
Attainment of maturity	-	-	-	(1 025 239)	-	(1 025 239)
Liquidation	-	(18 603)	(960 548)	516 821	-	(462 330)
Transfers in	-	-	-	1 449 593	-	1 449 593
Changes in value	-	-	12	(139 105)	-	(139 093)
Balance at the end of the period	**-**	**14 281**	**219 725**	**5 069 801**	**-**	**5 303 807**

The transfers in that occurred in financial years 2016 and 2015 were mainly related to the end of observable market parameters. The transfers out of available-for-sale financial assets were to assets valued at historical cost, subject to impairment tests.

Potential gains and losses of financial instruments classified in level 3 of the fair value hierarchy are recorded in the income statement or revaluation reserves, in accordance with the respective accounting policy of the assets. The amounts determined in financial year 2016 are as follows:

(in thousands of Euros)

31.12.2016	Recognised in Reserves	Recognised in the Income statement	Total
Financial assets held for trading - derivatives	-	(244)	(244)
Financial assets held for trading - securities	-	1 008	1 008
Financial assets at fair value through profit or loss	-	(105 354)	(105 354)
Available-for-sale financial assets	(165 066)	-	(165 066)
Derivatives for risk management purposes	-	2 773	2 773
	(165 066)	(101 817)	(266 883)

The following table shows, for the assets included in level 3 of the fair value hierarchy, the main valuation methods used and the impact of the change in the main variables used in the respective valuation, when applicable:

(in millions of Euros)

Assets classified under Level 3	31.12.2016						
	Valuation model	Variable analysed	Carrying book value	Unfavourable scenario		Favourable scenario	
				Change	Impact	Change	Impact
Financial assets held for trading			**2.2**		**-**		**-**
Shares	Other	(a)	*0.1*		-		-
Derivatives	Other	(a)	*2.1*		-		-
Financial assets at fair value through profit or loss			**0.5**		**-**		**-**
Shares and other variable income securities			0.5		-		-
	Valuation of management company	*Net asset value (b)*	*0.2*		-		-
	(a)	*(a)*	*0.3*		-		-
Available-for-sale financial assets			**4 806.1**		**(155.1)**		**191.9**
Bonds issued by government and public entities	Discounted cash flow model - Interest Rate	Interest rate	*2.4*	(-) 100 bps	(0.1)	(+) 100 bps	0.1
Bonds issued by other entities			1 990.8		(92.9)		110.5
	Discounted cash flow model	*Interest rate*	*1 506.4*	*(-) 100 bps*	*(74.7)*	*(+) 100 bps*	*104.4*
	Discounted cash flow model	*Rating/Probability of default*	*10.0*	*-50%*	*(1.6)*	*+50%*	*0.8*
	Discounted cash flow model	*Rating/Probability of default*	*463.4*	*2 levels*	*(18.8)*	*2 levels*	*7.4*
	Discounted cash flow model	*Rating/Probability of default*	*11.0*	*-25%*	*(2.2)*	*+25%*	*2.2*
Shares			*762.4*		(62.1)		81.3
	Discounted cash flow model	*Discount rate*	*158.9*	*-50%*	*(62.0)*	*+50%*	*81.3*
	Valuation of management company	*Net assets value (b)*	*578.3*		-		-
	Market multiples		*0.3*	*(-) outliers*	*(0.0)*	*(+) outliers*	*0.0*
	Other	*(a)*	*24.9*				
Other variable income securities			2 050.6		-		-
	Valuation of management company	*Net assets value (b)*	*2 050.6*		-		-
Total			**4 808.8**	**-**	**(155.1)**		**191.9**

(a) A sensitivity analysis was not carried out for these categories as these include securities with immaterial individual values.

(b) In the specific case of participation units valued according to the quotations provided by the respective management company, it is not reasonable to analyse the impact of changes in the underlying variables subjacent to the quotations ascertained by that entity.

(in millions of Euros)

Assets classified under Level 3	31.12.2015						
	Valuation model	Variable analysed	Carrying book value	Unfavourable scenario		Favourable scenario	
				Change	Impact	Change	Impact
Financial assets held for trading			**14.3**		**-**		**-**
Shares	(a)	(a)	*14.3*		-		-
Financial assets at fair value through profit or loss			**219.7**		**(47.1)**		**23.5**
Bonds issued by other entities	(a)	(a)	0.2		-		-
Shares and other variable income securities			219.6		(47.1)		23.5
	Discounted cash flow model	Discount rate	*157.3*	-50%	*(47.1)*	+50%	*23.5*
	(a)	(a)	*62.3*		-		-
Available-for-sale financial assets			**5 069.8**		**(15.8)**		**2.8**
Bonds issued by government and public entities	(a)	(a)	4.0		-		-
Bonds issued by other entities			1 970.7		(33.8)		9.5
	Discounted cash flow model	Interest rate	*1 269.9*	(-) 100 bps	*(0.0)*	(+) 100 bps	*0.0*
	Discounted cash flow model	Rating/Probability of default	*695.5*	-50%	*(32.7)*	+50%	*9.4*
	Discounted cash flow model	Rating/Probability of default	*5.3*	2 níveis	*(1.0)*	2 níveis	*0.1*
Shares			817.9		18.1		(6.7)
	Discounted cash flow model	Discount rate	*96.0*	-50%	*18.1*	+50%	*(6.7)*
	Valuation of management company	Net assets value (b)	*624.3*		-		-
	Market multiples		*0.5*	(-) outliers	*(0.0)*	(+) outliers	*0.0*
	Relevant transactions	(a)	-		-		-
	Other	-	*97.1*				
Other variable income securities	Valuation of management company	Net assets value (b)	2 277.3		-		-
Total			**5 303.8**	**-**	**(62.8)**		**26.4**

(a) A sensitivity analysis was not carried out for these categories as these include securities with immaterial individual values.

(b) In the specific case of participation units valued according to the quotations provided by the respective management company, it is not reasonable to analyse the impact of changes in the underlying variables subjacent to the quotations ascertained by that entity.

The main parameters used in the valuation models as at 31 December 2016 and 2015 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:

(%)

	31.12.2016			31.12.2015		
	EUR	USD	GBP	EUR	USD	GBP
Overnight	-0.4000	0.6100	0.1500	-0.3500	0.4100	0.3200
1 month	-0.3680	0.7750	0.2900	-0.2050	0.6050	0.5750
3 months	-0.3190	1.0500	0.4300	-0.1310	0.7550	0.6700
6 months	-0.2210	1.2500	0.5500	-0.0400	0.9400	0.8250
9 months	-0.1390	1.4500	0.6800	-0.0480	1.1200	0.9750
1 year	-0.2040	1.1810	0.4064	-0.0569	0.8470	0.7261
3 years	-0.1005	1.6640	0.6881	0.0590	1.3849	1.3026
5 years	0.0750	1.9450	0.8657	0.3280	1.7010	1.5920
7 years	0.3150	2.1350	1.0347	0.6210	1.9310	1.7990
10 years	0.6680	2.3160	1.2325	1.0000	2.1615	1.9931
15 years	1.0340	2.4750	1.4147	1.3990	2.3930	2.1606
20 years	1.1810	2.5380	1.4607	1.5670	2.5020	2.2010
25 years	1.2230	2.5600	1.4498	1.6040	2.6320	2.1800
30 years	1.2410	2.5650	1.4297	1.6100	2.5900	2.1550

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 2016						
CDX USD Main	**24**	-	35.25	67.77	94.99	112.67
iTraxx Eur Main	**23**	**-**	43.65	72.13	94.18	110.47
iTraxx Eur Senior Financial	**23**	**-**	-	93.43	-	124.98
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

Interest rate volatility

The values presented below represent the implicit volatilities (at the money) used for the valuation of interest rate options:

(%)

	31.12.2016			31.12.2015		
	EUR	USD	GBP	EUR	USD	GBP
1 year	14.14	24.43	80.81	31.65	50.93	44.44
3 years	31.24	37.50	-	58.65	46.06	53.36
5 years	47.41	40.88	97.10	78.45	46.29	54.11
7 years	58.53	39.98	90.36	83.60	43.95	51.72
10 years	66.68	37.66	-	84.47	39.50	47.70
15 years	69.39	-	-	80.90	-	42.18

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	31.12.2016	31.12.2015	1 month	3 months	6 months	9 months	1 year
EUR/USD	1.0541	1.0887	10.45	10.58	10.83	10.65	10.55
EUR/GBP	0.8562	0.7340	9.91	10.35	10.93	10.80	10.80
EUR/CHF	1.0739	1.0835	5.30	6.15	7.30	7.43	7.59
EUR/NOK	9.0863	9.6030	7.30	7.91	8.39	8.48	8.60
EUR/PLN	4.4103	4.2639	6.78	7.10	7.55	7.60	7.75
EUR/RUB	64.3000	80.6736	15.20	16.20	17.25	17.22	18.15
USD/BRL a)	3.2544	3.9604	16.23	16.36	16.40	16.43	16.46
USD/TRY [b)]	3.5169	2.9177	15.38	15.75	15.60	15.95	15.90

[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
	31.12.2016	31.12.2015	% change	1 month	3 months	
DJ Euro Stoxx 50	3 291	3 268	0.70	10.87	13.25	16.43
PSI 20	4 679	5 313	-11.93	11.45	13.71	17.46
IBEX 35	9 352	9 544	-2.01	13.54	14.99	-
FTSE 100	7 143	6 242	14.43	8.48	11.89	11.82
DAX	11 481	10 743	6.87	11.22	13.32	16.09
S&P 500	2 239	2 044	9.54	7.60	10.23	11.51
BOVESPA	60 227	43 350	38.93	25.02	23.92	23.62

The fair value of financial assets and liabilities recorded on the balance sheet at amortised cost is analysed as follows, having been based on the main methodologies and assumptions described below:

(in thousands of Euros)

	Assets / Liabilities recorded at amortised cost	Fair value			
		Quoted Market Prices (Level 1)	Valuation models based on observable market information (Level 2)	Valuation models based on unobservable market information (Level 3)	Total fair value
31 December 2016					
Cash and deposits with Central Banks	1 464 402	-	1 464 402	-	1 464 402
Deposits with banks	116 774	-	116 774	-	116 774
Available-for-sale financial assets (shares) a)	53 752	-	-	53 752	53 752
Loans and advances to banks	1 325 623	-	1 325 623	-	1 325 623
Loans and advances to customers	25 248 316	-	-	24 617 238	24 617 238
Financial assets	**28 208 867**	**-**	**2 906 799**	**24 670 990**	**27 577 789**
Deposits from Central Banks	6 410 033	-	6 410 033	-	6 410 033
Deposits from banks	4 450 431	-	4 227 288	-	4 227 288
Due to customers	25 335 234	-	-	25 335 234	25 335 234
Debt securities issued	2 983 493	2 447 464	100 750	-	2 548 214
Financial Liabilities	**39 179 191**	**2 447 464**	**10 738 071**	**25 335 234**	**38 520 769**

a) Assets at acquisition cost, net of impairment. These assets relate to equity instruments issued by unquoted entities, for which no recent transactions were identified on the market and for which it is not possible to reliably estimate their fair value

(in thousands of Euros)

	Assets / Liabilities recorded at amortised cost	Fair value			
		Quoted Market Prices (Level 1)	Valuation models based on observable market information (Level 2)	Valuation models based on unobservable market information (Level 3)	Total fair value
31 December 2015					
Cash and deposits with Central Banks	738 360	-	738 360	-	738 360
Deposits with banks	132 753	-	132 753	-	132 753
Available-for-sale financial assets (shares) a)	2 922	-	-	2 922	2 922
Loans and advances to banks	2 548 148	-	2 548 148	-	2 548 148
Loans and advances to customers	27 574 798	-	-	26 735 015	26 735 015
Financial assets	**30 996 981**	**-**	**3 419 261**	**26 737 937**	**30 157 198**
Deposits from Central Banks	7 485 794	-	7 485 794	-	7 485 794
Deposits from banks	4 708 359	-	4 638 844	-	4 638 844
Due to customers	26 199 388	-	-	26 199 388	26 199 388
Debt securities issued	3 446 930	3 601 160	22	93 687	3 694 869
Subordinated debt	-	-	-	-	-
Financial Liabilities	**41 840 471**	**3 601 160**	**12 124 660**	**26 293 075**	**42 018 895**

a) Assets at acquisition cost, net of impairment. These assets relate to equity instruments issued by unquoted entities, for which no recent transactions were identified on the market and for which it is not possible to reliably estimate their fair value

Cash and deposits with Central Banks, Deposits with banks and Loans and advances to 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. 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, there are no material relevant differences in their fair value.

Debt securities issued and Subordinated debt

The fair value of these instruments is based on quoted market prices, when available. When not available, the fair value is estimated based on the present value of the expected future cash flows of principal and interest.

NOTE 42 – RISK MANAGEMENT

The Bank is exposed to the following risks arising from the use of financial instruments:

- Credit risk;
- Market risk;
- Liquidity risk;
- 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 other 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 maximum credit risk exposure is analysed as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Deposits with and loans and advances to banks	1 444 287	2 682 909
Financial assets held for trading	665 149	772 457
Other financial assets at fair value through profit or loss	1 414	1 785
Available-for-sale financial assets	7 040 935	7 413 744
Loans and advances to customers	25 905 409	28 005 358
Derivatives held for risk management purposes	223 583	322 055
Other assets	577 924	591 175
Guarantees and standby letters provided	4 485 029	5 101 998
Documentary credits	1 040 679	1 035 580
Irrevocable commitments	1 618 561	1 435 670
Credit risk associated with the credit derivatives' reference entities	62 758	-
	43 065 728	**47 362 731**

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 past due. If the value of the collateral, net of haircuts equals or exceeds the exposure, the individual impairment may be nil. Hence, the Bank does not have any overdue financial assets for which it has not performed a review as to their recoverability and the subsequent recognition of the respective impairment, when necessary.

(in thousands of Euros)

	31.12.2016					
	Neither overdue nor impaired	Overdue but not impaired	Impaired	Total exposure	Impairment	Net exposure
Deposits with and loans and advances to banks	915 871	73	1 000 757	1 916 701	(472 414)	1 444 287
Financial assets held for trading -securities	1	-	-	1	-	1
Bonds issued by government and other public entities	-	-	-	-	-	-
Bonds issued by other entities	1	-	-	1	-	1
Other financial assets at fair value through profit or loss	1 414	-	-	1 414	-	1 414
Bonds issued by government and other public entities	-	-	-	-	-	-
Bonds issued by other entities	1 414	-	-	1 414	-	1 414
Available-for-sale financial assets	6 996 853	-	253 314	7 250 167	(209 232)	7 040 935
Bonds issued by government and other public entities	*4 737 997*	-	-	4 737 997	-	4 737 997
Bonds issued by other entities	*2 258 856*	-	*253 314*	2 512 170	*(209 232)*	2 302 938
Loans and advances to customers	20 361 006	174 577	10 877 959	31 413 542	(5 508 133)	25 905 409

(in thousands of Euros)

	31.12.2015					
	Neither overdue nor impaired	Overdue but not impaired	Impaired	Total exposure	Impairment	Net exposure
Deposits with and loans and advances to banks	2 819 723	50 086	-	2 869 809	(186 900)	2 682 909
Financial assets held for trading -securities	1 158	-	-	1 158	-	1 158
Bonds issued by government and other public entities	1 128	-	-	1 128	-	1 128
Bonds issued by other entities	30	-	-	30	-	30
Other financial assets at fair value through profit or loss	1 785	-	-	1 785	-	1 785
Bonds issued by government and other public entities	-	-	-	-	-	-
Bonds issued by other entities	1 785	-	-	1 785	-	1 785
Available-for-sale financial assets	7 330 327	-	242 834	7 573 161	(159 417)	7 413 744
Bonds issued by government and other public entities	*5 162 395*	-	-	5 162 395	-	5 162 395
Bonds issued by other entities	*2 167 932*	-	*242 834*	2 410 766	*(159 417)*	2 251 349
Loans and advances to customers	22 620 308	288 056	10 802 012	33 710 376	(5 705 018)	28 005 358

The following table presents the assets that are impaired or past due but not impaired, split by respective maturity or ageing (in the event of being overdue):

(in thousands of Euros)

	31.12.2016					
	Available-for-sale financial assets - debt instruments		Deposits with and loans and advances to banks		Loans and advances to customers	
	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired
Overdue						
Up to 3 months	-	-	73	-	161 851	141 019
3 months to 1 year	-	-	-	-	6 933	1 162 147
1 to 3 years	-	164 887	-	391 497	1 834	3 458 495
3 to 5 years	-	15 251	-	-	1 309	1 340 351
More than 5 years	-	924	-	-	2 650	774 887
	-	**181 062**	**73**	**391 497**	**174 577**	**6 876 899**
Due						
Up to 3 months	-	-	-	-	-	319 699
3 months to 1 year	-	29 557	-	-	-	388 257
1 to 3 years	-	2 702	-	-	-	862 066
3 to 5 years	-	15 417	-	-	-	866 846
More than 5 years	-	24 576	-	609 260	-	1 564 192
	-	**72 252**	**-**	**609 260**	**-**	**4 001 060**
	-	**253 314**	**73**	**1 000 757**	**174 577**	**10 877 959**

(in thousands of Euros)

	31.12.2015					
	Available-for-sale financial assets - debt instruments		Deposits with and loans and advances to banks		Loans and advances to customers	
	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired
Overdue						
Up to 3 months	-	15 738	-	-	262 737	240 729
3 months to 1 year	-	149 051	-	-	19 656	1 773 246
1 to 3 years	-	15 398	50 086	-	1 316	2 885 109
3 to 5 years	-	-	-	-	1 985	1 349 277
More than 5 years	-	924	-	-	2 362	642 770
	-	**181 111**	**50 086**	**-**	**288 056**	**6 891 131**
Due						
Up to 3 months	-	546	-	-	-	549 874
3 months to 1 year	-	29 628	-	-	-	354 456
1 to 3 years	-	2 609	-	-	-	425 698
3 to 5 years	-	-	-	-	-	1 593 785
More than 5 years	-	28 940	-	-	-	987 068
	-	**61 723**	**-**	**-**	**-**	**3 910 881**
	-	**242 834**	**50 086**	**-**	**288 056**	**10 802 012**

In relation to assets that are not overdue or impaired, the distribution by rating level is presented below. For debt instruments the rating assigned by the Rating agencies is considered; for the loans and advances to customers and cash and deposits with banks the rating and scoring models for the attribution of a credit rating are used, with these being reviewed periodically. For the purpose of presenting the information, the ratings were aggregated into five large risk groups, with the last group including unrated exposures.

(in thousands of Euros)

	31.12.2016					
	Prime + High Grade	Upper Medium Grade	Lower Medium Grade	Non Investment Grade Speculative + Highly Speculative	Remaining	Total
Deposits with and loans and advances to banks	-	64 024	42 569	50 418	758 860	915 871
Financial assets held for trading - securities	-	-	-	-	1	1
Bonds issued by government and other public entities	-	-	-	-	-	-
Bonds issued by other entities	-	-	-	-	1	1
Other financial assets at fair value through profit or loss	-	-	-	1 414	-	1 414
Bonds issued by government and other public entities	-	-	-	-	-	-
Bonds issued by other entities	-	-	-	1 414	-	1 414
Available-for-sale financial assets	-	7 443	2 562 946	2 228 688	2 197 776	6 996 853
Bonds issued by government and other public entities	-	-	2 531 312	2 204 252	2 433	4 737 997
Bonds issued by other entities	-	7 443	31 634	24 436	2 195 343	2 258 856
Loans and advances to customers	1 853 545	6 022 180	2 733 062	6 518 027	3 234 192	20 361 006

(in thousands of Euros)

	31.12.2015					
	Prime + High Grade	Upper Medium Grade	Lower Medium Grade	Non Investment Grade Speculative + Highly Speculative	Remaining	Total
Deposits with and loans and advances to banks	-	3 982	64 340	805 357	1 946 044	2 819 723
Financial assets held for trading - securities	-	-	-	1 128	30	1 158
Bonds issued by government and other public entities	-	-	-	1 128	-	1 128
Bonds issued by other entities	-	-	-	-	30	30
Other financial assets at fair value through profit or loss	-	-	-	1 615	170	1 785
Bonds issued by government and other public entities	-	-	-	-	-	-
Bonds issued by other entities	-	-	-	1 615	170	1 785
Available-for-sale financial assets	49 969	120	2 835 896	1 750 776	2 693 566	7 330 327
Bonds issued by government and other public entities	49 969	-	2 815 713	1 740 346	556 367	5 162 395
Bonds issued by other entities	-	120	20 183	10 430	2 137 199	2 167 932
Loans and advances to customers	1 621 118	6 001 422	2 747 030	7 588 538	4 662 200	22 620 308

Loans with impairment triggers correspond to loans with objective evidence of loss (Loans in Default) and to loans classified as “Higher Risk Loans”. The objective evidence of loss exists when there is a default event, i.e. from the moment there is a significant change in the lender-borrower relationship that subjects the lender to a monetary loss. The “Higher Risk Loans” correspond to loans without objective evidence of loss, but with risk indicators [e.g. customers with loans overdue more than 30 days but less than 90 days; customers under litigation in the Central Credit Register (*Central de Responsabilidades de Crédito*); customers with higher risk rating / scoring; customers allocated to the *Departamento de Acompanhamento e Estruturação de Empresas* (Department for Monitoring and Structuring of Companies); and restructured loans due to financial difficulties of the debtor that are not in default].

Loans without impairment triggers relate to “Low risk loans”. All exposures that do not show any of the above Higher Risk indicators and the exposures for which the impairment loss determined is equal to or less than 0.05%, are classified as “Low risk loans”. These situations correspond to loans for which the impairment determined is immaterial due to the existence of guarantees / collateral, permitting their classification as “Low risk loans”, regardless of their original classification.

As at 31 December 2016 and 2015, the analysis of the gross loans and advances to customers’ exposure and impairment by segment, is presented as follows:

(in thousands of Euros)

Segment	31.12.2016													
	Credit not at risk						Credit at risk (a)						Total	
	Without impairment triggers		With impairment triggers		Total		Days past due <= 90 days (b)		Days past due >90 days		Total		Exposure	Impairment
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment		
Corporate	7 367 001	42 873	7 905 990	806 025	15 272 991	848 898	1 344 680	613 687	5 941 147	3 667 426	7 285 827	4 281 113	22 558 818	5 130 011
Residential Mortgage loans	6 152 862	7 528	691 509	11 418	6 844 371	18 946	45 642	3 307	521 782	118 200	567 424	121 507	7 411 795	140 453
Consumer and other loans	928 212	6 168	135 654	28 392	1 063 866	34 560	22 755	6 312	356 308	196 797	379 063	203 109	1 442 929	237 669
Total	**14 448 075**	**56 569**	**8 733 153**	**845 835**	**23 181 228**	**902 404**	**1 413 077**	**623 306**	**6 819 237**	**3 982 423**	**8 232 314**	**4 605 729**	**31 413 542**	**5 508 133**

(a) Credit at risk correspond to the definition contained in Instruction no. 23/2011 of Banco de Portugal

(b) Credit with principal and/or interest overdue under 90 days, but for which there are evidences that justify their classification as Credit at risk, including the bankruptcy or liquidation of the debtor amongst others

(in thousands of Euros)

Segment	31.12.2015													
	Credit not at risk						Credit at risk (a)						Total	
	Without impairment triggers		With impairment triggers		Total		Days past due				Total			
							<= 90 days (b)		>90 days					
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	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
Residential 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) Credit at risk correspond to the definition contained in Instruction no. 23/2011 of Banco de Portugal

(b) Credit w ith principal and/or interest overdue under 90 days, but for w hich there are evidences that justify their classification as Credit at risk, including the bankruptcy or liquidation of the debtor amongst others

As at 31 December 2016 and 2015, 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	31.12.2016											
	Corporate			Mortgage loans			Consumer and other loans			Total		
	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2004 and prior	28 926	1 104 476	446 626	52 394	1 452 062	43 936	173 484	116 997	9 619	254 804	2 673 535	500 181
2005	4 658	308 515	82 116	6 888	329 483	9 886	31 540	49 320	13 840	43 086	687 318	105 842
2006	5 899	777 645	234 468	10 017	515 719	11 074	38 145	54 919	9 387	54 061	1 348 283	254 929
2007	12 683	786 225	222 796	17 023	768 187	18 257	55 453	68 382	16 866	85 159	1 622 794	257 919
2008	6 705	1 385 755	289 938	15 765	859 242	13 829	49 947	71 041	14 306	72 417	2 316 038	318 073
2009	6 449	1 259 643	365 123	13 030	726 403	14 164	37 968	86 176	22 123	57 447	2 072 222	401 410
2010	16 775	1 408 734	394 813	12 314	778 420	11 982	39 426	134 787	28 901	68 515	2 321 941	435 696
2011	9 262	1 271 877	371 297	7 468	377 501	6 499	34 904	124 662	25 657	51 634	1 774 040	403 453
2012	9 254	1 828 360	621 367	4 616	191 134	3 699	40 856	90 900	23 485	54 726	2 110 394	648 551
2013	29 795	2 507 611	680 860	5 255	270 645	3 302	38 376	139 966	43 172	73 426	2 918 222	727 334
2014	15 694	2 587 595	646 018	3 487	224 838	1 685	36 494	121 522	16 476	55 675	2 933 955	664 179
2015	36 969	3 378 501	414 935	4 537	306 651	1 086	43 121	150 686	9 985	84 627	3 835 838	426 006
2016	47 714	3 953 881	359 654	8 377	611 510	1 054	50 270	233 571	3 852	106 361	4 798 962	364 560
Total	**230 783**	**22 558 818**	**5 130 011**	**161 171**	**7 411 795**	**140 453**	**669 984**	**1 442 929**	**237 669**	**1 061 938**	**31 413 542**	**5 508 133**

(in 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**

As at 31 December 2016 and 2015, 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)

	31.12.2016					
	Individual Assessment[1]		Collective Assessment [2]		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	9 161 163	4 469 781	13 397 655	660 230	22 558 818	5 130 011
Residential Mortgage loans	37 370	9 213	7 374 425	131 240	7 411 795	140 453
Consumer and other loans	310 306	109 770	1 132 623	127 899	1 442 929	237 669
Total	**9 508 839**	**4 588 764**	**21 904 703**	**919 369**	**31 413 542**	**5 508 133**

[1] Loans and advances for which the final impairment was determined and approved by the Impairment Committee
[2] Loans and advances for which the final impairment was determined automatically by the Impairment model

(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
Residential 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 for which the final impairment was determined and approved by the Impairment Committee
[2] Loans and advances for which the final impairment was determined automatically by the Impairment model

The loans 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".

In order to mitigate credit risk, credit operations are collateralised, namely with mortgages or pledges. The fair value of the collateral is determined on the date of the loan disbursement, being revaluated periodically. The gross amount of the loans to customers and respective fair value of the collateral, limited to the amount of the associated loans, are as follows:

(in thousands of Euros)

	31.12.2016		31.12.2015	
	Amount of loans	Fair value of collateral	Amount of loans	Fair value of collateral
Individuals - Mortgage				
Mortgages	7 155 397	7 130 817	7 181 457	7 155 457
Pledges	60 021	59 707	57 571	57 418
Not collateralised	196 377	-	159 936	-
	7 411 795	7 190 524	7 398 964	7 212 875
Individuals - Other				
Mortgages	290 582	276 925	279 591	279 591
Pledges	372 659	255 813	184 549	101 061
Not collateralised	779 688	-	1 053 689	-
	1 442 929	532 738	1 517 829	380 652
Corporate				
Mortgages	4 356 955	3 898 137	4 511 814	3 916 028
Pledges	6 031 551	3 137 647	4 765 686	3 556 957
Not collateralised	12 170 312	-	15 516 083	-
	22 558 818	7 035 784	24 793 583	7 472 985
Total	**31 413 542**	**14 759 046**	**33 710 376**	**15 066 512**

The differential between the amount of the loans and advances to customers and the fair value of the collateral represents the total loans' exposure that exceeds the value of the collateral, with this value not being affected by collateral with a fair value in excess of the loan to which it is associated.

The details of the collateral – mortgages is presented as follows:

(in thousands of Euros)

	31.12.2016							
	Individuals - Mortgage loans		Individuals - Other loans		Corporate loans		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
<0.5M€	147 850	7 003 232	4 796	223 364	17 052	617 428	169 698	7 844 024
>= 0.5M€ and <1.0M€	164	95 867	59	25 888	2 287	381 377	2 510	503 132
>= 1.0M€ and <5.0M€	34	31 718	96	27 673	5 458	1 068 582	5 588	1 127 973
>= 5.0M€ and <10.0M€	-	-	-	-	1 478	552 871	1 478	552 871
>= 10.0M€ and <20.0M€	-	-	-	-	151	553 818	151	553 818
>= 20.0M€ and <50.0M€	-	-	-	-	1 255	485 664	1 255	485 664
>=50M€	-	-	-	-	1 581	238 397	1 581	238 397
	148 048	**7 130 817**	**4 951**	**276 925**	**29 262**	**3 898 137**	**182 261**	**11 305 879**

(in thousands of Euros)

	31.12.2015							
	Individuals - Mortgage loans		Individuals - Other loans		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**

The assessment of the risk of an operation or set of operations takes into account the associated credit risk mitigation elements, according to the internal rules and procedures implemented to meet the requirements defined by Banco de Portugal.

Relevant collaterals are essentially the following:

- Real estate properties, where the value considered is that which corresponds to the latest available valuation;
- Financial pledges, where the value considered corresponds to the quotation on the last day of the month - in the case of a quoted security - or to the value of the pledge - in the case of cash.

The acceptance of collateral as a guarantee for loans and advances to customers leads to the need to define and implement risk mitigation techniques in respect of the exposures of said collateral. Thus, and as an approach to this matter, the 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 an indication as to the recovery rates associated with each type of collateral.

Therefore, the internal rules governing the credit granting powers have a specific chapter on this point, "Acceptance of collateral - Risk mitigation techniques in respect of the exposures of said collateral, namely the liquidity risks and volatility risk."

The real estate revaluation process is conducted by valuation experts registered with the CMVM (*Comissão do Mercado de Valores Mobiliários*), and is based on the methodology described in point 2.11.

The analysis of risk exposure by sector of activity, at 31 December 2016 and 2015, is presented as follows:

(in thousands of Euros)

	31.12.2016							
	Loans and advances to customers		Financial assets held for trading	Other financial assets at fair value through profit or loss	Derivatives held for risk management purposes	Available-for-sale financial assets		Guarantees and endorsements provided
	Gross amount	Impairment	Gross amount	Gross amount	Gross amount	Gross amount	Impairment	
Agriculture, Forestry and Fishery	389 199	(58 654)	1 540	-	-	10 870	-	22 339
Mining	136 919	(12 060)	598	-	-	2 641	(2 502)	6 269
Food, Beverages and Tobacco	704 833	(48 007)	2 281	-	-	23 913	(566)	59 689
Textiles and Clothing	291 554	(40 371)	176	-	-	35 946	(2 105)	8 869
Leather and Shoes	76 499	(10 193)	46	-	-	499	(499)	1 643
Wood and Cork	122 467	(30 884)	578	-	-	1 251	(1 251)	5 047
Paper and Printing Industry	259 328	(22 906)	75	-	-	28 617	(25 617)	10 026
Refining of Petroleum	5 027	(148)	52	-	-	-	-	20 693
Chemicals and Rubber	348 482	(20 717)	3 268	-	-	18 746	(10 759)	59 585
Non-metallic Minerals	194 301	(52 012)	51	-	-	3 952	(3 952)	14 158
Metallurgical Industries and Metallic Products	987 233	(276 733)	235	-	-	3 864	(3 218)	43 280
Production of Machinery, Equipment and Electrical De	186 226	(15 890)	446	-	-	596	(596)	95 433
Production of Transport Material	66 157	(3 258)	-	-	-	31	(31)	15 425
Other Transforming Industries	225 495	(30 546)	-	-	-	1 520	(52)	28 986
Electricity, Gas and Water	574 171	(10 621)	56 144	-	-	161 533	-	119 353
Construction and Public Works	2 005 446	(547 931)	73 216	-	-	195 310	(555)	1 091 583
Wholesale and Retail Trade	1 954 255	(577 917)	823	-	-	58 036	(19 103)	299 962
Tourism	1 103 282	(89 488)	1 876	-	-	8 203	(8 018)	80 444
Transport and Communication	1 326 061	(76 409)	127 645	-	-	30 634	(344)	651 459
Financial Activities	1 882 312	(474 685)	332 501	1 939	223 583	5 058 573	(796 183)	711 320
Real Estate Activities	2 940 723	(710 748)	10 521	2 937	-	198 572	(61 455)	209 981
Services Provided to Companies	3 747 603	(1 226 879)	30 448	-	-	755 745	(494 307)	693 925
Public Administration and Services	818 172	(32 343)	2 334	-	-	4 735 564	-	29 416
Other activities of collective services	2 139 834	(760 406)	5 612	-	-	133 338	(68 579)	173 496
Mortgage Loans	7 411 795	(140 453)	-	-	-	-	-	131
Consumers Loans	1 442 929	(237 669)	-	-	-	-	-	5 007
Other	73 239	(205)	14 898	-	-	11 697	(9 260)	27 510
TOTAL	**31 413 542**	**(5 508 133)**	**665 364**	**4 876**	**223 583**	**11 479 651**	**(1 508 952)**	**4 485 029**

(in 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	Gross amount	Gross amount	Gross amount	Impairment	
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	70 460	322 055	5 454 319	(686 533)	636 910
Real Estate Activities	3 093 997	(788 566)	8 286	68 658	-	117 058	(11 793)	218 285
Services Provided to Companies	4 559 216	(1 145 356)	28 141	88 275	-	746 057	(459 524)	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	-	-	12 441	(17 909)	47
TOTAL	**33 710 376**	**(5 705 018)**	**787 083**	**227 393**	**322 055**	**11 921 801**	**(1 326 870)**	**5 101 998**

According to Banco de Portugal Instruction no. 32/2013, the Bank identifies and marks loan agreements restructured due to financial difficulties of the customer whenever there are changes to the terms and conditions of an agreement in respect of which the customer defaulted, or it is foreseeable that this will come to happen, in respect of a financial obligation. A change to the terms and conditions of the agreement is deemed to exist when (i) there are contractual changes to the customer's benefit, such as extension of the contract period, introduction of grace periods, reduction of rate or partial pardon of debt; (ii) a new loan operation is contracted to settle existing debt (total or partial); or (iii) the new terms of the agreement are more favourable than those applied to other customers with the same risk profile.

The unmarking of a loan restructured due to financial difficulties of the customer can only occur after a minimum period of two years from the date of the restructuring, provided that the following conditions are cumulatively met: (i) regular payment of principal and interest; (ii) the customer has no principal or interest overdue; and (iii) there was no new loan restructuring during that period.

The amounts of the loans restructured due to financial difficulties of the customer as at 31 December 2016 and 2015, are as follows:

(in thousands of Euros)

	31.12.2016	31.12.2015
Corporate	7 234 369	6 107 452
Residential Mortgage loans	250 190	265 114
Consumer and other loans	350 357	212 882
Total	**7 834 916**	**6 585 448**

Below are presented the details of the restructuring measures applied to restructured loans up to 31 December 2016 and 2015:

(in thousands of Euros)

Measure	31.12.2016								
	Credit not at risk			Credit at risk [a]			Total		
	No. transactions	Exposure	Impairment	No. transactions	Exposure	Impairment	No. transactions	Exposure	Impairment
Principal or interest forgivness	23	66 864	3 469	231	299 585	189 668	254	366 449	193 137
Assets received in partial settlement of loan	2	28	1	1	10	2			
Capitalisation of interest	46	468 953	75 165	214	184 573	125 719	260	653 526	200 884
New loan in total or partial payment of existing loan	3 174	414 105	47 522	1 262	987 110	610 354	4 436	1 401 215	657 876
Extension of repayment period	1 817	1 716 494	254 192	1 340	837 146	371 480	3 157	2 553 640	625 672
Introduction of a grace period of principal or interest	1 275	479 744	49 394	327	366 442	191 271	1 602	846 186	240 665
Decrease in the interest rates	225	322 580	44 974	90	436 747	295 768	315	759 327	340 742
Change of the lease payment plan	230	123 359	5 633	83	40 688	17 126	313	164 047	22 759
Change in the interest payment periods	19	13 227	413	35	395 288	136 403	54	408 515	136 816
Other	7 037	268 051	25 328	7 037	413 960	206 970	14 074	682 011	232 298
Total	**13 848**	**3 873 405**	**506 091**	**10 620**	**3 961 549**	**2 144 761**	**24 468**	**7 834 916**	**2 650 849**

[a] Credit at risk corresponds to the definition contained in Instruction no. 23/2011 of Banco de Portugal

(in 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 forgivness	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	123 444	675	692 793	263 087	2 244	1 673 489	386 531
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 lease 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	49 886	6 218	342 843	135 395	15 141	780 350	185 281
Total	**15 000**	**3 948 324**	**894 700**	**8 483**	**2 637 124**	**1 197 152**	**23 483**	**6 585 448**	**2 091 852**

[(a)] Credit at risk correspond to the definition contained in Instruction no. 23/2011 of Banco de Portugal

Market risk

Market Risk represents the potential loss resulting from an adverse change in the value of a financial instrument due to fluctuations in interest rates, foreign exchange rates, share prices, commodity prices, volatility and credit spread.

Market risk management is integrated with the balance sheet management through the CALCO (Capital Asset and Liability Committee) structure, constituted at the entity's top level. CALCO is responsible for defining the policies governing the composition and structure of the balance sheet as well as for controlling exposure to the interest rate, currency and liquidity risks.

The main measurement of market risk is the assessment of 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, allowing evaluating the impact of potential higher losses than those considered by the VaR measurement.

(in thousands of Euros)

	31.12.2016				31.12.2015			
	December	Period average	Maximum	Minimum	December	Period average	Maximum	Minimum
Exchange risk	1 070	5 776	15 184	1 070	8 594	15 924	21 792	8 594
Interest rate risk	1 222	785	1 273	519	1 473	12 376	12 983	1 473
Shares and commodities	2 611	1 989	3 309	721	1 114	8 895	17 986	1 114
Volatility	83	195	399	72	345	1 038	1 552	345
Credit spread	475	1 176	2 533	475	1 282	44 100	87 043	1 282
Diversification effect	(2 028)	(3 181)	(2 067)	(5 166)	(4 042)	(26 932)	(42 207)	(4 042)
Total	**3 433**	**6 741**	**20 631**	**(2 309)**	**8 765**	**55 400**	**99 148**	**8 765**

NOVO BANCO has a VaR at risk of approximately Euros 3 433 thousand (31 December 2015: Euros 8 765 thousand), in respect of 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 trading portfolio, by re-pricing buckets.

(in thousands of Euros)

	31.12.2016						
	Eligible amounts	Not sensitive	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years
Loans to and deposits with banks	2 979 384	235 609	1 808 599	12 077	211 968	273 155	437 976
Loans and advances to customers	31 385 720	-	15 951 376	5 891 702	2 182 169	6 159 781	1 200 692
Securities	11 114 465	4 100 883	2 437 886	716 935	1 636 654	1 738 442	483 665
Total			**20 197 861**	**6 620 714**	**4 030 791**	**8 171 378**	**2 122 333**
Deposits from banks	11 082 664	-	3 456 801	325 697	206 023	6 885 565	208 578
Due to customers	25 336 504	-	9 027 266	4 261 605	4 714 123	7 108 278	225 232
Debt securities issued	2 912 016	-	323 120	20 932	-	1 471 222	1 096 742
Total			**12 807 187**	**4 608 234**	**4 920 146**	**15 465 065**	**1 530 552**
Balance sheet GAP (Assets - Liabilities)	1 811 893		7 390 674	2 012 480	(889 355)	(7 293 687)	591 781
Off-Balance sheet	-		139 374	358 763	67 080	(202 000)	(363 217)
Structural GAP	**1 811 893**		**7 530 048**	**2 371 243**	**(822 275)**	**(7 495 687)**	**228 564**
Accumulated GAP			**7 530 048**	**9 901 291**	**9 079 016**	**1 583 329**	**1 811 893**

(in 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
Debt 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**

Sensitivity analyses of the interest rate risk of the Bank's portfolios are performed based on an approximation of the duration model approach and considering several scenarios of yield curve shifts at all interest rate levels.

(in thousands of Euros)

	31.12.2016				31.12.2015			
	Parallel increase of 100 bp	Parallel decrease of 100 bp	Increase after 1 year of 50 bp	Decrease after 1 year of 50 bp	Parallel increase of 100 bp	Parallel decrease of 100 bp	Increase after 1 year of 50 bp	Decrease after 1 year of 50 bp
Sensitivity to interest rate risk	61 659	(61 659)	36 484	(36 484)	77 545	(77 545)	43 952	(43 952)

The following table presents the average balances, interest for the period and interest rates relating to the Bank's major financial asset and liability categories, at 31 December 2016 and 2015:

(in thousands of Euros)

	31.12.2016			31.12.2015		
	Average balance for period	Interest for period	Average interest rate	Average balance for period	Interest for period	Average interest rate
Monetary assets	2 241 427	76 762	3.37%	2 958 774	112 904	3.76%
Loans and advances to customers	32 023 499	769 673	2.36%	33 689 309	875 960	2.56%
Securities and other	7 228 597	87 404	1.19%	8 509 268	97 375	1.13%
Non-interest Earning Assets	-	-	-	-	-	-
Financial assets and differentials	**41 493 523**	**933 839**	**2.21%**	**45 157 351**	**1 086 239**	**2.37%**
Monetary liabilities	12 930 641	71 247	0.54%	12 806 594	103 684	0.80%
Due to customers	27 596 748	487 758	1.74%	32 087 445	734 873	2.26%
Non-interest Earning Liabilities	966 134	-	-	263 312	-	-
Financial liabilities and differentials	**41 493 523**	**559 005**	**1.33%**	**45 157 351**	**838 557**	**1.83%**
Net interest income		**374 834**	**0.89%**		**247 682**	**0.54%**

Regarding the foreign exchange risk, the breakdown of assets and liabilities, by currency, at 31 December 2016 and 2015, is analysed as follows:

(in thousands of Euros)

		31.12.2016				31.12.2015			
		Spot	Forward	Other elements	Net exposure	Spot	Forward	Other elements	Net exposure
USD	UNITED STATES DOLLAR	(530 081)	486 850	(4 815)	(48 046)	(723 446)	731 290	13 446	21 290
GBP	GREAT BRITISH POUND	449 089	(465 513)	(4 656)	(21 080)	411 507	(404 466)	2 235	9 276
BRL	BRAZILIAN REAL	1 438	(2)	-	1 436	8 264	7	-	8 271
DKK	DANISH KRONE	2 586	(2 609)	-	(23)	7 107	(7 182)	-	(75)
JPY	JAPANESE YEN	(494)	490	-	(4)	1 888	(1 790)	-	98
CHF	SWISS FRANC	5 196	(1 415)	-	3 781	40 132	(36 364)	-	3 768
SEK	SWEDISH KRONE	(2 013)	2 442	-	429	1 931	(1 197)	6 014	6 748
NOK	NORWEGIAN KRONE	(13 572)	13 867	-	295	(22 581)	22 993	127	539
CAD	CANADIAN DOLLAR	(51 714)	53 108	-	1 394	(11 916)	12 536	-	620
ZAR	SOUTH AFRICAN RAND	(1 540)	961	(36)	(615)	(542)	(189)	-	(731)
AUD	AUSTRALIAN DOLLAR	(16 461)	17 128	-	667	(17 368)	18 326	-	958
VEB	VENEZUELAN BOLIVAR	39 886	-	-	39 886	62 501	-	-	62 501
MOP	MACAO PATACA	23 411	(23 538)	-	(127)	33 086	(22 817)	-	10 269
MAD	MOROCCAN DIRHAM	20	(9)	-	11	23	102	-	125
MXN	MEXICAN PESO	7 813	(341)	-	7 472	(1 433)	1 353	-	(80)
AOA	ANGOLAN KWANZA	34 151	-	-	34 151	47 351	-	-	47 351
	OTHER	(15 873)	26 776	6 118	17 021	28 103	(4 403)	(233)	23 467
		(68 158)	**108 195**	**(3 389)**	**36 648**	**(135 393)**	**308 199**	**21 589**	**194 395**

Exposure to “peripheral” Eurozone countries’ sovereign debt

As at 31 December 2016 and 2015, the Bank’s exposure to sovereign debt of “peripheral” Eurozone countries, is presented as follows:

(in thousands of Euros)

31.12.2016					
	Loans and advances to customers	Financial assets held for trading and at Fair value	Derivative instruments (1)	Available-for-sale financial assets	Total
Portugal	762 940	-	5 169	2 204 252	2 972 361
Spain	44 136	-	-	1 015 464	1 059 600
Italy	-	-	-	1 515 848	1 515 848
	807 076	**-**	**5 169**	**4 735 564**	**5 547 809**

(1) Net values: receivable / (payable)

(in 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)

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:

(in thousands of Euros)

31.12.2016						
	Nominal Amount	Market quotation	Accrued interest	Carrying book value	Impairment	Fair value reserves
Available-for-sale financial assets						
Portugal	**2 135 348**	**2 195 636**	**8 616**	**2 204 252**	**-**	**39 824**
Maturity up to 1 year	1 417 558	1 418 665	209	1 418 874	-	409
Maturity exceeding 1 year	717 790	776 971	8 407	785 378	-	39 415
Spain	**925 122**	**1 000 583**	**14 881**	**1 015 464**	**-**	**3 394**
Maturity up to 1 year	200 000	200 402	-	200 402	-	(16)
Maturity exceeding 1 year	725 122	800 181	14 881	815 062	-	3 410
Italy	**1 495 000**	**1 514 753**	**1 095**	**1 515 848**	**-**	**323**
Maturity up to 1 year	645 000	645 497	-	645 497	-	485
Maturity exceeding 1 year	850 000	869 256	1 095	870 351	-	(162)
	4 555 470	**4 710 972**	**24 592**	**4 735 564**	**-**	**43 541**

(in thousands of Euros)

	31.12.2015					
	Nominal Amount	Market quotation	Accrued interest	Carrying 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 and at fair value						
Portugal	1 050	1 070	58	1 128	-	-
	1 050	**1 070**	**58**	**1 128**	**-**	**-**

Liquidity risk

Liquidity risk derives from the potential inability, current or future, of an institution satisfying its commitments as they mature, without incurring excessive losses.

Liquidity risk can be divided into two types:

- Market liquidity risk – the impossibility of selling an asset due to the lack of liquidity in the market leading to the widening of the bid / offer or the application of a haircut on the 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 in significant losses. The risk of (re)financing should be reduced through an adequate diversification of funding sources and maturities.

In order to assess the global liquidity risk exposure, reports are prepared which permit not only the identification of negative mismatches, but also a dynamic coverage of these situations.

(in millions of Euros)

	31.12.2016						
	Eligible amounts	Up to 7 days	7 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	More than 1 year
ASSETS							
Cash	236	236	-	-	-	-	-
Deposits with and loans and advances to banks and Central Banks	2 744	1 413	31	364	12	206	717
Loans and advances to customers (1)	22 175	75	421	392	442	745	20 100
Securities (2)	17 952	57	129	747	316	1 692	15 011
Other net assets	746	54	-	-	5	7	680
Off-balance sheet (Commitments and Derivatives) (4)	144	4	14	22	42	62	-
Total		**1 839**	**595**	**1 525**	**817**	**2 712**	**36 508**
LIABILITIES							
Deposits from banks, Central Banks and Other loans	11 083	988	469	868	926	206	7 625
Due to customers	25 337	512	106	126	349	141	24 102
Debt securities issued (3)	2 913	100	40	183	22	-	2 568
Other short-term liabilities	1 631	826	3	2	2	-	798
Off-balance sheet (Commitments and Derivatives) (4)	1 762	35	62	51	116	105	1 392
Total		**2 461**	**680**	**1 230**	**1 415**	**452**	**36 485**
GAP (Assets - Liabilities)		**(624)**	**(85)**	**296**	**(597)**	**2 259**	
Accumulated GAP		**(624)**	**(709)**	**(414)**	**(1 011)**	**1 248**	
Net Assets Buffer > 12 months							**3 059**

(1) This caption does not include the loans capable of being used for obtaining liquidity from the ECB
(2) This caption includes the securities and loans capable of being used for obtaining liquidity from the ECB. The securities that can be used for ECB purposes are net of haircuts
(3) The amounts are stated at the nominal amount up to one year and at the carrying book amount for longer periods
(4) The derivatives are considered at their Cash Flows for linear products and at NPV for non-linear products

(in millions of Euros)

	31.12.2015						
	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 (1)	24 673	152	418	794	710	1 022	21 578
Securities (2)	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) (4)	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)	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) (4)	1 593	40	42	75	99	113	1 224
Total		**5 586**	**1 305**	**3 986**	**591**	**882**	**33 392**
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**

(1) This caption does not include the loans capable of being used for obtaining liquidity from the ECB
(2) This caption includes the securities and loans capable of being used for obtaining liquidity from the ECB. The securities that can be used for ECB purposes are net of haircuts
(3) The amounts are stated at the nominal amount up to one year and at the carrying book amount for longer periods
(4) The derivatives are considered at their Cash Flows for linear products and at NPV for non-linear products

The one-year cumulative liquidity gap moved from Euros - 3 273 million on 31 December 2015 to Euros 1 248 million on 31 December 2016, with the net assets buffer over 12 months amounting to Euros 3 059 million (31 December 2015: Euros 6 904 million). It should be noted that these amounts include GNB Vida.

In order to try to anticipate possible constraints, internal stress scenarios in terms of liquidity are carried out which are representative of the types of crises that can occur, based on idiosyncratic scenarios (characterised by a loss of confidence in the Bank, and that can also include a rating downgrade) and market scenarios (similar to those experienced during the 2011 sovereign crisis).

The Bank continues to follow all legislative changes in order to comply with regulatory obligations, namely in relation to the liquidity ratios of Basel III – LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio). The LCR aims to promote the resilience of banks to short-term liquidity risk by ensuring that these hold liquid assets of a high quality, in sufficient value to survive a severe stress scenario over a period of 30 days, whilst the NSFR aims to ensure that banks maintain a stable funding for their off-balance sheet assets and operations, for a period of one year. These ratios were adopted by the European Union, and the LCR has a limit of 80% since 1 January 2017, with this figure having to converge during the year to comply with a 100% limit as from 1 January 2018.

Operational risk

Operational Risk reflects, typically, the probability of the occurrence of events with negative impacts, on results or equity, resulting from inadequacies or weaknesses in procedures, information systems, staff 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, a system that standardises, systematises and regulates the frequency of actions undertaken with the objective of identifying, monitoring, controlling and mitigating this risk was developed and implemented. 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 Management Representatives designated by each of the relevant departments, branches and subsidiaries, whose responsibility it is to comply with the procedures in place and the daily management of this risk in their areas of competence.

Capital Management and Solvency Ratio

The main objective of the Bank's capital management is to ensure compliance with the Bank's strategic objectives in terms of capital adequacy, respecting and enforcing the minimum capital requirements set by the supervisory entities.

The definition of the strategy for capital adequacy management rests with the 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 comply with. The Bank, during financial year 2016, complied with all the capital requirements imposed by the ECB.

The Bank is authorised to apply the approach based on the use of internal models for credit risk (Internal Ratings-Based Approach "IRB") and the standardised method (The Standardised Approach "TSA") for operational risk. Specifically, the IRB method for the calculation of the credit risk-weighted assets can be applied to the exposure 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 entities in which the respective exposures are recorded.

The European Parliament and Council approved, on 26 June 2013, Directive 2013/36/EU and Regulation (EU) no. 575/2013 that regulate, in the European Union, the access to the credit institution and investment company activity and determine the prudential requirements to be observed by those same entities as from 1 January 2014. This legislation transposes into the European legal order the recommendations of the Basel Committee, normally designated Basel III.

Regulation (EU) no. 2016/445 regulates the transitory regime foreseen in Regulation (EU) no. 575/2013 regarding own funds.

The capital adequacy calculations of NOVO BANCO at 31 December 2016 and 2015, based on information available, the European Regulatory Framework in force and considering the transitory period foreseen in the Regulation referred to above, may be presented as follows:

(in millions of Euros)

		31.12.2016	31.12.2015
Realised ordinary capital		4 900	4 900
Reserves and Retained earnings		860	1 970
Net income / (loss) for the period		(745)	(1 115)
Revaluation reserves		(341)	(243)
A - Accounting Equity		**4 674**	**5 512**
Revaluation reserves		(17)	(41)
B - Prudential adjustments to Equity		**(17)**	**(41)**
Goodwill and other intangibles		(42)	(68)
Deferred taxes		(874)	(487)
Shareholdings in financial companies		(125)	(76)
Other		(148)	(42)
C - Prudential deductions		**(1 189)**	**(673)**
D - Common Equity Tier I (A+B+C)		**3 468**	**4 798**
Eligible instruments for Tier I		-	-
Deductions from Tier I		-	-
E - Tier I		**3 468**	**4 798**
Eligible instruments for Tier II		150	112
Deductions from Tier II		(150)	(112)
F - Tier II		**-**	**-**
G - Eligible Own Funds		**3 468**	**4 798**
H - Risk Weighted Assets		**36 570**	**37 906**
Prudential ratios			
Common Equity Tier I	**(D / H)**	**9.5%**	**12.7%**
Tier I	**(E / H)**	**9.5%**	**12.7%**
Solvency	**(G / H)**	**9.5%**	**12.7%**

NOTE 43 – RENDERING OF INSURANCE AND RE-INSURANCE BROKERING SERVICES

At 31 December 2016 and 2015, services provided with insurance and re-insurance brokerage have the following composition:

(thousands of Euros)

	31.12.2016	31.12.2015
Life insurance		
Unit Link	139	4 303
Credit protection insurance (life part)	662	349
Traditional products	12 313	11 344
	13 115	**15 996**
Non-life insurance		
Insurance for individuals	6 356	6 045
Insurance for companies	607	992
Credit protection insurance (non-life part)	819	441
	7 782	**7 478**
	20 896	**23 474**

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 over-the-counter, the main objective of which is to provide 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 45 –MERGER OF AVISTAR, SGPS, SA AND BIC INTERNATIONAL BANK

On 30 December 2016, the merger by incorporation of BIC International Bank (BIBL) in NOVO BANCO, SA was realised.

The captions relating to other reserves and retained earnings of BIBL were added to the respective net equity captions of NOVO BANCO, with the net profit / (loss) for the period ended on 30 December 2016 having been added to the caption of retained earnings. The difference between the interest of NOVO BANCO and the equity of BIBL, in the amount of Euros 1.3 million, was reflected as a merger reserve and added to the equity of NOVO BANCO.

The balance sheet of BIBL as at the date of the merger may be analysed as follows:

BIBL

BALANCE SHEET AT DATE OF MERGER

	(thousands of Euros)
	30.12.2016
Assets	
Deposits with banks	1 346
Total Assets	**1 346**
Liabilities	
Deposits from banks	90 527
Subordinated debt	20 151
Total Liabilities	**110 678**
Equity	
Share capital	10 200
Shares premiums	209 800
Reserves, Retained earnings and Other comprehensive income	(328 232)
Profit / (loss) for the period	(1 100)
Total Equity	**(109 332)**
Total Equity and Liabilities	**1 346**

On 30 June 2015, the merger by incorporation of Avistar, SGPS, SA in NOVO BANCO was realised.

The captions relating to the fair value reserve and other reserves and retained earnings of Avistar were added to the respective net equity captions of NOVO BANCO, with the net profit / (loss) for the period ended on 30 June 2015 having been added to the caption of retained earnings. The difference between the interest of NOVO BANCO and the equity of Avistar, in the amount of Euros -13.3 million, was reflected as a merger reserve and written off against the equity of NOVO BANCO.

The balance sheet of Avistar as 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	
Deposits with banks	81 353
Available-for-sale financial assets	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	(404 706)
Profit / (loss) for the period	(52 284)
Total Equity	**168 010**
Total Equity and Liabilities	**168 024**

NOTE 46 – RECENTLY ISSUED ACCOUNTING STANDARDS AND INTERPRETATIONS

The standards presented below became effective as at 1 January 2016. None of the standards had a relevant material impact on the Bank's accounts and, whenever applicable, these were incorporated in the Bank's accounts as at 31 December 2016:

IAS 1 (amendment), 'Revision of disclosures'. 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.

IAS 16 and IAS 38 (amendment), 'Accepted methods of calculating amortisation and depreciation'. 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.

IAS 19 (amendment), 'Defined benefit plans- Contributions of employees'. The amendment to IAS 19 applies to contributions from employees or third parties to defined benefit plans, and aims to simplify their accounting, when the contributions are not associated with the number of years of service.

IAS 27 (amendment), ‘Equity method in separate financial statements’. 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.

Amendments to IFRS 10, 12 and IAS 28, ‘Investment entities: application of the exemption to the obligation to consolidate’. 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.

IFRS 11 (amendment), 'Accounting for the acquisition of interests in a joint venture'. This amendment introduces guidance on accounting for the acquisition of interests in a joint venture that qualifies as a business, and the principles of IFRS 3 - Business combinations, are applicable.

Improvements to standards 2010 - 2012. This cycle of improvements affects the following standards: IFRS 3, IFRS 8, IFRS 13, IAS 16 and 38 and IAS 24.

Improvements to standards 2012 - 2014. This cycle of improvements affects the following standards: IFRS 5, IFRS 7, IAS 19 and IAS 34.

The standards presented below have already been published, endorsed by the European Union and their application is mandatory for annual periods starting on or after 1 January 2017. However, none of the standards presented below was early adopted by the Bank:

IFRS 9 (new) ‘Financial instruments’ (to be applied as from the annual periods beginning on or after 1 January 2018). IFRS 9 replaces the requirements of IAS 39 in respect of: (i) the classification and measurement of financial assets and liabilities; (ii) the recognition of impairment of receivables (through the expected loss model); and (iii) the requirements for the recognition and classification of hedge accounting.

IFRS 15 (new) ‘Revenue from contracts with customers’ (to be applied as from the annual periods beginning on or after 1 January 2018). This new standard applies only to contracts for the delivery of products or services, and requires an entity to recognise revenue when the contractual obligation to deliver assets or services is satisfied and in the amount that reflects the consideration to which the entity has the right, as provided for in the “5 steps methodology".

The standards and interpretations already published that are presented below, are mandatory for annual periods beginning on or after 1 January 2017; however, the European Union has not yet endorsed same. Materially relevant impacts are not expected as a result of the future adoption of these standards and interpretations:

IAS 7 (amendment), 'Revision of disclosures' (to be applied as from the annual periods beginning on or after 1 January 2017). This standard is still subject to endorsement by the European Union. This amendment introduces an additional disclosure about variations in financing liabilities, broken down between the transactions that gave rise to cash movements and those that did not, and how this information reconciles with the cash flows from financing activities in the Statement of Cash Flows.

IAS 12 (amendment), 'Income tax – Recognition of deferred tax assets on potential losses' (to be applied as from the annual periods beginning on or after 1 January 2017). This standard is still subject to endorsement by the European Union. This amendment clarifies how to account for deferred tax assets related to assets measured at fair value, how to estimate future taxable profits when there are deductible timing differences and how to evaluate the recoverability of deferred tax assets when there are restrictions in the tax legislation.

IAS 40 (amendment) 'Transfer of investment properties' (to be applied as from the annual periods beginning on or after 1 January 2018). This amendment is still subject to endorsement by the European Union. This amendment clarifies that assets can only be transferred to and from the investment property category when there is evidence of change in use. The change of management's intention alone is not sufficient to effect the transfer.

IFRS 4 (amendment), 'Insurance contracts (application of IFRS 4 with IFRS 9)' (to be applied as from annual periods beginning on or after 1 January 2018). This amendment is still subject to endorsement by the European Union. This amendment gives the entities that negotiate insurance contracts the option to recognise in Other comprehensive income, instead of recognising in the Income statement, the volatility that may result from the application of IFRS 9 before the new insurance contract standard is published. In addition, a temporary exemption is granted in respect of the application of IFRS 9 until 2021 to entities which predominant activity is that of being an insurer. This exemption is optional and does not apply to consolidated financial statements that include an insurer entity.

IFRS 15 (amendment), 'Revenue from contracts with customers' (to be applied as from the annual periods beginning on or after 1 January 2018). This amendment is still subject to endorsement by the European Union. These changes refer to the additional steps to be follow to determine the performance obligations of a contract, at the time of the revenue recognition of an intellectual property license, the review of the indicators for the classification of the principal versus agent relationship, and the new regimes foreseen to simplify the transition.

IFRS 16 (new) 'Leases' (to be applied as from the annual periods beginning on or after 1 January 2019). This standard is still subject to endorsement by the European Union. This new standard replaces IAS 17, with a significant impact on the accounting by lessees that are now obliged to recognise future lease liabilities reflecting lease payments and an asset for "right of use" for all leases, except certain short-term and low-value asset leases. The definition of a lease was also changed, being now based on the "right to control the use of an identified asset".

Improvements to standards 2014 – 2016, (to be applied, in general, for periods beginning on or after 1 January 2017). This cycle of improvements is still subject to endorsement by the European Union. This cycle of improvements affects the following standards: IFRS 1, IFRS 12 and IAS 28.

IFRIC 22 (new), 'Foreign currency operations and advance consideration' (to be applied as from annual periods beginning on or after 1 January 2018). This interpretation is still subject to endorsement by the European Union. This is an interpretation of IAS 21 'The effects of changes in exchange rates' and refers to the determination of the "transaction date" when an entity pays or receives in advance the consideration of contracts denominated in foreign currency. The "transaction date" determines the exchange rate to be used to convert the transactions into foreign currency.

International Financial Reporting Standard 9 – Financial Instruments

New requirements

On July 24, 2014, in response to the challenge posed by the G20 following the global financial crisis, the International Accounting Standards Board (IASB) issued the final version of IFRS 9 - Financial Instruments. This new standard applies to annual periods beginning on or after January 1, 2018 which, with its endorsement by the European Union, will replace IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 incorporates significant changes to IAS 39 essentially at three levels: (i) new rules for the classification, recognition and measurement of financial assets in accordance with the business model of the Bank and the characteristics of the contractual cash flows of these assets; (ii) new concepts in the methodology and measurement of impairment of financial assets, calculated on an expected loss basis ("ECL" – Expected Credit Loss); and (iii) new hedge accounting requirements more aligned with the entities' risk management practices. The Group continues to assess the impact that IFRS 9 will have on its consolidated financial statements. To the extent that there is no reliable and robust estimate of the potential effect of IFRS 9 and the fact that this estimate can be materially changed until its adoption, reflecting changes in the composition of the portfolios and/or different economic conditions, the Group will disclose the Impact of IFRS 9 as soon as the conditions for this are fulfilled, which will occur, at the limit, when the financial statements for 2017 are published.

a) *Classification and measurement of financial assets*

The criteria for the classification of financial assets will depend both on the business management model and on the characteristics of the contractual cash flows of these assets. Consequently, the asset can be measured at amortized cost, at fair value with changes recognized in equity (revaluation reserves) or in the income statement for the year (results of assets and liabilities at fair value through profit or loss), depending on the business model in which it is inserted and the characteristics of the contractual cash flows. In addition, IFRS 9, in line with IAS 39, also establishes the option to, under certain conditions, designate a financial asset at fair value with changes being recognized in the income statement for the year.

Currently, given that the main activity of the Group focuses on the granting of loans, and to the best of our knowledge at the date, significant changes in the measurement of assets are not expected under IFRS 9 as compared to the IAS 39:

1) The Group's expectation is that most of the loans and balances receivable from banks and customers will continue to be measured at amortized cost;

2) Debt instruments classified as available-for-sale, will generally be measured at fair value with changes recognized in equity (other comprehensive income), some of which may be measured at fair value through profit or loss, depending on the business model to be defined; and

3) Equity instruments will be classified and measured at fair value through profit or loss, unless the Group irrevocably decides, for non-trading assets, to classify these assets at fair value with changes recognized in equity (other comprehensive income). This irrevocable classification will imply that, on the disinvestment/realization of such financial asset, the amounts recognized in equity are not recycled to the income statement for the financial year.

The classification and measurement of financial liabilities under IAS 39 remains substantially the same under IFRS 9. However, it should be noted that, in most situations, changes in the fair value of financial liabilities designated at fair value through profit or loss, arising from the entity's own credit risk, will be recognized in equity (other comprehensive income).

b) *Expected Credit Impairment Loss Model*

The expected credit impairment loss model recommended by IFRS 9 is applicable to all financial assets valued at amortized cost, to financial assets equivalent to debt instruments valued at fair value with changes recognized in equity (other comprehensive income), to receivables from leasing and to financial guarantees and credit commitments not valued at fair value.

The most significant change of this new standard is the introduction of the expected loss concept to the detriment of the incurred loss concept on which the Bank's current impairment model is based to meet the requirements of IAS 39. This conceptual change is introduced together with new classification and measurement requirements of expected credit impairment losses, with financial assets subject to impairment being required to be classified into different stages depending on the evolution of their credit risk as from the date of initial recognition and not in relation to credit risk at the reporting date:

- Stage 1: financial assets are classified in stage 1 whenever there is no significant increase in credit risk as from the date of their initial recognition. For these assets, the expected credit impairment loss resulting from non-performing events during the 12 months subsequent to the reporting date will be recognized in the income statement for the year;
- Stage 2: financial assets for which there has been a significant increase in credit risk as from the date of their initial recognition are classified in stage 2. For these financial assets, expected credit impairment losses are recognized over the assets' lifetime. However, interest will continue to be calculated on the gross amount of the asset; and
- Stage 3: assets classified in this stage present objective evidence of impairment, on the reporting date, as a result of one or more events that have already occurred and that have resulted in a loss. In this case, the expected credit impairment loss for the expected residual life of the financial assets will be recognized in the income statement for the financial year. Interest is calculated on the net book value of the assets.

The significant increase in credit risk shall be determined by analysing the quantitative and/or qualitative internal indicators used by the Bank in the course of the normal management of credit risk, thereby imposing a stronger link between the accounting requirements and the credit risk management policies established by the Bank. It should, however, be noted that IFRS 9 contains the rebuttable presumption that a default occurs when the asset is in arrears over 90 days (stage 3), as well as the rebuttable assumption that there is a significant increase in credit risk in respect of arrears exceeding 30 days (stage 2).

According to this new model recommended by IFRS 9, the measurement of expected losses will also require the inclusion of forward looking information, including future trends and scenarios, namely macroeconomic data. In this context, estimates of expected credit impairment losses will include multiple macroeconomic scenarios which probability will be evaluated considering past events, the current situation and future macroeconomic trends, such as GDP, the unemployment rate, amongst others.

With regard to credit impairment, compared to IAS 39, the Group currently forecasts that the overall amount of these provisions will increase with the initial adoption of IFRS 9, most of which is due to the requirement to (i) initially recognize expected credit losses for 12 months and to (ii) recognize credit losses for remaining life in loans assets that are significantly impaired but not yet in default, particularly in portfolios with greater maturity.

For more material portfolios, the Group expects to adopt credit modelling approaches in the measurement of expected credit losses, leveraging, whenever possible, in the existing models in the Bank. For the remaining portfolios, and depending on the materiality of each portfolio, the Group expects to develop new models or use simplified approaches.

c) *Hedge accounting*

IFRS 9 includes new requirements for hedge accounting that have two main objectives: (i) the simplification of current needs and (ii) the alignment of hedge accounting with entity risk management. The Bank is currently considering the possibility of maintaining the application of IAS 39 until further clarifications on the IASB macro hedge project.

Estimated impacts on equity

IFRS 9 adoption will also have an impact on the Group's equity, reflecting the fact that up until now, there's no proposition for any changes on the regulatory framework in response to IFRS 9, as well as the anticipated increase in the provisions losses stock under the new model of expected credit losses, when comparing to the approach used so far of incurred losses mentioned in IAS 39, and consequent equity reduction of the institutions mainly in the moment of transfer to the new accounting references.

Given the limited time until the entry into force of IFRS 9 on January 1, 2018, the Basel Committee has announced that it will maintain the current regulatory treatment of provisions for an interim period. This should result in additional time to review the regulatory treatment of long-term impairment provisions.

The incorporation of IFRS 9 into the internal and external stress-testing processes of the Group is also under evaluation.

Group Implementation Strategy

NOVO BANCO Group defined a global work structure aiming to adapt their internal processes to the constant IFRS 9 normative, making sure that they are both, simultaneously applied, and evenly, between all the Group's subsidiaries, and being adapted to their individual characteristics.

Regarding the governance project of implementing IFRS 9, the Group has created a Committee responsible of seeing this project through, as well as assuring that all areas relevant to this project are involved for its own benefit. This way, the Department of Accounting, Consolidation and Taxation, the Department of Treasury and Finance, the Department of Global Risk, and the Department of Information Systems are involved in this Committee. Whenever is found necessary, other departments from the Bank are involved.

During the year 2016, the Group began the project of the IFRS 9 implementation and did a set of activities, from which stand out the following:

- Preparing a gap assessment for IFRS 9;
- Drawing up a study on the preliminary impacts;
- Preparing implementation roadmaps; and
- Identifying the technical requisites and initial functions.

NOTE 47 – SUBSEQUENT EVENTS

- On March 31, Banco de Portugal informed the market it had selected LONE STAR to complete the sale of NOVO BANCO and that the Resolution Fund had signed the operation's contract documents. The signature of the contract allowed the deadline for the sale agreed in the commitments assumed by the State before the European Commission to be met. Upon completion of the operation, the transition institutions regime will cease to apply to NOVO BANCO. After the completion of the operation, the regime of transition bank will cease to be applicable. Under the terms of the agreement, LONE STAR will make capital injections in NOVO BANCO for a total amount of €1,000 million, of which €750 million upon conclusion of the transaction and €250 million within three years. Through the capital injection, LONE STAR will hold 75% of the share capital of NOVO BANCO and the Resolution Fund will maintain the remaining 25%. The conditions agreed also include the setting up of a contingent capitalisation mechanism, under which the Resolution Fund, as a shareholder, undertakes to make capital injections in the event of certain cumulative conditions being met, related to: i) the performance of a defined set of assets of NOVO BANCO and ii) the evolution of the Bank's capitalisation levels. Any capital injections to be carried out pursuant to this contingent mechanism benefit from a capital buffer resulting from the injection to be made under the terms of the transaction and are subject to an absolute ceiling. The agreed conditions also provide for the existence of mechanisms to safeguard the interests of the Resolution Fund and to align incentives, as well as supervision mechanisms, notwithstanding the limitations arising from the application of State aid rules. The completion of the sale is subject to the usual regulatory authorizations (including by the European Central Bank and the European Commission) being obtained, as well as to a liability management exercise, which will cover the non-subordinated bonds of NOVO BANCO.

- On April 8, NOVO BANCO informed the market that, following the deliberation of its sole shareholder Fundo de Resolução, it has amended articles 1, 3, 6, 7, 8 to 14, 16, 17 to 23 and added articles 7-A, 7-B, 14-A, 16-A and 24 of its Company bylaws. The announcement highlights that in line with Governance's best practices, it stands out that its management and supervisory structure changes to a Board of Directors (comprising a Chairman, an Executive Committee and an Audit Committee), and a Statutory Auditor.

- On 9 April NOVO BANCO informed the market about the new management and executive committee structure. The management structure is composed by a Board of Directors (comprising a Chairman, Mr. Rui Cartaxo, and an Executive Committee, led by Mr. António Ramalho. The new Executive Committee of seven members was appointed by the Resolution Fund on 21 December 2016 and at the date of this report it has already received the European Central Bank's approval for all its members. On 8 May the Bank was informed about the approval by the European Central Bank for a further member for the Board of Directors, the seventh member of the Executive Committee.

- On 1 May 2017, NOVO BANCO informed the market that it entered into a sale and purchase promissory contract with the BANCAMIGA, Banco Microfinanciero, C.A., of Venezuela, in respect of the assets and liabilities of the NOVO BANCO, S.A., branch in Venezuela. The completion of such promissory contract is conditioned to the fulfillment of certain conditions and obtaining the required authorizations from the relevant authorities, including Banco de Portugal and the Venezuelan financial sector regulatory authority.

- With the verification of the conditions for the completion of the sale operation of .NB Ásia, namely the authorization from Autoridade Monetária de Macau of 28 April 2017, it was concluded by NOVO BANCO the sale of 75% of the share capital of NB Ásia.

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

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Statutory Audit Report and Auditors' Report

(Free translation from the original in Portuguese)
Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Novo Banco, S.A. ("Novo Banco" or "Bank"), which comprise the consolidated balance sheet as at December 31, 2016 (which shows total assets of Euro 52,332,672 thousand and total shareholders' equity of Euro 5,147,953 thousand, including non-controlling interest of Euro 81,337 thousand and a net loss of Euro 788,330 thousand), the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly in all material respects, the consolidated financial position of Novo Banco, S.A. as at December 31, 2016, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Our responsibilities under those standards are described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section below. In accordance with the law we are independent of the entities that are included in the Bank and we have fulfilled our other ethical responsibilities in accordance with the ethics code of the Institute of Statutory Auditors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty relating to going concern

As referred in Note 55 of the consolidated financial statements, in March 2017 agreements were reached between Lone Star and the Resolution Fund ("Fundo de Resolução"), sole shareholder of Novo Banco, with a view to the disposal of the majority of its share capital in the short-term, in this manner complying with the commitments established between the Portuguese Republic and the European Commission, which had foreseen this to occur by August 2017. The conclusion of this transaction, foreseen for the end of 2017, is dependent on the verification of a set of precedent conditions, including, amongst others, obtaining the necessary regulatory authorisations, being of note those of the European Central Bank and the European Commission, as well as on the realisation of a liability management exercise, subject to the adherence of the non-subordinated bondholders of Novo Banco.

In these circumstances, the consolidated financial statements of the Bank, for the year ended December 31, 2016, were prepared taking in consideration the going concern principle, since, based on the business plan prepared by the Bank and the prospective information it has available on the

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Matriculada na CRC sob o NUPC 506 628 752, Capital Social Euros 314.000
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profitability, cash flows and capital levels, it is understanding of the Board of Directors that the Bank has the means to continue developing its activity in the foreseeable future, even though the execution of the referred plan is substantially dependent on the success of the ongoing sale process. In this context, we also point out that the recovery of deferred tax assets originated by tax losses, referred below under the section "Key audit matters", is necessarily conditioned by the strategy of the future shareholder and by the materialisation of its ability to generate relevant business for Novo Banco.

Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the "Material uncertainty relating to going concern" section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matters	*Summary of the audit approach*
Impairment losses of loans and advances to customers	
Measurement and disclosure related to impairment losses of loans and advances to customers presented in the notes 2.5, 25 and 50 of the consolidated financial statements The significant exposition of the loans and advances to customers' captions as well as of the associated impairment losses, which calculation requires the application of a set of complex assumptions and judgments by the Board of Directors of the Bank regarding both the identification of the moment of the recognition as well as the corresponding amount, justify that this has constituted a key matter for the purposes of our audit. As at December 31, 2016, the gross amount of loans and advances to customers ascends to Euros 33,750,467 thousand (2015: Euros 37,416,406 thousand) and the respective impairment losses as at that date amount to Euros 5,566,041 thousand (2015: Euros 5,832,647 thousand). Impairment losses on loans and advances to customers are determined by the Bank on an	The developed audit procedures included the identification and review of the controls established by the Bank in relation to the approval, recording and monitoring of loans and advances to customers, as well as the appraisal of the methodologies, data and assumptions adopted by the Board of Directors in calculating the corresponding impairment losses. These procedures covered, amongst others, the detailed testing of the key controls and the credit risk management procedures implemented by the Bank, with particular emphasis on the internal controls underlying the timely identification, recording and correct measurement of impairment losses. In this context, we tested the design and operational effectiveness of the key controls instituted by the Bank to identify customers with impairment triggers or in default and to determinate the corresponding impairment losses, namely those related to: (i) the timely identification of customers with impairment triggers or in default; (ii) the conversion of the data from the basic IT systems to the models used to calculate impairment and of the results

Key audit matters	*Summary of the audit approach*
individual basis, through a case-by-case analysis of a significant component of the total loan and advances portfolio and for the remaining portfolio, the impairment is determined on a collective analysis. This calculation is carried out as follows: • The Bank undertakes a process of individual analysis for the customers which have more significant exposures, evaluated in terms of the amount of their responsibilities and the observation of indications of default criteria. The impairment amount is calculated through a detailed analysis of the economic and financial position of each individual customer, with reference to (i) the estimation of the cash flows that may be generated in the future to fulfil its responsibilities or (ii) the valuation of the collaterals received in connection with the granting of the loan, whenever its recovery is anticipated as being through the foreclousure/execution and/or sale of those collaterals, less the costs inherent to its recovery and sale. • For the exposures not covered by the individual analysis, as well as for those in respect of which no objective evidence of impairment was identified, the Bank developed and applies a collective analysis model to calculate the impairment losses. When a group of financial assets is valued on a collective basis, the future cash flows of this group are estimated based on the contractual flows of those assets and the historical data related to losses on assets with similar credit risk characteristics. Whenever the Bank considers necessary, the historical information is updated based on observable current data, so as to reflect the effects of the current conditions. For loans and advances which the observation of defaults criteria occurred before the financial year end but which had not yet been identified by the Bank ("Incurred but not reported" - IBNR), impairment losses are recognised based on probability of default and loss models, considering an emergence period	thereof to the financial statements of the Bank; (iii) the actual calculations itself of the impairment model defined by the Bank, including the inputs and assumptions of Management; (iv) the estimation of the recoverable value of the collateral; and (v) the internal governance associated with the process of calculating and approving impairment losses. Additionally, on a sample basis, we analysed a number of customers (including some that were not identified by the Board of Directors as presenting impairment triggers or in default), so as to obtain our own judgment regarding the existence of impairment triggers, and to assess how the impairment losses were timely identified, measured and recognised by Management. With regards to the customers individually analysed by the Bank, for a representative sample of the loans and advances to customers portfolio as at December 31, 2016, the procedures carried out consisted of: (i) reviewing the documentation associated with the loans and advances granting process; (ii) analysing the contractual support and the main relevant collaterals and confirming the registration of referred collaterals in favour of the Bank; (iii) reviewing the valuations of the available collaterals; (iv) analysing the evolution of the exposures; and (v) understanding the view of those responsible for the Bank regarding the economic and financial situation of the customers, as to the predictability of the cash flows expected from their respective businesses, as well as the perspective regarding the collectability of the loans and advances. Whenever we concluded as to the need to revise some of the assumptions used by Management, we recalculated the estimated amount of the impairment and compared the results obtained with those determined by the Bank in order to assess the existence of possible divergences. For the portfolio which impairment is calculated using the collective analysis model, we tested a sample of inputs from the model defined by the

Key audit matters	*Summary of the audit approach*
of 12 months between the date of the occurrence of the default event and its identification in the individual or collective analysis.	Bank and evaluated the calculation methodology itself. For this purpose, we undertook a specific set of procedures with the objective of evaluating how the assumptions considered by the Management of the Bank incorporate all the risk variables, by comparison to the history of the performance and recovery of the loans and advances to customers portfolio, the macroeconomic conditions to which each customer is exposed, as well as to our knowledge of current practices in the sector. In this context, we undertook the following procedures: (i) we analysed the information contained in the loans and advances to customers portfolio and the historical data considered in the model; (ii) we reviewed and tested the segmentation and classification of the loans and advances as regards the existence of impairment triggers or default; (iii) we reviewed and tested the risk parameters used in the impairment calculation, estimated by the Bank for each segment; (iv) we analysed, on a sample basis, the main assumptions and sources of information used for the future recoveries incorporated in the calculation of the risk parameters; (v) we reviewed and tested the historical recoveries incorporated in the determination of the risk parameters (by sampling); and (vi) we analysed the adequacy of the results of the calibration tests realised by the Bank. Our audit procedures also included a review of the disclosures relating to loans and advances to customers and related impairment losses in the explanatory Notes, taking into account the applicable accounting standards.
Provisions and contingent liabilities	
Disclosures related with provisions and contingent liabilities presented in notes 1, 2.18, 39 and 45 of the consolidated financial statements As at December 31, 2016, the balance of the Provisions caption presented as a liability	The audit procedures undertaken included the understanding and evaluation of the controls instituted by the Bank with regard to the approval, registration and monitoring of these matters, as well as the appraisal of the methodologies, data and assumptions adopted by the Board of Directors in the assessment of

Key audit matters	*Summary of the audit approach*
amounts to Euros 364,615 thousand (2015: Euros 465,114 thousand), and they are intended to face liabilities associated with: (i) restructuring plans underway; (ii) commercial offers to retail customers holding unsubordinated bonds of Novo Banco; (iii) contingencies associated with tax matters and lawsuits in progress; (iv) provisions for guarantees and commitments and (v) other risks specific to the normal activity of the Bank. Considering that the incorporation of Novo Banco resulted from the application of a resolution measure to BES, which originated relevant impacts on third parties, the number of existing claims and the risk of litigation involving Novo Banco are significant. Under these circumstances, Management is forced to make complex judgments in the analysis of the probability of the materialisation and in the quantification of the amounts of possible liabilities arising from such claims, for which reason this was considered a key matter for the purposes of our audit.	contingencies and in the potential recognition of provisions. In this context, we tested the design and operational effectiveness of the key controls to ensure the proper identification, evaluation, provisioning and disclosure of these matters and, considering the relevance of the judgments required from the Board of Directors, we examined in detail the most significant lawsuits and provisions and, where necessary, we asked for additional audit evidence. We appraised the Bank's assessments of the nature and current status of the lawsuits underway and the corresponding provisions, when applicable, and discussed with its legal counsel and the Bank's Management the bases and grounds for the constitution, or not, of the most significant provisions. For some of these situations, we confirmed the information obtained from the Bank with the external lawyers who accompany each of the lawsuits and for the lawsuits resulting from the resolution measure applied to BES, we confirmed that these were covered by the Resolution Deliberation and related decisions made by Banco de Portugal. Our audit procedures also included the revision of the disclosures on provisions and contingent liabilities, contained in the explanatory Notes, taking into account the applicable accounting standards.
Post-employment benefits of employees	
Measurement of liabilities and disclosure related to post-employment benefits of employees presented in notes 2.16 and 16 of the consolidated financial statements As at December 31, 2016 Novo Banco's liabilities with the employees' post-employment benefits plan amounts to Euros 1,577,750 thousand (2015: Euros 1,545,996 thousand), covering, essentially, benefits with old-age, invalidity and survivors' retirement pensions, and health-care and death	The audit procedures undertaken included the analysis of the controls instituted by the Bank in the context of determining the liabilities and the financing needs of the plan. In this context, we also tested the controls instituted by the Bank to ensure the adequacy of the process to determine the fair value of the assets of the fund and of the actuarial assumptions used. Our work included meetings with the Board of Directors to identify the methodologies and

Key audit matters	***Summary of the audit approach***
benefits, namely those foreseen in the Collective Labour Agreement ("Acordo Coletivo de Trabalho" -"ACT") for the banking sector. These liabilities are estimated based on actuarial valuations carried out by an certified actuary by the "Autoridade de Supervisão de Seguros e Fundos de Pensões" ("ASF"). These valuations incorporate a set of financial and actuarial assumptions, namely the discount rate, the inflation rate, the mortality and disability tables, the growth rates of pensions and salaries, amongst others, defined by the Board of Directors considering the characteristics of the benefits attributed, the employees covered and the current and expected behaviour of these variables. In the specific case of the discount rate used in the actuarial studies, it is determined on the basis of the market rates for high-quality corporate bonds in terms of credit risk, denominated in the currency in which the benefits will be paid (Euros) and with a maturity similar to the termination date of the payment of the benefits of the plan. In this context, future changes in the financial and actuarial assumptions followed may give rise to material impacts on the net liabilities and on the assets associated with these benefits, for which reason this was considered a key matter for the purposes of our audit.	options considered in defining the main financial and actuarial assumptions adopted. Given the relevance of the judgments required of the Board of Directors, we evaluated the reasonableness of the main assumptions, comparing them with the data that we could independently obtain. We also reviewed the adequacy (i) of the employee information, used for the calculation of liabilities; (ii) of the accounting recognition of costs related to past services and other changes in assumptions and estimates that occurred during the year; and (iii) of the fair value of the assets of the fund, calculating it, whenever possible, in an independent manner for a sample of assets held. We also verified the registration of the actuary responsible with ASF and confirmed the existence of the actuary's declaration of independence regarding the actuarial study as at December 31, 2106. In addition, our audit procedures included reviewing the disclosure of the employees' post-employment benefits included in the explanatory Notes, taking into account the applicable accounting standards.
Real estate properties received as recovery of loans and advances	
Measurement and disclosure related to the valuation of real estate properties received as recovery of loans and advances presented in notes 2.12, 27, 28 and 33 of the consolidated financial statements Due to the significant expression of real estate properties received as recovery of loans and advances in the consolidated balance sheet of the Bank, which are reflected in the captions Other assets and Investment properties, these constituted a key matter for the purposes of our audit, as they required the application of a set of	The audit procedures undertaken included the identification and appraisal of the controls instituted by the Bank to ensure that the recording of the movements in the real estate properties portfolio are carried out in a correct and timely manner and that the real estate properties valuation process instituted is adequate. For a sample of real estate properties, their measurement and, where applicable, the respective impairment losses recorded, based on the valuations of expert appraisers, were

Key audit matters	***Summary of the audit approach***
assumptions and judgments by the Board of Directors as regards their valuation and the determination of both the recognition moment and the amount of the corresponding impairment losses. As at December 31, 2016, the gross amount of these real estate properties recorded in the captions Other assets and Investment properties amounts to Euros 2,163,991 thousand and Euros 1,206,355 thousand, respectively, and the amount of the impairment losses of the real estate properties included in the caption Other assets amounts to Euros 680,055 thousand. As at December 31, 2015, real estate properties received as recovery of loans and advances, in the gross amount of Euros 3,567,364 thousand, were evidenced in the caption Non-current assets held for sale, having been reclassified during 2016 to the captions Other assets and Investment properties, as they ceased to meet the requirements for the recognition in that category foreseen in IFRS 5 – Non-current assets held for sale and discontinued operating units. According to the policies in force in the Bank, the real estate properties are subject to periodic valuations, carried out by expert appraisers registered with the CMVM. Whenever the value determined by such valuations is lower than the book value of the real estate properties analysed, impairment or capital losses are recorded, depending on whether these are real estate properties recognised in Other assets or in Investment properties.	analysed, having for the purpose analysed whether the approach followed by the appraiser was adequate for the determination of the book value to be recorded in the financial statements. Whenever necessary, we held meetings to comprehend and understand the judgments and assumptions adopted in the valuation attributed to the real estate properties under analysis. The qualifications of the expert appraisers were duly analysed, including the confirmation of their registration with the CMVM. Finally, for a sample of real estate properties sold during 2016, we compared the sales value with the last valuation obtained, in order to assess the reasonableness of the valuations obtained by the Bank. In the case of real estate properties indirectly held by the Bank, through Real Estate Investment Funds, we sent audit instructions to the auditors of the Funds considered significant in the context of the Bank's consolidated financial statements and reviewed, and where necessary debated, the conclusions presented. We have also analysed the Audit Reports relating to the financial statements of these Funds with reference to December 31, 2016, whenever available. Our audit procedures also included a review of the disclosures on real estate properties received as recovery of loans and advances contained in the explanatory Notes, taking into account the applicable accounting standards.
Fair value of financial instruments not quoted on an active market ***Measurement and disclosure related to the fair value of financial instruments not quoted in an active market presented in notes 2.6, 2.8 and 49 of the consolidated financial statements*** Due to its relevance in the context of the consolidated financial statements of the Bank and	The audit procedures undertaken included the identification and appraisal of the controls instituted by the Bank in order to identify, measure and monitor market risk, as well as the appraisal of the methodologies, data and assumptions used to determine the fair value of the financial instruments under analysis. In this

Key audit matters	***Summary of the audit approach***
to the associated degree of judgment, the fair value measurement of financial instruments not quoted in an active market was a key matter for the purposes of our audit. These instruments include securities classified as financial assets at fair value through profit or loss and available-for-sale; derivatives classified as hedging and trading instruments; investment contracts and assets and liabilities subject to value adjustments through hedge accounting, namely for the loans and advances to customers portfolio, the resources from customers and other loans and the debt securities issued. As at December 31, 2016 the balances in the balance sheet of financial instruments at fair value corresponding to levels 2 and 3 of the fair value hierarchy of IFRS 13 – Fair value, amounts to Euros 5,879,754 thousand in the assets (2015: Euros 5,002,105 thousand) and Euros 2,659,647 thousand in the liabilities (2015: Euros 3,851,377 thousand), respectively. For financial instruments that are actively traded and for which quotations or other market indicators are available, the determination of fair value, based on their price or closing quotation at the balance sheet date, constitutes an objective exercise (level 1 of the fair value hierarchy). However, when such observable market data are not available, fair value is determined using estimates (levels 2 and 3 of the fair value hierarchy), namely through the use of valuation models based on discounted cash flow techniques, which usually involve a high degree of judgment by Management in the definition of the assumptions to be used. The Bank measures financial instruments classified in level 2 using indicative prices provided by external counterparties where available or, in the absence thereof, on the basis of observable market data and using internal measurement methodologies which are based on	context, the procedures and controls tested included the validation of: (i) the data interfaces from the basic IT systems to the fair value measurement models and of their results to the financial statements of the Bank; and (ii) the calculation itself of the fair value calculation models defined by the Bank, including the inputs and assumptions of the Board of Directors as well as the internal governance practices instituted in the fair value determination and approval process. We tested the measurement of the financial instruments classified in level 1 comparing the fair value calculated by the Bank with the information available in the market. Regarding the models developed by the Bank, we evaluated the adequacy of the models and data used. To this purpose, we compared the observable data against the market information obtained from external and independent sources, whenever available. For a sample of instruments which measurement consisted of substantially unobservable data, we evaluated the models and assumptions used and independently recalculated the measurement using alternative methodologies. We also evaluated the methodology and data used by Management to determine the counterparty risk adjustments recorded for uncollateralized derivative transactions and compared the amounts calculated with current market practices in light of our experience with similar entities. Our audit procedures also included the review of the financial instrument disclosures and, in particular, of the application of the fair value hierarchy, contained in the explanatory Notes, taking into account the applicable accounting standards.

Key audit matters	***Summary of the audit approach***
discounted cash flows and on the Black-Scholes model. On other hand, for the measurement of financial instruments classified in level 3, essentially represented by securities not traded on active markets, indicative prices are provided by counterparties, determined based on parameters not observable in the market, as well as on extrapolations of market data. The Bank also recognises adjustments for counterparty risk in the measurement of uncollateralized derivatives (CVA – Credit Value Adjustments), which are estimated based on the amount that would have been received or paid to settle the contract on the date under analysis, considering the existing market conditions, as well as the credit quality of the parties, which is estimated by the Bank through its loans and advances impairment model. In this context, changes in the assumptions incorporated in the measurement techniques used by Management may give rise to material impacts on the fair value measurement of unquoted financial instruments recognised in the consolidated financial statements of the Bank.	
Recovery of goodwill generated with the acquisition of subsidiaries ***Measurement and disclosure related to the recoverable amount of goodwill generated with the acquisition of subsidiaries presented in notes 2.2, and 30 of the consolidated financial statements*** Due to its relevance in the context of the consolidated financial statements of the Bank and the associated degree of judgment, the recoverability of the goodwill generated with the acquisition of subsidiaries constituted a key matter for the purposes of our audit. As at December 31, 2016 the gross balance sheet amount of goodwill generated with the acquisition of subsidiaries amounts to Euros	The audit procedures undertaken included the understanding and review of the procedures instituted by the Bank with regard to the monitoring of investments in subsidiaries, as well as the appraisal of the methodologies, data and assumptions adopted by Management in the determination of the recoverable value of these investments and possible impairment losses recognised in goodwill generated with the acquisition of subsidiaries. In the specific context of the analysis of the recoverable amount of the Company's goodwill as at December 31, 2016, we analysed and debated the view held by those responsible for Novo Banco as to the economic and financial

Key audit matters	*Summary of the audit approach*
251,006 thousand (2015: Euros 259,622 thousand) and the impairment losses recorded in respect of the referred balance amounts to Euros 250,560 thousand (2015: Euros 113,553 thousand). In accordance with IAS 36 - Impairment of assets, Management should perform an annual impairment review and assess whether there are indicators of impairment in relation to the book value of goodwill. The book value of goodwill is compared to the recoverable amount, which is the higher of value in use and fair value less costs to sell. In order to be able to assess the recoverability of the goodwill generated with the acquisition of subsidiaries, Management, in accordance with IAS 36, used the fair value less costs to sell approach, which was calculated using discounted cash flows. The largest contribution to the goodwill amount recorded as at December 31, 2016 and 2015 is from the insurance company GNB Vida – Companhia de Seguros Vida, S.A. ("Company"), with a gross amount of Euros 234,575 thousand on both dates and impairment losses of Euros 234,575 thousand and Euros 100,027 thousand, as at December 31, 2016 and 2015, respectively. The assessment of the recoverability of goodwill involves a series of complex judgments to be made by Management, such as the future evolution of the subsidiaries' activity, discount rates and other assumptions to be used. Any changes in the assumptions adopted in the estimation of future results may have material impacts on the recoverability of goodwill.	situation of the Company and as to the forecast of the cash flows expected from the respective businesses. We also reviewed (i) the valuation report of the Traditional Embedded Value of the Company, prepared by an independent entity with reference to the same date, and (ii) its business plan, used to determine the value attributable to the new business to be developed, elements that consubstantiate its recoverable amount. In addition, our audit procedures included a review of the disclosures on goodwill generated with the acquisition of subsidiaries and respective impairment contained in the explanatory Notes, taking into account the applicable accounting standards.
Deferred tax assets originated by tax losses ***Measurement and disclosure related to deferred tax assets originated by tax losses presented in notes 2.1, 2.17 and 40 of the consolidated financial statements***	 The audit procedures undertaken included a detailed analysis of the Bank's business plan, namely the main assumptions considered in its preparation and which enable the Board of Directors to estimate the future generation of

Key audit matters	*Summary of the audit approach*
In the consolidated balance sheet of the Bank as at December 31, 2016, deferred tax assets total Euros 2,603,979 thousand, of which Euros 928,632 thousand were originated by tax losses generated in 2014, 2015 and 2016, which recoverability depends on obtaining future taxable income. According to IAS 12 - Income taxes, the recognition of deferred tax assets presupposes the probable existence of future taxable income that supports their recoverability. The estimation of the recoverability of the aforementioned deferred tax assets carried out by Management was based on a business plan covering the years 2017 through 2028, which assumes a stability of results from 2021 onwards. This estimation required the application of a complex set of judgments by Management, considering the uncertainties regarding the future strategy of the Bank and of the markets in which it operates, as well as the potential impact arising from the projected entry of a new shareholder. The main judgments assumed by Management include the estimation of future taxable income, the long-term growth rates, the investments' rates of return and the discount rates. Eventual changes in the assumptions used in the estimation of future results or in the interpretation of tax legislation may have a material impact on the recoverability of deferred tax assets originated by tax losses. In this way, considering its materiality in the consolidated financial statements of the Bank, and the fact that the audit report for the financial year ended December 31, 2015 included a not quantified disagreement qualification regarding its possible recoverability and of the need to establish projections to determine whether such recoverability could occur within the defined carry-forward period, this was considered a key matter for the purposes of our audit.	taxable income capable of absorbing the estimated tax losses assessed. We met with the Board of Directors to discuss and evaluate all the assumptions considered relevant to the preparation of the business plan and, in addition, we performed sensitivity analyses of those we considered critical, in order to assess the extent of the risk of significant deviation in the estimated results and in the consequent recoverability of deferred tax assets originated by tax losses. The reasonableness of the projections was analysed based on, namely, pre-tax results presented in recent financial years, the future perspectives reported by the Board of Directors, as well as the performance recorded by the banking sector in recent years. We reviewed the adjustments and disclosures associated with the restatement of the financial statements for the financial year ended December 31, 2015, presented in note 2.1 of the attached consolidated financial statements, given that the Bank retrospectively corrected an error, in accordance with IAS 8 - Accounting policies, changes in accounting estimates and errors ("IAS 8"). Our audit procedures also included the review of the deferred tax disclosures contained in the explanatory Notes, taking into account the applicable accounting standards.

Key audit matters	*Summary of the audit approach*
Impairment on the exposure to Banco Económico	
Measurement and disclosure related to the impairment on the exposure to Banco Económico presented in notes 23 and 24 of the consolidated financial statements The Bank has as at December 31, 2016 a total exposure of circa Euros 647,207 thousand (2015: Euros 838,088 thousand) to Banco Económico, S.A. ("Banco Económico"), consubstantiated in a shareholding in its share capital of circa Euros 37,946 thousand (2015: Euros 47,351 thousand), recorded in the caption Available-for-sale financial assets, and by two loans, senior and subordinated, of respectively Euros 202,735 thousand and Euros 406,526 thousand (2015: Euros 397,077 thousand and Euros 393,660 thousand, respectively), including accrued interest, recorded in the caption Loans and advances to banks. The credit risk analysis of financial institutions is always an analysis subject to complex judgments, such as evaluations of business plans and the future capacity to generate cash flows and the appraisal of financial indicators. In the specific case of Banco Económico, the estimate of impairment becomes particularly complex in view of the developments in the current economic environment in Angola. Bearing in mind the current less favourable economic environment in Angola and the relevance and complexity of the assumptions and judgments made by Management, in order to assess the recoverability of the exposure to Banco Económico, as well as the fact that our audit report on the consolidated accounts of Novo Banco for the financial year ended December 31, 2015, which we issued on April 12, 2016, contained a scope limitation qualification regarding to this matter, due to (i) the unavailability of audited financial information for the financial years 2014 and 2015 and (ii) the unavailability of an approved business plan that	During 2016, we held several interactions with the Board of Directors in order to obtain and debate the results of the actions developed by them to measure the impairment associated with the exposure to Banco Económico. We obtained and analysed the financial statements of Banco Económico for 2014 and 2015 approved by its general meeting, as well as the audit report for the year ended December 31, 2015, issued by an independent auditor without qualifications, as well as the business plan presented by the Management of Banco Económico covering the activities until 2019. We also obtained unaudited preliminary financial information from Banco Económico with reference to December 31, 2016, in order to corroborate the projections presented in the business plan referred to above.

Key audit matters	***Summary of the audit approach***
enabled us to assess its ability to generate sufficient cash flows in the future to fulfil the debt service, this constituted a key matter for the purposes of our audit.	
Risk of insufficient assets to cover the liabilities assumed under life insurance contracts	
Disclosure related to the risk of insufficient assets to cover the liabilities assumed under life insurance contracts presented in notes 2.25 and 32 of the consolidated financial statements The caption Technical reserves of insurance contracts – Life constitutes a key matter for the purposes of our audit, not only due to its amount in the consolidated balance sheet, but also because this caption requires, as regards its determination, the application of a complex set of assumptions and judgments by the Management of Companhia GNB – Companhia de Seguros Vida, S.A. ("Company"). The life mathematical reserves presented in the consolidated balance sheet amount to Euros 1,288,949 thousand (2015: Euros 1,295,974 thousand), the reserve for rate commitments amounts to Euros 2,030 thousand (2015: Euros 3,633 thousand) and the financial liabilities of the deposit component of insurance contracts and of insurance contracts and transactions considered for accounting purposes as investment contracts amount to Euros 3,261,980 thousand (2015: Euros 3,954,936 thousand), representing, in total, 92% of the consolidated balance sheet of the Company as at December 31, 2016. The evaluation of the adequacy of the insurance liabilities is made based on the projection of the future cash flows associated with each contract. These flows include premiums, deaths, maturities, redemptions, cancellations and expenses. Whenever the products include options and guarantees, the current value of the liabilities is	PwC, integrating actuarial specialists, undertook the following main audit procedures: (i) identification and understanding of the process and of the key controls existing for the assessment of the adequacy of the insurance liabilities, namely for insurance products with financial guarantees assumed; (ii) verification of the effectiveness of the controls associated with the recognition of mathematical reserves, of the reserves for rate commitments and of the financial liabilities of the deposit component of insurance contracts and of insurance contracts and transactions considered for accounting purposes as investment contracts; (iii) identification and evaluation of the assumptions used by the Company's Services in evaluating the adequacy of the insurance liabilities; and (iv) independent tests of the insurance contract and investment contract portfolios and comparison of the respective results with those obtained by the Company's Services. In addition, our audit procedures included the revision of the disclosures on life insurance contracts and inherent reserves and provisions to cover the liabilities associated with same contained in the explanatory Notes, taking into account the applicable accounting standards.

Key audit matters	*Summary of the audit approach*
calculated stochastically using Market Consistent scenarios. This evaluation is carried out on a product by product basis or in aggregate when the risks of the products are similar or managed jointly. The curve used to discount the liabilities is that of the treasury bonds of the Portuguese Republic. This evaluation involves judgment as regards the selection of the assumptions underlying the calculation, such as discount rates and redemption rates. The existing risk arises from the possibility of the non-satisfaction of the guarantees assumed by the Company on the contracts traded, due to an inadequate matching of assets and liabilities at the level of the interest rate and the maturity of same. The Company's Services undertake periodic interest rate commitment and Asset Liability Management ("ALM") assessment tests for the various insurance contract portfolios and investment contract portfolios.	

Other matters

As described in the key audit matter above "Deferred tax assets originated by tax losses", the Statutory audit report and the Auditors' Report on the consolidated financial information for the year ended December 31, 2015, which we issued on April 12, 2016, included an unquantified qualification regarding our disagreement on the possible recoverability of deferred tax assets originated by tax losses. This matter has been superseded in the 2016 year, having the Bank retrospectively corrected the error in accordance with the provisions of IAS 8.

As described in the key audit matter above "Impairment on the exposure to Banco Económico", the Statutory audit report and the Auditors' Report on the consolidated financial information for the year ended December 31, 2015, referred to in the previous paragraph, included a scope limitation regarding the recoverability of the bond loan granted as well as on the investment realised in Banco Económico. Considering the information received during the course of the 2016 year, it was concluded that the impairment estimate of the aforementioned assets carried out by the Bank in the year ended December 31, 2015 was adequate, and this matter was superseded without any impact on the financial statements for the years ended on December 31, 2016 and 2015.

Responsibilities of management and supervisory board for the consolidated financial statements

Management is responsible for:

a) the preparation of the consolidated financial statements, which present fairly the financial position, the financial performance and the cash flows of the Bank in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union;

b) the preparation of the Directors' Report, including the Corporate governance Report, in accordance with the applicable law and regulations;

c) the creation and maintenance of an appropriate system of internal control to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

d) the adoption of appropriate accounting policies and criteria; and

e) the assessment of the Bank's ability to continue as a going concern, disclosing, as applicable, events or conditions that may cast significant doubt on the Bank's ability to continue its activities.

The supervisory board is responsible for overseeing the process of preparation and disclosure of the Bank's financial information.

Auditor's responsibilities for the audit of the consolidated financial statements

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

a) identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;

e) evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

f) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Bank audit. We remain solely responsible for our audit opinion;

g) communicate with those charged with governance, including the supervisory board, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;

h) of the matters we have communicated to those charged with governance, including the supervisory board, we determine which one's were the most important in the audit of the consolidated financial statements of the current year, these being the key audit matters. We describe these matters in our report, except when the law or regulation prohibits their public disclosure; and

i) confirm to the supervisory board that we comply with the relevant ethical requirements regarding independence and communicate all relationships and other matters that may be perceived as threats to our independence and, where applicable, the respective safeguards.

Our responsibility also includes verifying that the information included in the Directors' report is consistent with the consolidated financial statements and the verification set forth in paragraphs 4 and 5 of article No. 451 of the Portuguese Company Law.

Report on other legal and regulatory requirements

Director's report

In compliance with paragraph 3 e) of article No. 451 of the Portuguese Company Law, it is our understanding that the Director's report has been prepared in accordance with applicable requirements of the law and regulation, that the information included in the Directors' report is consistent with the audited consolidated financial statements and, taking into account the knowledge and assessment about the Bank, no material misstatements were identified.

Corporate governance report

In compliance with paragraph 4 of article No. 451 of the Portuguese Company Law, it is our understanding that the Corporate governance report includes the information required under article No. 245-A of the Portuguese Securities Market Code, that no material misstatements were identified in the information disclosed in this report and that it complies with paragraphs c), d), f), h), i) and m) of that article.

Additional information required in article No. 10 of the Regulation (EU) 537/2014

In accordance with article No. 10 of Regulation (EU) 537/2014 of the European Parliament and of the Council, of April 16, 2014, and in addition to the key audit matters referred to above, we also provide the following information:

a) We were first appointed auditors of Novo Banco, S.A. in the Shareholders' General Meeting of September 9, 2014 for a mandate covering 2014 and 2015, having remained in functions until the current period. Our last appointment was in the Shareholders' General Meeting, through a written unanimous resolutions dated December 21, 2016 for a mandate covering 2016 and 2017.

b) The management has confirmed to us it has no knowledge of any allegation of fraud or suspicions of fraud with material effect in the financial statements. As part of the planning and execution of our audit in accordance with ISAs, we have maintained professional scepticism throughout the audit and determined overall responses to address the risk of material misstatement due to fraud in the consolidated financial statements. Based on the work performed, we have not identified any material misstatement in the consolidated financial statements due to fraud.

c) We confirm that our audit opinion is consistent with the additional report that was prepared by us and issued to the Group's supervisory board as of May 23, 2017.

d) We declare that we did not provide any prohibited non-audit services referred to in paragraph 8 of article No. 77 of the by-laws of the Institute of Statutory Auditors ("Estatutos da Ordem dos Revisores Oficiais de Contas") and that we remain independent of the Bank in conducting our audit.

May 23, 2017

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
Registered in Comissão do Mercado de Valores Mobiliários under n.º 20161485
represented by:

José Manuel Henriques Bernardo, R.O.C.

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Statutory Audit Report and Auditors' Report

(Free translation from the original in Portuguese)
Report on the audit of the financial statements

Opinion

We have audited the financial statements of Novo Banco, S.A. ("Novo Banco" or "Bank"), which comprise the balance sheet as at December 31, 2016 (which shows total assets of Euro 46,843,311 thousand and total shareholders' equity of Euro 4,674,706 thousand including a net loss of Euro of 744,744 thousand), the statement of income, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly in all material respects, the financial position of Novo Banco, S.A. as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Our responsibilities under those standards are described in the "Auditor's responsibilities for the audit of the financial statements" section below. In accordance with the law we are independent of the Bank and we have fulfilled our other ethical responsibilities in accordance with the ethics code of the Institute of Statutory Auditors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty relating to going concern

As referred in Note 47 of the financial statements, in March 2017 agreements were reached between Lone Star and the Resolution Fund ("Fundo de Resolução"), sole shareholder of Novo Banco, with a view to the disposal of the majority of its share capital in the short-term, in this manner complying with the commitments established between the Portuguese Republic and the European Commission, which had foreseen this to occur by August 2017. The conclusion of this transaction, foreseen for the end of 2017, is dependent on the verification of a set of precedent conditions, including, amongst others, obtaining the necessary regulatory authorisations, being of note those of the European Central Bank and the European Commission, as well as on the realisation of a liability management exercise, subject to the adherence of the non-subordinated bondholders of Novo Banco.

In these circumstances, the financial statements of the Bank, for the year ended December 31, 2016, were prepared taking in consideration the going concern principle, since, based on the business plan prepared by the Bank and the prospective information it has available on the profitability, cash flows and capital levels, it is understanding of the Board of Directors that the Bank has the means to continue developing its activity in the foreseeable future, even though the execution of the referred plan is substantially dependent on the success of the ongoing sale process. In this context, we also point out that the recovery of deferred tax assets originated by tax losses, referred below under the section "Key audit matters", is necessarily conditioned by the strategy of the future shareholder and by the materialisation of its ability to generate relevant business for Novo Banco.

Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the “Material uncertainty relating to going concern” section we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matters	*Summary of the audit approach*
Impairment losses of loans and advances to customers	
Measurement and disclosure related to impairment losses of loans and advances to customers presented in notes 2.4, 22 and 42 of the financial statements The significant expression of the loans and advances to customers’ captions as well as of the associated impairment losses, which calculation requires the application of a set of complex assumptions and judgments by the Board of Directors of the Bank regarding both the identification of the moment of the recognition as well as the corresponding amount, justify that this has constituted a key matter for the purposes of our audit. As at December 31, 2016, the gross amount of loans and advances to customers ascends to Euros 31,413,542 thousand (2015: Euros 33,710,376 thousand) and the respective impairment losses as at that date amount to Euros 5,508,133 thousand (2015: Euros 5,705,018 thousand). Impairment losses on loans and advances to customers are determined by the Bank on an	The developed audit procedures included the identification and review of the controls established by the Bank in relation to the approval, recording and monitoring of loans and advances to customers, as well as the appraisal of the methodologies, data and assumptions adopted by the Board of Directors in calculating the corresponding impairment losses. These procedures covered, amongst others, the detailed testing of the key controls and the credit risk management procedures implemented by the Bank, with particular emphasis on the internal controls underlying the timely identification, recording and correct measurement of impairment losses. In this context, we tested the design and operational effectiveness of the key controls instituted by the Bank to identify customers with impairment triggers or in default and to determinate the corresponding impairment losses, namely those related to: (i) the timely identification of customers with impairment triggers or in default; (ii) the conversion of the data from the basic IT systems to the models used to calculate impairment and of the results

Key audit matters	*Summary of the audit approach*
individual basis, through a case-by-case analysis of a significant component of the total loan and advances portfolio and for the remaining portfolio, the impairment is determined on a collective analysis. This calculation is carried out as follows: • The Bank undertakes a process of individual analysis for the customers which have more significant exposures, evaluated in terms of the amount of their responsibilities and the observation of indications of default criteria. The impairment amount is calculated through a detailed analysis of the economic and financial position of each individual customer, with reference to (i) the estimation of the cash flows that may be generated in the future to fulfil its responsibilities or (ii) the valuation of the collaterals received in connection with the granting of the loan, whenever its recovery is anticipated as being through the foreclosure/execution and/or sale of those collaterals, less the costs inherent to its recovery and sale. • For the exposures not covered by the individual analysis, as well as for those in respect of which no objective evidence of impairment was identified, the Bank developed and applies a collective analysis model to calculate the impairment losses. When a group of financial assets is valued on a collective basis, the future cash flows of this group are estimated based on the contractual flows of those assets and the historical data related to losses on assets with similar credit risk characteristics. Whenever the Bank considers necessary, the historical information is updated based on observable current data, so as to reflect the effects of the current conditions. For loans and advances which the observation of defaults criteria occurred before the financial year end but which had not yet been identified by the Bank ("Incurred but not reported" - IBNR), impairment losses are recognised based on probability of default and loss models, considering an emergence period	thereof to the financial statements of the Bank; (iii) the actual calculations itself of the impairment model defined by the Bank, including the inputs and assumptions of Management; (iv) the estimation of the recoverable value of the collateral; and (v) the internal governance associated with the process of calculating and approving impairment losses. Additionally, on a sample basis, we analysed a number of customers (including some that were not identified by the Board of Directors as presenting impairment triggers or in default), so as to obtain our own judgment regarding the existence of impairment triggers, and to assess how the impairment losses were timely identified, measured and recognised by Management. With regards to the customers individually analysed by the Bank, for a representative sample of the loans and advances to customers portfolio as at December 31, 2016, the procedures carried out consisted of: (i) reviewing the documentation associated with the loans and advances granting process; (ii) analysing the contractual support and the main relevant collaterals and confirming the registration of referred collaterals in favour of the Bank; (iii) reviewing the valuations of the available collaterals; (iv) analysing the evolution of the exposures; and (v) understanding the view of those responsible for the Bank regarding the economic and financial situation of the customers, as to the predictability of the cash flows expected from their respective businesses, as well as the perspective regarding the collectability of the loans and advances. Whenever we concluded as to the need to revise some of the assumptions used by Management, we recalculated the estimated amount of the impairment and compared the results obtained with those determined by the Bank in order to assess the existence of possible divergences. For the portfolio which impairment is calculated using the collective analysis model, we tested a sample of inputs from the model defined by the

Key audit matters	*Summary of the audit approach*
of 12 months between the date of the occurrence of the default event and its identification in the individual or collective analysis.	Bank and evaluated the calculation methodology itself. For this purpose, we undertook a specific set of procedures with the objective of evaluating how the assumptions considered by the Management of the Bank incorporate all the risk variables, by comparison to the history of the performance and recovery of the loans and advances to customers portfolio, the macroeconomic conditions to which each customer is exposed, as well as to our knowledge of current practices in the sector. In this context, we undertook the following procedures: (i) we analysed the information contained in the loans and advances to customers portfolio and the historical data considered in the model; (ii) we reviewed and tested the segmentation and classification of the loans and advances as regards the existence of impairment triggers or default; (iii) we reviewed and tested the risk parameters used in the impairment calculation, estimated by the Bank for each segment; (iv) we analysed, on a sample basis, the main assumptions and sources of information used for the future recoveries incorporated in the calculation of the risk parameters; (v) we reviewed and tested the historical recoveries incorporated in the determination of the risk parameters (by sampling); and (vi) we analysed the adequacy of the results of the calibration tests realised by the Bank. Our audit procedures also included a review of the disclosures relating to loans and advances to customers and related impairment losses in the explanatory Notes, taking into account the applicable accounting standards.
Provisions and contingent liabilities	
Disclosures related with provisions and contingent liabilities presented in notes 1, 2.17, 33 and 38 of the financial statements As at December 31, 2016, the balance of the Provisions caption presented as a liability amounts to Euros 334,546 thousand (2015: Euros	The audit procedures undertaken included the understanding and evaluation of the controls instituted by the Bank with regard to the approval, registration and monitoring of these matters, as well as the appraisal of the methodologies, data and assumptions adopted by the Board of Directors in the assessment of

Key audit matters	***Summary of the audit approach***
422,127 thousand), and they are intended to face liabilities associated with: (i) restructuring plans underway; (ii) commercial offers to retail customers holding unsubordinated bonds of Novo Banco; (iii) contingencies associated with tax matters and lawsuits in progress; (iv) provisions for guarantees and commitments and (v) other risks specific to the normal activity of the Bank. Considering that the incorporation of Novo Banco resulted from the application of a resolution measure to BES, which originated relevant impacts on third parties, the number of existing claims and the risk of litigation involving Novo Banco are significant. Under these circumstances, Management is forced to make complex judgments in the analysis of the probability of the materialisation and in the quantification of the amounts of possible liabilities arising from such claims, for which reason this was considered a key matter for the purposes of our audit.	contingencies and in the potential recognition of provisions. In this context, we tested the design and operational effectiveness of the key controls to ensure the proper identification, evaluation, provisioning and disclosure of these matters and, considering the relevance of the judgments required from the Board of Directors, we examined in detail the most significant lawsuits and provisions and, where necessary, we asked for additional audit evidence. We appraised the Bank's assessments of the nature and current status of the lawsuits underway and the corresponding provisions, when applicable, and discussed with its legal counsel and the Bank's Management the bases and grounds for the constitution, or not, of the most significant provisions. For some of these situations, we confirmed the information obtained from the Bank with the external lawyers who accompany each of the lawsuits and for the lawsuits resulting from the resolution measure applied to BES, we confirmed that these were covered by the Resolution Deliberation and related decisions made by Banco de Portugal. Our audit procedures also included the revision of the disclosures on provisions and contingent liabilities, contained in the explanatory Notes, taking into account the applicable accounting standards.
Post-employment benefits of employees	
Measurement of liabilities and disclosure related to post-employment benefits of employees presented in notes 2.15 and 13 of the financial statements As at December 31, 2016 Novo Banco's liabilities with the employees' post-employment benefits plan amounts to Euros 1,542,016 thousand (2015: Euros 1,513,154 thousand), covering, essentially,	The audit procedures undertaken included the analysis of the controls instituted by the Bank in the context of determining the liabilities and the financing needs of the plan. In this context, we also tested the controls instituted by the Bank to ensure the adequacy of the process to determine the fair value of the assets of the fund and of the actuarial assumptions used.

Key audit matters	Summary of the audit approach
benefits with old-age, invalidity and survivors' retirement pensions, and health-care and death benefits, namely those foreseen in the Collective Labour Agreement (“Acordo Coletivo de Trabalho” -"ACT") for the banking sector. These liabilities are estimated based on actuarial valuations carried out by an certified actuary by the “Autoridade de Supervisão de Seguros e Fundos de Pensões” ("ASF"). These valuations incorporate a set of financial and actuarial assumptions, namely the discount rate, the inflation rate, the mortality and disability tables, the growth rates of pensions and salaries, amongst others, defined by the Board of Directors considering the characteristics of the benefits attributed, the employees covered and the current and expected behaviour of these variables. In the specific case of the discount rate used in the actuarial studies, it is determined on the basis of the market rates for high-quality corporate bonds in terms of credit risk, denominated in the currency in which the benefits will be paid (Euros) and with a maturity similar to the termination date of the payment of the benefits of the plan. In this context, future changes in the financial and actuarial assumptions followed may give rise to material impacts on the net liabilities and on the assets associated with these benefits, for which reason this was considered a key matter for the purposes of our audit.	Our work included meetings with the Board of Directors to identify the methodologies and options considered in defining the main financial and actuarial assumptions adopted. Given the relevance of the judgments required of the Board of Directors, we evaluated the reasonableness of the main assumptions, comparing them with the data that we could independently obtain. We also reviewed the adequacy (i) of the employee information used for the calculation of liabilities; (ii) of the accounting recognition of costs related to past services and other changes in assumptions and estimates that occurred during the year; and (iii) of the fair value of the assets of the fund, calculating it, whenever possible, in an independent manner for a sample of assets held. We also verified the registration of the actuary responsible with ASF and confirmed the existence of the actuary’s declaration of independence regarding the actuarial study as at December 31, 2016. In addition, our audit procedures included reviewing the disclosure of the employees’ post-employment benefits included in the explanatory Notes, taking into account the applicable accounting standards.
Real estate properties received as recovery of loans and advances	
Measurement and disclosure related to the valuation of real estate properties received as recovery of loans and advances presented in notes 2.11, 24 and 28 of the financial statements Due to the significant expression of real estate properties received as recovery of loans and advances in the balance sheet of the Bank, which are reflected in the caption Other assets, these constituted a key matter for the purposes of our	The audit procedures undertaken included the identification and appraisal of the controls instituted by the Bank to ensure that the recording of the movements in the real estate properties portfolio are carried out in a correct and timely manner and that the real estate properties valuation process instituted is adequate. For a sample of real estate properties, their measurement and, where applicable, the

Key audit matters	*Summary of the audit approach*
audit, as they required the application of a set of assumptions and judgments by the Board of Directors as regards their valuation and the determination of both the recognition moment and the amount of the corresponding impairment losses. As at December 31, 2016, the gross amount of these real estate properties recorded in the caption Other assets amounts to Euros 1,406,570 thousand, and the amount of the impairment losses of the real estate properties included in the caption Other assets amounts to Euros 343,424 thousand. As at December 31, 2015, real estate properties received as recovery of loans and advances, in the gross amount of Euros 1,642,904 thousand, were evidenced in the caption Non-current assets held for sale, having been reclassified during 2016 to the caption Other assets, as they ceased to meet the requirements for the recognition in that category foreseen in IFRS 5 – Non-current assets held for sale and discontinued operating units. According to the policies in force in the Bank, the real estate properties are subject to periodic valuations, carried out by expert appraisers registered with the CMVM. Whenever the value determined by such valuations is lower than the book value of the real estate properties analysed, impairment or capital losses are recorded.	respective impairment losses recorded, based on the valuations of expert appraisers, were analysed, having for the purpose analysed whether the approach followed by the appraiser was adequate for the determination of the book value to be recorded in the financial statements. Whenever necessary, we held meetings to comprehend and understand the judgments and assumptions adopted in the valuation attributed to the real estate properties under analysis. The qualifications of the expert appraisers were duly analysed, including the confirmation of their registration with the CMVM. Finally, for a sample of real estate properties sold during 2016, we compared the sales value with the last valuation obtained, in order to assess the reasonableness of the valuations obtained by the Bank. In the case of real estate properties indirectly held by the Bank, through Real Estate Investment Funds, we sent audit instructions to the auditors of the Funds considered significant in the context of the Bank's financial statements and reviewed, and where necessary debated, the conclusions presented. We have also analysed the Audit Reports relating to the financial statements of these Funds with reference to December 31, 2016, whenever available. Our audit procedures also included a review of the disclosures on real estate properties received as recovery of loans and advances contained in the explanatory Notes, taking into account the applicable accounting standards.
Fair value of financial instruments not quoted on an active market ***Measurement and disclosure related to the fair value of financial instruments not quoted in an active market presented in notes 2.5, 2.7 and 41 of the financial statements***	The audit procedures undertaken included the identification and appraisal of the controls instituted by the Bank in order to identify, measure and monitor market risk, as well as the appraisal of the methodologies, data and assumptions used to determine the fair value of

Key audit matters	*Summary of the audit approach*
Due to its relevance in the context of the financial statements of the Bank and to the associated degree of judgment, the fair value measurement of financial instruments not quoted in an active market was a key matter for the purposes of our audit. These instruments include securities classified as financial assets at fair value through profit or loss and available-for-sale; derivatives classified as hedging and trading instruments; investment contracts and assets and liabilities subject to value adjustments through hedge accounting, namely for the loans and advances to customers portfolio, the resources from customers and other loans and the debt securities issued. As at December 31, 2016 the balances in the balance sheet of financial instruments at fair value corresponding to levels 2 and 3 of the fair value hierarchy of IFRS 13 – Fair value, amounts to Euros 7,017,396 thousand in the assets (2015: Euros 7,417,750 thousand) and Euros 1,989,765 thousand in the liabilities (2015: Euros 2,507,479 thousand), respectively. For financial instruments that are actively traded and for which quotations or other market indicators are available, the determination of fair value, based on their price or closing quotation at the balance sheet date, constitutes an objective exercise (level 1 of the fair value hierarchy). However, when such observable market data are not available, fair value is determined using estimates (levels 2 and 3 of the fair value hierarchy), namely through the use of valuation models based on discounted cash flow techniques, which usually involve a high degree of judgment by Management in the definition of the assumptions to be used. The Bank measures financial instruments classified in level 2 using indicative prices provided by external counterparties where available or, in the absence thereof, on the basis of observable market data and using internal	the financial instruments under analysis. In this context, the procedures and controls tested included the validation of: (i) the data interfaces from the basic IT systems to the fair value measurement models and of their results to the financial statements of the Bank; and (ii) the calculation itself of the fair value calculation models defined by the Bank, including the inputs and assumptions of the Board of Directors as well as the internal governance practices instituted in the fair value determination and approval process. We tested the measurement of the financial instruments classified in level 1 comparing the fair value calculated by the Bank with the information available in the market. Regarding the models developed by the Bank, we evaluated the adequacy of the models and data used. To this purpose, we compared the observable data against the market information obtained from external and independent sources, whenever available. For a sample of instruments which measurement consisted of substantially unobservable data, we evaluated the models and assumptions used and independently recalculated the measurement using alternative methodologies. We also evaluated the methodology and data used by Management to determine the counterparty risk adjustments recorded for uncollateralized derivative transactions and compared the amounts calculated with current market practices in light of our experience with similar entities. Our audit procedures also included the review of the financial instrument disclosures and, in particular, of the application of the fair value hierarchy, contained in the explanatory Notes, taking into account the applicable accounting standards.

Key audit matters	*Summary of the audit approach*
measurement methodologies which are based on discounted cash flows and on the Black-Scholes model. On other hand, for the measurement of financial instruments classified in level 3, essentially represented by securities not traded on active markets, indicative prices are provided by counterparties, determined based on parameters not observable in the market, as well as on extrapolations of market data. The Bank also recognises adjustments for counterparty risk in the measurement of uncollateralized derivatives (CVA – Credit Value Adjustments), which are estimated based on the amount that would have been received or paid to settle the contract on the date under analysis, considering the existing market conditions, as well as the credit quality of the parties, which is estimated by the Bank through its loans and advances impairment model. In this context, changes in the assumptions incorporated in the measurement techniques used by Management may give rise to material impacts on the fair value measurement of unquoted financial instruments recognised in the financial statements of the Bank.	
Deferred tax assets originated by tax losses	
Measurement and disclosure related to deferred tax assets originated by tax losses presented in notes 2.1, 2.16 and 34 of the financial statements In the balance sheet of the Bank as at December 31, 2016, deferred tax assets total Euros 2,636,686 thousand, of which Euros 909,030 thousand were originated by tax losses generated in 2014, 2015 and 2016, which recoverability depends on obtaining future taxable income. According to IAS 12 - Income taxes, the recognition of deferred tax assets presupposes the	The audit procedures undertaken included a detailed analysis of the Bank's business plan, namely the main assumptions considered in its preparation and which enable the Board of Directors to estimate the future generation of taxable income capable of absorbing the estimated tax losses assessed. We met with the Board of Directors to discuss and evaluate all the assumptions considered relevant to the preparation of the business plan and, in addition, we performed sensitivity analyses of those we considered critical, in order to assess the extent of the risk of significant

Key audit matters	*Summary of the audit approach*
probable existence of future taxable income that supports their recoverability. The estimation of the recoverability of the aforementioned deferred tax assets carried out by Management was based on a business plan covering the years 2017 through 2028, which assumes a stability of results from 2021 onwards. This estimation required the application of a complex set of judgments by Management, considering the uncertainties regarding the future strategy of the Bank and of the markets in which it operates, as well as the potential impact arising from the projected entry of a new shareholder. The main judgments assumed by Management include the estimation of future taxable income, the long-term growth rates, the investments' rates of return and the discount rates. Eventual changes in the assumptions used in the estimation of future results or in the interpretation of tax legislation may have a material impact on the recoverability of deferred tax assets originated by tax losses. In this way, considering its materiality in the financial statements of the Bank, and the fact that the audit report for the financial year ended December 31, 2015 included a not quantified disagreement qualification regarding its possible recoverability and of the need to establish projections to determine whether such recoverability could occur within the defined carry-forward period, this was considered a key matter for the purposes of our audit.	deviation in the estimated results and in the consequent recoverability of deferred tax assets originated by tax losses. The reasonableness of the projections was analysed based on, namely, pre-tax results presented in recent financial years, the future perspectives reported by the Board of Directors, as well as the performance recorded by the banking sector in recent years. We reviewed the adjustments and disclosures associated with the restatement of the financial statements for the financial year ended December 31, 2015, presented in note 2.1 of the attached financial statements, given that the Bank retrospectively corrected an error, in accordance with IAS 8 - Accounting policies, changes in accounting estimates and errors ("IAS 8"). Our audit procedures also included the review of the deferred tax disclosures contained in the explanatory Notes, taking into account the applicable accounting standards.
Impairment on the exposure to Banco Económico ***Measurement and disclosure related to the impairment on the exposure to Banco Económico presented in notes 20 and 21 of the attached financial statements*** The Bank has as at December 31, 2016 a total exposure of circa Euros 647,207 thousand (2015:	During 2016, we held several interactions with the Board of Directors in order to obtain and debate the results of the actions developed by them to measure the impairment associated with the exposure to Banco Económico.

Key audit matters	Summary of the audit approach
Euros 838,088 thousand) to Banco Económico, S.A. ("Banco Económico"), consubstantiated in a shareholding in its share capital of circa Euros 37,946 thousand (2015: Euros 47,351 thousand), recorded in the caption Available-for-sale financial assets, and by two loans, senior and subordinated, of respectively Euros 202,735 thousand and Euros 406,526 thousand (2015: Euros 397,077 thousand and Euros 393,660 thousand, respectively), including accrued interest, recorded in the caption Loans and advances to banks. The credit risk analysis of financial institutions is always an analysis subject to complex judgments, such as evaluations of business plans and the future capacity to generate cash flows and the appraisal of financial indicators. In the specific case of Banco Económico, the estimate of impairment becomes particularly complex in view of the developments in the current economic environment in Angola. Bearing in mind the current less favourable economic environment in Angola and the relevance and complexity of the assumptions and judgments made by Management, in order to assess the recoverability of the exposure to Banco Económico, as well as the fact that our audit report on the accounts of Novo Banco for the financial year ended December 31, 2015, which we issued on April 12, 2016, contained a scope limitation qualification regarding to this matter, due to (i) the unavailability of audited financial information for the financial years 2014 and 2015 and (ii) the unavailability of an approved business plan that enabled us to assess its ability to generate sufficient cash flows in the future to fulfil the debt service, this constituted a key matter for the purposes of our audit.	We obtained and analysed the financial statements of Banco Económico for 2014 and 2015 approved by its general meeting, as well as the audit report for the year ended December 31, 2015, issued by an independent auditor without qualifications, as well as the business plan presented by the Management of Banco Económico covering the activities until 2019. We also obtained unaudited preliminary financial information from Banco Económico with reference to December 31, 2016, in order to corroborate the projections presented in the business plan referred to above.

Other matters

As described in the key audit matter above "Deferred tax assets originated by tax losses", the Statutory Audit Report and the Auditor's Report on the financial information for the year ended December 31, 2015, which we issued on April 12, 2016, included an unquantified qualification regarding our disagreement on the possible recoverability of deferred tax assets originated by tax losses. This matter has been superseded in the 2016 year, having the Bank retrospectively corrected the error in accordance with the provisions of IAS 8.

As described in the key audit matter above "Impairment on the exposure to Banco Económico", the Statutory Audit Report and the Auditors' Report on the financial information for the year ended December 31, 2015, referred to in the previous paragraph, included a scope limitation regarding the recoverability of the bond loan granted as well as on the investment realised in Banco Económico. Considering the information received during the course of the 2016 year, it was concluded that the impairment estimate of the aforementioned assets carried out by the Bank in the year ended December 31, 2015 was adequate, and this matter was superseded without any impact on the financial statements for the years ended on December 31, 2016 and 2015.

Responsibilities of management and supervisory board for the financial statements

Management is responsible for:

a) the preparation of the financial statements, which present fairly the financial position, the financial performance and the cash flows of the Bank in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union;

b) the preparation of the Directors' Report, including the Corporate governance Report, in accordance with the applicable law and regulations;

c) the creation and maintenance of an appropriate system of internal control to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

d) the adoption of appropriate accounting policies and criteria; and

e) the assessment of the Bank's ability to continue as a going concern, disclosing, as applicable, events or conditions that may cast significant doubt on the Bank's ability to continue its activities.

The supervisory board is responsible for overseeing the process of preparation and disclosure of the Bank's financial information.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

a) identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;

e) evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

f) communicate with those charged with governance, including the supervisory board, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;

g) of the matters we have communicated to those charged with governance, including the supervisory board, we determine which one's were the most important in the audit of the financial statements of the current year, these being the key audit matters. We describe these matters in our report, except when the law or regulation prohibits their public disclosure; and

h) confirm to the supervisory board that we comply with the relevant ethical requirements regarding independence and communicate all relationships and other matters that may be perceived as threats to our independence and, where applicable, the respective safeguards.

Our responsibility also includes verifying that the information included in the Directors' report is consistent with the financial statements [and the verification set forth in paragraphs 4 and 5 of article No. 451 of the Portuguese Company Law.

Report on other legal and regulatory requirements

Director's report

In compliance with paragraph 3 e) of article No. 451 of the Portuguese Company Law, it is our understanding that the Director's report has been prepared in accordance with applicable requirements of the law and regulation, that the information included in the Directors' report is consistent with the audited financial statements and, taking into account the knowledge and assessment about the Bank, no material misstatements were identified.

Corporate governance report

In compliance with paragraph 4 of article No. 451 of the Portuguese Company Law, it is our understanding that the Corporate governance report includes the information required under article No. 245-A of the Portuguese Securities Market Code, that no material misstatements were identified in the information disclosed in this report and that it complies with paragraphs c), d), f), h), i) and m) of that article.

Additional information required in article No. 10 of the Regulation (EU) 537/2014

In accordance with article No. 10 of Regulation (EU) 537/2014 of the European Parliament and of the Council, of April 16, 2014, and in addition to the key audit matters referred to above, we also provide the following information:

a) We were first appointed auditors of Novo Banco, S.A. in the Shareholders' General Meeting of September 9, 2014 for a mandate covering 2014 and 2015, having remained in functions until the current period. Our last appointment was in the Shareholders' General Meeting, through a written unanimous resolutions dated December 21, 2016 for a mandate covering 2016 and 2017.

b) The management has confirmed to us it has no knowledge of any allegation of fraud or suspicions of fraud with material effect in the financial statements. As part of the planning and execution of our audit in accordance with ISAs, we have maintained professional scepticism throughout the audit and determined overall responses to address the risk of material misstatement due to fraud in the financial statements. Based on the work performed, we have not identified any material misstatement in the financial statements due to fraud.

c) We confirm that our audit opinion is consistent with the additional report that was prepared by us and issued to the Bank's supervisory board as of May 23, 2017.

d) We declare that we did not provide any prohibited non-audit services referred to in paragraph 8 of article No. 77 of the by-laws of the Institute of Statutory Auditors ("Estatutos da Ordem dos Revisores Oficiais de Contas") and that we remain independent of the Bank in conducting our audit.

May 23, 2017

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
Registered in Comissão do Mercado de Valores Mobiliários under n.º 20161485
represented by:

José Manuel Henriques Bernardo, R.O.C.

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Report and Opinion of the Statutory Supervisory Board on the Management Report and the Separate and Consolidated Financial Statements for the financial year ended on 31 December 2016

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 Bank'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 separate and consolidated Financial Statements of Novo Banco, SA., that includes the separate and consolidated Income Statements, the separate and consolidated Statements of Comprehensive Income, the separate and consolidated Balance Sheets, the separate and consolidated Statements of Changes in Equity, the separate and consolidated Statements of Cash Flows, and the respective Annexes comprising the Notes to the separate and consolidated Financial Statements, as well as the Board of Directors proposal for the distribution of Net Results of Novo Banco, S.A., concerning the year ended on 31 December 2016.

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:

- we examined whether it was compliant with the law and the Bank's Bylaws;
- we monitored the evolution of 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;
- we monitored the monthly, quarterly and annual accounts closing process;
- we monitored the discussion on and approval of the reports required by the supervision authorities, namely on the ICAAP, ILAAP, Recovery Plan, and loan book impairment;
- we monitored the evolution of the main prudential ratios analysed in the Board of Directors meetings and the presentation of management measures for compliance with the European banking regulation and the specific requirements defined by the European Central Bank (SREP);
- we regularly monitored the Bank's liquidity position and respective regulatory ratios through weekly information provided to the Board of Directors;
- we also monitored the reports regularly issued by the Internal Audit, Compliance, Internal Control and Global Risk departments, as well as the reports on the exposure to the Espírito Santo Group, the position of the Restructuring Funds, Revitalisation Funds and Repos Portfolio;

- we reviewed the Anti-Money Laundering and Counter Terrorism Financing Report issued in 2016, about which we issued our opinion on 30 June 2016;

- we reviewed the reports on the adequacy and effectiveness of the internal control system of the Bank, at separate and consolidated level, and of its more relevant subsidiaries, having issued the respective opinions on 30 June 2016;

- we 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 weekly meetings of the Board of Directors in order to monitor the management'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.

We took part in all the meetings of the Internal Control System Committee organised by the Internal Control Department with the objective of coordinating and monitoring the internal control deficiencies identified through the activities of the Internal Audit, Compliance and Risk departments, as well as those that were identified by the external auditors and consultants.

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, we stress the following:

- the Statutory Supervisory Board was involved in the monitoring of the audit plan for 2016 and actively participated in the discussions on this plan; and

- it regularly monitored the reports issued and the discussions held on the main aspects of the plan, in particular concerning its more significant deficiencies, including those that had been reported in previous years but had not yet been resolved.

During 2016 the Statutory Supervisory Board issued 71 opinions in response to requests made by the Board of Directors and Managing Directors, namely concerning the following situations:

- the independence of the Statutory Auditors concerning the provision of non-audit services;

- 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 of the 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 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 2016 and the audit to the financial statements for 31 December 2016, and also in connection to the regular monitoring and discussion of the more relevant issues arising from the assessment of internal control. To this end, the Statutory Supervisory Board actively participated in the Statutory Auditors' work planning meetings, as well as in the meetings held to follow-up on their activities and discuss the conclusions reached.

Through coordinated works with the Statutory Auditors, the Statutory Supervisory Board obtained the necessary and sufficient clarifications to the questions made in the discharge 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 Bank 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 Bank.

The Statutory Supervisory Board analysed all the matters addressed in the Auditors' Reports on the separate and consolidated financial statements issued by the Statutory Auditors, having obtained from them all the clarifications deemed necessary for the correct understanding of these matters.

In this respect, we stress the importance of the issues addressed in the paragraph "Material uncertainty relating to going concern".

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 Statutory Auditors PricewaterhouseCoopers, SROC, Lda., which issued the corresponding Auditors' Report on the Separate and Consolidated Financial Information on 23 May 2017, with no qualifications, but stressing several aspects of utmost importance about which the Statutory Supervisory Board expresses its agreement.

The Statutory Supervisory Board also analysed the Additional Report to the Supervisory Body issued by the Statutory Auditors and discussed its content, which essentially corresponds to the issues that were discussed with the Statutory Auditors throughout the year and for which we obtained all necessary clarifications.

The Management Report presented by the Board of Directors 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 Results 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 2016 presented by the Board of Directors, taking into account the aspects highlighted in the Auditors' Reports issued by the Statutory Auditors, should be approved;

(b) The proposal for distribution of the Net Results presented by the 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 Statutory Auditors, for the cooperation and support given.

Lisbon, 30 May 2017

The Statutory Supervisory Board

José Manuel de Oliveira Vitorino
Chairman

José António Noivo Alves Fonseca
Member

José Francisco Claro
Member

Novo Banco, S. A.

Minutes

Registered under number fifteen

On 30 May 2017, at 5:30 p.m., the Fundo de Resolução (the Resolution Fund), sole shareholder of "NOVO BANCO, SA", corporate entity number 513 204 016, registered with the Commercial Registry Office of Lisbon, with fully paid up share capital of €4,900,000,000.00, met at the Bank's registered office at Avenida da Liberdade, n.º 195, 15º, in Lisbon. The Fundo de Resolução was represented at the meeting by its Chairman, Mr. Luís Máximo dos Santos. The meeting was also attended by the members of Novo Banco's Board of Directors, Mr. Rui Manuel Janes Cartaxo, Mr. António Manuel Palma Ramalho, Mr. Jorge Telmo Maria Freire Cardoso, Mr. Vítor Manuel Lopes Fernandes, Ms. Isabel Maria Ferreira Possantes Rodrigues Cascão, Ms. Luísa Marta Santos Soares da Silva Amaro de Matos, Mr. Rui Miguel Dias Ribeiro Fontes and Mr. José Eduardo Fragoso Tavares de Bettencourt, and by the members in office of the Statutory Supervisory Board, Messrs. José Manuel de Oliveira Vitorino, José António Noivo Alves da Fonseca and José Francisco Claro. PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda. was represented at the meeting by Mr. Carlos José Figueiredo Rodrigues.

Also present were Messrs. José Gabriel Queiró and João Alexandre Marques, respectively Chairman and Vice-Chairman of the Board of the General Meeting, and the Company Secretary, Mr. Pedro Queiroz de Barros, acting as Secretary of the meeting.

The representative of the sole shareholder expressed to the Chairman of the Board of the General Meeting the desire for a General Meeting to be held without observing the usual prior formalities, as permitted under article 54 of the Commercial Companies Code, and for the General Meeting to convene and take valid resolutions on the following Agenda:

Item One: To resolve on the Management Report, the Corporate Governance Report (included within the Management Report), and the separate and consolidated accounts for financial year 2016;

Item Two: To resolve on the proposal for the distribution of the 2016 results;

Item Three: To make an overall assessment of the management and supervision of Novo Banco.

After declaring that the meeting was validly sitting and the conditions were in place for the meeting to resolve on the matters mentioned above, the Chairman of the Board of the General Meeting gave the floor to the Chairman of the Board of Directors, Mr. Rui Cartaxo, who greeted those present, thanked the shareholder's representative and all the members of the corporate bodies for their presence, and recalled he had only recently taken office. He then gave the floor to the Chief Executive Officer, Mr. António Ramalho, who, after a few introductory words, stressed the following points with regard to Item One in the Agenda: (i) Novo Banco's operating results increased to €386.6 million, which is 209% more than in 2015, (ii) the year's net loss, €788.3 million, represents a 15% improvement over the net loss reported in 2015, and finally (iii) the restructuring objectives set for 2016 were met, i.e., the number of branches was reduced to 537, the headcount was reduced by 1,312 employees relative to 2015 and operating costs were cut by €204 million.

The Chief Executive Officer then noted that the regulatory limits had been met, namely with a Liquidity Coverage Ratio (LCR) of 107% at the end of 2016, despite the early repayment of bonds guaranteed by the Republic of Portugal, in the amount of €3.5 billion, and an estimated Common Equity Tier 1 (CET 1) Capital Ratio of 12%, in line with the ratio reported by the main Portuguese banks. Mr. António Ramalho then briefly referred to the deleveraging process initiated in 2014, stating that the loan portfolio had contracted to €33.8 billion on 31 December 2016, with total deposits amounting to €25.6 billion on this date.

To conclude, he stressed the fact that the 2016 accounts were the first not to include any qualification, and expressed his appreciation for the cooperation provided by the members of the Board of Directors, referring in particular to the work developed during the first half of 2016 by his predecessor, Mr. Eduardo Stock Cunha, as well as by the members of the Statutory Supervisory Board, the Auditors, and the employees and clients of Novo Banco in general. Finally he highlighted the spirit of cooperation shown by the Fundo de Resolução as the sole shareholder, which had permitted to overcome the difficulties inherent to the application of the resolution measure and to the sale process of Novo Banco.

Upon conclusion of this intervention, the Chairman of the Board of the General Meeting gave the floor to the Chairman of the Statutory Supervisory Board, Mr. José de Oliveira Vitorino, who succinctly referred that the work carried out by the supervisory body was reflected in the Reports and Opinions issued in the course of the year. He also expressed his appreciation for the way in which the activity had been carried out, stressing in particular the cooperation provided by the Board of Directors and the various departments of the Bank, in which he was supported by the representative of PricewaterhouseCoopers & Associates, Mr Carlos José Figueiredo Rodrigues.

The Chairman of the Board of the General Meeting then gave the floor to the representative of the sole shareholder, Mr. Luis Máximo dos Santos, who expressed his satisfaction for the work done by the Board of Directors of Novo Banco and reiterated the commitment of the Fundo de Resolução to the completion of the sale process of Novo Banco.

Novo Banco, S. A.

After all interventions had been concluded and as no one else wished to speak, the Chairman of the Board of the General Meeting put to the vote the various items in the Agenda and the following resolutions having been passed:

Regarding to item One:

To approve the Management Report, the Corporate Governance Report (included within the Management Report) and the separate and consolidated financial statements for financial year 2016 submitted by the Board of Directors of Novo Banco;

Concerning item Two:

To approve the proposal for the distribution of the 2016 results submitted by the Board of Directors of Novo Banco S.A., reading as follows: "*Under the terms of Article 66 (5 - f)) of the Commercial Companies Code ("Código das Sociedades Comerciais"), for the purposes of Article 11 (2 - b)) of the Bank's bylaws, and in accordance with the Management Report, the Board of Directors of NOVO BANCO proposes that the net results reported by the Bank, in the amount of -€744,743,998.37, be allocated as follows:*

Other Reserves and Retained Earnings: -€744 743 998,37".

Regarding to item Three

To approve the proposal of the sole shareholder, the Fundo de Resolução, to give a "vote of praise to the management body, in recognition of the competent and dedicated manner in which it performed its functions during financial year2016, first chaired by Mr. Eduardo Stock da Cunha and, as from August, by Mr. António Ramalho "..." extendable to the supervisory body for the way in which it supervised the management of the institution ".

There being no further matters to discuss, the Chairman of the Board of the General Meeting declared the session closed at 6:00 p.m., and in record whereof these minutes have been drawn up and will be signed by the members of the Board of the General Meeting.

The Chairman of the Board of the General Meeting:

The Vice-Chairman of the Board of the General Meeting:

The Company Secretary:

NOVO BANCO